QANTAS

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8 November 1996

DEPARTMENT OF TRANSPORTATION
96 NOV 12 AM 10: 47
DOCKET SECTION

13222
OA

Docket Clerk
US Department of Transportation
Room PL401
Docket no OST-95-950
400, 7th Street SW
WASHINGTON DC 20590
USA

OST-95-950-40

Dear Sir,

This submission is made on behalf of Qantas Airways in response to the to the NPRM on Passenger Manifest Information as outlined in the Federal Register Vol 61, number 176, page 47692.

Qantas Airways Ltd is an Australian public company. It is the second oldest international airline in the world and is well recognised as the safest airline in the world. Our safety record is a matter of extreme pride, and management and staff work hard to ensure that our record remains unblemished.

A profile of Qantas can be obtained from the enclosed 1995-6 annual report to shareholders.

Qantas flights operate between the USA, New Zealand and Australia. We use two entry/exit ports in the US, they are Los Angeles and Honolulu.

Qantas is a member of both the International Air Transport Association and the Orient Airlines Association. We are aware of the contents of their submissions on this NPRM and strongly support both.

As noted previously our safety record is second to none. However we have not been complacent and have developed a comprehensive emergency plan, which we continually revise. We are very sympathetic to the concerns of the various survivor groups and to the distress that they have endured.

Nevertheless, Qantas considers that the relevant legislation is an over reaction to the problem and may indeed lead to increasing the risk of air travel rather then reducing it.

Unless otherwise indicated, references to "covered passengers" in this submission are used to refer to the collective grouping of US citizens and legal permanent residents.

In structuring this response we have addressed the particular questions raised in the NPRM and then addressed the concept as proposed generally. The following responses are made without prejudice to our subsequent comments.

RESPONSES TO NPRM QUESTIONS

Time Of Presentation Of Manifest

Qantas considers that in order to have the data on passengers before they boarded would require the collection of the data either at check in counters or well before the passengers boards ie at the time the booking is made. Such an obligation would be extremely onerous and cause significant delays and poor customer service. Collection of data at the time of booking may also be wasteful given the levels of "no shows" and cancellations (discussed later in this submission)

The application of the "any passengers" option would unreasonably hinder an airline in the manner it uses to collect the data. Our view is that should a manifest be required it should be for **all** the appropriate classes of passengers actually on board the aircraft at the time the incident occurs.

Comment.

The proposition reveals a lack of understanding of how airlines operate. Airlines, such as Qantas, have expended considerable effort and invested millions of dollars in developing systems that facilitate the passengers ability to through check to their ultimate destination even if there are a number of aircraft changes. To illustrate, a passenger may check-in at Ayers Rock (an Australian domestic airport) for an international flight to Los Angeles. On check in that passenger will be issued with two boarding cards, the first for the domestic flight between Ayers Rock and Sydney and the second for the international service between Sydney and Los Angeles. It is unrealistic to expect domestic check-in staff to be able to identify covered passengers and collect the data.

This enables the passenger to have a "one stop" experience and removes the need for the passenger to queue, yet again, on arrival in Sydney for their international boarding pass, this initiative is driven by the expectations of the traveller.

The same process can occur at an international airport ie. a passenger may join a Qantas flight ex Singapore and connect to a flight to Los Angeles. As for domestic check-in staff it would be unrealistic for check-in staff to identify covered passengers and collect the data when those staff are concentrating on complying with other matters such as transit and destination visa requirements.

Thus the proposal has the propensity to frustrate the facilitation advances made by airlines, by forcing them to consider stopping through checking practices.

Covered Flights

Qantas strenuously objects to the proposal that flights to and from non US airports should be included in the definition of covered flights. We consider that any attempt to impose this rule on non US airlines would be an unlawful exercise of extraterritorial power and thus be non enforceable. From a commercial point of view we do not consider that it would be appropriate that a system be imposed upon foreign airlines to collect this information when covered passengers are only a small proportion of the nationals that foreign airlines carry and the costs of implementing the requirement would be astronomical. If this were to be the outcome Qantas reserves its right to revise its cost estimates.

Collection Of Country Of Citizenship

Whilst this issue is currently only relevant to US airlines, it highlights the difficulty with the proposal when related to US permanent residents. To illustrate British nationals have a choice of 5 two letter codes and German nationals use only a single letter, there may be others but this simply illustrates the lack of understanding. Qantas considers that if data is to be collected then the level of detail required must be kept to the absolute minimum.

Date of Birth (DOB)

Similarly Qantas considers that collection of date of birth is an unnecessary adjunct. The NPRM asks whether the DOB should be collected as an alternative to the passport number, the issue here would be a practical one. Fully half the world use the British method of showing the date ie DDMMYY, the US practice is to use MMDDYY to avoid errors and confusion we consider that the passport number is more appropriate.

Advance Passenger Information Systems

The NPRM questions whether a modified form of APIS could fulfil the requirements. Generally speaking Qantas considers that APIS information would be a good start to the process. However it should be noted that APIS is only collected one way, that is on flights into the US. Qantas flights operate to and from the US from Australia and New Zealand. The governments of both countries provide APIS data to US Customs and US INS on all flights to the US. This practice is so accurate and simple as both countries operate outward immigration/customs control points and machine readable passport or machine readable visa usage is high.

Unfortunately the two contact data elements are not on passports and would have to be entered into the system manually, if these elements were to be foregone then flights from Australia would already be approximately 95% in compliance (a number of flights would have transfers from other airlines and international transits who have not been processed through government control points).

Costs

Responses To Update DOTs Cost Estimate

1. **Hourly Cost of Airline Reservations Staff**

Australian	Reservations	Staff	United States	Reservations	Staff
Salary	Overheads	Total	Salary	Overheads	Total
A$19.20	A$5.76	A$24.96			
US$15.20	US$4.56	US$19.76	US$8.50	US$2.98	US$11.48

Notes:
1. Overheads include: Payroll Tax, Superannuation, Workers Compensation, and Leave Loadings calculated as a percentage of salary.
2. The cost of fringe benefits have not been calculated ie the value of Discount Travel, Uniforms, Laundry Allowance, Meal Subsidy nor has the cost of fringe benefits tax been included.
3. Figures are averages

2. **Hourly Cost of Check-in Staff**

Australian	Reservations	Staff	United States	Reservations	Staff
Salary	Overheads	Total	Salary	Overheads	Total
A$21.71	A$6.50	A$28.21			
US$17.19	US$5.15	US$22.34	US$15.50	US$5.43	US$20.93

3. **Hourly Cost of Travel Agents**

Australian	Reservations	Staff	United States	Reservations	Staff
Salary	Overheads	Total	Salary	Overheads	Total
A$18.37	A$5.51	A$23.88	$	$	$
US$14.54	US$4.36	US$18.91	-	-	-

Note:
1.Qantas does not employ travel agents in the USA therefore we are unable to supply costs for the US.

4. **Percentage of Cancelled Reservations or No-Shows**

"No-shows" (booked passenger who fails to check-in) = 10%.

Cancelled bookings for the lifetime of a flight in the reservation system (up to 12 months), varies greatly by flight/time of year, but typically around 200%.

5. **How to Measure Potential Airport Congestion Costs**

These could be broken down into several categories of cost:

(i)	Additional Airline Staffing Costs	-	check-in staff
		-	queue management staff
(ii)	Property Costs	-	additional counters
		-	extended building space
(iii)	Increased Operational Risk	-	increased risk of aircraft delays
(iv)	Personal Time	-	increase "wasted" time for travelling public, businesspersons, etc.

Notes:

1. So far as the airport congestion impact of the NPRM is concerned, congestion impacts will vary according to:
   A. the existing spare capacity of different airports/terminals;
   B. the amount of covered citizens flying into those airports/terminals;
   C. the pattern of aircraft "clashes" in the schedule for the airport and terminal.
2. A histogram showing check-in workload for a typical week at an airport will reveal "peaks and troughs" of activity levels and the impacts of additional processing times can be addressed in this way.

6. **Estimated Costs Involved in Reprogramming Reservations and Departure Control Systems**

SSR item in RES/DC: 160 hours @$90.00 per hour = $14,400

Advanced Passenger Clearance (APC) installation:
Auckland + Australian domestic international thru-check airports:
1500 hours @$90.00 per hour = $135,000

Costs of enhancement of APC to collect passenger manifest information: = $472,800

Costs of training staff in new procedure: (assuming that about half the staff could be trained in "down time' and the other half on overtime)
1 hour x 3000 staff @$28.00 per hour = $84,000

Total Programming Costs = **$706,200**

Estimated Costs to Qantas of an Automated US Passenger Manifest:

*	System Development and Implementation (once only cost):	**US$706,200**
1.	Annual staffing costs from additional processing:	US$92,000
2.	Additional Property Cost (counter rental from FAC- Australia):	US$96,300
3.	Training	US$84,000
	Total Recurring Costs per Annum	**US$272,300**

Notes:
1. Refer attachment 1 for details and assumptions of these costs.
2. Refer attachment 2 for details of costs *

Note of general application to preceding responses:

1. Qantas is simply one of 150 + airlines serving the US . If our costs are indicative of the foreign airline industry then it is obvious that the assumptions in the NPRM and the Preliminary Regulatory Rulemaking, of industry costs, fall substantially short of the real cost of compliance.

FURTHER COMMENTS

At paragraph 8 we advised that we would provide comments on specific elements of the proposition and make general comments, these follow.

Application of the Proposed Law Extraterritorially

The NPRM acknowledges that there are issues of the extraterritorial application of the rule and seeks to address those concerns by restricting the collection of data to US citizens and legal permanent residents of the US. In our view this attempt fails the test. Whether or not the class of national is restricted does not have any effect on whether a law is extraterritorial in nature, the mere attempt to exercise a US law in a foreign country, without the consent of that foreign country is, by nature an attempt to extend extraterritorial jurisdiction.

Qantas considers that the attempt by the US DOT to address the extraterritorial question is not successful.

Breach of International Law

Standard 2.1 and 3.1 Annex 9 of the Chicago Convention are breached by this NPRM. The relevant Standards provide that procedures applying to the clearance of aircraft and passengers should be no less favourable than those applying to other means of transport.

Whilst there are apparently moves to apply the passenger manifest rule to domestic airlines there is no indication that similar rules will be applied to other forms of transport, thus the rule would clearly breach the convention.

The provisions of Annex 17 would also be effected by the privacy aspects of the NPRM. The introduction to section 9.1 and Recommended Practice 9.14 of the Annex all provide that the maximum cooperation must be provided to the local authorities in the case of an emergency and that would usually entail the provision of a passenger list. The NPRM proposes to restrict the release of the manifest to other parties. The responsibility of other authorities to demand this information must be acknowledged.

Relief from Litigation

The NPRM requires that carriers deny boarding any covered passengers who may refuse to provide their full name and passport number. In complying with these provisions no form of protection is provided to the carrier, who has refused boarding, from civil action by an aggrieved passenger so denied. This is an intolerable position for an airline to be placed in. If it is desired that the NPRM proceed then consideration must be given to the providing of an indemnity to carriers, to protect them from litigious action.

Practical Difficulties

Whilst it is easy to identify US citizens for collection of data purposes it is not easy to identify legal permanent residents. Green card holders are often also visa waiver nationals who do not need a visa to enter the US. Thus we would have to ask each non US citizen boarding a flight if they were green card holders in order to collect the required data. Our experience with these passengers is that they will frequently not identify themselves as green card holders. INS require that green card holders travel with their green card in their possession. Thus passengers who have left their card in the US or lost it will claim VWPP status in order to catch their flight.

INS will claim that careful study of the endorsements in a passport will disclose that a passenger is a green card holder, unfortunately airline staff are not US Immigration officials and cannot be expected to interpret the various markings.

The costs we have supplied do not take into consideration the time expended by all passengers in realising a much slower check-in experience, and our view is that there will be far greater delays if the NPRM is implemented.

Cost Benefit/ Risk Analysis.

As previous mentioned Qantas has an outstanding safety record. It is extremely hard to justify the identified level of expenditure that is required by the US DOT on the **demonstrated** unlikely chance of an accident.

As mentioned previously Qantas have a well developed emergency plan which is constantly revised and we consider that it is more then adequate to meet any challenge.

There has been no risk analysis undertaken, each carrier has been treated the same. Ranging from those with a poor history of accidents to those with proven safety records. This is hardly appropriate.

Effect on Competition

Much has been made of the subject throughout the NPRM. However, the facts are that forcing foreign carriers into compliance with the NPRM would result in disproportionate costs being borne by foreign carriers vis-a-vis US carriers. US carriers carry a substantial proportion of the US market, thus their costs may be easily and quickly recovered by cross subsidisation from their domestic operations. Foreign carriers on the other hand carry a small proportion of covered passengers therefore recovery of costs will be more difficult and take longer.

This will probably lead to a form of discrimination by higher fares to/from the US.

Application of Privacy Laws

At the present time there are no Australian laws governing the privacy of individuals which have application to private companies. All Australian laws on this subject currently apply only to government departments. However this is likely to change and there is a move to impose such restrictions on private companies. When the current Privacy Act is amended in this way then we would have great difficulty in collecting and disseminating information without breaching the new Act.

There are also concerns that this action could breach any implied obligation of confidence owed to the passenger.

Inappropriate Point of Attention.

Qantas considers that the proposition is placing emphasis in the wrong area. The US DOT should be devoting its efforts to emphasising corrective action by the airlines and indeed other aviation authorities to perceived shortcomings that result in such accidents.

The amount of effort and cost that will be expended in compliance with this NPRM would be better invested in prevention. This coupled with a transfer of the responsibility, to advise survivors away from the DOS, would be a much better alternative.

Indeed it could be argued that imposition of this requirement on airlines will result in check-in staff spending valuable time collecting data instead of conducting their assigned tasks, in which **security and safety** are essential elements.

Safety

Qantas is a very safety conscious company. Management and staff are determined to maintain our fine record. Considerable effort and hard work is expended in ensuring that high maintenance and flying standards are maintained.

Part of the effort includes the careful writing, maintaining and exercising of the emergency plans & procedures. The emphasis of our efforts in this field are to ensure that the surviving passenger/s and next of kin receive due consideration and accurate information on the disposition of all passengers onboard the aircraft as soon as it is practical. Information is not delivered piecemeal and in accordance with practice we would use the police services or the nominated government agency in any notification process.

In the US where the prime responsibility is with the airline and as part of our emergency plan, we are currently training volunteers to assist with notifications, should it be necessary. These volunteers will work with the appropriate organisations ie Red Cross, Salvation Army. Qantas believes that this illustrates our proactive stance in this most important of areas.

MOU

The framers of the NPRM obviously had in mind that an MOU could be agreed, between carriers and the Department of State (DOS), which would reduce the obligation on carriers to comply with the provisions. There is no evidence that this outcome will be achieved.

Qantas has only sighted a draft form of MOU, which is believed to be the product of negotiations between the ATA and the DOS. If we assume that this is the MOU referred to in the NPRM and that DOS has agreed to it, we are puzzled. The MOU itself, does not provided for any lessening of obligations for signatories, nor has DOT identified any reductions in compliance that may be offered to participants. We submit that the intention of the NPRM drafters has been ignored.

Implementation

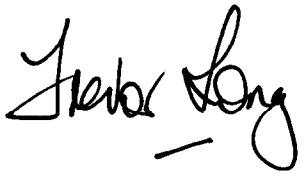
The NPRM proposes effective implementation of the rule in 90 days following its publication in the Federal Register. During that period there would be a number of computer systems enhancements implemented and training given to staff. Even if we were to agree with the proposal, Qantas considers that this time frame is inadequate and proposes that a minimum 180 days would be a more realistic option for changes of this nature.

CONCLUSION

Early in this submission we commented on our understanding of the driving force behind this NPRM. Whist generally we consider the aim of the NPRM to be worthy, we consider that this is not the best way to obtain the required outcome. We do not consider that the NPRM should be proceeded with, in its current form.

Should you desire clarification of any of the issues raised above or indeed wish to pursue a point, I can be contacted by telephone on 61-2-9691 1150 or by fax on 61-2-9691 1197

Yours faithfully,



TREVOR LONG
Manager Facilitation

Attachments:-
1. Detailed Cost Analysis.
2. APC Enhancement Costs.

Attachment 1

DETAILED CALCULATION OF COSTS

Calculations of Costs of Additional Counter Space Required:

No. of passengers to be processed:	409539
Additional Processing Time per passengers (hours)	0.01111111
Total Additional Processing Time	4550.43333
Counter charge per hour (AU$):	$26.75
Total Cost US Dollars:	**$96,381.14**

US Pax Manifest Costs to QF Operation

All figures given in US Dollars, exchange rate =		79.18
Hourly Cost - US Res Staff	Salary	8.50
	Overheads	2.98
	Total	11.48
Hourly Cost - Aust Res Staff	Salary	15.20
	Overheads	4.56
	Total	19.76
Hourly Cost - US Check-in Staff	Salary	15.50
	Overheads	5.43
	Total	20.93
Hourly Cost - Aust Check-in Staff	Salary	17.19
	Overheads	5.15
	Total	22.34
Total Pax Aust & NZ to USA 1995/96		409,539
Assuming same for USA outbound, TOT =		819,078
Assume 50% of QF passengers are covered passengers:		490,539

Reservations Cost

Assume reservations capture of information =	25%
Assume 50/50 bookings Aust/US	

therefore average $ cost per hour	=	$15.62
Assume avg additional reservations time per US citizen 40 seconds or in hours	=	0.011
Total Reservations Cost	=	$17,771

Check-in Cost

Assume check-in capture of information	=	75%
Assume 50/50 check-ins Aust/US therefore average $ cost per hour	=	$21.63
Assume avg additional reservations time per US citizen 40 seconds or in hours	=	0.011
Total Check-in Cost	=	$73,831
Total Annual Additional Processing:		**$91,602**

Attachment 2

STATEMENT OF REQUIREMENTS

PAX MANIFEST (PAXMAN)

Background

The US Department of Transport will implement and enforce legislation which will require international air carriers operating into the United States to provide within one hour of (and no later than three hours after), an incident occurring, a full list of passenger details for any US nationals and legal permanent residents on board that flight.

The mandatory data will be:

FULL NAME

PASSPORT NUMBER

EMERGENCY CONTACT - NAME

EMERGENCY CONTACT - TELEPHONE NUMBER

The US Department of State will audit carriers to ensure that they have procedures in place to meet these requirements. Failure to comply could result in withdrawal of the offending carries US operating licence.

Proposal

Through our Advance Passenger Clearance service, QF has access to full passenger details on all passengers for whom we have effected an APC transaction while ever the flight remains available in the Departure Control System. This is based on the fact that we can reprint an APC card during this period.

From this data we can extract the full name and passport number.

We currently do not collect the contact name of number.

Ideally this data should be obtained as early as possible in the travel process ie. at time of booking. In order to collect and store this data a designated SSR field will need to be provided in the PNR.

The data in the designated SSR field would need to be transferred to the DCS when the flight is created (same as with special meals, etc).

There will need to be an indicator in the DCS check-in display which highlights the fact that the data is present - or more to the point, when the data is not present. When the data is not present, the agent will need the functionality to record the data in the DCS.

Any data collected at check-in would not need to be handed back to Res although this would be of considerable benefit for return journeys.

This display and functionality would need to be inhibited by flight number as only those flights into and out of the USA are affected.

With the full name, passport, contact name and contact number available in the DCS record, we then need to be able to present this information in list format.

Conceptually, the list (call it PAXMAN) would look something like:

JONES JACK FREDERIC	USA	A12345678	JILL JONES 001/310/553581
SMITH JOSEPH WALLY	USA	A87654321	SUZIE SMITH 001/619/55590001

Requirements

1. Identify full name and passport number in the DCS APC record

2. Create an SSR field in the PNR which will collect contact name and number

3. Build functionality to place that information in the DCS record at time of flight creation.

4. Build functionality in DCS to indicate information is available.

5. Build functionality in DCS to input contact name and number if not already provided by SSR.

6. Build the PAXMAN list.

7. Consider EDITC impact.

Cost

Requirement 1 - 150 days

Requirement 2 - 100 days

Requirement 3 - 150 days

Requirement 4 - 50 days

Requirement 5 - 70 days

Requirement 6 - 50 days

Requirement 7 - 100 days Total = 670 days @AU$744 = $498 480

Note 1 - Communications work will also be required - this has not been scoped or costed. Final cost will depend upon the type of interface required - estimate as a guide $100 000.

Note 2 - This information is provided as guide only. Costs and delivery times could be subject to change due to other business requirements and the outcome of a Statement of Requirements and Functional Specification.

Annual Report

QANTAS

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Financial Calendar

1996

30 June Year end
22 August Preliminary final result announcement
8 November Books close for final dividend
20 November Annual General Meeting
6 December Final dividend payable
31 December Half year end

1997

20 February Half year result announcement
6 March Books close for interim dividend
3 April Interim dividend payable
30 June Year end

Notice of Meeting

The Annual General Meeting of Qantas Airways Limited will be held at 2:00pm on Wednesday, 20 November 1996 in the Melbourne Concert Hall at the Victorian Arts Centre, 100 St Kilda Road, Melbourne.

There will be a live telecast of the Annual General Meeting in the Grand Ballroom, Sheraton On The Park, 161 Elizabeth Street, Sydney.

Highlights

for the year ended 30 June 1996

Profit after tax of $246.7 million was 36.8 percent above last year and 4.1 percent better than the Prospectus forecast

Total dividend 13 cents per share

Earnings per share up 34.4 percent to 24.2 cents

Revenue increased by 6.1 percent to $7.6 billion

Cost savings of $468 million realised for the year

Cash flows from operations increased to $936.4 million

Debt to equity ratio improved 7 points to 61:39

		1996	1995	PERCENTAGE INCREASE/ (DECREASE)
Group Financial Results				
SALES AND OPERATING REVENUE	$m	**7,600.4**	**7,162.9**	6.1
EARNINGS BEFORE INTEREST AND TAX (EBIT)	$m	504.4	471.4	7.0
PROFIT BEFORE TAX	$m	401.4	320.4	25.3
PROFIT AFTER TAX	$m	**246.7**	**180.3**	36.8
TOTAL SHAREHOLDERS' EQUITY	$m	**2,436.6**	**2,277.9**	7.0
CASH FLOWS FROM OPERATING ACTIVITIES	$m	**936.4**	**853.8**	9.7
Earnings per share	cents	24.2	18.0	34.4
Dividends per share	cents	13.0	3.5	271.4
Group Performance Statistics				
TRAFFIC AND CAPACITY				
Passengers carried	000	17,486	16,054	8.9
Revenue passenger kilometres	m	54,627	51,204	6.7
Available seat kilometres	m	75,930	71,225	6.6
Revenue seat factor	%	71.9	71.9	–
Aircraft in service at period end	#	141	135	n/a
FINANCIAL				
Passenger yield (per RPK)	cents	10.80	10.86	(0.6)
TOTAL GROUP EMPLOYEES				
Average full-time equivalent employees	#	29,627	28,565	3.7

Performance Summary

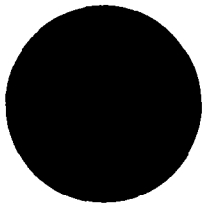
for the year ended 30 June 1996

Group Financial Results	1996 $m	1995 $m	INCREASE/ (DECREASE) %
OPERATING REVENUE			
Net passenger revenue	5,902.4	5,560.8	6.1
Net freight revenue	508.5	524.3	(3.0)
Tour and travel sales	459.7	442.1	4.0
Other sources*	729.8	635.7	14.8
TOTAL OPERATING REVENUE	7,600.4	7,162.9	6.1
OPERATING EXPENDITURE			
Manpower and staff related costs	2,026.8	1,863.1	8.8
Aircraft operating variable	1,511.7	1,377.7	9.7
Selling and marketing	924.0	954.2	(3.2)
Fuel and oil	787.9	708.8	11.2
Depreciation and amortisation	420.5	394.2	6.7
Tour and travel cost of sales	361.8	331.3	9.2
Non-cancellable operating lease rentals	293.2	339.2	(13.6)
Computer and communication	210.4	202.2	4.1
Property	187.1	183.5	2.0
Capacity hire and insurance	121.5	123.9	(1.9)
Other	251.1	213.4	17.7
TOTAL OPERATING EXPENDITURE	7,096.0	6,691.5	6.0
EARNINGS BEFORE INTEREST AND TAX	504.4	471.4	7.0
Net interest expense	103.0	151.0	(31.8)
PROFIT FROM OPERATIONS	401.4	320.4	25.3
Abnormal items	–	–	–
PROFIT BEFORE TAX	401.4	320.4	25.3
Income tax expense	154.7	140.1	10.4
PROFIT AFTER TAX	**246.7**	**180.3**	36.8
Balance Sheets			
Total assets	9,221.6	8,928.5	3.3
Total liabilities	6,785.0	6,650.6	2.0
TOTAL SHAREHOLDERS' EQUITY	**2,436.6**	**2,277.9**	7.0
Group Cash Flows			
Cash flows provided by operating activities	936.4	853.8	9.7
Cash flows used in investing activities	(152.4)	(221.3)	(31.1)
Cash flows used in financing activities	(721.0)	(516.2)	39.7
NET INCREASE IN CASH HELD	**63.0**	**116.3**	(45.8)
Debt, Gearing and Capitalisation of Non-cancellable Operating Leases			
ON BALANCE SHEET DEBT			
Current debt	146.9	155.0	(5.2)
Non-current debt	2,906.1	2,837.6	2.4
Swap offset	(458.1)	145.3	(415.3)
Cash and cash equivalents	(989.2)	(803.6)	(23.1)
NET DEBT	**1,605.7**	**2,334.3**	(31.2)
OFF BALANCE SHEET DEBT			
Present value of aircraft operating leases	1,952.4	2,707.7	(27.9)
Net debt including off balance sheet debt	3,558.1	5,042.0	(29.4)
Revenue hedge receivables	(122.4)	(849.5)	85.6
Net debt including off balance sheet debt and revenue hedge receivables	3,435.7	4,192.5	(18.1)
BALANCE SHEET INCLUDING OFF BALANCE SHEET DEBT			
Total assets	10,721.0	10,914.3	(1.8)
Total liabilities	8,518.3	8,960.9	(4.9)
TOTAL SHAREHOLDERS' EQUITY INCLUDING OFF BALANCE SHEET DEBT	**2,202.7**	**1,953.4**	12.8
Net debt to net debt and equity	40:60	50:50	n/a
Net debt to net debt and equity including off balance sheet debt	62:38	72:28	n/a
Net debt to net debt and equity including off balance sheet debt and revenue hedge receivables	61:39	68:32	n/a

* *excludes proceeds on sale and on sale and leaseback of non-current assets and interest revenue which is included in net interest expense.*

Revenue

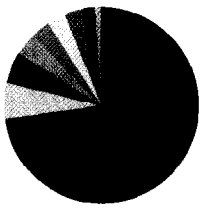
year to 30 June 1996



- **77%** Net passenger revenue
- **10%** Other sources
- **7%** Net freight revenue
- **6%** Tour and travel sales

Expenditure

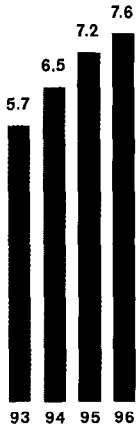
year to 30 June 1996



- **28%** Manpower and staff related costs
- **21%** Aircraft operating variable
- **13%** Selling and marketing
- **11%** Fuel and oil
- **6%** Depreciation and amortisation
- **5%** Tour and travel cost of sales
- **4%** Non-cancellable operating lease rentals
- **3%** Computer and communication
- **3%** Property
- **3%** Other expenses
- **2%** Capacity hire and insurance
- **1%** Net interest expense

Revenue

$bn to 30 June



Profit from operations

$m to 30 June

picture opposite: When the new Sydney Domestic Terminal is completed in late 1997, it will be six times its original size, with 16 aircraft gates and a Qantas Club to accommodate 1,000 guests.

Qantas achieved a good financial result in its first year as a publicly listed company under often challenging economic conditions. After tax profit of $246.7 million was up nearly 37 percent on the previous year and exceeded the Prospectus forecast by more than four percent.

This result came after two years of growth during which passenger numbers increased by approximately 20 percent, and capacity and revenues rose by more than 16 percent. The expansion was achieved by increasing the average number of hours flown by aircraft in the core fleet and through the addition of six new aircraft.

Although revenue grew by 6.1 percent to $7.6 billion during 1995/96, this was insufficient to provide an acceptable return on the extra investment in the Airline's growth. As an offset, the softer market conditions necessitated taking an additional $175 million in costs out of the business, bringing the total savings for the 12 months to $468 million.

Domestic airline operations contributed $163.6 million to EBIT, compared with $132.7 million the previous year. International operations were up slightly at $267.8 million, while subsidiary operations contributed $73 million, an increase of just over two percent.

Earnings per share grew by 34.4 percent to 24.2 cents. The Directors declared an unfranked final dividend of 6.5 cents per share, payable on 6 December 1996, bringing the total dividend for the year to 13 cents per share.

The outlook for the current year is for a continuation of the situation encountered in 1995/96. Revenue will increase, but at a lower rate than previously anticipated, and it will be necessary to take another $330 million out of the cost structure of the Group. This is up from an original cost saving target of $230 million. Qantas will continue to grow, but investment in growth will have to be managed in a carefully controlled way to ensure profitability in line with the expectations of shareholders.

The focus will be on managing the balance sheet to reduce gearing, while increasing returns through the most effective use of existing assets and bringing the Qantas cost structure to a more competitive level compared with other airlines.

Profit will continue to be the major priority, taking precedence over market share. Qantas will not invest in growth which does not generate acceptable additional returns. The Qantas Board and management are firmly committed to achieving these goals.

During the past year, a disciplined approach to financial management has enabled the Group to reduce further its debt to equity ratio from 68:32 to 61:39.

The commitment to maintaining the quality of the Qantas product at the highest competitive level will continue. Over the next three years, the Airline plans to invest some $430 million on the complete rejuvenation of the passenger cabins and other innovations, including new seating and improved configurations. Qantas is also spending $100 million over three years on the QUBE/RATIO project to implement new reservations and yield management systems, the first – and major – phase of which is scheduled for cut-over in early November 1996. The funding of these commitments will continue the pressure on the Company's cost reduction program.

Qantas appointed two non-executive Directors, Trevor Eastwood and Jim Kennedy, to the Board during the year.

On behalf of the Qantas Board, I would like to acknowledge the efforts of the management and staff in achieving such a solid result for 1995/96. Their work in helping Qantas to meet performance targets set by the Directors will be recognised directly through the grant of another $500 worth of shares to all eligible employees under the Qantas Staff Share Plan.

Gary Pemberton

Gary Pemberton
Chairman

QANTAS

picture opposite: Nalanji Dreaming was unveiled in November 1995 on the Airline's 75th birthday. Its tropical colours complement the red desert theme of the Airline's first 747 artwork, Wunala Dreaming.

During the 1995/96 financial year, the successful public float of Qantas and its performance in delivering the Prospectus forecast level of profits were milestones in the history of the Airline group.

Even more important were the new priorities and approaches which made it possible for these results to be achieved despite competitive pressures on revenue.

Pre-requisites for the float were improved financial results in the lead up, together with clear evidence of a permanent commitment to focus on returns for shareholders.

This financial discipline has resulted in priority being given to:

- improving utilisation of existing assets;
- managing for improved returns from individual assets across the operation;
- controlling capital expenditure on new assets;
- cost reduction and cost avoidance in every area; and
- seeking to improve productivity and efficiency.

Throughout these developments, overriding consideration has been given to the key issues of maintaining safe operations and high product standards. It is imperative for these characteristics of Qantas to be preserved and enhanced.

In a symbolic sense, last financial year marked the end of a very intense period of change which could be characterised as the 'short-term' phase from 1994. It involved the rapid implementation of a wide range of operational and financial initiatives to transform Qantas into a more commercial, publicly listed company.

The period from the 1996/97 financial year through to the year 2000 can be seen as the 'medium-term' during which further and more fundamental improvements must be made to establish the foundations for Qantas to be competitive and viable in the 'long-term'.

Amongst a wide range of improvement programs, this will include:

- a completely new computer reservation system (QUBE) for passenger bookings and airport dispatch and control;
- simultaneously a new yield management system (RATIO);
- further development of these systems in conjunction with British Airways;
- ensuring Qantas is a robust participant in a high standard alliance of airlines with a comprehensive world route network;
- continuing refinement of the route network and asset utilisation to achieve satisfactory returns right across the network; and
- further substantial progress in controlling and reducing costs to achieve operating margins which will make Qantas viable against both domestic and international competition, and justify continuing investment and growth.

Whilst major progress is being sought in the cost area, the challenge is to maintain performance standards via our people in providing service to customers. Relentless pressure on costs and changes in internal structure make it necessary to ensure that sufficient resources are directed to people strategies which will support these new directions.

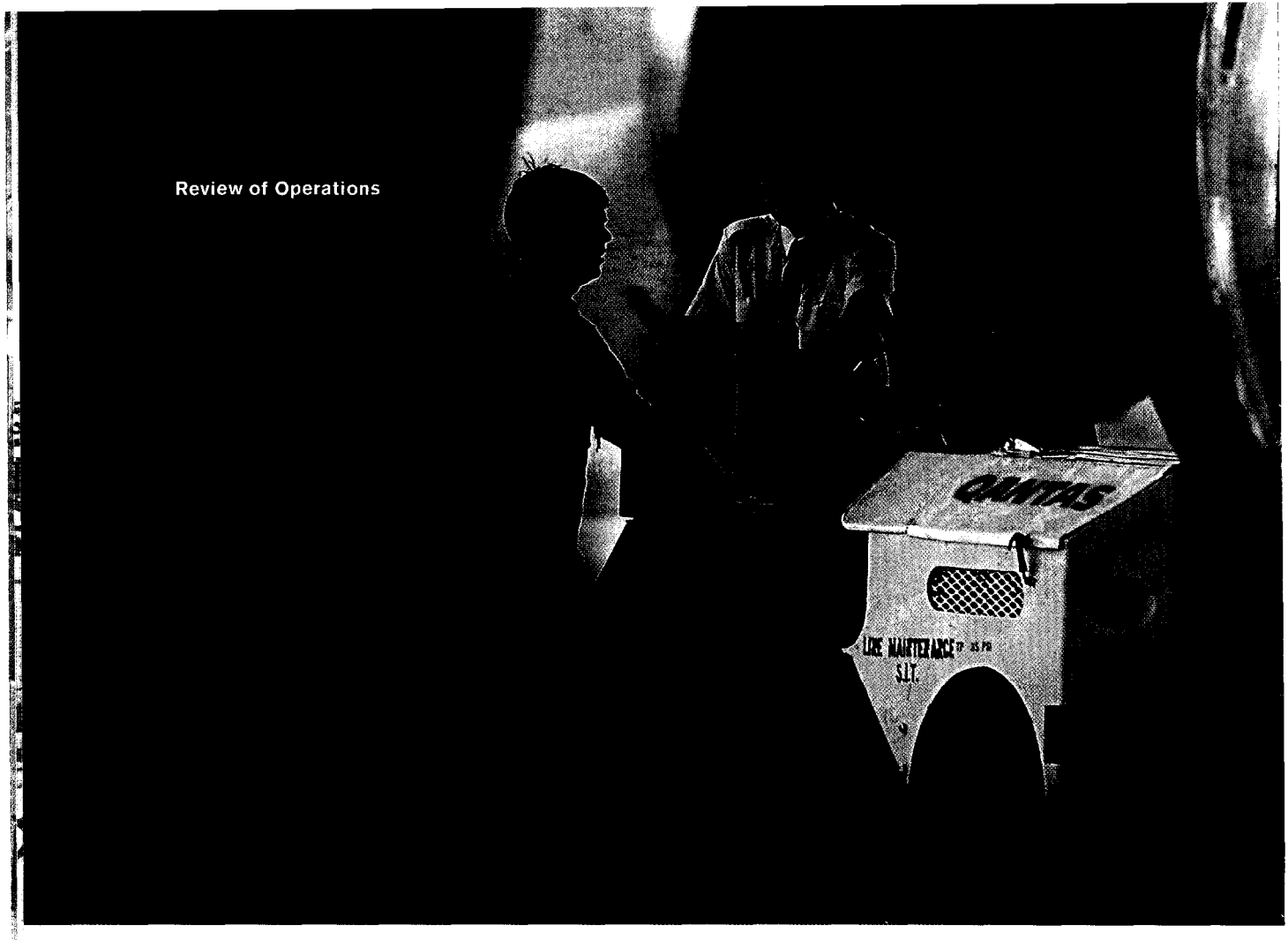
Continuing efforts will be invested in communications and training to support product standards and to build the level of understanding our people have of our competitive position, vital business challenges and the necessity to respond aggressively to inexorable change and competitive pressures.

A successful future for Qantas requires enthusiastic and competent staff who are well informed and realistic in their perspectives and outlook. This is another major plank in our platform for building a viable long-term position for the Airline.

I acknowledge the contribution of our staff in achieving our performance to date. Special mention should be made also of the quality of the relationship established between the Board of Qantas and management.

James Strong

James Strong
Managing Director
and Chief Executive



QANTAS AND SAFETY

The name Qantas has long been synonymous with safety, thanks to an enviable reputation for the highest safety standards.

Qantas has been awarded the prestigious Cumberbatch Trophy for safety and reliability twice – in 1974 and 1990 – by the British Guild of Air Pilots and Air Navigators.

Qantas is committed to maintaining its safety record and will not compromise its standards of safety under any circumstances.

The Safety and Environment Committee meets every three months to review the Airline's safety standards and performance.

Some years ago, the Airline – in agreement with the Australian International Pilots' Association – introduced a quick access recorder program on its aircraft. The program provides access to recorded data for Qantas flights. All 747-400, 747-300 and 767-300 aircraft have been fitted with the recorders, and during 1995/96 the program was extended to the 737 fleet. The Airline anticipates that all 737s will be fitted within four years.

Qantas is also voluntarily fitting its domestic fleet with the Traffic Collision Avoidance System (TCAS). TCAS is already installed on all Qantas aircraft flying internationally.

Ground handling procedures have been modified and standardised to reduce the likelihood of damage to aircraft on the ground.

REVENUE

Over the last two years, the Airline's capacity and revenues have grown by over 16 percent. This growth has been mainly driven by improved scheduling and utilisation of existing aircraft, and to a lesser extent, by new aircraft purchases. Revenue targets in 1995/96 were aggressive to reflect both a 6.6 percent expansion in capacity and the addition of three new aircraft to the main fleet. Revenue of $7.6 billion exceeded last year by a healthy 6.1 percent, but was still below expectations by almost $380 million, reflecting tougher trading conditions than had been anticipated.

Domestic passenger revenues grew by 11.2 percent and Revenue Passenger Kilometres (RPKs) increased by 12 percent, while yield and seat factors were little changed from last year.

International passenger revenues grew by 2.4 percent and RPKs increased by 4.7 percent compared to last financial year. Yield weakened by 2.2 percent of which 1.3 percentage points was due to adverse foreign exchange movements. Seat factors improved marginally.

EXPENDITURE AND COST SAVINGS

Total expenditure before interest for 1995/96 was $7.1 billion, an increase of six percent over 1994/95, marginally below revenue growth. Additional costs were incurred during the year in relation to the QUBE/RATIO project, which involves an investment of $100 million over three years to implement new reservations and yield management systems. Direct project costs relating to the development of the new systems totalled $25.6 million in the current year.

In addition, the QUBE implementation added $8.8 million in costs to operational areas of the Airline reflecting the need for more resources, people and retraining most front-line personnel. The project is on track for its first phase cut-over

has translated into more flying hours for aircraft.

in November 1996 and will begin to deliver the expected benefits in the second half of the 1996/97 year.

To offset the expenditure associated with the expansion of activities in the year, it was necessary to take an extra $175 million in costs out of the business, bringing the total cost savings for the year to $468 million, of which $355 million related to new initiatives. These were achieved through improved aircraft utilisation, up from an average 11.1 hours per day for the year ended 30 June 1995 to 11.8 hours per day, reductions in operating and handling costs, more efficient spending on inflight services and on other areas of sales and marketing support.

Core Airline cost per Available Seat Kilometre (ASK) decreased by 1.8 percent compared to the previous year, reflecting the benefit of cost savings, particularly in the second half of the financial year. Overall, the relatively more expensive domestic capacity continued to increase at a greater rate than international capacity. After adjusting for this change in operational mix, cost per ASK actually decreased by 2.5 percent.

NET INTEREST EXPENSE

The net interest expense decreased by $48 million to $103 million in comparison to the previous year. Interest savings were achieved from restructuring a number of aircraft leases, higher average cash balances and favourable foreign exchange movements.

OPERATING PROFIT BEFORE TAX

The operating profit of $401.4 million for the year ended 30 June 1996 represented an increase of 25.3 percent or $81 million over the last year.

Earnings before interest and tax (EBIT) increased by $33 million or seven percent over the previous year and, as a percentage of revenue, was consistent with expectations.

Domestic airline operations contributed $163.6 million in EBIT compared to $132.7 million for the previous year. International operations contributed $267.8 million in EBIT, a small increase over last year. Subsidiary operations contributed $73 million to the EBIT, an improvement of 2.1 percent over last year.

ROUTE PROFITABILITY

All international route groups were profitable with the exception of Continental Europe and South East Asia, which includes Vietnam, Thailand, Singapore, Indonesia and Malaysia. However, losses from these two route groups were significantly reduced in comparison to the prior year, reflecting an across-the-board strengthening in route profitability.

A number of international routes continue to show the short-term volatility in profit that is characteristic of the industry. For example, at the half year to 31 December 1995, the USA and North East Asia (formerly referred to as the Orient) route groups were $41 million behind last year at the EBIT line. By contrast in the second half, these routes delivered an improvement of $25.7 million over the same period last year.

Contributions from Japan and New Zealand routes weakened in the six months to June 1996, but this was more than offset by significantly higher net returns from the United Kingdom, Europe, North East Asia and USA route groups.

GROWTH AND MARKET SHARE

Department of Transport figures for the year to June 1996 reported Qantas with 53 percent of the total domestic market. Domestic market share continues to be greater than capacity share. As a result Qantas load factors are higher than those of our major competitor.

Figures from the Department of Transport reported that the international market share for Qantas for the 12 months ended June 1996 was 38.5 percent. International market share continues to be greater than capacity share.

TAXATION

Profit after abnormal items and tax was $246.7 million, an increase of 36.8 percent or $66.4 million over the previous year.

Income tax expense rose by $14.6 million or 10.4 percent owing to the increase in profits. The effective tax rate of 38.5 percent differed from the prima facie rate primarily due to recurring levels of non-deductible expenditure.

RETURN TO SHAREHOLDERS

Compared to last year, Earnings Per Share grew by 34.4 percent to 24.2 cents. To deliver this result, despite continued pressure on revenue growth, demonstrates the commitment to achieving an acceptable return for shareholders over a range of economic conditions.

The Directors have declared an unfranked final dividend of 6.5 cents per share. This follows an interim dividend of 6.5 cents per share, bringing the total for the year to 13 cents per share. The unfranked final dividend of 6.5 cents per share is payable on 6 December 1996, with a record (books close) date of 8 November 1996.

CASH FLOWS

Cash flows from operations rose to $936.4 million from $853.8 million last year, largely due to increased sales and reduced net interest.

Qantas continued its program of debt reduction, repaying a further $685.7 million during the year compared to $555.4 million for the prior year. Excluding prepayments, debt reduction in the current year was $289.7 million (1995: $337.5 million). This reduced the debt to equity ratio (including off balance sheet debt and revenue hedge receivables) by seven points from 68:32 to 61:39.

Capital expenditure for the year was $503.5 million, an increase of 11.6 percent over the previous year. Major items included the acquisition of three new aircraft – one Boeing 767-300ER and two Boeing 737-400s – and significant expenditure on upgrading the Sydney Domestic and Brisbane International and Freight terminals.

Ongoing management of capital expenditure is a major issue for the Airline. In each of the last two years, three aircraft were added to the core airline fleet. Four new aircraft are scheduled for delivery in the 1997 financial year – three Boeing 767-300s and a Boeing 737-400. These acquisitions are comparatively modest in terms of overall fleet size, and certainly below the level necessary to maintain current market share.

In addition, Qantas is committed to maintaining the pre-eminence of its product, and over the next three years

will invest approximately $430 million in further product developments. This will involve a full revamp of the in-cabin product including new seating and configurations, and a range of other innovations.

FUTURE FINANCING ARRANGEMENTS

The planned capital expenditure for the next financial year, including aircraft acquisitions and terminal developments, is expected to be financed primarily by cash holdings and internal cash flow and partially through external financing.

FOREIGN CURRENCY EXPOSURE

Qantas does business in over 50 foreign currencies which account for approximately 50 percent of revenue. Qantas generates a surplus in most of these currencies and seeks to reduce its foreign currency exposure arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency. Surplus currencies are sold, either at spot or forward, for US and Australian dollars.

OUTLOOK AND SENSITIVITIES

Aircraft purchases and in-cabin product expenditure must be accommodated within operational cash flows and the overall objective of strengthening the balance sheet. This demands a conservative approach to forward aircraft orders, increased pressure on cost reduction programs, and a short-term emphasis on profit growth rather than market share.

For a number of routes, current seat prices (yields) and an outlook of lower revenue growth, do not justify investment in new aircraft at the current level of operating cost. In parts of Asia, growth is strong but at prices which do not provide a sufficient profit margin. Additional cost reduction initiatives are therefore an essential requirement for any further significant expansion of the business.

The outlook for the 1996/97 year presents the same issues encountered in the year just completed. Lower revenue growth and a stronger Australian dollar are again forecast. To compensate for this revenue prediction and to deliver profit growth in line with market expectations, cost reduction targets from new initiatives in the coming year have been increased from $230 million to $330 million. While the early indications are that this is achievable, any unforeseen cost increases, other events, or further softening in market conditions may impact on the eventual outcome.

The outlook is sensitive to a number of economic variables beyond the direct control of Qantas. Global economic trends and developments have a direct bearing on seat factors (loads) and yields. The historic trend has been for yields in real terms to decline.

Passenger numbers will continue to grow but international market share may decline further due to the allocation of Australian international rights to other Australian carriers, and deliberate decisions by Qantas not to invest in growth which does not generate acceptable additional returns.

picture opposite: Qantas has one of the most widely recognised brands in Australia and for seven successive years has topped the National Business Bulletin's corporate image poll.

Profits will continue to be more important than market share.

The priorities for Qantas are management of the balance sheet to reduce gearing, increasing returns through the most effective allocation of existing assets and the establishment of a cost structure competitive with other airlines in the region.

SHAREHOLDER RETURN

Qantas is committed to the consistent delivery of attractive returns to shareholders. Shareholder return is defined as a return delivered via capital growth and dividends, that is equal to, or in excess of, the cost of equity capital.

In support of the objective of shareholder return, the principal value drivers of the business have been identified, targets have been agreed, and monitoring systems have been put in place. In particular, a strong emphasis has been placed upon the generation of cash flows and the efficient use of assets, and this emphasis will ensure that all future projects offer returns above the cost of capital.

Qantas shall judge its performance over the long term through the comparison of shareholder return to the wider Australian share market and the global aviation industry.

AIRPORTS

Work on stage two of the Sydney Domestic Terminal was completed in June 1996 ready for its August 1996 opening. The project includes a six-gate satellite terminal and an expanded Qantas Club incorporating a business centre and seating for 550. The overall terminal development is scheduled for completion in December 1997 at a projected cost of $212.6 million.

In December 1995, Qantas opened its $10 million Seamless Transfer facility in Sydney, providing uninterrupted passenger transfer between the international and domestic terminals. Passenger lounges were built at both terminals, with specially designed buses used to transfer passengers between them via the internal airport road. The facility provides dedicated inbound and outbound customs, immigration and quarantine services in the international terminal.

The Airline expanded its Advance Passenger Clearance service (the system designed to fast-track passengers through Customs and Immigration Express Lanes) to incorporate points along the Kangaroo and Pacific routes. It is now available to customers joining Qantas flights in London, Frankfurt, Rome, Singapore, Hong Kong, Honolulu, Los Angeles, New York, Washington, Boston, Chicago, Miami and Dallas.

Qantas customers using Advance Passenger Clearance have access to fast-track clearance through Customs and Immigration Express Lanes in Sydney, Melbourne, Brisbane, Cairns, Perth and Darwin.

Qantas opened the world's first lounge for its economy class international transit passengers at the Sydney International Terminal in June 1996. This lounge seats 280 passengers and has facilities for unaccompanied minors and passengers requiring additional care.

The Airline expanded its one-stop through-check facility, making it available from most Qantas ports. The service provides Qantas customers with a seamless transfer between the for the entire journey at the first port. Through-check is also available to passengers moving between Qantas international flights and selected British Airways flights.

Joint Qantas-British Airways airport operations were established in Bangkok, Taipei and Singapore, with shared operations at Nagoya and Kansai.

AIRCRAFT

In addition to the three new aircraft acquired during the year, Qantas converted its two 747-200 Combi aircraft from passenger/freight to all passenger configurations, increasing from three to five the 747-200 passenger fleet.

SCHEDULES

Qantas comprehensively reviewed its national and international schedules to boost fleet efficiency and flight frequencies, and to improve connections.

The Airline enhanced fleet performance by switching selected international aircraft to domestic flying and a proportion of domestic aircraft to regional international services. Better management of ground time and reduced end sector flying on international services within Australia also contributed to efficiency. The three new aircraft and the two reconfigured Boeing 747-200 Combis added to capacity.

Schedule changes and aircraft purchases added 6.6 percent capacity to the total Qantas network.

Domestic

Qantas increased domestic frequency by 8.7 percent and capacity by 12.5 percent during the financial year. Major goals included: refining capacity and schedule times on key business routes, building capacity levels throughout Australia to service international tourism growth and increasing services to major leisure destinations.

Qantas added capacity and frequency between Melbourne, Sydney and Brisbane through use of wide-bodied aircraft and by introducing extra non-stop services between Melbourne and Brisbane during peak times. Additional services were also added between Adelaide and Melbourne, Sydney, Canberra and Perth.

Qantas reacted to strong market growth in North Queensland by increasing frequency and capacity from Sydney and Brisbane to Cairns and Townsville, with connections from other Australian points.

Non-stop services to the Northern Territory were expanded. Sydney-Ayers Rock went to a daily frequency and new non-stop flights began between Darwin and Sydney.

International

In November 1995, Qantas announced it would reintroduce flights to Mumbai (formerly Bombay), India, in July 1996.

In April 1996, an additional service to Beijing was announced taking China services to twice-weekly – both to travel via a new Qantas destination, Shanghai, from August 1996.

A fourth weekly service was added to the growing South Korean destination, Seoul, with the announcement of a fifth

Other services introduced during the financial year included a fifth Melbourne-Hong Kong service, three new flights between Perth and Jakarta, and two extra Sydney-Jakarta flights per week to achieve daily frequency on that route.

The Airline also inaugurated three Brisbane-Bangkok services and introduced a second weekly service to Ho Chi Minh City from July 1996. A third weekly service to Ho Chi Minh City will start from November 1996.

Trans-Tasman operations were strengthened with three new time slots between Sydney and Auckland and an extra three announced to start from July 1996.

These six services depart in the early morning from Sydney and return to connect with hub operations through Sydney to Asia. Other changes to the Tasman route included two additional services per week between Auckland and Cairns from July 1996.

Qantas also significantly revised its flights across the Pacific, adding a fourth Melbourne-Auckland-Los Angeles service and announcing a fifth to start from November 1996. Two additional non-stop Sydney-Los Angeles flights were added, increasing the frequency between the two cities to double-daily. Qantas discontinued its three services from Sydney to Los Angeles via Cairns and Honolulu in October 1996. Its twice-weekly Sydney-Auckland-Papeete-Los Angeles service was replaced from August 1996 by a twice-weekly Sydney-Auckland-Papeete flight linking with Lan Chile for convenient onward connections to South America.

Europe services received a boost with the April 1996 announcement of two additional weekly flights to Frankfurt from July 1996 – resulting in daily services to Germany – and a third weekly Melbourne-Bangkok-Rome service.

Other new services introduced included a fourth service to Johannesburg, non-stop from Melbourne, from July 1996.

Additional highlights included:

- the introduction in November 1995 of Nalanji Dreaming, the second Qantas aircraft to carry the distinctive paintwork of the Balarinji Design Studio. Nalanji Dreaming primarily services Japan and New Zealand;
- the inauguration of new marketing campaigns aimed primarily at young Japanese women. The campaigns present Australia as a culturally diverse destination rich in urban culture – an image of Australia not currently held among Japanese. Response has been strong, paving the way for more intensive tactical marketing in 1996/97;
- the choice of Qantas as 'Airline of the Year' by the prestigious, Washington DC-based specialist airline management magazine Air Transport World in February 1996;
- rationalisation of UK sales activity to London. Offices were closed in Birmingham, Glasgow, Leeds and Manchester, resulting in substantial savings and an increase in requests for the Airline's ticket-by-mail service;
- opening of a joint office with British Airways, US Air and TAT European Airlines in Paris. This is the only joint retail facility bringing together the four British Airways equity partners;

- establishment with British Airways of joint sales, marketing and operational forces in the key Singapore and Bangkok hubs; and
- for services between Australia and Taiwan, the replacement of Qantas Limited for Australia-Asia Airlines Limited, providing flexibility in aircraft allocation as well as better marketing and advertising opportunities.

FLIGHT OPERATIONS

Qantas Flight Operations continues to be a leader in the worldwide implementation of the Communications, Navigation, Surveillance and Air Traffic Management system (CNS/ATM). It is being used on non-stop trans-Pacific flights. The Airline expects benefits from CNS/ATM to flow to Asia and Europe operations from the first half of 1997.

QANTAS INFLIGHT

The refurbishment of the Qantas fleet continued in 1995/96, with all but four aircraft now having the new interior design.

The Airline reviewed its inflight meals during the year to improve quality and delivery. Meals are now being offered at times that coincide more closely with on-the-ground meal times, with a greater variety of lighter style foods and meals incorporating appropriate cultural themes.

LOYALTY PROGRAMS

Frequent Flyers

With more than one million members, Qantas Frequent Flyer is the largest airline loyalty program operating in Australia. During the year, membership grew by nearly 300,000 – up 38 percent.

The Qantas Club

The Qantas Club – a network of lounges where customers can relax or conduct business before their flight – has 129,000 members, an increase of 30 percent on 1994/95.

The Airline's new-look Qantas Club Lounge program continued during the financial year, with refurbishment of Melbourne's international and domestic lounges. The international lounge at Brisbane airport is complete.

The Global Lounges program is also well under way, with joint Qantas-British Airways lounges already open in Singapore, Manila and Hong Kong. Work has begun on the joint lounge in Los Angeles.

ENGINEERING AND MAINTENANCE

Qantas operates one of the largest engineering and maintenance facilities in the Asia Pacific region. Major maintenance bases are located in Sydney and Melbourne.

Programs implemented in 1995/96 focused on optimising ground-time to streamline aircraft maintenance and reduce repair cycle times for aircraft, engines and components.

Qantas continued its engineering and maintenance commitment to the Royal Australian Air Force and a number of customer airlines.

All Qantas aircraft flying internationally have been fitted with the Traffic Collision Avoidance System (TCAS). Although not mandatory, Qantas has begun installing TCAS on all domestic aircraft. Installation will be completed within the next few years.

FREIGHT

Although without the freight capacity of the two 747-200 Combis from when they were converted to all passenger configurations in October 1995, net revenue for the year was $508.5 million, slightly down on the previous 12 months.

Investment in freight infrastructure continued, with a technologically advanced $20 million freight terminal in Brisbane opening for business in mid-June 1996. Qantas started work on a new terminal in Los Angeles, which is due to open in late 1996.

INFORMATION TECHNOLOGY

Qantas operates one of the largest and most advanced computer and communication systems in Australia.

During the year, Qantas began an advanced crew scheduling application, ARMS, which uses a database comprising flight and cabin crew details including individuals' training, hours worked and current location, to determine optimum staffing for flights.

In February 1996, Qantas launched its Internet site (http://www.qantas.com.au), which includes product information, on-line schedules, arrival and departure information and major news releases.

The Airline has been working throughout the year to prepare for the cut-over in November 1996 to QUBE, its new reservations, departure control and inventory system, and RATIO, an advanced yield management system. Based on British Airways technology, the systems will advance the integration of Qantas services with those of its alliance partners.

CORPORATE SALES

Qantas won several major new government and corporate accounts during the year and experienced growth in indirect business from travel agents.

The Airline conducted a major review of its distribution channels during 1995/96. As a result, Qantas focused on strengthening its relationship with key travel agencies – for example, introducing forums for Airline staff to meet regularly face-to-face with agency partners to discuss and act on issues.

The Airline refined its ticket-by-mail service – Qantas Express Ticket – increasing automation to streamline the booking process and speed up the delivery of tickets to customers.

Improvements were also made to the Telephone Sales division, with incoming calls shared between centres at peak periods to cut waiting times.

During the year, Qantas decided to introduce a home telecommuting trial program from July 1996. A number of telesales staff were provided with on-line access from their home to the reservations system.

Travel agent incentives and commissions were revised and more closely aligned with market demand and business needs.

Co-ordination of the Airline's Sales department was centralised and extensive sales training programs were begun, improving the consistency of sales planning and service delivery.

Other important projects for Qantas Sales included the redesign of the Airline's retail centres to enhance their efficiency and functionality.

REGIONAL AIRLINES

Airlink

Airlink carried 30 percent more passengers in 1995/96 than in the previous year.

The first of three new BAe146 aircraft was delivered in June 1996, taking Airlink's fleet of BAe146s to ten.

Airlink began operating 12 return services a week from Perth to Paraburdoo in March 1996, with bus connections to Tom Price. Five Perth-Karratha services were also added, taking the number of flights on that route to 16 a week, with an improved business schedule positioning Airlink for the business market in the north-west of Western Australia.

Two new services from Perth to Alice Springs via Ayers Rock and one new Broome-Ayers Rock service began in October 1996.

Eastern Australia

Eastern Australia's passenger numbers were up five percent on last financial year.

The major development during 1995/96 was the delivery of a new Dash 8-200 series aircraft in March 1996. The first passenger aircraft of its type in Australia, its interior mirrors those of the Qantas jet fleet – features now being extended to other Eastern Australia aircraft.

Changes to Eastern Australia's services during the year included the addition of 13 extra flights a week between Sydney and Canberra, additional services to Moree and Narrabri, and improved capacity on services to Tamworth, Lord Howe Island and Coffs Harbour.

Sunstate

Sunstate carried seven percent more passengers during 1995/96. Sunstate took delivery of a fourth Dash 8. The airline experienced growth on all routes – in particular, Gladstone and Maroochydore.

Southern Australia

Southern Australia passenger numbers grew 25 percent during 1995/96.

In June 1996, Southern Australia announced it would introduce two new BAe146-200s to operate an all-jet service between Melbourne and Launceston and between Launceston and Sydney from December 1996. The new aircraft will replace the current mix of Qantas Boeing 737 and Southern Australia de Havilland Dash 8 turbo-prop aircraft on the route.

ALLIANCES

The alliance between Qantas and British Airways took a major step forward in November 1995 when the Joint Service Agreement (JSA) began.

Co-operation between Qantas and British Airways in scheduling, sales and marketing involved 35 weekly services between Australia and Europe and a wide range of other services between Australia and Singapore and Bangkok.

A joint Qantas-British Airways office opened in Harare in October 1995, and work progressed for joint offices in Manila, which opened in July 1996, and Singapore, due to open in late 1996.

The alliance between Qantas and British Airways has allowed the airlines to offer an extensive range of attractive products and fares to customers in Australia, Europe and South East Asia.

Qantas and British Airways established a codeshare arrangement for services between Auckland and Los Angeles in early 1995. In November 1995, American Airlines began codesharing on these same services, involving Qantas with its two major alliance partners in a single service for the first time.

American Airlines continued its codeshare operation to Sydney from Los Angeles, and in February 1996, Qantas expanded its codeshare co-operation with American Airlines to add Dallas/Fort Worth and Miami to its codeshare cities in North America.

The Qantas relationship with Air Pacific strengthened following the acquisition of an increased shareholding (to 17.5 percent) in the Fijian carrier in June 1995. Air Pacific joined the Qantas Frequent Flyer scheme in October 1995.

In January 1996, the two airlines began codesharing Air Pacific's twice-weekly service between Fiji and Los Angeles, in addition to their extensive codeshare arrangements for flights between Australia and Fiji.

Qantas continues to maintain a close commercial relationship with Canadian Airlines. Qantas and Canadian Airlines codeshare daily services to Vancouver via Honolulu, and five flights a week between Australia and Toronto.

QANTAS HOLIDAYS

Qantas Holidays, the Airline's Australian-based leisure travel wholesaler, was restructured in 1995/96 to improve customer service.

Changes were implemented in inventory, resulting in an almost 100 percent improvement in turnaround time for bookings, and in telephone reservations, with more efficient channelling of calls accelerating response time.

The first half of 1996 saw extensive preparation for the July announcement of the rebranding of Qantas Holidays' international range, bringing its two brands, Qantas Jetabout Holidays and Viva! Holidays, together under one 'Qantas Holidays' banner. The change encompassed a new corporate identity and revamped product brochures.

Sales for Qantas Holidays and its domestic division, Qantas Australian Holidays, improved significantly in 1995/96.

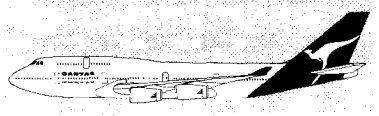
QANTAS AND THE ENVIRONMENT

Qantas has a long-standing commitment to the environment and the principles of ecological sustainability in air transport, and is developing its Environment Management System to the draft International Standard ISO 14001.

The Airline's environmental efforts have been recognised with awards in the Environment category of Flight International magazine's worldwide 'Industry Aerospace Awards'.

Qantas sponsors a number of environmental programs, such as Clean Up Australia, Clean Up The World and the Banksia Foundation.

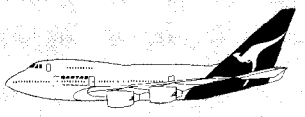
Core Airline Fleet



BOEING 747–438

BOEING 747–338

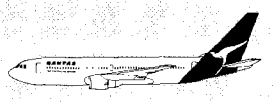
BOEING 747–238B



BOEING 747SP–38

AIRBUS A300–B4

BOEING 767–338ER



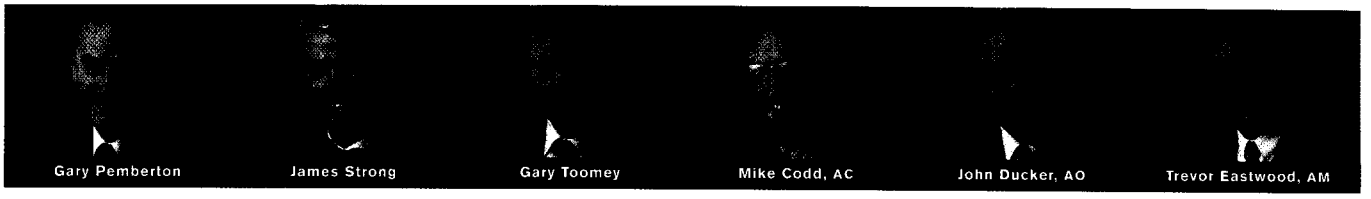
BOEING 767–238ER

BOEING 737–476

BOEING 737–376

AIRCRAFT TYPE	OWNED, HP & FINANCE LEASES	EXTENDABLE OPERATING LEASES	OTHER OPERATING LEASES	TOTAL IN SERVICE	SCHEDULED FOR DELIVERY
Boeing 747–438	12	6	–	18	–
Boeing 747–338	1	5	–	6	–
Boeing 747–238B	5	–	–	5	–
Boeing 747SP–38	2	–	–	2	–
Airbus A300–B4	4	–	–	4	–
Boeing 767–338ER	11	5	–	16	3
Boeing 767–238ER	7	–	–	7	–
Boeing 737–476	20	–	1	21	1
Boeing 737–376	16	–	–	16	–
TOTAL CORE FLEET	**78**	**16**	**1**	**95**	**4**

Details correct at 30 June 1996



Board of Directors

GARY PEMBERTON *Chairman, age 56,* was appointed to the Board in February 1993 and as Chairman in March 1993.

He is Deputy Chairman of Brambles Industries Limited, a Member of the Philips Australia Advisory Board and a Director of the Prince of Wales Children's Hospital Foundation Limited.

Mr Pemberton was Managing Director of Brambles Industries Limited from March 1983 to March 1993 and Chairman of Brambles Industries Limited from March 1993 to August 1994. He was formerly President of the Sydney Organising Committee for the Olympic Games, and a Director of Commonwealth Bank of Australia, CSR Limited, John Fairfax Holdings Limited and Australian Airlines Limited.

JAMES STRONG *Managing Director, age 52,* was appointed to the Board in January 1991 and as Managing Director in October 1993. He is a member of the Safety and Environment Committee and Chairman of a number of controlled entities of Qantas.

He is a Director of RGC Limited and is admitted as a barrister and solicitor in various Australian jurisdictions.

Mr Strong was Chief Executive of Australian Airlines Limited from December 1985 to September 1989, National Managing Partner, later Chairman of Partners, of Corrs Chambers Westgarth, Solicitors, from September 1989 to June 1992 and Group Chief Executive of DB Group Limited in New Zealand from July 1992 until October 1993.

GARY TOOMEY *Finance Director, age 41,* was appointed to the Board in December 1993. He is a Director of a number of controlled entities of Qantas.

He is a Fellow of The Institute of Chartered Accountants in Australia, the Australian Society of Certified Practising Accountants and several other professional bodies.

Mr Toomey was previously Chief Financial Officer of Arnotts Limited. Before this he was Chief Financial Executive of Australian Airlines Limited from 1987 to 1992, Company Secretary and Finance Manager of The Phosphate Co-operative Company of Australia Limited for four years, Company Secretary for Rocke Tompsitt & Co. Limited from 1981 to 1982 and was appointed Group Company Secretary of Rocke's holding company F. H. Faulding & Co. Limited in 1983. Mr Toomey has a chartered accounting background having worked for Peat Marwick Mitchell & Co. from 1976 to 1978 and Parkhill, Lithgow and Gibson from 1979 to 1980.

MIKE CODD *Non-Executive Director, age 56,* was appointed to the Board in January 1992. He is a member of the Audit Committee.

Mr Codd is a Director of Telstra Corporation Limited, ISSC Australia Limited, MLC Limited, Australian Eagle Life Limited, MLC Investments Limited, MLC Insurance Limited, Australian Nuclear Science and Technology Organisation (ANSTO), Toogoolawa Consulting Pty. Limited and The Menzies Foundation. He is a member of the Advisory Board of Spencer-Stuart, IBM Australia Limited and The Constitutional Centenary Foundation and is a consultant to Coopers & Lybrand. He is Australian Country Advisor to Goldman Sachs and also a Councillor of the Asia-Australia Institute.

From 1981 to 1986, Mr Codd held senior positions in the Commonwealth Government as, consecutively, Secretary of the Department of Employment and Industrial Relations, Chairman of the Industries Assistance Commission and Secretary of the Department of Community Services. From 1986 to 1991, he held the positions of Head of Department of the Prime Minister and Cabinet, and Secretary to Cabinet.

JOHN DUCKER *Non-Executive Director, age 64,* was appointed to the Board in August 1983. He is Chairman of Qantas Superannuation Limited and of the Safety and Environment Committee and is a member of the Audit Committee.

Mr Ducker is a founding Fellow of the Australian Institute of Company Directors, Managing Director of Indrel Consulting Pty. Limited, Director of Edelman World Wide, Chairman of the New South Wales Ambulance Service Board and Chairman of The Duke of Edinburgh's Award Scheme Australia (New South Wales Division).

He held a number of management positions with the Labor Council of NSW before becoming Vice President of the Australian Council of Trade Unions in 1977. Mr Ducker was also General Manager of radio station 2KY and Chairman of radio station 2HD. Mr Ducker was formerly a Member of the Board of Governors of the National Institute of Labour Studies and was the Foundation Chairman of Work Skill Australia. He previously held the position of Chairman of the NSW Public Service Board and also served as a Member of the Legislative Council of New South Wales.

TREVOR EASTWOOD *Non-Executive Director, age 54,* was appointed to the Board in October 1995.

He is Chairman of West Australian Newspapers Holdings Limited, Avatar Industries Limited, Kalamazoo Holdings Limited, Gresham Partners Holdings Limited, Orion Resources N.L., FlexiPlan Australia Limited and Gresham Agribusiness Management Limited. He is a Director of Wesfarmers Limited and a Fellow of Curtin University, Australian Institute of Management, Australian Academy of Technological Sciences and Engineering, and the Australian Institute of Company Directors.

Mr Eastwood was formerly Managing Director of Wesfarmers Limited and Chief Executive of Western Australian Farmers Co-operative Limited. He has held various seats on State and Federal Government councils.

MARGARET JACKSON *Non-Executive Director, age 43,* was appointed to the Board in July 1992. She is Chairman of the Audit Committee.

Ms Jackson is Chairman of Victoria's Transport Accident Commission and a Director of ANZ Grindlays Bank Limited, Australia and New Zealand Banking Group Limited, Pacific Dunlop Limited and The Broken Hill Proprietary Company Limited. Ms Jackson is a Fellow of The Institute of Chartered Accountants in Australia.

Ms Jackson was a Partner of KPMG Peat Marwick's Management Consulting Division and National Chairman of the KPMG Micro Economic Reform Group until 30 June 1992, when she resigned to pursue a full-time career as a company director. She was formerly a Director of Telecom Australia and the Australian Wool Corporation and Chairman of the Victorian State Council of The Institute of Chartered Accountants in Australia.

JIM KENNEDY *Non-Executive Director, age 62,* was appointed to the Board in October 1995.

He is a Director of Commonwealth Bank of Australia, Pacific Dunlop Limited, Santos Limited, Australian Stock Exchange Limited, QCT Resources Limited and Industrial Property Management Limited. He is Chairman of Queensland Investment Corporation and Deputy Chairman of GWA International Limited.

Mr Kennedy is a former Chairman of the Australian Government Inquiry into Tourism, former Deputy Chairman of the Australian Tourist Commission and former Chairman of the Queensland Tourist and Travel Corporation. Mr Kennedy, a chartered accountant and public company director, is well known for his contribution to the tourism industry as well as to business.

TREVOR KENNEDY *Non-Executive Director, age 54,* was appointed to the Board in April 1994.

Mr Kennedy is Chairman of Oil Search Limited, Mount Edon Gold Mines (Australia) Limited and Cypress Lakes Group Limited and Deputy Chairman of Darowa Corporation Limited.

He is a Director of several other public and private companies including Axiom Limited, Caxton Holdings Limited and Oz-E-Mail Pty. Limited and is a Member of the Federal Government Remuneration Tribunal.

Mr Kennedy has spent most of his working life as a journalist and editor, and from 1986 to 1991 as Managing Director of Consolidated Press Holdings Limited, a group which has worldwide interests embracing publishing, printing, television, agriculture, chemicals, aviation, ships chandlery, mining, property and investment. He has formerly served on a number of other boards and committees including Trade Development Council, Australian Museum, Powerhouse Museum and Darling Harbour Authority.

SIR COLIN MARSHALL *Non-Executive Director, age 62,* was appointed to the Board by British Airways Plc in March 1993.

Sir Colin is Chairman of British Airways Plc and of Inchcape Plc. He is President of the Confederation of British Industry, Deputy Chairman of British Telecommunications Plc and a Director of HSBC Holdings Plc and The New York Stock Exchange.

Sir Colin was appointed Chairman of British Airways Plc in February 1993 after ten years with the airline, initially as Chief Executive then as Deputy Chairman & Chief Executive, prior to which he had a distinguished career in international business with Orient Steam Navigation Company, Hertz Corporation, Avis Inc and Sears Holdings Plc.

ROGER MAYNARD *Non-Executive Director, age 53,* was appointed to the Board by British Airways Plc in March 1993. He is a member of the Audit Committee.

He is currently Director of Investments and Joint Ventures for British Airways Plc, having been Director of Corporate Strategy from 1991 to 1996. He is also a Director of USAir Group Inc. and TAT European Airlines.

Mr Maynard joined British Airways Plc in 1987 and was Executive Vice President North America. Prior to joining British Airways Plc, he served as Counsellor, Aviation and Shipping, at the British Embassy in Washington DC and was Assistant Secretary for Aerospace at the Department of Trade and Industry in London.

NICK TAIT *Non-Executive Director, age 57,* was appointed to the Board by British Airways Plc in March 1993. He is a member of the Safety and Environment Committee.

He is General Manager Australia and New Zealand for British Airways Plc and is also Chairman of Concorde International Travel Pty. Limited and World Aviation Systems (Australia) Pty. Limited.

Mr Tait joined British Airways Plc in 1964 and has held a variety of management positions in that company, including positions in Australia, Malaysia, Sri Lanka, Thailand, Japan, the UK, USA, Hong Kong, Singapore and Bahrain.

Executive Management

James Strong
Managing Director and Chief Executive

Gary Toomey
Finance Director and Chief Financial Officer

David Burden
Group Executive General Manager Information Technology

Geoff Dixon
Group Executive General Manager Commercial

Norm Fricker
Group Executive General Manager Associated Business

Doug Gillies
Group Executive General Manager Aircraft Operations

Ian Oldmeadow
Group Executive General Manager Operations

Denis Adams
Group General Manager Commercial Policy

John Anderson
Group General Manager Airports

Greg Bee
Group General Manager Cabin Crew

John Borghetti
Group General Manager Australia Sales

Trevor Crabtree
Executive General Manager Engineering and Maintenance

George Dalidakis
Group General Manager Financial Control

Bob Dandie
Group General Manager Purchasing

Simon Davies
Group General Manager Strategic Development

Paul Edwards
Executive General Manager Commercial Network

George Elsey
Group General Manager Customer Service and Organisational Development

Peter Frampton
Executive General Manager Freight

Peter Gregg
Group Treasurer

David Hawes
Group General Manager Government and International Relations

Ray Heiniger
Group General Manager Flight Operations

Gordon Howlett
Executive General Manager National Operations

Col Hughes
Group General Manager Pacific and Japan Sales

Brett Johnson
General Counsel and Company Secretary

Alan Loke
Group General Manager North Asia Sales

Sandra McPhee
Executive General Manager Europe/South East Asia Sales

Barry Robinson
Executive General Manager Staff and Industrial Relations

Ken Ryan
Group General Manager Marketing

Corporate Governance

The Qantas Board has implemented an advanced process of corporate governance. The Board's responsibilities include setting strategic direction, providing the leadership to put those strategies into effect, ensuring appropriately skilled management are employed, supervising and monitoring the management of the business and reporting to shareholders. The Board's actions are subject to laws, regulations and the approval of shareholders at general meeting.

The Australian Stock Exchange Listing Rules require listed companies to include in their Annual Reports a statement of the main corporate governance practices the company had in place during the year. The Listing Rules include an indicative list of matters which a company may take into account in preparing the statement.

THE BOARD

The Qantas Board comprises 12 Directors, including the Chief Executive Officer & Managing Director and the Chief Financial Officer & Finance Director. Three Non-Executive Directors are appointed by British Airways. All remaining Directors, including the Chairman, are independent Non-Executive Directors elected by shareholders other than British Airways.

The Board normally meets 11 times a year.

In accordance with the Articles and the Listing Rules, Non-Executive Directors are elected by non-British Airways shareholders for three years. There is an ongoing review to ensure that the Directors are contributing and the Board has the required skills and experience to fully represent shareholders. Any Board vacancy is filled with a candidate who has an appropriate mix of skills and experience. These candidates are then put to the shareholders for election.

The Board's philosophy is that all material matters should be considered by the full Board. While there are two formal Committees, the members of these Committees are responsible for the review of certain technical aspects of the Airline's operations and for making recommendations on these issues for decision by the full Board.

In recognition of the domestic and international nature of the business, the Board commenced travelling to Qantas operations outside Sydney. During 1996, the Board held Meetings in Brisbane, Japan and the USA.

EXTERNAL ADVICE

Should an individual Director consider it necessary to obtain independent professional advice in carrying out his or her duties, the Director discusses the matter with the Chairman and any advice considered necessary is obtained at the expense of Qantas.

COMPENSATION

The Board is responsible for setting the compensation of the Chief Executive Officer and for reviewing the compensation of the Chief Financial Officer and other members of the Qantas senior management. External advice is obtained to ensure compensation is reasonable and in line with market practice.

Total Directors' fees are set by shareholders and individual fees are set by the Board.

AUDIT COMMITTEE

The Board has an Audit Committee which is responsible for overviewing the work of the external and internal auditors and for the implementation of appropriate internal controls. The Committee meets approximately four times a year. The Committee reviews and approves draft financial statements prior to submission to the full Board. This provides additional assurance on the quality of financial information prior to approval by the Board and release to shareholders.

SAFETY AND ENVIRONMENT COMMITTEE

Given the Airline's particular focus placed on safety and the environment, Qantas has a separate Committee to review these critical aspects of the Airline. This Committee meets approximately four times a year to review safety and environment issues in detail. The Committee reports on its work to the full Board.

CODE OF COMMERCIAL CONDUCT

All Qantas Directors and employees are expected to comply, at all times, with all laws governing the Airline's operations. In addition, those operations must be conducted in keeping with the highest legal, moral and ethical standards.

The Board has introduced a Code of Commercial Conduct which deals with a number of matters, including:

- Compliance with Laws and Regulations;
- Unacceptable Payments;
- Protection of Qantas Assets;
- Proper Accounting and Dealing with Auditors;
- Conflict of Interest and Use of Inside Information; and
- Insider Trading.

Directors' Meetings

The number of Directors' Meetings (including Meetings of committees of Directors) and number of Meetings attended by each of the Directors of the Chief Entity during the financial year are:

	QANTAS BOARD		AUDIT COMMITTEE		SAFETY AND ENVIRONMENT COMMITTEE		OTHER COMMITTEE	
DIRECTORS	ATTENDED	HELD*	ATTENDED	HELD*	ATTENDED	HELD*	ATTENDED	HELD*
Gary Pemberton	10	11	3#	4#	–	–	2	2
James Strong	11	11	4#	4#	4	4	2	2
Gary Toomey	11	11	4#	4#	–	–	1	2
Mike Codd, AC	11	11	4	4	–	–	–	–
John Ducker, AO	10	11	3	4	4	4	–	–
Trevor Eastwood, AM^	7	8	–	–	–	–	–	–
Margaret Jackson	9	11	3	4	–	–	–	–
Jim Kennedy, AO, CBE^	8	8	–	–	–	–	–	–
Trevor Kennedy, AM	11	11	–	–	–	–	2	2
Sir Colin Marshall	2+	11	–	–	–	–	–	–
Roger Maynard	10+	11	3	4	–	–	–	–
Nick Tait	11	11	–	–	4	4	2	2
Derek Stevens (alternate director)	2	2	–	–	–	–	–	–

* *reflects the number of meetings held during the time the Director held office during the year*
\+ *when not present in person represented by an alternate*
\# *attended in ex-officio capacity*
^ *appointed 18 October 1995*

QANTAS

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Directors' Report

The Directors present their report on the financial statements of Qantas Airways Limited (or the "Chief Entity") and the consolidated accounts of the Economic Entity being the Chief Entity and its controlled entities, for the year ended 30 June 1996.

DIRECTORS

The Directors of Qantas Airways Limited at the date of this report are:

Gary Pemberton
James Strong
Gary Toomey
Mike Codd, AC
John Ducker, AO
Trevor Eastwood, AM
Margaret Jackson
Jim Kennedy, AO,CBE
Trevor Kennedy, AM
Sir Colin Marshall
Roger Maynard
Nick Tait
Derek Stevens *(alternate director)*.

PRINCIPAL ACTIVITIES

The principal activities of the Economic Entity 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, catering activities, information technology and resort operations. There were no significant changes in the nature of the activities of the Economic Entity during the financial year.

CONSOLIDATED RESULT

The consolidated profit for the year after income tax and abnormals attributable to the members of Qantas Airways Limited was $246.2 million (1995: $180.1 million).

EARNINGS PER SHARE

Basic and diluted earnings per share was 24.2 cents (1995:18.0 cents).

DIVIDENDS

The Directors declared a final dividend of $67.3 million (6.5 cents per fully paid share) for the year ended 30 June 1996 (1995:3.5 cents). The final dividend will be unfranked. Further details are set out in note 31 to the financial statements.

REVIEW OF OPERATIONS

A review of the Economic Entity's operations during the financial year and of the results of those operations is contained on pages 8 to 15 inclusive of this Annual Report.

STATE OF AFFAIRS

Changes in the state of affairs of the Economic Entity are set out in the Review of Operations on pages 8 to 15. Significant changes outlined are as follows:

- Profit after tax of $246.7 million 36.8 percent above last year
- Total assets increased from $8,928.5 million to $9,221.6 million
- Shareholders' equity grew by 7 percent to $2,436.6 million
- Debt to equity ratio improved seven points to 61:39
- Cash flows from operations increased to $936.4 million.

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Economic Entity that occurred during the financial year under review not otherwise disclosed in the Annual Report and in the accompanying financial statements.

EVENTS SUBSEQUENT TO BALANCE DATE

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature, in the opinion of the Directors, that has significantly affected or may significantly affect the operations of the Economic Entity, the results of those operations, or the state of affairs of the Economic Entity, in subsequent financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Developments likely to significantly affect the operations of the Economic Entity that were not finalised at the date of this report are set out in the Review of Operations on pages 8 to 15. Further information as to likely developments in the operations of the Economic Entity and the expected results of those operations in subsequent financial years have not been included in this report because the Directors believe, on reasonable grounds, that to include further information on those matters would be likely to result in unreasonable prejudice to the interests of the Economic Entity.

INFORMATION ON DIRECTORS

Details of Directors, their experience and any special responsibilities are set out on pages 16 and 17 of the Annual Report.

Details of meetings of Directors are set out on page 18 of the Annual Report.

Particulars of Directors' interests in shares and options of the Chief Entity:

DIRECTORS' ORDINARY SHARES

Gary Pemberton (Chairman)	64,800
James Strong	83,067
Gary Toomey	22,010
John Ducker, AO	5,433
Margaret Jackson	21,566
Jim Kennedy, AO, CBE	1,000
Trevor Kennedy, AM	20,800

The particulars of Directors' interests in shares are as at the date of this report.

DIRECTORS' INTERESTS AND BENEFITS

Directors' relevant interests in the share capital of the Chief Entity are set out above. Since the end of the previous financial year, no Director of the Chief Entity has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors shown in the consolidated accounts) because of a contract made by the Chief Entity, its controlled entities or a related body corporate with the Director or with a firm of which the Director is a member, or with an entity in which the Director has a substantial interest, other than as disclosed in note 36 to the financial statements.

INDEMNITIES AND INSURANCE

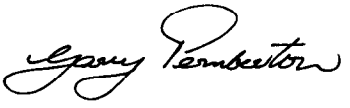
The Company is required to indemnify each officer of the Company (subject to certain qualifications) against any liability incurred by the officer in or arising out of the conduct of the business of the Company or the discharge of the duties of the officer unless the liability was incurred by the officer through his or her own dishonesty, negligence, lack of good faith or breach of duty. The Directors listed on pages 16 and 17 of this Annual Report and the secretaries of the Company, being Mr B.S. Johnson, Mr S.F. Heesh and until 3 July 1995, Mr L.J. Fisk, have the benefit of the indemnity in Articles 12.1 to 12.4, which also applies to all officers of the Company. The Company has insured against amounts which it is liable to pay to officers pursuant to Articles 12.1 to 12.4 or which it otherwise agrees to pay by way of indemnity.

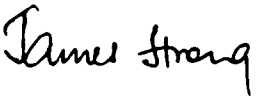
ROUNDING

The Company is of a kind referred to in Class Order No. 94/1252 dated 17 August 1994 issued by the Australian Securities Commission, relating to the 'rounding off' of amounts in the Directors' report and financial statements. Amounts in this report and accompanying financial statements have been rounded off to the nearest one hundred thousand dollars in accordance with that Class Order unless otherwise indicated.

Dated at Sydney this eighteenth day of September 1996.

Signed in accordance with a resolution of the Directors.





Gary Pemberton
Chairman

James Strong
Managing Director

Profit and Loss Accounts

for the year ended 30 June 1996

	NOTES	CONSOLIDATED		CHIEF ENTITY	
		1996 $m	1995 $m	**1996 $m**	1995 $m
Operating profit before interest and tax		**504.4**	471.4	**284.7**	237.1
Net interest expense	2	**(103.0)**	(151.0)	**(92.1)**	(119.4)
PROFIT FROM OPERATIONS		**401.4**	320.4	**192.6**	117.7
Abnormal items	3	**–**	–	**–**	–
OPERATING PROFIT	2	**401.4**	320.4	**192.6**	117.7
Income tax expense attributable to operating profit	4	**(154.7)**	(140.1)	**(59.3)**	(59.1)
OPERATING PROFIT AFTER INCOME TAX		**246.7**	180.3	**133.3**	58.6
Outside equity interests in operating profit		**(0.5)**	(0.2)	**–**	–
OPERATING PROFIT AFTER INCOME TAX ATTRIBUTABLE TO MEMBERS OF THE CHIEF ENTITY	26	**246.2**	180.1	**133.3**	58.6
Retained profits at the beginning of the financial year		**712.4**	593.0	**486.8**	472.4
Adoption of Accounting Standard AASB 1028: Accounting for Employee Entitlements		**–**	(15.7)	**–**	(8.8)
TOTAL AVAILABLE FOR APPROPRIATION		**958.6**	757.4	**620.1**	522.2
Dividends provided for or paid	31	**(133.7)**	(45.0)	**(133.5)**	(35.4)
RETAINED PROFITS AT THE END OF THE FINANCIAL YEAR		**824.9**	712.4	**486.6**	486.8

The profit and loss accounts above are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 25 to 63.

Balance Sheets

as at 30 June 1996

	NOTES	CONSOLIDATED		CHIEF ENTITY	
		1996 $m	1995 $m	**1996 $m**	1995 $m
CURRENT ASSETS					
Cash	8	**79.4**	23.5	**74.9**	2.7
Receivables	9	**1,380.1**	1,389.5	**1,687.8**	1,620.6
Inventories	10	**136.4**	150.6	**90.3**	79.8
Other	12	**57.7**	47.0	**41.1**	34.3
TOTAL CURRENT ASSETS		**1,653.6**	1,610.6	**1,894.1**	1,737.4
NON-CURRENT ASSETS					
Receivables	9	**1,689.9**	1,990.8	**1,997.9**	2,530.5
Investments	11	**235.1**	225.2	**342.4**	367.3
Property, plant and equipment	13	**5,586.8**	5,045.3	**4,021.9**	3,407.7
Intangibles	14	**8.3**	10.0	**–**	–
Other	12	**47.9**	46.6	**13.9**	14.6
TOTAL NON-CURRENT ASSETS		**7,568.0**	7,317.9	**6,376.1**	6,320.1
TOTAL ASSETS		**9,221.6**	8,928.5	**8,270.2**	8,057.5
CURRENT LIABILITIES					
Creditors and borrowings	15	**1,355.9**	1,254.0	**1,452.4**	1,331.8
Provisions	16	**364.5**	314.0	**293.6**	214.3
Other	17	**647.7**	594.7	**617.7**	560.4
TOTAL CURRENT LIABILITIES		**2,368.1**	2,162.7	**2,363.7**	2,106.5
NON-CURRENT LIABILITIES					
Creditors and borrowings	15	**3,290.1**	3,546.2	**2,903.1**	3,109.9
Provisions	16	**702.5**	554.6	**489.1**	414.1
Other	17	**424.3**	387.1	**400.3**	364.9
TOTAL NON-CURRENT LIABILITIES		**4,416.9**	4,487.9	**3,792.5**	3,888.9
TOTAL LIABILITIES		**6,785.0**	6,650.6	**6,156.2**	5,995.4
NET ASSETS		**2,436.6**	2,277.9	**2,114.0**	2,062.1
SHAREHOLDERS' EQUITY					
Share capital	18	**1,035.5**	1,000.0	**1,035.5**	1,000.0
Reserves	19	**574.4**	564.2	**591.9**	575.3
Retained profits		**824.9**	712.4	**486.6**	486.8
Shareholders' equity attributable to members of the Chief Entity		**2,434.8**	2,276.6	**2,114.0**	2,062.1
Outside equity interests in controlled entities	20	**1.8**	1.3	**–**	–
TOTAL SHAREHOLDERS' EQUITY		**2,436.6**	2,277.9	**2,114.0**	2,062.1

The balance sheets above are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 25 to 63.

Statements of Cash Flows

for the year ended 30 June 1996

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	**7,549.2**	7,146.0	**6,691.6**	6,385.8
Payments to suppliers and employees	**(6,511.4)**	(6,159.2)	**(5,973.1)**	(5,795.3)
Interest received	**93.2**	59.4	**98.4**	77.2
Interest paid	**(211.3)**	(199.8)	**(203.9)**	(181.5)
Dividends received	**22.0**	14.6	**17.4**	1.3
Income taxes paid	**(5.3)**	(7.2)	**(1.3)**	(1.9)
Net cash provided by operating activities (refer note 35)	**936.4**	853.8	**629.1**	485.6
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments for property, plant and equipment	**(503.5)**	(451.0)	**(421.9)**	(410.0)
Payments for aircraft security deposits	**(87.1)**	(16.2)	**(78.6)**	(15.2)
Total payments for property, plant, equipment and aircraft security deposits	**(590.6)**	(467.2)	**(500.5)**	(425.2)
Proceeds from sale of non-current assets	**52.3**	33.4	**41.9**	23.6
Proceeds from sale and leaseback of non-current assets	**396.0**	217.9	**396.0**	217.9
Payments for investments net of cash acquired	**(10.1)**	(5.4)	**–**	(5.0)
Net funding to related parties	**–**	–	**130.3**	37.0
Net cash provided by/(used in) investing activities	**(152.4)**	(221.3)	**67.7**	(151.7)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayments of borrowings	**(148.2)**	(219.7)	**(104.6)**	(160.0)
Debt prepayments on sale and leaseback transactions	**(396.0)**	(217.9)	**(396.0)**	(217.9)
Net repayments of swaps	**(141.5)**	(117.8)	**(134.0)**	(110.5)
Total debt repayments	**(685.7)**	(555.4)	**(634.6)**	(488.4)
Proceeds from borrowings	**11.4**	48.6	**6.1**	40.9
Dividends paid	**(46.7)**	(9.4)	**(46.3)**	–
Net cash used in financing activities	**(721.0)**	(516.2)	**(674.8)**	(447.5)
RECONCILIATION OF CASH PROVIDED BY/(USED IN):				
Operating activities	**936.4**	853.8	**629.1**	485.6
Investing activities	**(152.4)**	(221.3)	**67.7**	(151.7)
Financing activities	**(721.0)**	(516.2)	**(674.8)**	(447.5)
Net increase/(decrease) in cash held	**63.0**	116.3	**22.0**	(113.6)
Cash at the beginning of the financial year	**394.2**	277.6	**165.2**	278.8
Effects of exchange rate changes on cash held in foreign currencies	**–**	0.3	**–**	–
Cash at the end of the financial year (refer note 35)	**457.2**	394.2	**187.2**	165.2

The statements of cash flows above are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 25 to 63.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

In order to assist in an understanding of the figures presented, the following summarises the significant policies which have been adopted in the preparation of these financial statements.

a. Basis of Preparation

The financial statements are a general purpose financial report which have been drawn up in accordance with Accounting Standards, Urgent Issues Group Consensus Views, the Corporations Law and Schedule 5 to the Corporations Regulations. They have been prepared on the basis of historical costs and do not take into account changing money values or, except where stated, current valuations of non-current assets. Unless otherwise noted, the accounting policies have been consistently applied with those of the previous year.

b. Principles of Consolidation

The consolidated accounts comprise the accounts of Qantas Airways Limited being the Chief Entity, and its controlled entities as at 30 June 1996 and the results of all controlled entities for the year then ended (refer note 26). Results of controlled entities which were acquired or disposed of during the year are included from the date control commenced or to the date control ceased. The consolidation process eliminates inter-entity balances and transactions. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated profit and loss account and balance sheet respectively.

c. Foreign Currency Transactions

Translation of foreign currency transactions

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

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. The profit and loss accounts are translated at the average rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

Hedging of foreign currency commitments

Gains and losses on derivatives used to hedge the purchase or sale of capital equipment, goods and services are deferred in the balance sheet and included in the related purchase or sale. Net deferred losses associated with hedges of foreign currency revenues relating to future transportation services are included in the balance sheet as receivables. As at 30 June 1996, the net amount deferred was $122.4 million (1995: $849.5 million). These losses will be included in the measurement of the relevant future foreign currency revenues at the time the transportation services are provided.

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

d. Derivative Financial Instruments

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

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 profit and loss account when the gains and losses arising on the related hedged position are recognised in the profit and loss account. Further details are outlined in note 29.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES cont.

e. Passenger and Freight Sales Revenue

Passenger and freight sales revenue are included in the profit and loss account net of sales discounts. Passenger and freight sales commission are included as a cost of sales.

f. Revenue Received in Advance

Passenger and freight sales are credited to revenue received in advance and subsequently transferred to revenue when tickets are utilised or freight uplifted. The liability relating to sales of other airlines' tickets is included in trade creditors.

g. Taxation

The Economic Entity adopts the liability method of tax effect accounting.

Income tax expense is calculated on operating profit 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 balance sheet as a future income tax benefit or a deferred tax liability.

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

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

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

h. Inventories and Work in Progress

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

i. Non-Current Assets

The carrying amounts of non-current assets are reviewed at least annually to determine whether or not they are stated in excess of their recoverable amounts. 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.

Appropriate writedowns are made where the carrying amount exceeds recoverable amount. To the extent that a revaluation decrement reverses a revaluation increment previously credited to, and still included in the balance of, the asset revaluation reserve for the same class of assets, the decrement is debited directly to the reserve. Otherwise the decrement is recognised as an expense in the profit and loss account.

j. Investments

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

Controlled entities

Dividend income from controlled entities is included in revenue of the Chief Entity when proposed.

Associated companies

An associated company is one in which the Economic Entity exercises significant influence, but not control. Dividend income from associated companies is included in revenue when received.

Other entities

Dividends from investments in corporations which are not controlled entities or associated companies are included in revenue when received.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES cont.

k. Property, Plant and Equipment

Cost and valuation

Freehold land and buildings and leasehold improvements are independently valued at least every three years.

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.

Depreciation and amortisation

Depreciation and amortisation are provided on a straight line basis on all property, plant and equipment, other than freehold and leasehold land, at rates calculated to allocate the cost or valuation less estimated residual value at the end of the useful lives of the assets, over their estimated useful lives. The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is the shorter. The principal asset depreciation periods are:

	YEARS	RESIDUALS %
Jet aircraft and spare engines	20	0-25
Non-jet aircraft and spare engines	10-30	0-20
Aircraft spare parts	15-20	0-25
Buildings and leasehold improvements	10-50	0
Plant and equipment	3-10	0

Depreciation rates are reviewed annually and reassessed having regard to commercial and technological developments.

Leased and hire purchased assets

Leased assets under which the Economic Entity assumes substantially all the risks and benefits of ownership are classified as finance leases and capitalised.

At the inception of the lease, a lease asset and liability equal to the present value of the minimum lease payments are created. Any gains and losses under sale and leaseback arrangements are included as part of the cost of the leased asset. 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.

In respect of a number of finance leases, debt funding has been provided to the lessor. This debt funding has been offset against the lease liability and the balance sheet reflects the net position (refer note 21). Interest received on the debt funding is also offset against interest paid (refer note 2).

Hire purchased assets are accounted for in the same way as finance leases.

Operating lease payments are charged to the profit and loss account in the years in which they are incurred.

In respect of any premises rented under long-term operating leases which are subject to sub-tenancy agreements, provision is made for any shortfall between primary payments by the Economic Entity and Chief Entity 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.

Non-cancellable operating leases

Non-cancellable operating leases are generally for a term of twelve years extendable at the option of the Chief Entity to fifteen years. The leases are non-cancellable on the basis that there are likely to be financial penalties associated with a termination prior to year twelve.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES cont.

l. Intangible Assets

Goodwill

Goodwill representing the excess of the purchase consideration over the fair value of 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.

Other intangible assets

Trademarks, tradenames and licences are amortised on a straight line basis over the period in which future benefits are expected to arise, or 20 years, whichever is the shorter.

m. Frequent Flyer Liability

The obligation to provide travel rewards to members of the Frequent Flyer programme is progressively accrued as a current liability as points are accumulated. This accrual is based on the incremental cost of ultimately providing the travel rewards.

As members redeem awards or their entitlements expire, the accrual is reduced accordingly to reflect the acquittal of the outstanding obligation.

n. Employee Entitlements

Wages and salaries, annual leave, sick leave and statutory entitlements

Provision is made for benefits accruing to employees for annual leave, including leave loading, sick leave vesting to employees and statutory overseas termination entitlements. This provision represents the amount which the Economic Entity has a present obligation to pay resulting from employees' services provided up to balance date. The provision has been calculated on current wage and salary rates, and includes all related on-costs.

Long service leave

The liability for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to balance date. Liabilities for employee entitlements which are not expected to be settled within twelve months are discounted using rates attached to national government securities at balance date which most closely match the timing of maturity of the related liability. In determining the liability for employee entitlements, consideration has been given to future increases in wage and salary rates and experience with staff turnover. The liability includes all related on-costs.

Superannuation

The Economic Entity contributes to employee superannuation funds. Contributions to these funds are recognised in the profit and loss account as they are made. Further details are disclosed in note 25.

AASB 1028: Accounting for Employee Entitlements

Employee entitlements have been calculated in accordance with Accounting Standard AASB 1028: Accounting for Employee Entitlements. Further details are disclosed in note 30.

o. Workers' Compensation

The Chief Entity is a licensed self-insurer under the New South Wales Workers' Compensation Act and the Accident Compensation Act 1985 (Victoria) and has made provision for all assessed workers' compensation liabilities based on an independent actuarial assessment. Workers' compensation liabilities for non-New South Wales and Victorian employees are insured commercially.

Australian Airlines Limited, a controlled entity, has made provision for outstanding self-insured pre 1 July 1989 workers' compensation claims including an estimate for incurred but non-reported claims, both based on an independent actuarial assessment. Post 1 July 1989, all workers' compensation liabilities have been insured commercially.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES cont.

p. Deferred Lease Benefits/Income

Gains/losses on instantaneous sale and operating leaseback of aircraft and benefits derived from cross-border leasing arrangements, and variations between actual lease payments and minimum lease payments are treated as deferred lease benefits/income. These are brought to account as income/expense over the period of the respective lease, or on a basis which is representative of the pattern of benefits derived from the leased aircraft.

q. Earnings per Share

Earnings per share is determined by dividing the Economic Entity's operating profit after income tax attributable to members of the Chief Entity by the weighted average number of ordinary shares on issue during the current financial year (refer note 33).

r. Segment Information

Segment information is provided in note 32.

Industry segments

The Economic Entity operates predominantly in one industry segment, being the transportation of passengers and freight on services within and to or from Australia.

Geographical segments

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

Segmental analysis of net assets and profit contribution

For the year ended 30 June 1996, the principal assets of the Economic Entity comprised the aircraft fleet, all of which were registered and domiciled in Australia. These assets are used flexibly across the Economic Entity's worldwide route network. Accordingly there is no suitable basis of allocating such assets and the related liabilities between geographic areas.

Operating profit resulting from turnover generated in each geographic area according to origin of sale is not disclosed as it is neither practical nor meaningful to allocate operating expenditure on that basis.

Disclosure is made of a more appropriate measure of profit contributions in accordance with the Economic Entity's internal reporting system, between the earnings before interest and tax contributions from international and domestic airline operations and subsidiary operations (refer note 32).

s. Statements of Cash Flows

For the purposes of the statements of cash flows (refer note 35), cash includes cash on hand, at bank and money market investments readily convertible to cash, net of outstanding bank overdrafts and short-term cash borrowings. Bank loans obtained through the use of commercial paper funding facilities and funding provided to related parties have been disclosed on a net basis due to the rapid turnover and the high volume of transactions.

t. Comparative Figures

Where applicable, comparatives have been adjusted to reflect disclosure on a comparable basis with current year figures.

Notes to and forming part of the Financial Statements

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
NOTE 2: OPERATING PROFIT				
Operating profit before income tax has been determined after including:				
Revenue				
Sales revenue:				
Related parties				
– controlled entities	**–**	–	**101.1**	109.9
– associated companies	**40.3**	84.5	**33.6**	59.6
– other related parties	**18.5**	20.9	**10.1**	10.0
Other persons/bodies corporate	**7,519.6**	7,057.5	**6,566.5**	6,203.8
Other revenue:				
Interest received/receivable from				
Related parties				
– controlled entities	**–**	–	**17.6**	18.6
– associated companies	**1.4**	–	**0.7**	–
Other persons/bodies corporate	**92.3**	65.5	**80.4**	62.3
Dividends received/receivable from				
Related parties				
– controlled entities	**–**	–	**15.8**	0.3
– associated companies	**2.4**	1.9	**–**	–
Other persons/bodies corporate	**19.8**	12.6	**1.6**	1.0
Proceeds from sale of non-current assets	**52.3**	33.4	**41.9**	23.6
Total revenue (refer note 32)	**7,746.6**	7,276.3	**6,869.3**	6,489.1
Proceeds from sale and leaseback of non-current assets				
Other persons/bodies corporate	**396.0**	217.9	**396.0**	217.9
Total revenue including proceeds from sale and leaseback of non-current assets	**8,142.6**	7,494.2	**7,265.3**	6,707.0
Expenditure				
Depreciation				
Buildings	**5.0**	5.9	**3.2**	3.0
Leasehold improvements	**35.7**	36.8	**18.3**	19.0
Plant and equipment	**85.3**	80.2	**43.6**	38.8
Aircraft and engines	**88.8**	78.9	**71.6**	64.5
Aircraft spare parts	**17.1**	15.5	**12.0**	12.3
Total depreciation	**231.9**	217.3	**148.7**	137.6
Amortisation				
Leasehold land and buildings	**1.6**	1.5	**0.8**	0.9
Leased plant and equipment	**5.3**	7.9	**–**	–
Leased aircraft and engines	**173.0**	159.8	**119.3**	106.0
Leased aircraft spare parts	**1.5**	1.5	**–**	–
Goodwill	**0.5**	0.5	**–**	–
Expenditure carried forward	**5.5**	4.5	**4.4**	1.8
Trademarks, tradenames and licences	**1.2**	1.2	**–**	–
Total amortisation	**188.6**	176.9	**124.5**	108.7

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
NOTE 2: OPERATING PROFIT cont.				
Interest paid/payable to				
Related parties				
– controlled entities	**–**	–	**17.2**	11.0
Other persons/bodies corporate				
– finance charges on capitalised leases	**105.5**	104.3	**73.8**	67.7
– interest received on portion of debt funded to the lessors	**(10.5)**	(14.9)	**–**	–
	95.0	89.4	**91.0**	78.7
– other interest paid/payable	**101.7**	127.1	**99.8**	121.6
Total interest paid/payable	**196.7**	216.5	**190.8**	200.3
Net operating foreign currency gain	**(5.6)**	(6.7)	**(7.1)**	(7.9)
Profit on sale of non-current assets	**(9.8)**	(10.6)	**(5.0)**	(0.6)
Loss on sale of non-current assets	**16.0**	–	**0.8**	–
Amounts set aside to/(from) provisions				
Doubtful debts	**3.0**	1.7	**2.9**	1.7
Allowance for inventory obsolescence	**1.3**	(5.6)	**1.3**	(2.6)
Employee entitlements	**70.8**	57.6	**61.8**	48.1
Staff redundancy and restructuring costs	**16.2**	15.7	**15.5**	14.8
Insurance	**15.8**	9.4	**12.8**	6.2
Operating lease charges				
Non-cancellable	**293.2**	339.2	**293.2**	339.2
Cancellable	**151.2**	130.6	**100.8**	85.1
Capacity hire-aircraft	**102.4**	95.4	**102.1**	95.1
Writedown to recoverable amount				
Investments in controlled entities	**–**	–	**–**	11.1
NOTE 3: ABNORMAL ITEMS				
Included in operating profit are the following abnormal items charged:				
Restatement of deferred income tax balances on change in income tax rate	**–**	–	**–**	–
Income tax effect	**–**	(24.0)	**–**	(19.4)
	–	(24.0)	**–**	(19.4)
Total abnormal items	**–**	–	**–**	–
Total income tax effect	**–**	(24.0)	**–**	(19.4)
Total abnormal items after income tax	**–**	(24.0)	**–**	(19.4)

Notes to and forming part of the Financial Statements

NOTE 4: INCOME TAX

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
The prima facie income tax on operating profit differs from the income tax charged in the accounts and is calculated as follows:				
Operating profit before income tax	**401.4**	320.4	**192.6**	117.7
Prima facie income tax expense at 36% (1995: 33%)	**144.5**	105.7	**69.3**	38.8
Add/(less) adjustments for:				
Non-assessable income				
Deferred lease benefits	**(5.0)**	(5.5)	**(5.0)**	(5.5)
Other non-assessable items	**(9.7)**	(3.5)	**(20.0)**	–
Non-deductible expenditure				
Depreciation on buildings	**1.1**	3.5	**1.1**	3.5
Amortisation of lease residual values	**7.6**	6.4	**7.6**	6.4
Research and development	**–**	(1.3)	**–**	(1.2)
Other non-deductible items	**23.2**	13.2	**8.8**	10.5
Over provision prior years	**(7.0)**	(2.4)	**(2.5)**	(12.8)
Abnormal items				
Change in income tax rate	**–**	24.0	**–**	19.4
Total income tax expense	**154.7**	140.1	**59.3**	59.1
Comprising:				
Australian income tax expense	**145.6**	133.7	**58.3**	60.8
Overseas income tax expense	**9.1**	6.4	**1.0**	(1.7)
	154.7	140.1	**59.3**	59.1
The income tax expense represents:				
Provision for income tax				
– Australia	**0.8**	–	**–**	–
– overseas	**11.3**	10.5	**1.2**	2.9
Group tax loss transfers	**81.3**	40.1	**16.3**	–
Provision for deferred income tax	**81.3**	96.7	**77.5**	64.7
Future income tax benefit	**(13.0)**	(4.8)	**(33.2)**	4.3
Over provision prior years	**(7.0)**	(2.4)	**(2.5)**	(12.8)
	154.7	140.1	**59.3**	59.1
The provision for deferred income tax is reduced by future income tax benefits attributable to tax losses to the amount of:	**88.6**	181.7	**54.6**	78.7

Of the $88.6 million relating to carried forward tax losses of the Economic Entity at 30 June 1996, $21.2 million (1995: $77.7 million) relates to pre-acquisition carried forward tax losses quarantined in Australian Airlines Limited group which are only available for offset against future taxable income generated by Australian Airlines Limited group. The future income tax benefit will only be obtained if:

(a) future assessable income is derived of a nature and of an amount sufficient to enable the benefits to be realised;

(b) the conditions for deductibility imposed by tax legislation continue to be complied with; and

(c) no changes in tax legislation adversely affect the ability of the Economic Entity to realise the benefit.

NOTE 5: DIRECTORS' REMUNERATION

Directors' remuneration includes fees, salaries, superannuation contributions, performance bonuses (refer note 6), other non-cash benefits, retirement and resignation payments as applicable to Executive and Non-Executive Directors.

Other non-cash benefits include travel and accommodation discounts obtained from time to time by Directors, some of which are through agreements entered into by the Chief Entity. Certain travel benefits are available on similar terms and conditions as those offered to employees of the Chief Entity.

All remuneration levels are determined with reference to external professional advice taking into account market levels of remuneration.

	CONSOLIDATED		CHIEF ENTITY	
	1996	1995	**1996**	1995
The number of Directors of the Chief Entity whose remuneration from the Chief Entity and related bodies corporate falls within the following specified bands:				
$				
0 – 9,999*			**1**	2
20,000 – 29,999			**–**	1
30,000 – 39,999			**2**	–
40,000 – 49,999			**2**	3
50,000 – 59,999			**–**	2
60,000 – 69,999			**3**	2
70,000 – 79,999			**1**	–
80,000 – 89,999			**1**	–
130,000 – 139,999			**–**	1
140,000 – 149,999			**1**	–
530,000 – 539,999			**–**	1
620,000 – 629,999			**1**	–
1,270,000 – 1,279,999			**–**	1
1,370,000 – 1,379,999			**1**	–

* *Alternate Non-Executive Directors did not receive any remuneration.*

	1996 $m	1995 $m	**1996 $m**	1995 $m
Total remuneration received, or due and receivable by Directors of the Chief Entity from the Chief Entity or related bodies corporate (includes Directors' fees of $0.6 million (1995: $0.5 million))			**2.7**	2.4
The increase in Non-Executive Directors' remuneration during the year was $0.1 million and was largely due to the filling of two vacant Board positions in October 1995.				
Total remuneration received, or due and receivable by Directors of each entity in the Economic Entity from the Chief Entity or related bodies corporate or controlled entities (includes Directors' fees of $0.6 million (1995: $0.5 million))	**4.3**	4.1		

The above amounts are disclosed in accordance with an Australian Securities Commission Class Order No. 95/471 dated 27 June 1995.

NOTE 6: EXECUTIVES' REMUNERATION

Executives' remuneration includes salaries, superannuation contributions, performance bonuses, other non-cash benefits, retirement and resignation payments as applicable.

Other non-cash benefits include travel and accommodation discounts obtained from time to time by executives, some of which are through agreements entered into by the Chief Entity. Certain travel benefits are available on similar terms and conditions as those offered to all employees of the Chief Entity.

All remuneration levels are determined with reference to external professional advice taking into account market levels of remuneration. A performance-based reward scheme is in place for all executives which provides for cash performance bonuses to be paid where pre-determined objectives are met. This scheme first came into operation for all executives in the current year and was adopted in preference to any other scheme, for example, a share option scheme.

In excess of 1,800 employees of the Economic Entity received more than $100,000 in total remuneration during the year ended 30 June 1996. A significant proportion of these employees were pilots (including executives and training pilots), flight officers and flight engineers, however also included were a number of licensed aircraft maintenance engineers, and other Award employees from areas such as Information Systems, Customer Services, Airport and Commercial Operations.

Only those employees who received more than $100,000 in remuneration and met the definition of an executive officer under the Corporations Law are included in the following disclosures. Although these disclosures are in accordance with the Corporations Law, the comparability of the disclosures between years is distorted due to appointment of some executives part way through each year and changes to organisational structure.

	CONSOLIDATED		CHIEF ENTITY	
	1996	1995	**1996**	1995
The number of executive officers of the Chief Entity whose remuneration from the Chief Entity or related bodies corporate within the Economic Entity falls within the following specified bands:				
$				
100,001 – 110,000	**3**	9	**1**	8
110,001 – 120,000	**–**	17	**–**	12
120,001 – 130,000	**–**	15	**–**	12
130,001 – 140,000	**4**	15	**4**	15
140,001 – 150,000	**8**	12	**6**	12
150,001 – 160,000	**7**	9	**7**	7
160,001 – 170,000	**11**	6	**8**	2
170,001 – 180,000	**8**	8	**6**	7
180,001 – 190,000	**5**	–	**5**	–
190,001 – 200,000	**5**	1	**3**	–
200,001 – 210,000	**8**	–	**8**	–
210,001 – 220,000	**6**	1	**6**	1
220,001 – 230,000	**–**	3	**–**	3
230,001 – 240,000	**1**	1	**1**	–
240,001 – 250,000	**–**	1	**–**	1
250,001 – 260,000	**4**	3	**4**	3
260,001 – 270,000	**1**	–	**1**	–
270,001 – 280,000	**2**	1	**2**	1

NOTE 6: EXECUTIVES' REMUNERATION cont.

$			CONSOLIDATED		CHIEF ENTITY	
			1996	1995	**1996**	1995
280,001	–	290,000	**3**	4	**3**	4
290,001	–	300,000	**1**	1	**1**	1
300,001	–	310,000	**1**	2	**1**	2
310,001	–	320,000	**2**	–	**2**	–
320,001	–	330,000	**6**	1	**6**	1
330,001	–	340,000	**1**	1	**1**	1
350,001	–	360,000	**1**	–	**1**	–
370,001	–	380,000	**–**	1	**–**	1
380,001	–	390,000	**1**	1	**1**	1
390,001	–	400,000	**1**	1	**1**	1
440,001	–	450,000	**–**	1	**–**	1
460,001	–	470,000	**1**	1	**1**	1
490,001	–	500,000	**2**	–	**2**	–
520,001	–	530,000	**1**	1	**1**	1
530,001	–	540,000	**–**	1	**–**	1
550,001	–	560,000	**–**	1	**–**	1
620,001	–	630,000	**1**	–	**1**	–
1,270,001	–	1,280,000	**–**	1	**–**	1
1,370,001	–	1,380,000	**1**	–	**1**	–

	1996 $m	1995 $m	**1996 $m**	1995 $m
Total remuneration received, or due and receivable from the Chief Entity, entities in the Economic Entity, and related bodies by executive officers whose income exceeds $100,000	**22.7**	22.6	**21.0**	20.0

Executives' remuneration increased during the year due to a review of base salaries and the introduction of the performance-based reward scheme which came into operation for all executives in the current year. The increase in base salaries during the year was the first general salary review for executives since December 1992.

Executives who work wholly or mainly outside Australia are excluded from the above disclosures.

NOTE 7: AUDITORS' REMUNERATION

Amounts received or due and receivable for audit services by:				
– Auditors of the Chief Entity	**0.7**	0.7	**0.5**	0.4
Amounts received or due and receivable for other services by:				
– Auditors of the Chief Entity	**1.7**	1.9	**1.7**	1.9

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
NOTE 8: CASH				
Current				
Cash on hand	**2.4**	2.9	**2.3**	2.7
Cash at bank	**7.0**	18.4	**2.9**	–
Cash on call	**70.0**	2.2	**69.7**	–
	79.4	23.5	**74.9**	2.7
NOTE 9: RECEIVABLES				
Current				
Trade debtors	**846.7**	805.5	**801.0**	768.0
Less: provision for doubtful debts	**8.8**	8.0	**8.2**	7.3
	837.9	797.5	**792.8**	760.7
Trade debtors				
Related parties				
– controlled entities	**–**	–	**44.8**	49.5
– associated companies	**11.9**	11.6	**11.9**	8.4
– other related parties	**20.4**	16.2	**19.8**	16.2
Loans owing from				
Related parties				
– controlled entities	**–**	–	**316.8**	231.1
Bills of exchange and promissory notes	**178.4**	208.9	**178.4**	208.9
Aircraft security and term deposits	**18.3**	22.5	**17.7**	22.5
Negotiable securities	**187.9**	147.5	**187.9**	147.5
Net receivables under hedge/swap contracts	**52.9**	117.4	**52.9**	117.4
Sundry debtors				
Related parties				
– controlled entities	**–**	–	**0.5**	0.4
Other persons/bodies corporate	**72.4**	67.9	**64.3**	58.0
	1,380.1	1,389.5	**1,687.8**	1,620.6
Non-current				
Loans owing from				
Related parties				
– controlled entities	**–**	–	**421.5**	635.6
– associated companies	**4.5**	21.7	**4.5**	11.8
Other persons/bodies corporate	**88.2**	74.5	**60.1**	58.2
Bills of exchange	**66.5**	7.6	**66.5**	7.6
Aircraft security and term deposits	**459.5**	393.7	**428.0**	367.8
Net receivables under hedge/swap contracts	**1,026.7**	1,452.5	**997.8**	1,431.2
Sundry debtors				
Other persons/bodies corporate	**44.5**	40.8	**19.5**	18.3
	1,689.9	1,990.8	**1,997.9**	2,530.5

Non-current bills of exchange and current and non-current aircraft security and term deposits have been pledged as security to providers of aircraft finance.

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
NOTE 10: INVENTORIES				
Current				
At cost				
Net engineering expendables	**86.4**	81.2	**48.3**	48.9
Consumable stores	**36.9**	16.2	**33.1**	12.4
Work in progress	**8.8**	18.0	**7.0**	16.6
	132.1	115.4	**88.4**	77.9
At realisable value				
Aircraft spare parts held for disposal	**4.3**	7.2	**1.9**	1.9
Property assets held for disposal	**–**	28.0	**–**	–
	136.4	150.6	**90.3**	79.8
NOTE 11: INVESTMENTS				
Non-current				
Investments listed on prescribed stock exchange at cost				
Other corporations	**220.6**	210.5	**–**	–
Unlisted investments at cost				
Controlled entities (refer note 26)	**–**	–	**331.7**	356.6
Associated companies (refer note 27)	**3.5**	3.5	**1.0**	1.0
Other corporations	**9.7**	9.7	**9.7**	9.7
Partnership interest at cost	**1.3**	1.5	**–**	–
	235.1	225.2	**342.4**	367.3
Market value of listed shares				
Other corporations	**411.1**	348.8	**–**	–

The Economic Entity's investment in listed shares in other corporations comprise a holding of 19.9% (1995: 19.4%) ordinary "B" class shares in Air New Zealand Limited, an airline. Dividends received/receivable for the year ended 30 June 1996 were $17.9 million (1995: $11.6 million).

Notes to and forming part of the Financial Statements

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
NOTE 12: OTHER ASSETS				
Current				
Advances, prepayments and other deposits	**45.8**	39.6	**30.6**	28.4
Other	**11.9**	7.4	**10.5**	5.9
	57.7	47.0	**41.1**	34.3
Non-current				
Future income tax benefit	**25.9**	22.2	**–**	–
Expenditure carried forward	**10.8**	12.5	**4.4**	4.9
Other	**11.2**	11.9	**9.5**	9.7
	47.9	46.6	**13.9**	14.6
NOTE 13: PROPERTY, PLANT AND EQUIPMENT				
Non-current				
Freehold land				
Owned at cost	**11.5**	12.3	**–**	–
Directors' valuation 1992	**57.4**	58.2	**57.4**	58.2
Directors' valuation 1993	**1.8**	3.4	**1.8**	3.4
Directors' valuation 1995	**4.8**	4.8	**–**	–
	75.5	78.7	**59.2**	61.6
Leasehold land				
Leasehold land at cost	**1.6**	1.6	**–**	–
Leasehold improvements				
At cost	**779.5**	638.7	**448.5**	307.6
Less: accumulated depreciation	**323.9**	293.5	**151.2**	135.7
	455.6	345.2	**297.3**	171.9
Buildings				
Owned at cost	**42.6**	40.6	**16.5**	16.4
Directors' valuation 1992	**44.9**	47.6	**44.9**	47.6
Directors' valuation 1994	**–**	12.3	**–**	–
Directors' valuation 1995	**–**	0.9	**–**	–
Directors' valuation 1996	**9.7**	–	**–**	–
	97.2	101.4	**61.4**	64.0
Less: accumulated depreciation				
At cost	**15.1**	13.4	**10.4**	9.7
Directors' valuation 1992	**10.3**	8.3	**10.3**	8.3
Directors' valuation 1994	**–**	0.5	**–**	–
	25.4	22.2	**20.7**	18.0
	71.8	79.2	**40.7**	46.0

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
NOTE 13: PROPERTY, PLANT AND EQUIPMENT cont.				
Leased at cost	**52.6**	52.6	**29.0**	29.0
Less: accumulated amortisation	**24.5**	22.9	**10.8**	9.9
	28.1	29.7	**18.2**	19.1
Total buildings at cost and valuation	**149.8**	154.0	**90.4**	93.0
Less: accumulated depreciation/amortisation	**49.9**	45.1	**31.5**	27.9
	99.9	108.9	**58.9**	65.1
Aircraft and engines				
Owned at cost	**1,338.0**	1,385.4	**994.3**	1,065.2
Less: accumulated depreciation	**431.5**	413.0	**372.8**	372.0
	906.5	972.4	**621.5**	693.2
Hire purchased at cost	**2,593.6**	2,257.6	**2,398.9**	2,062.7
Less: accumulated amortisation	**579.2**	412.8	**549.3**	390.7
	2,014.4	1,844.8	**1,849.6**	1,672.0
Leased at cost	**1,620.8**	1,158.4	**750.2**	286.5
Directors' valuation 1994	**29.3**	29.3	**29.3**	29.3
	1,650.1	1,187.7	**779.5**	315.8
Less: accumulated amortisation				
At cost	**244.0**	174.5	**76.2**	51.5
Directors' valuation 1994	**12.8**	6.5	**12.8**	6.5
	256.8	181.0	**89.0**	58.0
	1,393.3	1,006.7	**690.5**	257.8
Total aircraft and engines at cost and valuation	**5,581.7**	4,830.7	**4,172.7**	3,443.7
Less: accumulated depreciation/amortisation	**1,267.5**	1,006.8	**1,011.1**	820.7
	4,314.2	3,823.9	**3,161.6**	2,623.0
Aircraft spare parts				
Owned at cost	**297.8**	293.1	**245.9**	240.2
Less: accumulated depreciation	**131.5**	120.7	**108.4**	100.8
	166.3	172.4	**137.5**	139.4
Leased at cost	**33.3**	33.3	**–**	–
Less: accumulated amortisation	**14.2**	13.2	**–**	–
	19.1	20.1	**–**	–
Total aircraft spare parts at cost	**331.1**	326.4	**245.9**	240.2
Less: accumulated depreciation/amortisation	**145.7**	133.9	**108.4**	100.8
	185.4	192.5	**137.5**	139.4
Manufacturers' deposits				
Progress payments at cost	**75.5**	102.0	**75.0**	102.0

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
NOTE 13: PROPERTY, PLANT AND EQUIPMENT cont.				
Plant and equipment				
Owned at cost	**841.9**	812.3	**540.7**	538.2
Less: accumulated depreciation	**478.8**	434.1	**308.3**	293.5
	363.1	378.2	**232.4**	244.7
Leased at cost	**33.5**	28.3	**–**	–
Less: accumulated amortisation	**17.5**	14.0	**–**	–
	16.0	14.3	**–**	–
Total plant and equipment at cost	**875.4**	840.6	**540.7**	538.2
Less: accumulated depreciation/amortisation	**496.3**	448.1	**308.3**	293.5
	379.1	392.5	**232.4**	244.7
Total property, plant and equipment at cost and valuation	**7,870.1**	6,972.7	**5,632.4**	4,786.3
Less: accumulated depreciation/amortisation	**2,283.3**	1,927.4	**1,610.5**	1,378.6
	5,586.8	5,045.3	**4,021.9**	3,407.7
Properties				
Recent valuations				
Freehold land and buildings based on independent valuations undertaken within three years of balance date	**187.7**	187.2	**143.8**	125.8
Interests in leasehold improvements where lease period exceeds 20 years based on independent valuations undertaken within three years of balance date	**411.0**	222.3	**260.7**	69.7

During the year, the lease with the Federal Airports Corporation for the Jet Base at Sydney Airport was extended for a period of 25 years from 1 July 1995.

Secured assets

Certain aircraft act as security against related financings. Under the terms of certain financing facilities entered into by the Economic Entity, the underwriters to these agreements have a fixed charge over certain aircraft and engines to the extent that debt has been issued directly to those underwriters (refer note 15).

Recent valuations

Independent valuations of property and aircraft assets (excluding aircraft spare parts) were obtained as at 30 June 1996.

The 1996 independent valuation of land, leasehold improvements and buildings was carried out by Mr R.G. Cowell, FVLE, AREI of Knight Frank (NSW) Pty. Limited. The 1996 independent valuation of aircraft and spare engines was carried out by Mr J.W. Vitale, ISTAT Certified Appraiser, of Avitas Inc.

The valuations for each class were in excess of their carrying amounts, however no additional increments have been brought to account. Details of the valuations obtained were as follows:

NOTE 13: PROPERTY, PLANT AND EQUIPMENT cont.

	VALUATION AMOUNT $m	CARRYING AMOUNT $m	EXCESS $m
Asset class			
Aircraft and engines	4,466.8	4,314.2	152.6
Freehold land and buildings	187.7	147.3	40.4
Leasehold land, buildings and improvements	615.2	485.3	129.9
	5,269.7	4,946.8	322.9

All valuations were performed primarily on a desktop "sight unseen" basis. The valuations of aircraft and spare engines were expressed in United States dollars and converted to their Australian dollar equivalents based on an exchange rate of 0.78926 at 30 June 1996. The valuations were based on open market value or special use value to the Economic Entity taking into account the age and condition of the assets.

NOTE 14: INTANGIBLES

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
Non-current				
Goodwill at cost	**10.5**	10.5	**–**	–
Less: accumulated depreciation	**3.5**	3.0	**–**	–
	7.0	7.5	**–**	–
Trademarks, tradenames and licences at cost	**8.2**	8.2	**–**	–
Less: accumulated depreciation	**6.9**	5.7	**–**	–
	1.3	2.5	**–**	–
	8.3	10.0	**–**	–

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
NOTE 15: CREDITORS AND BORROWINGS				
Current				
Bank overdrafts – unsecured	**0.8**	–	**–**	4.6
Bank loans – unsecured	**61.0**	73.7	**61.0**	73.7
Other loans				
Related parties – unsecured				
– controlled entities	**–**	–	**266.3**	203.6
Other persons/bodies corporate – secured	**5.4**	6.0	**–**	–
Trade creditors				
Related parties				
– controlled entities	**–**	–	**21.5**	36.4
– associated companies	**3.7**	3.7	**3.7**	0.9
– other related parties	**56.7**	33.2	**56.7**	33.2
Other persons/bodies corporate	**787.0**	724.3	**727.8**	627.7
Sundry creditors and accruals				
Related parties				
– controlled entities	**–**	–	**3.6**	2.4
– other related parties	**7.0**	–	**7.0**	–
Other persons/bodies corporate	**135.9**	92.5	**48.4**	64.5
Unredeemed Frequent Flyer liability	**42.4**	28.1	**42.4**	28.1
Finance lease and hire purchase liabilities (refer note 21)	**80.5**	75.3	**46.2**	47.0
Net payables under hedge/swap contracts	**175.5**	217.2	**167.8**	209.7
	1,355.9	1,254.0	**1,452.4**	1,331.8

Redeemed Frequent Flyer Revenue Passenger Kilometres as a percentage of Available Seat Kilometres was 1.9% for the year ended 30 June 1996 (1995: 1.8%).

Non-current				
Bank loans – unsecured	**352.9**	558.5	**352.9**	558.5
Other loans				
Related parties – unsecured				
– controlled entities	**–**	–	**16.3**	0.4
Other persons/bodies corporate				
– secured	**20.7**	26.2	**–**	–
– unsecured	**687.9**	759.0	**687.9**	759.0
Sundry creditors				
Other persons/bodies corporate	**0.4**	–	**–**	–
Lease residual values	**237.0**	233.0	**237.0**	233.0
Finance lease and hire purchase liabilities (refer note 21)	**1,667.5**	1,320.8	**1,285.3**	910.3
Net payables under hedge/swap contracts	**323.7**	648.7	**323.7**	648.7
	3,290.1	3,546.2	**2,903.1**	3,109.9

Certain current and non-current loans relate to specific financings of aircraft and are secured by the aircraft to which they relate.

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
NOTE 16: PROVISIONS				
Current				
Dividends	**67.3**	35.7	**67.3**	35.4
Income tax				
– Australia	**0.4**	–	**–**	–
– overseas	**2.7**	4.2	**1.4**	–
Employee entitlements (refer note 30)				
– annual leave	**220.8**	202.4	**176.8**	134.8
– long service leave	**28.7**	28.5	**17.7**	18.1
Staff redundancy and restructuring costs	**27.1**	24.8	**17.0**	13.8
Loss on swap agreements	**0.9**	2.7	**–**	–
Under recovery of rentals on sub-let premises	**5.5**	8.8	**5.5**	8.8
Insurance and other	**11.1**	6.9	**7.9**	3.4
	364.5	314.0	**293.6**	214.3
Non-current				
Deferred income tax	**444.4**	299.6	**270.4**	226.2
Employee entitlements (refer note 30)				
– long service leave	**176.1**	183.0	**151.0**	129.1
Under recovery of rentals on sub-let premises	**44.3**	43.6	**44.3**	43.6
Insurance and other	**37.7**	28.4	**23.4**	15.2
	702.5	554.6	**489.1**	414.1
NOTE 17: OTHER LIABILITIES				
Current				
Revenue received in advance	**600.2**	541.6	**572.1**	512.1
Deferred lease benefits	**47.4**	49.8	**45.6**	47.5
Other	**0.1**	3.3	**–**	0.8
	647.7	594.7	**617.7**	560.4
Non-current				
Deferred lease benefits/income	**400.2**	365.1	**376.2**	342.9
Systems development put contracts liability	**24.1**	22.0	**24.1**	22.0
	424.3	387.1	**400.3**	364.9
NOTE 18: SHARE CAPITAL				
Authorised capital				
5,000,000,000 ordinary shares of $1 each	**5,000.0**	5,000.0	**5,000.0**	5,000.0
Issued and paid up capital				
1,035,461,045 ordinary shares of $1 each fully paid	**1,035.5**	1,000.0	**1,035.5**	1,000.0

NOTE 18: SHARE CAPITAL cont.

Movements in issued and paid up ordinary share capital of the Chief Entity during the past two years were as follows:

DATE	DETAILS	NOTES	NUMBER OF SHARES m	ISSUE PRICE $	$m
1 July 1994	Opening balance		1,000.0	1.00	1,000.0
30 July 1995	Qantas Staff Share Plan	19,30	10.0	1.00	10.0
8 December 1995	Dividend Reinvestment Plan	19,31	8.3	2.14	8.3
4 April 1996	Dividend Reinvestment Plan	19,31	17.2	2.17	17.2
30 June 1996	Closing balance		1,035.5		1,035.5

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
NOTE 19: RESERVES				
Share premium reserve	**509.0**	490.3	**509.0**	490.3
Asset revaluation reserve	**54.0**	58.6	**82.9**	85.0
Foreign currency translation reserve	**11.4**	15.3	**–**	–
	574.4	564.2	**591.9**	575.3
Movements in reserves:				
Share premium reserve				
Balance at the beginning of the financial year	**490.3**	498.3	**490.3**	498.3
Add: issue of Dividend Reinvestment Plan shares	**29.8**	–	**29.8**	–
Less: issue under Qantas Staff Share Plan	**10.0**	–	**10.0**	–
Less: privatisation costs	**1.1**	8.0	**1.1**	8.0
Balance at the end of the financial year	**509.0**	490.3	**509.0**	490.3
Asset revaluation reserve				
Balance at the beginning of the financial year	**58.6**	60.2	**85.0**	85.0
Less: revaluation of certain non-current assets to their recoverable amounts	**4.6**	1.6	**2.1**	–
Balance at the end of the financial year	**54.0**	58.6	**82.9**	85.0
Foreign currency translation reserve				
Balance at the beginning of the financial year	**15.3**	13.7	**–**	–
Add/(less): net translation adjustments on controlled foreign entities	**(3.9)**	1.6	**–**	–
Balance at the end of the financial year	**11.4**	15.3	**–**	–

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
NOTE 20: OUTSIDE EQUITY INTERESTS				
Ordinary share capital of controlled entities issued to outside equity interests	**0.1**	0.1		
Outside equity interests in reserves of controlled entities	**0.1**	0.1		
Outside equity interests in retained profits of controlled entities	**1.6**	1.1		
	1.8	1.3		
NOTE 21: FINANCE LEASE COMMITMENTS				
Included in the financial statements as finance lease and hire purchase liabilities are the present values of future rentals of the following assets:				
Aircraft	**1,713.9**	1,361.3	**1,315.6**	939.1
Buildings	**16.4**	18.8	**15.9**	18.2
Computer and communications equipment	**17.7**	16.0	**–**	–
	1,748.0	1,396.1	**1,331.5**	957.3
Payable:				
Not later than one year	**254.9**	209.8	**159.4**	121.9
Later than one year but not later than two years	**253.2**	195.7	**158.9**	107.4
Later than two years but not later than five years	**736.0**	624.7	**491.7**	323.0
Later than five years	**1,545.6**	1,122.7	**1,280.6**	821.1
	2,789.7	2,152.9	**2,090.6**	1,373.4
Less: future finance charges	**924.9**	614.5	**759.1**	416.1
Total lease liability	**1,864.8**	1,538.4	**1,331.5**	957.3
Less: debt funded portion from lessors	**116.8**	142.3	**–**	–
	1,748.0	1,396.1	**1,331.5**	957.3
Balance represents:				
Current liability (refer note 15)	**80.5**	75.3	**46.2**	47.0
Non-current liability (refer note 15)	**1,667.5**	1,320.8	**1,285.3**	910.3
	1,748.0	1,396.1	**1,331.5**	957.3
NOTE 22: CAPITAL EXPENDITURE COMMITMENTS				
Capital expenditure commitments contracted but not provided for in the financial statements:				
Aircraft	**472.0**	319.8	**465.1**	305.5
Buildings	**280.0**	293.5	**280.0**	293.5
Other	**62.1**	53.4	**28.8**	53.4
	814.1	666.7	**773.9**	652.4
Payable:				
Not later than one year	**576.7**	555.6	**537.3**	541.3
Later than one year but not later than two years	**237.4**	111.1	**236.6**	111.1
	814.1	666.7	**773.9**	652.4

Notes to and forming part of the Financial Statements

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
NOTE 23: OPERATING LEASE AND HIRE COMMITMENTS				
Future net operating lease and hire commitments not provided for in the financial statements:	**2,966.1**	4,048.0	**2,850.8**	3,921.5
Payable:				
Not later than one year	**493.4**	620.9	**469.0**	591.0
Later than one year but not later than two years	**426.5**	601.9	**405.4**	577.2
Later than two years but not later than five years	**1,027.8**	1,390.8	**994.6**	1,338.3
Later than five years	**1,018.4**	1,434.4	**981.8**	1,415.0
	2,966.1	4,048.0	**2,850.8**	3,921.5
Less: provision for potential under recovery of rentals on unused premises available for sub-lease (refer note 16)	**49.8**	52.4	**49.8**	52.4
	2,916.3	3,995.6	**2,801.0**	3,869.1
Representing:				
Cancellable operating leases	**1,062.9**	1,150.7	**947.6**	1,024.2
Non-cancellable operating leases				
Aircraft leases	**1,772.2**	2,739.4	**1,772.2**	2,739.4
Property leases	**131.0**	157.9	**131.0**	157.9
	2,966.1	4,048.0	**2,850.8**	3,921.5
Non-cancellable operating lease commitments, excluding unguaranteed residual payments, not provided for in the financial statements:				
Payable:				
Not later than one year	**351.5**	459.4	**351.5**	459.4
Later than one year but not later than two years	**302.0**	460.3	**302.0**	460.3
Later than two years but not later than five years	**724.2**	1,035.4	**724.2**	1,035.4
Later than five years	**525.5**	942.2	**525.5**	942.2
	1,903.2	2,897.3	**1,903.2**	2,897.3

In respect of the Chief Entity's non-cancellable operating leases, the market value of jet aircraft at 30 June 1996 based on an independent desktop valuation was $1,604.2 million (1995: $2,274.3 million) compared to an implied carrying value of $1,420.1 million (1995: $1,904.1 million) had the leased assets been capitalised on inception.

During the year, the Chief Entity refinanced three aircraft previously classified as non-cancellable operating leases. In accordance with Accounting Standard AASB 1008: Accounting for Leases, these three aircraft leases are now classified as finance leases.

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
NOTE 24: CONTINGENT LIABILITIES				
Related parties				
Guarantees to support borrowings and finance lease commitments by controlled entities	**42.2**	47.5	**19.6**	21.5
Guarantees and letters of comfort to support operating lease commitments and other arrangements entered into by controlled entities	**94.6**	99.6	**94.6**	98.9
Guarantees and letters of comfort to support leveraged and operating lease commitments of associated companies	**25.6**	27.9	**23.3**	23.3
	162.4	175.0	**137.5**	143.7
Other persons/bodies corporate				
General guarantees in the normal course of business	**40.6**	23.8	**40.6**	23.8
Contingent liabilities relating to current litigation	**17.0**	32.3	**9.5**	31.1
	57.6	56.1	**50.1**	54.9
	220.0	231.1	**187.6**	198.6

Terminal fuel facilities

The Economic Entity, 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 San Francisco airports. The airlines have jointly and severally agreed to repay any unpaid balance (including interest) of the loans totalling $332.4 million (1995: $250.5 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 Economic Entity has provided certain guarantees and indemnities to various lenders and equity participants in leveraged lease transactions. The Economic Entity has guaranteed that the lessors will receive all of the funds due to them under the lease arrangements. Only in exceptional circumstances, including the insolvency of major international banks, will the Economic Entity be required to make any payments under these guarantees.

The Chief Entity 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.

The Economic Entity 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 Chief Entity 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.

NOTE 24: CONTINGENT LIABILITIES cont.

Unrealised losses – back to back hedges

Where long-term foreign currency borrowings have been denominated in surplus revenue currencies, offsetting 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. As at 30 June 1996, total unrealised exchange losses on hedges of net revenue designated to service long-term debt were approximately $122.4 million compared to $849.5 million at 30 June 1995.

The decrease in deferred losses is due to the strengthening of the Australian dollar over the year. Until the revenue to which these losses relate is realised, the gain or loss will continue to vary in line with exchange fluctuations.

Aussie Airlines Pty. Limited

The Managing Director of Aussie Airlines Pty. Limited (Aussie Airlines), Mr Bryan Grey, has informed the media on a number of occasions that he will be claiming damages from the Chief Entity in excess of $140 million for the denial of the opportunity to utilise gate space. To the date of this report, no claim has been served on the Chief Entity. In any event, the Chief Entity is of the view that any such claim would lack substance.

Other General Matters:

Sydney and Sydney West/Holsworthy airports

The Government of the Commonwealth of Australia has announced the intention to develop Sydney West Airport with the operational capacity to handle major domestic and international jet aircraft. If the Chief Entity were required to move part or all of its facilities from Sydney Airport, the cost of replicating the investment it has made in airport infrastructure would be substantial and could include costs of leasing new terminals and maintenance facilities. Relocating part of its facilities would prevent the Chief Entity from operating a single hub for both its international and domestic services, resulting in additional operating costs.

International Air Services Commission

The International Air Services Commission (IASC), under Section 54 of the IASC Act, is due to undertake an examination of the capacity allocated to the Chief Entity for the five years from 1 July 1992. Competitive applications have been made for capacity on the Japan, Hong Kong, Thailand, Germany and United Kingdom routes. The IASC may allocate capacity to new applicant carriers, which may in turn impact on capacity allocations to the Chief Entity. The IASC rulings are expected to be released before the end of the 1996 calendar year, allowing applicants approximately six months notice of any changes to current capacity allocations.

Air New Zealand Limited and Ansett Holdings Limited

Air New Zealand Limited (Air New Zealand) has entered an agreement to purchase a 50 percent interest in Ansett Holdings Limited (Ansett). The sale requires the approval of a special meeting of Air New Zealand shareholders on 27 September 1996, and is subject to certain conditions outlined by the Australian Foreign Investment Review Board in its approval of 18 September 1996. The impact on the Economic Entity, should all regulatory and statutory consents be forthcoming, cannot be accurately evaluated until the overall strategy, including pricing and marketing strategies, adopted by Air New Zealand and Ansett emerges.

NOTE 25: SUPERANNUATION COMMITMENTS

The Economic Entity maintains five superannuation plans covering Australian based staff. The Economic Entity also maintains a number of superannuation and retirement plans for local staff in overseas countries. Plan trustees are indemnified by the Economic Entity against actions, claims and demands arising from their lawful administration.

The superannuation plan for the Chief Entity's Australian based employees (including employees of certain controlled entities) provides either accumulation benefits (with a guaranteed minimum benefit for members of Division 1 of the Qantas Airways Limited Staff Superannuation Plan (QALSSP)) or a combination of accumulation and defined benefits payable as a lump sum. The Chief Entity is committed to making contributions to the plans, the commitment being legally enforceable on the basis of actuarial advice of amounts required to fully fund the superannuation benefits provided for in the rules of the plan, after allowing for employee contributions. In addition, the Economic Entity is required to provide a minimum level of contributions under the Australian Superannuation Guarantee legislation.

On 30 June 1995, members of the following Australian Airlines plans were transferred into the QALSSP:
- Australian Airlines Flight Attendants' Superannuation Scheme; and
- Australian Airlines General Superannuation Plan.

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

The actuarial valuation of the QALSSP determined that the Chief Entity's contribution to fund the defined benefit portion of the plan was in surplus.

The Australian Regional Airlines and Nominated Subsidiaries Superannuation Plan comprises several categories of membership according to the employer, being Sunstate Airlines (Qld) Pty. Limited.

The last actuarial reviews of the funds were as follows:

FUND	TYPE OF FUND	NAME AND QUALIFICATION OF ACTUARY	DATE
Qantas Airways Limited Staff Superannuation Plan	Defined Benefit	K.N. Lockery, FIA, FIAA	30 June 1993
	Accumulation	Not applicable	
TAA Pilots' Superannuation Scheme (1977)	Defined Benefit	C.B. Twomey, FIA, FIAA	30 June 1994
Australian Airlines Pilots' Accumulation Fund (1989)	Accumulation	Not applicable	
Australian Airlines Flight Engineers' Superannuation Plan	Defined Benefit	C.B. Twomey, FIA, FIAA	30 June 1994
Australian Regional Airlines and Nominated	Defined Benefit	C.B. Twomey, FIA, FIAA	30 June 1994
Subsidiaries Superannuation Plan*	Accumulation	Not applicable	

* *The Australian Regional Airlines and Nominated Subsidiaries Superannuation Plan has changed its name to Regional Airlines Superannuation Plan, effective 1 April 1996.*

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.

NOTE 25: SUPERANNUATION COMMITMENTS cont.

The following defined benefit superannuation plans are sponsored by the Economic Entity:

	1996 CONSOLIDATED $m					1996 CHIEF ENTITY $m				
FUND	Present value of accrued benefits*	Net market value of fund assets^	Excess/ (deficit)	Employer contributions to fund^	Vested benefits^	Present value of accrued benefits*	Net market value of fund assets^	Excess/ (deficit)	Employer contributions to fund^	Vested benefits^
Qantas Airways Limited Staff Superannuation Plan	1,499.4	2,007.1	507.7	94.0	1,920.9	1,346.4	1,803.7	457.3	84.5	1,726.2
TAA Pilots' Superannuation Scheme (1977)	9.4	16.2	6.8	0.2	9.7	–	–	–	–	–
Australian Airlines Flight Attendants' Superannuation Scheme	–	–	–	–	–	–	–	–	–	–
Australian Airlines Flight Engineers' Superannuation Plan	11.9	18.4	6.5	–	12.6	–	–	–	–	–
Australian Airlines General Superannuation Plan – contributory members	–	–	–	–	–	–	–	–	–	–
Australian Regional Airlines and Nominated Subsidiaries Superannuation Plan	0.9	0.9	–	0.1	0.9	–	–	–	–	–
TOTAL	**1,521.6**	**2,042.6**	**521.0**	**94.3**	**1,944.1**	**1,346.4**	**1,803.7**	**457.3**	**84.5**	**1,726.2**

	1995 CONSOLIDATED $m					1995 CHIEF ENTITY $m				
FUND	Present value of accrued benefits*	Net market value of fund assets^	Excess/ (deficit)	Employer contributions to fund^	Vested benefits^	Present value of accrued benefits*	Net market value of fund assets^	Excess/ (deficit)	Employer contributions to fund^	Vested benefits^
Qantas Airways Limited Superannuation Plan	1,257.4	1,539.5	282.1	99.0	1,243.1	1,069.4	1,309.3	239.9	84.2	1,057.3
TAA Pilots' Superannuation Scheme (1977)	9.4	14.7	5.3	0.2	9.4	–	–	–	–	–
Australian Airlines Flight Attendants' Superannuation Scheme	45.0	64.0	19.0	4.5	53.0	–	–	–	–	–
Australian Airlines Flight Engineers' Superannuation Plan	11.9	17.3	5.4	–	11.7	–	–	–	–	–
Australian Airlines General Superannuation Plan – contributory members	197.0	166.5	(30.5)	19.6	161.2	197.0	166.5	(30.5)	19.6	161.2
Australian Regional Airlines and Nominated Subsidiaries Superannuation Plan	0.9	1.0	0.1	0.9	0.8	–	–	–	–	–
TOTAL	1,521.6	1,803.0	281.4	124.2	1,479.2	1,266.4	1,475.8	209.4	103.8	1,218.5

* *As at date of last actuarial review.*

^ *As at 30 June 1995 being the last set of audited financial statements prepared by the plans.*

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

NOTE 26: PARTICULARS IN RELATION TO CONTROLLED ENTITIES

ENTITY		COUNTRY OF INCORPORATION	ECONOMIC ENTITY INTEREST		AMOUNT OF INVESTMENT		CONTRIBUTIONS TO CONSOLIDATED PROFIT AFTER TAX	
			1996 %	1995 %	**1996 $m**	1995 $m	**1996 $m**	1995 $m
Qantair Limited		Australia	**100**	100	**197.7**	197.7	**15.5**	(0.1)
Qantas Investments (NZ) Limited		New Zealand	**100**	100	**–**	–	**18.0**	7.9
Q.H. Tours Limited		Australia	**100**	100	**9.2**	9.2	**(0.6)**	(0.4)
Holiday Tours and Travel Pte. Limited		Singapore	**75**	75	**–**	–	**0.4**	0.5
Jetabout Holidays Pte. Limited		Singapore	**75**	75	**–**	–	**–**	–
P.T. Pacto Holiday Tours		Indonesia	**53**	53	**–**	–	**–**	–
Jetabout North America Inc.		USA	**100**	100	**–**	–	**(1.0)**	(0.6)
QH International Co., Ltd.		Japan	**100**	100	**–**	–	**0.7**	0.9
Jetabout Japan Inc.		Japan	**100**	100	**–**	–	**–**	–
Jetabout Holidays Limited		New Zealand	**100**	100	**–**	–	**–**	–
Holiday Tours and Travel Limited		Hong Kong	**85**	85	**–**	–	**–**	–
QH Tours (UK) Limited		UK	**100**	100	**–**	–	**–**	–
Qantas Holidays Limited		Australia	**100**	100	**–**	–	**2.6**	(2.8)
Qantas Viva! Holidays Limited		Australia	**100**	100	**–**	–	**–**	–
QH Cruises Pty. Limited		Australia	**100**	100	**–**	–	**(0.7)**	0.1
Qantas Information Technology Limited		Australia	**100**	100	**1.4**	1.4	**8.6**	4.7
Qantas Airline Systems and Research Limited		Australia	**100**	100	**–**	–	**(0.3)**	–
Pacific Air Travel Limited	@	UK	**–**	100	**–**	0.2	**–**	–
Qantas Flight Catering Holdings Limited		Australia	**100**	100	**–**	–	**2.8**	2.1
Qantas Flight Catering Limited		Australia	**100**	100	**–**	–	**10.1**	21.1
Asia Pacific Distribution Limited		Australia	**100**	100	**–**	–	**(0.1)**	0.6
Qantas Limited (formerly Australia-Asia Airlines Limited)		Australia	**100**	100	**1.5**	1.5	**1.2**	(10.6)
Southern Cross Insurances Pte. Limited		Singapore	**100**	100	**0.6**	0.6	**1.1**	1.1
Qantas Investments US Inc.	+	USA	**–**	100	**–**	24.7	**(3.8)**	0.3
Qantas Superannuation Limited		Australia	**100**	100	**–**	–	**–**	–
Qanlease Limited		Australia	**100**	100	**–**	–	**0.9**	0.1
QHF Insurance Brokers Limited	#	Australia	**49**	49	**–**	–	**0.5**	0.2
Qanfad Pty. Limited	*	Australia	**100**	–	**–**	–	**–**	–
BD No1 Limited		Cayman Is.	**100**	100	**–**	–	**–**	–
Kurrajong Limited		Cayman Is.	**100**	100	**–**	–	**–**	–
Australian Airlines Limited		Australia	**100**	100	**121.3**	121.3	**71.9**	75.5
Australian Resorts Pty. Limited		Australia	**100**	100	**–**	–	**0.1**	0.2
Brampton Island Resort Pty. Limited		Australia	**100**	100	**–**	–	**(0.1)**	0.4
Bingil Bay Cruises Pty. Limited	^	Australia	**–**	100	**–**	–	**–**	–
Dunk Island Resort Pty. Limited		Australia	**100**	100	**–**	–	**0.6**	1.3
Bedarra Bay Resort Pty. Limited		Australia	**100**	100	**–**	–	**0.1**	0.2
Bedarra Hideaway Resort Pty. Limited		Australia	**100**	100	**–**	–	**0.7**	(0.3)
Great! Keppel Island Resort Pty. Limited		Australia	**100**	100	**–**	–	**0.7**	0.2
Great Keppel Holdings Pty. Limited		Australia	**100**	100	**–**	–	**–**	–
Keppel Leasing Pty. Limited		Australia	**100**	100	**–**	–	**(0.1)**	–
Keppel Investments Pty. Limited		Australia	**100**	100	**–**	–	**(0.1)**	–
Impact Purchasing Pty. Limited	^	Australia	**–**	100	**–**	–	**–**	–
Australian Airlines Express Courier Pty. Limited		Australia	**100**	100	**–**	–	**–**	–
First Brisbane Airport Pty. Limited		Australia	**100**	100	**–**	–	**–**	–
First Brisbane Airport Unit Trust		n/a	**100**	100	**–**	–	**–**	–
Second Brisbane Airport Pty. Limited		Australia	**100**	100	**–**	–	**–**	–
Second Brisbane Airport Unit Trust		n/a	**100**	100	**–**	–	**–**	–
Australian Airlines Reservations Systems Pty. Limited		Australia	**100**	100	**–**	–	**–**	–
Tysentle Pty. Limited		Australia	**100**	100	**–**	–	**2.1**	1.0
TAA Superannuation Pty. Limited		Australia	**100**	100	**–**	–	**–**	–

NOTE 26: PARTICULARS IN RELATION TO CONTROLLED ENTITIES cont.

ENTITY	COUNTRY OF INCORPORATION	ECONOMIC ENTITY INTEREST		AMOUNT OF INVESTMENT		CONTRIBUTIONS TO CONSOLIDATED PROFIT AFTER TAX	
		1996 %	1995 %	**1996 $m**	1995 $m	**1996 $m**	1995 $m
ARANS Superannuation Pty. Limited	Australia	**100**	100	**–**	–	**–**	–
AAPA Superannuation Pty. Limited	Australia	**100**	100	**–**	–	**–**	–
AAFE Superannuation Pty. Limited	Australia	**100**	100	**–**	–	**–**	–
AAG Superannuation Pty. Limited	Australia	**100**	100	**–**	–	**–**	–
AAFA Superannuation Pty. Limited	Australia	**100**	100	**–**	–	**–**	–
Australian Regional Airlines Pty. Limited	Australia	**100**	100	**–**	–	**2.0**	–
Sunstate Airlines (Qld) Pty. Limited	Australia	**100**	100	**–**	–	**5.6**	3.5
Southern Australia Airlines Pty. Limited	Australia	**100**	100	**–**	–	**2.3**	1.7
Airlink Pty. Limited	Australia	**100**	100	**–**	–	**0.9**	(1.5)
Australian Regional Airlines (Qld) Pty. Limited	Australia	**100**	100	**–**	–	**–**	0.1
Air Queensland Pty. Limited	Australia	**100**	100	**–**	–	**–**	–
Lizard Island Resort Pty. Limited	Australia	**100**	100	**–**	–	**(0.2)**	0.3
ACN 010 616 065 Pty. Limited ^	Australia	**–**	100	**–**	–	**–**	–
Eastern Australia Airlines Pty. Limited	Australia	**100**	100	**–**	–	**7.0**	5.3
ACN 000 199 468 Pty. Limited	Australia	**100**	100	**–**	–	**–**	–
TAA Aviation Pty. Limited	Australia	**100**	100	**–**	–	**(0.7)**	0.8
Nostam Pty. Limited	Australia	**100**	100	**–**	–	**–**	–
In Tours Airline Unit Trust No.1	n/a	**100**	100	**–**	–	**–**	–
Priestdale Pty. Limited	Australia	**100**	100	**–**	–	**–**	–
Denmell Pty. Limited	Australia	**100**	100	**–**	–	**0.3**	(0.3)
Denmint Pty. Limited	Australia	**100**	100	**–**	–	**0.3**	(0.3)
Denmost Pty. Limited	Australia	**100**	100	**–**	–	**–**	(0.7)
Denold Pty. Limited	Australia	**100**	100	**–**	–	**–**	–
Denpen Pty. Limited	Australia	**100**	100	**–**	–	**–**	–
Denpet Pty. Limited	Australia	**100**	100	**–**	–	**0.4**	(0.7)
Denpost Pty. Limited	Australia	**100**	100	**–**	–	**–**	–
Denrac Pty. Limited	Australia	**100**	100	**–**	–	**–**	(0.3)
Densale Pty. Limited	Australia	**100**	100	**–**	–	**–**	(0.1)
Denseed Pty. Limited	Australia	**100**	100	**–**	–	**–**	(0.3)
Denshore Pty. Limited	Australia	**100**	100	**–**	–	**–**	(0.1)
Densip Pty. Limited	Australia	**100**	100	**–**	–	**–**	(0.3)
Densound Pty. Limited	Australia	**100**	100	**–**	–	**–**	(0.1)
Engine No.6 Pty. Limited	Australia	**100**	100	**–**	–	**0.1**	–
Engine No.9 Pty. Limited	Australia	**100**	100	**–**	–	**0.1**	0.1
Total Controlled Entities				**331.7**	356.6	**149.9**	110.7
Chief Entity – Qantas Airways Limited						**133.3**	58.6
Eliminations						**(37.0)**	10.8
Total contributions to consolidated profit attributable to members of the Chief Entity						**246.2**	180.1

All controlled entities carry on business in their country of incorporation, with the exception of Qantas Limited (formerly Australia-Asia Airlines Limited), which also carries on business in Taiwan. All controlled entities are audited by member firms of KPMG, with the exception of QHF Insurance Brokers Limited.

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

* *Acquired during the financial year.*
\# *Balance date 31 December. Definition of controlled entity satisfied by Board voting rights.*
\+ *Disposed of during the financial year.*
@ *Voluntarily liquidated during the year.*
^ *Deregistered during the year.*

NOTE 27: PARTICULARS IN RELATION TO ASSOCIATED COMPANIES

Details of significant interests in associated companies are as follows:

ENTITY	PRINCIPAL ACTIVITIES	COUNTRY OF INCORPORATION	SHARE CLASS	OWNERSHIP INTEREST CONSOLIDATED 1996 %	OWNERSHIP INTEREST CONSOLIDATED 1995 %	OWNERSHIP INTEREST CHIEF ENTITY 1996 %	OWNERSHIP INTEREST CHIEF ENTITY 1995 %	AMOUNT OF INVESTMENT CONSOLIDATED 1996 $m	AMOUNT OF INVESTMENT CONSOLIDATED 1995 $m	AMOUNT OF INVESTMENT CHIEF ENTITY 1996 $m	AMOUNT OF INVESTMENT CHIEF ENTITY 1995 $m
Travel Industries Automated Systems Pty. Limited	Reservations systems	Australia	Ord. ^	**50.0**	50.0	**25.0**	25.0	**2.1**	2.1	**1.0**	1.0
Caterair Airport Services Pty. Limited	Catering services	Australia	Ord.	**49.0**	49.0	**–**	–	**1.2**	1.2	**–**	–
Australian air Express Pty. Limited	Air cargo	Australia	Ord.	**50.0**	50.0	**–**	–	**–**	–	**–**	–
Holiday Tours and Travel (Thailand) Limited	Tours and travel	Thailand	Ord.	**36.8**	36.8	**–**	–	**0.1**	0.1	**–**	–
Holiday Tours and Travel Sdn. Bhd.	Tours and travel	Malaysia	Ord.	**22.5**	22.5	**–**	–	**0.1**	0.1	**–**	–
Qadrant International Pty. Limited	Information technology	Australia	Ord.	**49.0**	49.0	**–**	–	**–**	–	**–**	–
								3.5	3.5	**1.0**	1.0

^ *An additional beneficial interest of 4.98% (1995: 4.85%) was held by virtue of a shareholding in Air New Zealand Limited by controlled entities.*

Investments in associated companies are accounted for on a cost basis in the accounts of the Economic Entity and the Chief Entity. No investments in associated companies are material at 30 June 1996, and in accordance with Accounting Standard AASB 1016: Disclosure of Information about Investments in Associated Companies, these investments are not required to be equity accounted for.

NOTE 28: UNHEDGED FOREIGN CURRENCY BALANCES

The Australian currency equivalents of unhedged foreign currency balances included in the financial statements are:

	1996 Current asset $m	1996 Non-current asset $m	1996 Current liability $m	1996 Non-current liability $m	1996 Total $m	1995 Current asset $m	1995 Non-current asset $m	1995 Current liability $m	1995 Non-current liability $m	1995 Total $m
Chief Entity										
Japanese yen	**–**	**33.2**	**(9.3)**	**(56.3)**	**(32.4)**	–	43.3	(18.2)	(75.6)	(50.5)
United States dollars	**8.3**	**111.0**	**(7.9)**	**(117.1)**	**(5.7)**	10.8	129.6	(10.6)	(136.8)	(7.0)
United Kingdom pounds	**–**	**–**	**(13.0)**	**–**	**(13.0)**	–	–	(16.6)	–	(16.6)
New Zealand dollars	**–**	**–**	**(1.0)**	**–**	**(1.0)**	–	–	(1.1)	–	(1.1)
Other currencies	**–**	**–**	**(0.5)**	**–**	**(0.5)**	–	–	(0.6)	–	(0.6)
	8.3	**144.2**	**(31.7)**	**(173.4)**	**(52.6)**	10.8	172.9	(47.1)	(212.4)	(75.8)
Controlled Entities										
United States dollars	**22.9**	**0.1**	**(14.5)**	**–**	**8.5**	31.8	0.8	(3.1)	–	29.5
Other currencies	**12.3**	**227.1**	**(15.1)**	**(4.7)**	**219.6**	28.2	214.4	(13.2)	(0.4)	229.0
	43.5	**371.4**	**(61.3)**	**(178.1)**	**175.5**	70.8	388.1	(63.4)	(212.8)	182.7

NOTE 29: DERIVATIVE FINANCIAL INSTRUMENTS

Foreign exchange risk

Forward foreign exchange contracts and currency options are used to hedge up to eighty percent of net foreign currency revenues or expenditures out to twelve months. Purchases and sales of aircraft denominated in a foreign currency are hedged at the date a firm commitment to buy or sell is entered into using a combination of forward foreign exchange contracts and currency options. Cross currency swaps are used to convert long-term offshore borrowings to currencies in which the Economic Entity has forecast sufficient surplus revenues to meet the principal and interest obligations under the swaps. Details of unhedged foreign currency balances are included in note 28.

Interest rate risk

The Economic Entity 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.

Fuel price risk

The Economic Entity uses options and swaps on aviation fuel and crude oil to hedge the exposure to foreign currency movements in the price of aviation fuel. Up to fifty percent of estimated foreign currency fuel costs out to eighteen months may be hedged.

Credit risk

Credit risk is the risk that the counterparty will default on or before the date of settlement of the derivative contract. The Economic Entity restricts its dealings to counterparties which have credit ratings equal to or better than A– (Standard and Poor's) or A3 (Moody's).

NOTE 30: EMPLOYEE ENTITLEMENTS

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
Employee entitlement liabilities				
Provision for employee entitlements				
Current (refer note 16)	**249.5**	230.9	**194.5**	152.9
Non-current (refer note 16)	**176.1**	183.0	**151.0**	129.1
	425.6	413.9	**345.5**	282.0

As detailed in note 1(n), the provisions for employee entitlements are calculated in accordance with the requirements of Accounting Standard AASB 1028: Accounting for Employee Entitlements.

Qantas Staff Share Plan

During the year, the Chief Entity offered all eligible employees of the Chief Entity and its wholly-owned controlled entities $500 worth (subject to rounding) of ordinary fully paid shares for no consideration as part of the initial offer under the Qantas Staff Share Plan (QSSP). Acceptances from 28,532 employees were received. 263 shares were subsequently granted for no consideration to each participating employee in July 1995 immediately prior to the Chief Entity listing on the Australian Stock Exchange.

The grant of shares under the initial offer was made by the Chief Entity paying for one share to be transferred to each participating employee, and the Chief Entity making a bonus issue out of share premium reserve of 262 shares to each participating employee.

In August 1996, the Chief Entity offered all eligible employees of the Chief Entity and its wholly-owned controlled entities an additional $500 worth (subject to rounding) of ordinary fully paid shares for no consideration under the QSSP. It is intended that these shares will be issued on or about 2 November 1996 to eligible staff employed at the date of the announcement and still employed at the date of issue.

NOTE 31: DIVIDENDS	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
Dividends paid				
Unfranked dividends to outside equity interests	**0.2**	9.4	**–**	–
Partially franked (to 68%) dividends to shareholders of the Chief Entity				
– 6.5 cents per ordinary share	**66.2**	–	**66.2**	–
Dividends provided				
Unfranked dividends to outside equity interests	**–**	0.2	**–**	–
Fully franked dividends to shareholders of the Chief Entity				
– 3.5 cents per ordinary share	**–**	35.4	**–**	35.4
Unfranked dividends to shareholders of the Chief Entity				
– 6.5 cents per ordinary share	**67.3**	–	**67.3**	–
	133.7	45.0	**133.5**	35.4
Amount of profits and reserves which could be distributed as franked dividends out of existing franking credits or out of franking credits arising from the payment of income tax in the forthcoming year in respect of the current year's profits:				
– Franked at 39%	**–**	72.6	**–**	61.9
– Franked at 36%	**0.5**	–	**–**	–
– Franked at 33%	**–**	2.8	**–**	–
	0.5	75.4	**–**	61.9

A Dividend Reinvestment Plan (DRP) was established and was operational for the payment of the final dividend for the year ended 30 June 1995, and for the interim dividend paid in April 1996.

A Bonus Share Plan (BSP) has also been established. Under the BSP, the shareholder will be issued bonus shares in value equal to the percentage of the dividend so nominated for participation in the BSP by the shareholder. The BSP only operates when a dividend is unfranked. Accordingly, the BSP will operate for the first time in respect of the 6 December 1996 dividend. Although issues of bonus shares under the BSP will be made from the share premium reserve, a conservative approach has been adopted, and full provision for the dividend has been made in the financial statements.

Under these plans, ordinary shares are issued at a discount of 7.5 percent to the weighted average market price of the shares over a period set by the Directors of between five and ten trading days following the days on which the shares are quoted ex dividend.

Notes to and forming part of the Financial Statements

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m		
NOTE 32: SEGMENT INFORMATION				
Geographical analysis of sales revenue by geographic area				
Passenger, freight and contract services revenue				
Australia	**3,695.1**	3,302.1		
United Kingdom and Europe	**706.2**	741.8		
Japan	**742.1**	797.3		
South East Asia and North East Asia	**693.6**	681.1		
America and the Pacific	**482.3**	473.1		
Other (including charters)	**309.9**	282.6		
	6,629.2	6,278.0		
Other operating revenue				
Tours and travel	**459.7**	442.1		
Other service and miscellaneous	**511.5**	442.8		
Total sales and operating revenue	**7,600.4**	7,162.9		
Other revenue	**146.2**	113.4		
Total revenue	**7,746.6**	7,276.3		
Earnings before interest and tax				
International airline operations	**267.8**	267.2		
Domestic airline operations	**163.6**	132.7		
Subsidiary operations	**73.0**	71.5		
	504.4	471.4		
			1996 cents	1995 cents
NOTE 33: EARNINGS PER SHARE				
Earnings per share based on operating profit after income tax attributable to members of the Chief Entity			**24.2**	18.0

In accordance with the definitions included within Accounting Standard AASB 1027: Earnings per Share, there is no material difference between basic and diluted earnings per share for the above years.

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

	1996 m	1995 m
Weighted average number of ordinary shares outstanding during the year, as used in the calculation of earnings per share	**1,017.9**	1,000.0

NOTE 34: EVENTS SUBSEQUENT TO BALANCE DATE

No matters or circumstances have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the Economic Entity, the results of those operations, or the state of affairs of the Economic Entity, in subsequent financial years.

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
NOTE 35: NOTES TO THE STATEMENTS OF CASH FLOWS				
Reconciliation of cash				
Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the balance sheets as follows:				
Cash on hand	**2.4**	2.9	**2.3**	2.7
Cash at bank	**7.0**	18.4	**2.9**	–
Cash on call	**70.0**	2.2	**69.7**	–
Current bills of exchange and promissory notes	**178.4**	208.9	**178.4**	208.9
Current term deposits	**12.3**	14.3	**12.3**	14.3
Current negotiable securities	**187.9**	147.5	**187.9**	147.5
Bank overdrafts	**(0.8)**	–	**–**	(4.6)
Other current loans	**–**	–	**(266.3)**	(203.6)
	457.2	394.2	**187.2**	165.2

Financing facilities

A standby facility has been provided through a syndicate of Australian and overseas banks and financial institutions. The facility is undrawn and provides liquidity support for the Economic Entity. The terms of the facility range from one to five years.

A bank overdraft facility covers the combined balances of all Chief Entity and wholly-controlled entities held with Commonwealth Bank of Australia. Subject to the continuance of satisfactory credit ratings, the bank overdraft facility may be utilised at any time and may be terminated by the bank without notice.

The total amount of committed financing facilities available to the Economic Entity as at balance date amounted to $707.0 million (1995: $1,007.5 million).

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
Committed financing facilities				
Bank overdraft				
Facility available	**7.0**	7.5	**7.0**	7.5
Facility used	**–**	–	**–**	–
Expiry date	**n/a**	n/a	**n/a**	n/a
Standby				
Facility available	**700.0**	1,000.0	**700.0**	1,000.0
Facility used	**–**	–	**–**	–
Expiry date – 16 December 1995	**–**	300.0	**–**	300.0
– 16 December 1997	**550.0**	550.0	**550.0**	550.0
– 16 December 1999	**150.0**	150.0	**150.0**	150.0
Total committed financing facilities available	**707.0**	1,007.5	**707.0**	1,007.5
Total facilities in use	**–**	–	**–**	–

NOTE 35: NOTES TO THE STATEMENTS OF CASH FLOWS cont.

Non-cash financing and investing activities

During the year ended 30 June 1996, the Economic Entity entered into various finance lease arrangements for property, plant and equipment with an aggregate fair value of $867.2 million (1995: $231.4 million). These transactions are not reflected in the statements of cash flows.

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
Reconciliation of operating profit after income tax to net cash provided by operating activities				
Operating profit after tax	**246.7**	180.3	**133.3**	58.6
Add/(less) non-cash items:				
Amortisation and depreciation	**420.5**	394.2	**273.2**	246.3
(Profit)/loss on sale of non-current assets	**6.2**	(10.6)	**(4.2)**	(0.6)
Net other items	**9.2**	13.1	**13.6**	22.3
Net cash provided by operating activities before changes in assets and liabilities	**682.6**	577.0	**415.9**	326.6
Changes in assets and liabilities				
Increase/(decrease) in trade/sundry receivables	**(50.9)**	25.7	**(38.8)**	–
Increase in inventories	**(16.1)**	(11.3)	**(9.8)**	(9.3)
Increase/(decrease) in other assets	**(2.1)**	0.1	**(3.9)**	–
Increase in prepayments	**(6.2)**	(3.6)	**(2.2)**	(3.3)
Increase/(decrease) in bills of exchange and aircraft security deposits	**(37.6)**	57.8	**(40.5)**	54.7
Increase in net hedged position	**(37.9)**	(20.6)	**(38.0)**	(19.1)
Increase in trade/sundry payables	**151.3**	17.0	**117.9**	17.2
Increase/(decrease) in unearned revenue	**58.6**	(4.2)	**60.0**	(1.4)
Increase in other liabilities	**31.6**	13.5	**32.7**	14.1
Increase in provisions	**23.1**	77.7	**76.8**	53.9
Increase in deferred tax balances	**140.0**	124.7	**59.0**	52.2
Net cash provided by operating activities	**936.4**	853.8	**629.1**	485.6

NOTE 36: RELATED PARTY TRANSACTIONS

Directors

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

Chairman	Gary Pemberton	
Managing Director	James Strong	
Finance Director	Gary Toomey	
Non-Executive Directors	Mike Codd, AC	
	John Ducker, AO	
	Trevor Eastwood, AM	(appointed 18 October 1995)
	Margaret Jackson	
	Jim Kennedy, AO, CBE	(appointed 18 October 1995)
	Trevor Kennedy, AM	
	Sir Colin Marshall	
	Roger Maynard	
	Nick Tait	
Alternates	Derek Stevens	
	John Watson	(resigned 16 August 1995).

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

Directors' holdings of shares and share options

The relevant interests of Directors of the reporting entity and their Director-related entities in shares and share options of entities within the Economic Entity at year end are set out below:

	NUMBER HELD	
	1996	1995
Qantas Airways Limited:		
$1 ordinary shares	**216,673**	–

526 ordinary shares were issued to Executive Directors (263 ordinary shares each) as participants in the Qantas Staff Share Plan on the same basis as to other eligible employees.

Other transactions of Directors and Director-related entities

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

During the year, the Chief Entity paid a premium on normal commercial terms and conditions to insure all Directors of the Chief Entity, as listed above, all Directors of related bodies corporate of the Chief Entity, and other officers of the Chief Entity and its related bodies corporate, against liabilities incurred in their capacity as Director or officer, as the case may be, of the Chief Entity or related body corporate.

NOTE 36: RELATED PARTY TRANSACTIONS cont.

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

- occurred within a normal employee customer or supplier relationship on terms and conditions no more favourable than those which it is reasonable to expect would have been adopted if dealing with the Director or Director-related entity at arm's length in the same circumstances;
- do not have the potential to adversely affect decisions about the allocation of scarce resources or the discharge of responsibility of the Directors; and
- are trivial or domestic in nature;

and include:

- travel and accommodation discounts and other benefits, obtained from time to time by Executive Directors and Directors of the Economic Entity, some of which are through agreements entered into by the Economic Entity. Certain travel and accommodation discounts are available on similar terms and conditions as those offered to other employees of the Economic Entity. All benefits are included in the aggregate amount of remuneration disclosed in note 5.

Partly and wholly-owned group

Details of interests in controlled entities are set out in note 26. Transactions between the Chief Entity and controlled entities are conducted on normal business terms and conditions. In addition, the Economic Entity has pooled funding arrangements with its major domestic banker (refer note 35) and as such reciprocal borrowings occur regularly between the Chief Entity and its controlled entities.

Transactions between the Chief Entity and related parties in the wholly-owned group consisted of:

Qantas Information Technology Limited
- The Chief Entity provided a range of administrative services
- The controlled entity provided computer and communication services

Qantas Flight Catering Limited
- The Chief Entity provided a range of administrative services
- The controlled entity provided airline catering services

Q.H. Tours Limited and controlled entities
- The Chief Entity provided a range of administrative and investment services
- The controlled entity and the Chief Entity acted as an agent for each other's products

QHF Insurance Brokers Limited
- The controlled entity provided insurance broking services

Australian Airlines Limited and controlled entities
- The Chief Entity and controlled entities provided a range of administrative services
- The controlled entity and the Chief Entity assisted in the hiring of aircraft capacity.

Associated companies

Details of interests in associated companies are provided in note 27. Transactions with associated companies are conducted on normal terms and conditions, and are not significant in amount to the Economic Entity.

NOTE 36: RELATED PARTY TRANSACTIONS cont.

Other related parties

British Airways Plc

In March 1993, British Airways Plc (British Airways) acquired 25 percent of the Chief Entity from the Australian Government. As a condition of the sale, British Airways entered into a ten year Commercial Agreement with the Economic Entity. As part of this agreement, joint lounges have been opened at a number of airports, including Singapore and Manila (with Los Angeles and Bangkok planned for 1996/97). Offices have also been co-located in many places, including Paris, Los Angeles, Manila, Tokyo, Singapore, Australia and New Zealand. At Singapore and Bangkok, the hubs for the Economic Entity and British Airways' direct flights, the organisations are being combined, and commercial organisations in Thailand and Singapore are being integrated to create a single sales team. Other initiatives include the launch of a series of joint fares such as the Aussie and Euro Explorer from Asia and the Global Explorer from Europe. In addition, outside these commercial operations, the Economic Entity and British Airways increasingly co-operate to identify synergies and cost savings in a variety of areas including engineering, information technology, catering and purchasing.

On 12 May 1995, the Trade Practices Commission (now known as the Australian Competition & Consumer Commission) authorised a Joint Services Agreement (JSA) with British Airways, allowing the two parties to co-ordinate operations on certain scheduled airline routes between Australia and Europe. The first co-ordinated schedules under the JSA commenced in November 1995. Besides enabling both airlines to reduce costs on a route which it has traditionally been difficult for any airline to make a profit, it has also enabled improvements in services. Under the JSA, the Economic Entity and British Airways now offer more direct, better timed flights a week between Australia and the United Kingdom and a choice of 17 stopover destinations where services meet, at places like Johannesburg, Tokyo and Beijing.

The JSA sets out in detail the financial settlement procedures between the two airlines to ensure that the return each airline obtains from the designated route services recognises the value of route rights it utilises. In common with standard industry practice, the Economic Entity and British Airways also carry passengers on an interline basis on the same terms and conditions as with other carriers. Other transactions, such as ground handling, contract work, property rentals and interline commissions, none of which were material, were conducted on normal terms and conditions.

NOTE 36: RELATED PARTY TRANSACTIONS cont.

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
Aggregate amounts included in the determination of operating profit before income tax has resulted from transactions with each class of related party as follows:				
Sales revenue				
– Controlled entities	**–**	–	**101.1**	109.9
– Associated companies	**40.3**	84.5	**33.6**	59.6
– Other related parties	**18.5**	20.9	**10.1**	10.0
	58.8	105.4	**144.8**	179.5
Purchases of goods and services				
– Controlled entities	**–**	–	**693.0**	661.1
– Other related parties	**8.3**	5.5	**8.3**	5.5
	8.3	5.5	**701.3**	666.6
Interest received/receivable from				
– Controlled entities	**–**	–	**17.6**	18.6
– Associated companies	**1.4**	–	**0.7**	–
	1.4	–	**18.3**	18.6
Interest paid/payable to				
– Controlled entities	**–**	–	**17.2**	11.0
Dividend received/receivable from				
– Controlled entities	**–**	–	**15.8**	0.3
– Associated companies	**2.4**	1.9	**–**	–
	2.4	1.9	**15.8**	0.3

NOTE 36: RELATED PARTY TRANSACTIONS cont.

Aggregate amounts receivable from, and payable to, each class of related party at balance date were as follows:

	CONSOLIDATED		CHIEF ENTITY	
	1996 $m	1995 $m	**1996 $m**	1995 $m
Current receivables				
– Controlled entities	**–**	–	**362.1**	281.0
– Associated companies	**11.9**	11.6	**11.9**	8.4
– Other related parties	**20.4**	16.2	**19.8**	16.2
	32.3	27.8	**393.8**	305.6
Non-current receivables				
– Controlled entities	**–**	–	**421.5**	635.6
– Associated companies	**4.5**	21.7	**4.5**	11.8
	4.5	21.7	**426.0**	647.4
Current payables				
– Controlled entities	**–**	–	**291.4**	242.4
– Associated companies	**3.7**	3.7	**3.7**	0.9
– Other related parties	**63.7**	33.2	**63.7**	33.2
	67.4	36.9	**353.8**	276.5
Non-current payables				
– Controlled entities	**–**	–	**16.3**	0.4

Statement by Directors

1. In the opinion of the Directors of Qantas Airways Limited:

   (a) the financial statements set out on pages 22 to 63 are drawn up so as to give a true and fair view of the results and cash flows for the financial year ended 30 June 1996, and the state of affairs at 30 June 1996, of the Company and the Economic Entity;

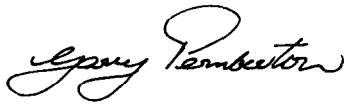
   (b) the consolidated accounts have been made out in accordance with Divisions 4, 4A and 4B of Part 3.6 of the Corporations Law; and

   (c) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

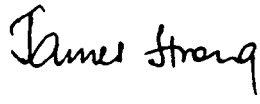
2. The financial statements have been made out in accordance with Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

Dated at Sydney this eighteenth day of September 1996.

Signed in accordance with a resolution of the Directors.



Gary Pemberton
Chairman



James Strong
Managing Director

Independent Auditors' Report

to the Members of Qantas Airways Limited

SCOPE

We have audited the financial statements of Qantas Airways Limited for the financial year ended 30 June 1996, consisting of the profit and loss accounts, balance sheets, statements of cash flows, accompanying notes, and the statement by Directors set out on pages 22 to 64. The financial statements comprise the accounts of the Company and the consolidated accounts of the Economic Entity, being the Company and its controlled entities.

The Company's Directors are responsible for the preparation and presentation of the financial statements and the information they contain. We have conducted an independent audit of these financial statements in order to express an opinion on them to the members of the Company.

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

The names of the controlled entities of which we have not acted as auditors are set out in note 26. We have received sufficient information and explanations concerning these controlled entities to enable us to form an opinion on the consolidated accounts.

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

AUDIT OPINION

In our opinion, the financial statements of Qantas Airways Limited are properly drawn up:

(a) so as to give a true and fair view of:

  (i) the state of affairs of the Company and the Economic Entity at 30 June 1996, and the results and cash flows of the Company and the Economic Entity for the financial year ended on that date; and

  (ii) the other matters required by Divisions 4, 4A and 4B of Part 3.6 of the Corporations Law to be dealt with in the financial statements;

(b) in accordance with the provisions of the Corporations Law; and

(c) in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.

KPMG.

D. K.

KPMG
Chartered Accountants
Sydney, 18 September 1996

D. K. Jukes
Partner

Five Year Summary

for the years ended 30 June

	1996 $m	1995 $m	1994 $m	1993* $m	1992+ $m
GROUP PROFIT AND LOSS ACCOUNT					
OPERATING REVENUE †	7,600.4	7,162.9	6,531.4	5,745.1	3,952.8
Operating expenditure	(7,096.0)	(6,691.5)	(6,051.4)	(5,514.8)	(3,691.3)
EARNINGS BEFORE INTEREST AND TAX	504.4	471.4	480.0	230.3	261.5
Net interest expense	(103.0)	(151.0)	(178.2)	(197.4)	(158.9)
OPERATING PROFIT	401.4	320.4	301.8	32.9	102.6
Abnormal items	–	–	(64.9)	(446.4)	45.0
PROFIT/(LOSS) BEFORE TAX	401.4	320.4	236.9	(413.5)	147.6
Income tax (expense)/benefit	(154.7)	(140.1)	(80.8)	36.7	(10.0)
PROFIT/(LOSS) AFTER TAX	246.7	180.3	156.1	(376.8)	137.6
Outside equity interests in profit/(loss)	(0.5)	(0.2)	(0.2)	(0.4)	(0.3)
RETAINED PROFIT/(LOSS) FOR THE YEAR	**246.2**	**180.1**	**155.9**	**(377.2)**	**137.3**
GROUP PROFIT BEFORE INTEREST AND TAX					
International airline operations	267.8	267.2	300.2	135.9	249.3
Domestic airline operations	163.6	132.7	105.8	64.5	n/a
Subsidiary operations	73.0	71.5	74.0	29.9	12.2
Group profit before interest and tax	**504.4**	**471.4**	**480.0**	**230.3**	**261.5**
GROUP CASH FLOW					
Cash flows provided by/(used in) operating activities	936.4	853.8	729.0	175.7	(159.1)
Cash flows provided by/(used in) investing activities	(152.4)	(221.3)	(147.8)	(381.9)	566.5
Cash flows provided by/(used in) financing activities	(721.0)	(516.2)	(642.4)	176.4	(272.4)
Net increase/(decrease) in cash held	**63.0**	**116.3**	**(61.2)**	**(29.8)**	**135.0**
GROUP BALANCE SHEET					
Property, plant and equipment	5,586.8	5,045.3	5,000.1	5,081.0	3,427.7
Non-current receivables	1,689.9	1,990.8	1,500.3	1,553.5	1,244.6
Current receivables	1,380.1	1,389.5	1,199.7	1,186.4	882.2
Investments, inventories and other assets	564.8	502.9	511.7	648.0	574.8
Total assets	9,221.6	8,928.5	8,211.8	8,468.9	6,129.3
Non-current creditors and borrowings	3,290.1	3,546.2	3,259.4	3,709.8	2,996.3
Current creditors and borrowings	1,355.9	1,254.0	1,172.7	1,239.7	769.4
Provisions and other liabilities	2,139.0	1,850.4	1,613.4	1,488.7	1,314.8
Total liabilities	6,785.0	6,650.6	6,045.5	6,438.2	5,080.5
Net assets	**2,436.6**	**2,277.9**	**2,166.3**	**2,030.7**	**1,048.8**
Capital	1,035.5	1,000.0	1,000.0	1,000.0	149.4
Reserves	574.4	564.2	572.2	591.7	722.5
Retained profits	824.9	712.4	593.0	437.9	176.3
Outside equity interests in controlled entities	1.8	1.3	1.1	1.1	0.6
Total shareholders' equity	**2,436.6**	**2,277.9**	**2,166.3**	**2,030.7**	**1,048.8**

Five Year Summary

for the years ended 30 June

	UNIT	1996	1995	1994	1993*	1992+
OPERATIONAL STATISTICS						
INTERNATIONAL – SCHEDULED SERVICES						
TRAFFIC AND CAPACITY						
Passengers carried	000	6,165	5,980	5,905	5,442	4,534
Revenue passenger kilometres (RPKs)	m	41,432	39,563	37,296	33,863	28,836
Available seat kilometres (ASKs)	m	58,862	56,289	52,864	49,888	43,559
Revenue seat factor	%	70.4	70.3	70.6	67.9	66.2
DOMESTIC – SCHEDULED SERVICES						
TRAFFIC AND CAPACITY						
Passengers carried	000	9,386	8,442	7,076	5,825	n/a
Revenue passenger kilometres	m	11,926	10,652	8,901	6,087	n/a
Available seat kilometres	m	15,143	13,459	11,111	7,713	n/a
Revenue seat factor	%	78.8	79.1	80.1	78.9	n/a
CORE AIRLINE PERFORMANCE STATISTICS						
TRAFFIC AND CAPACITY						
Passengers carried	000	15,551	14,422	12,981	11,267	4,534
Revenue passenger kilometres	m	53,358	50,215	46,196	39,950	28,836
Available seat kilometres	m	74,005	69,748	63,975	57,601	43,559
Revenue seat factor	%	72.1	72.0	72.2	69.4	66.2
Average passenger journey length	km	3,431	3,482	3,559	3,546	6,360
Revenue tonne kilometres	m	6,603	6,350	5,849	5,306	3,853
Available tonne kilometres	m	10,246	9,620	9,217	8,836	5,944
FINANCIAL						
Passenger yield (per RPK)	c	10.53	10.65	10.42	10.15	n/a
PRODUCTIVITY						
Average full-time employee strength	#	24,429	23,238	21,903	20,676	17,646
RPKs per employee	000	2,184	2,161	2,109	1,932	1,634
ASKs per employee	000	3,029	3,001	2,921	2,786	2,468
Aircraft utilisation (average per day)	hrs	11.8	11.1	10.9	9.9	10.9
GROUP PERFORMANCE STATISTICS						
TRAFFIC AND CAPACITY						
Passengers carried	000	17,486	16,054	14,252	12,223	4,534
Revenue passenger kilometres	m	54,627	51,204	46,854	40,433	28,836
Available seat kilometres	m	75,930	71,225	65,019	58,363	43,559
Revenue seat factor	%	71.9	71.9	72.1	69.3	66.2
Aircraft in service at period end	#	141	135	126	121	50
FINANCIAL						
Passenger yield (per RPK)	c	10.80	10.86	10.62	10.28	n/a
PRODUCTIVITY						
Average full-time equivalent employees ^	#	29,627	28,565	26,791	25,093	17,646
RPKs per employee	000	1,844	1,793	1,749	1,611	1,634
ASKs per employee	000	2,563	2,493	2,427	2,326	2,468

n/a *Not applicable or not available.*
\+ *Qantas international only.*
* *First year of merged Qantas and Australian Airlines (ten months to 30 June 1993).*
† *Excluding proceeds on sale of non-current assets.*
^ *1992 to 1994 average full-time employee strength.*

Shareholder Information

The shareholder information set out below was applicable as at 30 September 1996 being a date within eight weeks of issue of this Annual Report.

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*	8,180,891	29,576	0.79
1,001-5,000	111,137,798	70,133	10.73
5,001-10,000	31,074,357	5,321	3.00
10,001-100,000	47,802,523	2,873	4.62
100,001+	837,265,476	158	80.86
	1,035,461,045	108,061	100.00

* 634 shareholders hold less than a marketable parcel of shares in Qantas Airways Limited.

TWENTY LARGEST SHAREHOLDERS

SHAREHOLDER	ORDINARY SHARES HELD	% OF ISSUED SHARES
British Airways Investments (Australia) Pty. Limited	258,865,261	25.00
Commonwealth Custodial Services Limited	72,224,325	6.98
ANZ Nominees Limited	57,937,156	5.60
Westpac Custodian Nominees Limited	51,285,957	4.95
Permanent Trustee Company Limited	49,044,157	4.74
Pendal Nominees Pty. Limited	48,424,285	4.68
National Nominees Limited	46,302,417	4.47
Chase Manhattan Nominees Limited	40,318,539	3.89
Australian Mutual Provident Society	32,983,256	3.19
Perpetual Trustees Nominees Limited	24,065,759	2.32
State Authorities Superannuation Board	20,260,610	1.96
MLC Limited	16,520,269	1.60
Perpetual Trustees Victoria Limited	12,084,027	1.17
Mercantile Mutual Life Insurance Company Limited	10,487,335	1.01
Fleet Nominees Pty. Limited	7,062,600	0.68
Bowyang Nominees Pty. Limited	7,000,000	0.68
BT Custodians Limited	4,007,884	0.39
HKBA Nominees Limited	3,775,571	0.36
Citicorp Nominees Pty. Limited	3,687,340	0.36
Norwich Union Life Australia Limited	3,515,230	0.34

SUBSTANTIAL SHAREHOLDERS

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

SHAREHOLDER	ORDINARY SHARES HELD	% OF ISSUED SHARES
British Airways Investments (Australia) Pty. Limited	258,865,261	25.00
Bankers Trust Australia Limited	108,215,565	10.45
Mercury Asset Management Group	59,846,464	5.78
Templeton Worldwide Inc. and Associates	55,177,682	5.33

Glossary

Available Seat Kilometres (ASKs)
Total number of seats available for passengers, multiplied by the number of kilometres flown.

Available Tonne Kilometres (ATKs)
Number of tonnes of capacity available for carriage of passengers, freight and mail, multiplied by the number of kilometres flown.

Revenue Passenger Kilometres (RPKs)
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.

Revenue Tonne Kilometres (RTKs)
Total tonnage of paid traffic carried, multiplied by the number of kilometres flown.

Revenue Load Factor
Percentage of total available capacity actually utilised for the carriage of paid traffic.

Directory

Share Registrar
Ernst & Young
Registry Services Pty. Limited
321 Kent Street
Sydney NSW 1115
Australia
Telephone 61 2 9299 5747
Facsimile 61 2 9262 2574

Stock Exchange Listing
Qantas shares are quoted on
The Australian Stock Exchange
20 Bond Street
Sydney NSW 2000
Australia

Depository for American Depository Receipts
The Bank of New York
ADR Division
101 Barclay Street
New York NY USA
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Facsimile 1 212 571 3050

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