



FINANCIAL REPORT

for the year ended 30 June 2000

QANTAS SUPERANNUATION PLAN

**Qantas Superannuation Plan
Financial Report – 30 June 2000**

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Statement of Net Assets

As at 30 June 2000

	Notes	2000 \$'000	1999 \$'000
Investments			
	3		
Australian fixed income securities		241,083	307,407
Overseas fixed income securities		61,347	77,430
Other investments at interest		315,584	362,462
Australian equity investments		1,841,658	1,348,714
Overseas equity investments		630,639	510,769
Real estate properties		32,650	69,354
Investment linked insurance policies		840,444	799,563
Total Investments		3,963,405	3,475,699
Other Assets			
Cash at bank		7,503	38,313
Property, plant and equipment	4	64	73
Prepaid expenses		122	153
Contributions Receivable		7,433	5,740
Total Other Assets		15,122	44,279
Total Assets		3,978,527	3,519,978
Liabilities			
Provision for tax	5	39,586	46,466
Benefits payable	6	23,844	14,990
Sundry creditors		4,703	2,809
Total Liabilities		68,133	64,265
Net Assets available to pay Benefits		3,910,394	3,455,713

The above statement of net assets should be read in conjunction with the accompanying notes.

Statement of Changes in Net Assets

For the year ended 30 June 2000

	Notes	2000 \$'000	1999 \$'000
Net assets available to pay benefits at the beginning of the financial year		3,455,713	3,123,957
Add:			
Net investment revenue	7		
Interest		28,373	29,900
Dividends and trust distributions		92,248	116,323
Other revenue		3,492	4,759
Changes in net market value of investments		343,977	126,886
Less: Direct investment expense		(11,846)	(11,412)
		456,244	266,456
Contribution revenue			
Employer contributions		135,485	160,406
Members' contributions		64,974	60,232
Transfers from other funds		13,990	10,103
Transfer from the TAA Pilots Superannuation Scheme 1977	19	-	24,982
		214,449	255,723
Other revenue		1,131	715
Total revenue		671,824	522,894
Less:			
Benefits paid			
Exited members		168,623	172,873
Disabled members		1,164	1,105
		169,787	173,978
General administration expenses			
Actuarial fees		211	156
Administration expenses		2,246	2,057
Audit fee		60	50
Insurance		150	107
Superannuation contributions surcharge		9,098	303
		11,765	2,673
Total revenue less expenses and benefits paid before income tax		490,272	346,243
Income tax expense	5	35,591	14,487
Total revenue less expenses and benefits paid after income tax		454,681	331,756
Net assets available to pay benefits at the end of the financial year		3,910,394	3,455,713

The above statement of changes in net assets should be read in conjunction with the accompanying notes.

Notes to and Forming Part of the Financial Statements

30 June 2000

Note 1 Nature of the Fund

The Qantas Superannuation Plan is a contributory Plan established for the benefit of eligible Australian based employees of Qantas Airways Limited Group under a Trust Deed dated 1 June 1939 as subsequently amended.

The Plan is as a defined benefit Plan in that the benefit payable to the member is determined, at least in part, by reference to a formula based on years of membership and salary levels.

Note 2 Summary of Significant Accounting Policies

This general purpose financial report has been prepared in accordance with Accounting Standards, other mandatory professional reporting requirements, the provisions of the Trust Deed dated 1 June 1939 and amendments thereto and relevant legislative requirements.

Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. Comparative information is reclassified where appropriate to enhance comparability.

(a) Investments

All investments of the Plan were custodially held by State Street Australia Limited. Investments are recorded at net market value at year end which is determined as follows:

- (i) Individual Portfolio Investments are valued at net market value at balance date, as advised by the Custodian.

Changes in the net market value of investments are included in the Statement of Changes in Net Assets in the period in which they occur.

- (ii) Investment Linked Insurance Policies are valued at the present value of the policy as advised by the insurer.

- (iii) Real Estate properties independent valuations are obtained from qualified valuers at no more than three yearly intervals.

(b) Receivables and Revenue Recognition

Investment revenue and contributions are brought to account on an accruals basis. Dividends on quoted shares are deemed to accrue on the date the dividend is declared. Changes in net market value of assets are recognised in the statement of changes in net assets in the periods in which they occur. Transfers from other funds are brought to account when received.

(c) Income Tax

Tax effect accounting procedures are followed whereby the income tax expense in the profit and loss account is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the net rates which are expected to apply when those timing differences reverse.

The Plan continues to be a regulated fund in accordance with the Superannuation Industry (Supervision) Act 1993 and has applied a tax rate of 15% to the taxable income for the year ended 30 June 2000.

(d) Property, Plant and Equipment

Property, plant and equipment is stated at cost less depreciation which in the opinion of the Trustee represents a reasonable approximation of the net market value of the items.

Notes to and Forming Part of the Financial Statements

30 June 2000 (continued)

(e) Depreciation of Property, Plant and Equipment

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each item of property, plant and equipment over its expected useful life to the company. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are as follows:

Plant and equipment: 3 to 5 years

(f) Sundry Debtors and Creditors

Sundry debtors are recognised at the amounts receivable, which approximate net fair value. Sundry creditors represent liabilities for goods and services provided to the Plan prior to the end of the financial year and which are unpaid. The amounts are unsecured. Sundry debtors and creditors are subject to normal trade credit terms.

(g) Superannuation Contributions Surcharge

The Plan's liability in respect of the superannuation contributions surcharge is recognised based on notional surchargeable contributions calculated by the actuary for that period. Further details are provided in Note 11.

(h) Benefits Payable

Benefits payable include benefits in respect of members who ceased employment with the employer sponsor prior to year end but had not been paid by that date.

(i) Liability for Accrued Benefits

The liability for accrued benefits is not included in the statement of net assets, but the liability at the latest measurement date is reported by way of note. Where accrued benefits are measured during the reporting period, the benefits which have accrued since the latest measurement date are also reported by way of note. The liability for accrued benefits is actuarially measured on at least a triennial basis and represents the value of the Plan's present obligations to pay benefits to its members and other beneficiaries at the date of measurement. The liability is determined as the present value of expected future payments which arise from membership of the Plan up to the date of measurement.

The present value reported in the notes is determined by reference to expected future salary levels and by application of a current, market-determined, risk adjusted discount rate and appropriate actuarial assumptions.

(j) Employee Entitlements**(i) Wages and Salaries, Annual Leave and Sick Leave**

Liabilities for wages and salaries, annual leave and sick leave are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

(k) Year 2000 Software Modification Costs

Costs relating to the modification of computer software for year 2000 compatibility are charged as expenses when incurred.

(l) Cash

For purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

(m) Derivative Financial Instruments

Derivative financial instruments are entered into by the investment manager to manage risk and adjust the Plan's exposure to particular investment classes. All derivative financial instruments are valued at net market value and are included in the relevant asset category.

Notes to and Forming Part of the Financial Statements

30 June 2000 (continued)

Note 3 Investments

At the reporting date all investments are managed on behalf of the Trustee by:

	2000 \$'000	1999 \$'000
Held in managed investment portfolios		
AMP Asset Management Australia Limited	212,218	128,315
County Investment Management Limited	358,350	598,919
UBS Brinson Limited	206,098	192,793
Schroder Private Property Syndicate	59,431	55,396
Mercantile Mutual Investment Management Limited	808,690	717,378
Baring Asset Management Limited	212,831	166,672
Macquarie Investment Management Limited	-	3,328
Norwich Investment Management Limited	128,924	120,024
Lazard Asset Management Pacific Co.	315,027	281,866
Maple-Brown Abbott Limited	244,166	176,814
Salomon Smith Barney Asset Management Australia Limited	208,790	178,618
BT Tactical Asset Management Pty. Limited	16,326	44,085
State Street Australia Limited	5,917	6,921
Superannuation Members Home Loans Limited	5,011	5,007
HarbourVest Partners, LLC	6,298	-
State Street Global Advisors Tactical Asset Allocation Overlay	19,382	-
Tactical Global Management Tactical Asset Allocation Overlay	30,191	-
Merrill Lynch Mercury	285,384	-
	<u>3,123,034</u>	<u>2,676,136</u>
Held in Investment Linked Insurance Policies		
AMP Statutory Fund No 2 Investment Linked Fund	52,501	116,942
MLC Limited	787,870	682,621
	<u>840,371</u>	<u>799,563</u>
	<u>3,963,405</u>	<u>3,475,699</u>

Note 4 Property, Plant and Equipment

	2000 \$'000	1999 \$'000
Computer equipment at cost	181	167
Deduct: Accumulated depreciation	(157)	(154)
	<u>24</u>	<u>13</u>
Motor vehicles at cost	92	92
Deduct: Accumulated depreciation	(52)	(32)
	<u>40</u>	<u>60</u>
Total written down value of property, plant and equipment	<u>64</u>	<u>73</u>

Notes to and Forming Part of the Financial Statements

30 June 2000 (continued)

Note 5 Income Tax

The Plan has received certification from the Australian Prudential Regulation Authority confirming the Plan's complying status and this has not since been revoked. Income tax is assessable at 15% on net investment earnings, employer contributions and capital gains, with deductions allowable for administration and certain other expenses. A reconciliation of income tax expense with revenues and expenses for the year before income tax is set out below:

	2000 \$'000	1999 \$'000
Total revenue less expenses before income tax	<u>490,272</u>	<u>346,243</u>
Prima facie income tax at 15%	73,541	51,936
Tax effect of permanent differences:		
Members contributions	(11,782)	(14,298)
Benefits paid	24,197	25,931
Gross up of franked dividends and foreign tax credits	2,156	2,654
Non-taxable capital gains – indexation and concessional tax rate	(36,769)	(6,851)
Other assessable income	589	-
Other non-assessable income	(190)	(24,801)
Non-deductible expenses	<u>1,392</u>	<u>(2,313)</u>
Prima facie income tax adjusted for permanent differences	53,134	32,258
Dividend imputation and other credits	(17,893)	(17,692)
Under/(over) provision in prior year	350	(79)
Income tax expense	<u>35,591</u>	<u>14,487</u>

The liability for income tax at 30 June 2000 consists of the following:

Current	6,381	19,835
Deferred	33,205	26,631
	<u>39,586</u>	<u>46,466</u>

Note 6 Benefits Payable

Benefits payable represent monies due but unpaid to members who terminated prior to 1 July 2000

Notes to and Forming Part of the Financial Statements

30 June 2000 (continued)

Note 7 ,Investment Revenue

	2000	1999
	\$'000	\$'000
Interest	28,373	29,900
Dividends and trust distributions	92,248	116,323
Other revenue	3,492	4,759
	<u>124,113</u>	<u>150,982</u>
Changes in net market value of investments		
Investments held at year end		
Australian fixed income securities	3,231	(9,501)
Overseas fixed income securities	1,049	(8,195)
Other investment at interest and investment linked insurance policies	41,795	71,055
Australian equity investments	186,868	63,747
Overseas equity investments	75,299	32,129
Real estate properties	1,421	1,180
	<u>309,663</u>	<u>150,415</u>
Investments realised during the year		
Australian fixed income securities	(2,354)	342
Overseas fixed income securities	919	(2,588)
Other investments at interest and investment linked insurance policies	(15,115)	(5,858)
Australian equity investments	16,972	4,324
Overseas equity investments	33,892	(19,749)
	<u>34,314</u>	<u>(23,529)</u>
Total changes in net market value of investments	<u>343,977</u>	<u>126,886</u>
Total investment revenue	<u>468,090</u>	<u>277,868</u>

Note 8 Vested Benefits

Vested benefits are benefits which are not conditional upon continued membership of the Plan (or any factor other than resignation from the Plan) and include benefits which members were entitled to receive had they terminated their Plan membership as at the reporting date.

	2000	1999
	\$'000	\$'000
Vested benefits	<u>3,255,831</u>	<u>2,884,204</u>

Note 9 Guaranteed Benefits

No guarantees have been made in respect of any part of the liability for accrued benefits.

Notes to and Forming Part of the Financial Statements

30 June 2000 (continued)

Note 10 Funding Arrangements

The funding policy adopted in respect of the Plan is directed at ensuring that benefits accruing to members and beneficiaries are fully funded as the benefits fall due. As such, in advising the Trustee on employer and member contribution rates, the actuary has considered the long-term trends in such factors as Plan membership, salary growth and average market value of Plan assets.

The rates of employer and employee contributions vary depending on numerous factors and are explained in full in the Plan's Trust Deed and Rules. Employer contributions have been made at the rates recommended by the actuary.

Note 11 Superannuation Contributions Surcharge

The superannuation contributions surcharge is levied on notional surchargeable contributions calculated by the fund's actuary in relation to periods from 21 August 1996 onwards. The Australian Taxation Office (ATO) assesses the amount of the surcharge based upon each member's adjusted taxable income and level of surchargeable contributions and periodically sends grouped assessments to the Plan. The liability to pay the surcharge rests with the holder of the surchargeable contributions at the time the surcharge assessment is received from the ATO.

The surcharge expense included in the statement of changes in net assets comprises:

	2000 \$'000	1999 \$'000
Instalments paid for year ended 30 June	9,098	303
	9,098	303

Any surcharge levied against the Plan is charged to the relevant members' benefits when the assessment is received and agreed. It is not possible to estimate the amount of the expense and the liability with sufficient reliability for recognition in the financial statements until an assessment is received from the Australian Taxation Office.

Note 12 Membership

	2000	2000	1999	1999
Members at 1 July		26,955		26,769
Plus members admitted		3,067		1,870
Less:				
Resignations	1,227		1,056	
Retirements	175		192	
Deaths	28		19	
Retrenchment	253		346	
Ill health	49	(1,732)	71	(1,684)
Members at 30 June		28,290		26,955

The membership is split as follows:

Division 1	2,589	2,736
Division 2	14,645	15,514
Division 3	10,342	8,343
Division 4	170	181
Division 5	544	181
	28,290	26,955

Notes to and Forming Part of the Financial Statements**30 June 2000 (continued)****Note 13 Financial Instruments****(a) Use of Derivatives**

The Plan's investment managers may use derivative financial investments to reduce risks in the share, bond and currency markets and to increase or decrease the Plan's exposure to particular investment classes or markets. Derivative financial instruments are included in the associated asset category in the statement of net assets.

At 30 June, the notional amount and net market value of derivatives held by the Plan, was as follows:

	Notional Amounts 2000 \$'000	Net market Values 2000 \$'000
30 June 2000		
Australian fixed interest futures	219,933	91
International fixed interest futures	18	(332)
Australian share price index futures	(81,200)	(3,912)
International share price index future	(157,748)	3,515
Australian over the counter options	(2,005)	(315)
	<u>(21,002)</u>	<u>(953)</u>
30 June 1999		
Australian fixed interest futures	29,341	(82)
International fixed interest futures	4,840	(161)
Australian share price index futures	(50,907)	12
Australian exchange traded options	5,095	292
International share price index future	124	505
	<u>(11,507)</u>	<u>566</u>

(b) Currency Risk Exposures

The Plan's exposure at 30 June to foreign exchange rate movements on its international investments was as follows:

	US Dollars AS'000	Other AS'000	Total AS'000
30 June 2000			
Gross investment amounts denominated in foreign currency	319,450	405,413	724,863
Amount effectively hedged	(91,698)	(66,654)	(158,352)
Net exposure	<u>227,752</u>	<u>338,759</u>	<u>566,511</u>
30 June 1999			
Gross investment amounts denominated in foreign currency	282,298	330,191	612,489
Amount effectively hedged	(277,715)	(259,089)	(536,804)
Net exposure	<u>4,583</u>	<u>71,102</u>	<u>75,685</u>

Notes to and Forming Part of the Financial Statements

30 June 2000 (continued)

(c) Interest Rate Risk Exposures

The Plan invests in financial assets for the primary purpose of obtaining a return on investments on behalf of its members. The Plan's investments are subject to interest rate risks and the return on the investments will fluctuate in accordance with movements in the market interest rates.

The Plan's exposure to interest rate movements on those investments at 30 June was as follows:

	Floating interest rate \$'000	Fixed interest maturing in:			Non- interest bearing \$'000	Total \$'000
		1 year or less \$'000	Over 1 to 5 years \$'000	Over 5 years \$'000		
30 June 2000						
Australian fixed income securities	-	3,574	99,008	138,501	-	241,083
Overseas fixed income securities	-	221	24,474	36,652	-	61,347
Other investments at interest	218,361	104,726	-	-	-	323,087
Australian equity investments	-	-	-	-	1,841,658	1,841,658
Overseas equity investments	-	-	-	-	630,639	630,639
Real estate properties	-	-	-	-	32,650	32,650
Investment linked insurance policies	-	-	-	-	840,444	840,444
Total financial assets	218,361	108,521	123,482	175,153	3,345,391	3,970,908*
Weighted average interest rate	3.18	5.94	5.87	5.44		

* includes cash at bank

	Floating Interest Rate \$'000	Fixed interest maturing in:			Non- interest bearing \$'000	Total \$'000
		1 year or less \$'000	Over 1 to 5 years \$'000	Over 5 years \$'000		
30 June 1999						
Australian fixed income securities	-	-	143,577	163,830	-	307,407
Overseas fixed income securities	-	777	34,145	42,508	-	77,430
Other investments at interest	198,993	114,395	-	-	87,387	400,775
Australian equity investments	-	-	-	-	1,348,714	1,348,714
Overseas equity investments	-	-	-	-	510,769	510,769
Real estate properties	-	-	-	-	69,354	69,354
Investment linked insurance policies	-	-	-	-	799,563	799,563
Total financial assets	198,992	115,172	177,722	206,338	2,815,787	3,514,012 *
Weighted average interest rate	3.39	4.88	5.69	5.48		

* includes cash at bank

(d) Credit Risk

The net market value of financial assets, including derivatives, included in the statement of net assets represent the Plan's exposure to credit risk in relation to those assets.

The Plan does not have any significant exposure to any individual counterparty or industry. Its assets are invested by individual investment managers and in specific investment trusts and investment linked insurance policies as disclosed in note 3.

Notes to and Forming Part of the Financial Statements

30 June 2000 (continued)

(e) Net Fair Values of Financial Assets and Liabilities

The Plan's financial assets and liabilities, including derivative instruments, are included in the statement of net assets at amounts that approximate net fair value.

Note 14 Reserves

In line with sound fund administrative and financial practice and actuarial advice, reserves are maintained to safeguard the Plan against events such as major catastrophes, abnormal mortality experience and to smooth periodic fluctuations in investment performance.

The excess of the net assets over the amounts of these reserves represent funds held directly to pay benefits.

The following is a summary of the reserves maintained at 30 June:

		2000 \$'000	1999 \$'000
Investment fluctuation reserve	(i)	244,966	181,855
Disability reserves	(ii)	44,788	38,555
Foregone benefits reserve	(iii)	455	455
		<u>290,209</u>	<u>220,865</u>

- (i) The investment fluctuation reserve is held to protect the future earnings of members accounts by smoothing investment performance.
- (ii) Disability reserves represent reserves to cover disablement and initial incapacity claims in the future and have been determined by the Plan's actuary based on past experience of the Plan and expected future experience. The disability reserves contain the following amounts:

	2000 \$'000	1999 \$'000
Current permanent incapacities	13,045	12,094
Current initial disablement	3,758	2,003
New disablements	6,737	5,888
Possible future deterioration	21,248	18,570
	<u>44,788</u>	<u>38,555</u>

- (iii) Benefits foregone by Division 1 members on resignation are credited to the foregone benefits reserve. The balance of the reserve at 30 June is allocated to all members of Division 1 at 30 June. The net balance represents an under distribution, which will be allocated during the year ended 30 June 2001.

Note 15 Termination of Plan

Article 4 of the Plan's Trust Deed and Rules states:

- 4.1 The Plan shall be wound up as hereinafter provided upon the happening of any of the following events:
- (a) if the Trustee shall consider that the Plan is insolvent or if it shall be advised by the Actuary that the Plan is insolvent and it resolves to terminate the Plan; or
 - (b) if the Principal Company decides that it will permanently cease contributing to the Plan; or
 - (c) if an order is made or an effective resolution is passed for the winding up of the Principal Company other than for the purpose of amalgamation or reconstruction.

Notes to and Forming Part of the Financial Statements

30 June 2000 (continued)

- 4.2 In such events the Trustee shall give notice in writing to the Company and the Members that the Plan shall terminate on a specified date, hereinafter called the "Termination Date". As from the Termination Date the following shall apply:
- (a) no further contributions shall be made by the Company and the Members other than arrears of contributions due up to the Termination Date, and
 - (b) any arrears of contributions shall be paid forthwith.

Note 16 Actuarial Report and Accrued Benefits

The most recent actuarial review was carried out as at 1 July 1999.

Attached to these financial statements is a report by the Plan's actuary, Mr K Lockery FIAA summarising the results of that actuarial review of the Plan and providing details of the amount of accrued benefits.

Note 17 Related Parties

- (a) **Employer Company**
Qantas Airways Limited is the employer, and the employer contributions to the Plan are disclosed in the Statement of Changes in Net Assets. Contributions are made in accordance with the Trust Deed, as disclosed in note 10.

Contributions receivable from Qantas Airways Limited as at 30 June 2000 (and received subsequent to that date) amounted to \$6.3 million (1999: \$4.2 million).

Qantas Airways Limited also provides office accommodation, use of office equipment and certain administrative services to the fund. Management fees paid to the employer company for these services of \$921,146 (1999: \$931,770) are included in general administration expenses in the Statement of Changes in Net Assets.

- (b) **Trustee**
The trustee of the Plan is Qantas Superannuation Limited (ACN: 003 806 960). The names of the persons who were directors of the trustee company at any time during the financial year are:

- (a) Related parties

Member representatives:

WB Brown
PG Cant
RF Herbert
FA Mildon
M Topic

A member election took place in July 2000 and as a result, R McDonald replaced PG Cant as a member representative.

Employer sponsor representatives:

JP Ducker
MP Boesen
PJ McCumstie
G Elsey
P Gregg

- (c) **Remuneration of Directors of the Trustee**
The directors of the trustee company did not receive and are not due any remuneration from the Plan, or any related party, in connection with the management of the Plan.

Included in the net assets of the fund is a motor vehicle, which is provided to a director of the trustee company in connection with his role in the management of the fund.

- (d) **Trustee Related Transactions**
All the directors of the Trustee Company except JP Ducker are also members of the Plan and made contributions to the Plan on the basis specified in note 10 on an arms length basis.

Notes to and Forming Part of the Financial Statements

30 June 2000 (continued)

The aggregate sum contributed during the year by the directors of the Trustee Company as members of the Plan was \$164,114 (1999: \$170,959).

Note 18 Controlled Entities

The Plan holds 100% of the AMP Private Capital Unit Trust. The Trustee of the Plan has not consolidated this trust in accordance with AAS 24 as the consolidation of this trust will have no material effect on these financial statements.

Note 19 Transfer from the TAA Pilots Superannuation Scheme 1977

During the year ended 30 June 1999, the Plan accepted a transfer of 8 members from the TAA Pilots Superannuation Scheme 1977 following the closure of that scheme. The Plan received a transfer of \$24,378,671 from that scheme. The Plan's actuary is satisfied that the amount received is in excess of the liability accepted by the Plan on the admission of these members.

Note 20 Subsequent Events

The custodian of Qantas Superannuation Plan changed from State Street Australia Limited to Commonwealth Bank of Australia, effective 1 July 2000.

Trustee's Statement

In the opinion of the trustee:

- (a) the financial statements set out on schedules 1 to 3 are drawn up so as to present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements the net assets of Qantas Superannuation Plan as at 30 June 2000 and the changes in its net assets for the year then ended;
- (b) the financial statements are prepared in accordance with the requirements of the Trust Deed dated 1 June 1939, as amended and the Superannuation Industry (Supervision) Act 1993 and Regulations; and
- (c) the fund has complied with the requirements of the Trust Deed dated 1 June 1939, as amended, and with the applicable provisions of the Superannuation Industry (Supervision) Act 1993 and Regulations during the year ended 30 June 2000.

This statement is made in accordance with a resolution of the directors of the trustee company, Qantas Superannuation Limited (ACN 003 806 960).



Director



Director

Sydney

9 NOVEMBER 2000

Independent Report by Approved Auditor to the Trustee and Members

(A) Financial Statements

Scope

I have audited the financial statements of Qantas Superannuation Plan for the year ended 30 June 2000 as set out on schedules 1 to 3. The Plan's trustee is responsible for the financial statements. I have conducted an independent audit of the financial statements in order to express an opinion on them to the trustee and members of the Plan.

My audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial statements are free of material misstatement. My 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 whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements, so as to present a view which is consistent with my understanding of the Plan's net assets and change in net assets.

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

Audit Opinion

In my opinion, the financial statements present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements, the net assets of Qantas Superannuation Plan as at 30 June 2000 and the changes in net assets for the year ended 30 June 2000.

(B) Compliance

Scope

I have conducted tests in accordance with Australian Auditing Standards as necessary to provide reasonable assurance whether the trustee of Qantas Superannuation Plan, has in all material respects:

a) complied with the relevant requirements of the following provisions (to the extent applicable) of the Superannuation Industry (Supervision) Act 1993 and Regulations;

sections 19(2), 19(3), 36, 65, 66, 67, 69-85, 86-93A, 95, 97, 98, 101, 103, 104, 105, 106, 107, 109, 111, 112, 113, 117, 118, 121, 122, 124, 125, 152, 153, 154, 163, 169;

regulations; 2.10(1), 2.13(1), 2.21(3), 2.33(2), 2.43(1), 3.10, 4.08(3), 5.08, 6.17, 7.04, 7.05, 9.09, 9.14, 9.29, 9.30, 13.14, 13.17, 13.17A; and

My procedures with respect to regulation 6.17 included testing whether amounts identified by the trustee as preserved and restricted non-preserved have been cashed or transferred only in accordance with the requirements of Part 6 of the regulations. These procedures did not include testing of the calculation of the preserved and restricted non-preserved amounts.

b) adhered to the Guidelines for preparing risk management statements ("Guidelines") issued by APRA in Circular I.D.7 on Derivatives (to the extent applicable).

for the year ended 30 June 2000.

My procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the Superannuation Industry (Supervision) Act 1993 and Regulations.

My procedures with respect to the Guidelines consisted of confirming whether any Risk Management Statement was to be prepared by the superannuation entity's trustee(s) under the Guidelines contained in the APRA Circular II.D.7 at any time during the year of income. These procedures indicated that only a Part A Risk Management Statement should be prepared by the superannuation entity's trustee. This has been prepared and is broadly consistent with the requirements of the Guidelines.

These tests have not been performed continuously throughout the period, were not designed to detect all instances of non-compliance, and have not covered any other provisions of the Superannuation Industry (Supervision) Act 1993 and Regulations or Guidelines apart from those specified. The superannuation entity's trustee is responsible for complying with the requirements of the Superannuation Industry (Supervision) Act 1993 and Regulations and appropriately applying the Guidelines.

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

Audit Opinion

In my opinion, the trustee of Qantas Superannuation Plan has complied, in all material respects, with the requirements of the Superannuation Industry (Supervision) Act 1993 and Regulations and applied the Guidelines specified above for the year ended 30 June 2000.



PricewaterhouseCoopers
Chartered Accountants



Victor Clarke
Partner

Sydney

9 NOVEMBER 2000

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PRIVATE & CONFIDENTIAL

25 October 2000

Our Ref: 20136/160/PG/qant030 &155/F

The Directors
Qantas Superannuation Limited
Qantas Centre (SYD APC/G)
203 Coward St
MASCOT NSW 2020

Dear Directors,

FINANCIAL CONDITION OF THE QANTAS SUPERANNUATION PLAN

SUMMARY OF ACTUARIAL REPORT

The most recent actuarial investigation of the Qantas Superannuation Plan (the Plan) was conducted as at 1 July 1999 by Mr Kenneth Norman Lockery, Fellow of the Institute of Actuaries of Australia. The results of that investigation were presented in his report dated 17 February 2000. This section of this letter presents a summary of that report.

Membership

At 1 July 1999 there were 26,955 members of the Plan with salaries totalling \$1,247.9 million. This compared with 28,358 members as at 1 July 1996 (the previous investigation date).

Assets

The net market value of assets at 30 June 1999 was \$3,455,713,000.

For the purpose of the actuarial investigation, the value of the liabilities was compared to the actuarial value of assets which was taken to be \$3,273,858,000.

This figure was arrived at by deducting the Investment Fluctuation Reserve of \$181,855,000 from the net market value of assets.

Plan Experience

The main features of the Plan's experience over the three years to 30 June 1999 were:

- There was one major amendment to the Plan's design, namely the introduction of Division 5.
- The net investment return of the actuarial value of assets averaged 13.4% per annum. This was higher than the long-term rate of investment return of 7.0% per annum assumed in the 1996 investigation. However, salary increases averaged around 6.5% per annum which were also slightly higher than the rate of 6.3% assumed in the 1996 investigation (4.0% inflationary increases plus a promotional scale). Taken together, the excess of investment returns over salary increases achieved by the Plan was approximately 6.9% per annum compared to the previous assumption of 0.7% per annum. This had a substantial beneficial effect on the financial position of the Plan.
- The rate of staff turnover was higher than expected which also had a positive effect on the financial position of the Plan.
- The Company contributions paid over the period of the investigation were \$38.6 million less than the long-term rates previously determined. This was in line with the contribution recommendation from the 1996 valuation report. However, as expected, that reduction in Company contributions reduced the level of surplus remaining in the Plan.

Overall, the total effect of the Plan's experience during the period of the investigation was to significantly increase the actuarial surplus (measured on a consistent basis of actuarial value of assets less present value of accrued benefit liabilities).

Funding Method and Assumptions

ACTUARIAL FUNDING METHOD

The PUC funding method adopted for the 1996 actuarial investigation of the Plan was again used for the 1999 investigation.

The PUC funding method is an accrued benefit funding method. Under this method, the surplus or deficit in the Plan is equal to the difference between assets on hand and the present value of future liabilities for benefits already accrued up to the date of the valuation. The recommended annual contribution rates are then made up of:

- the cost of benefits for the year of service immediately following the valuation date (the Normal Cost); and

- a variation to these rates over a defined period. The level and term of this variation are set to reduce the surplus or deficit in regard to accrued benefits.

ACTUARIAL ASSUMPTIONS

The key economic assumptions used by Mr Lockery for this actuarial investigation were a long-term net investment earnings rate of 7.0% per annum and a long-term inflationary salary increase rate of 4.0% per annum. (These are the same assumptions as were made for the previous investigation.) The important assumption of the "gap" between the assumed investment earnings rate and the assumed inflationary salary increase rate was retained at 3.0% per annum.

The other assumptions required for the valuation (including demographic assumptions and the assumptions regarding promotional salary increases, expenses and the like) were reviewed in the light of the Plan's recent experience. However, the assumptions used in the previous investigation were retained.

Valuation Results

The actuarial investigation of the Plan at 1 July 1999 revealed total liabilities of \$3,083.7 million. Mr Lockery concluded that the Plan was in a satisfactory financial position with a surplus of assets (at actuarial value) over the value of accrued benefits of \$190.2 million.

At 30 June 1999 the market value of assets was 119.8% of vested benefits, indicating that the Plan was in a satisfactory financial position at that date based on current benefit liabilities.

At the same date, the actuarial value of assets represented 106.2% of the accrued benefit liabilities, indicating that the medium to long term funding of the Plan was also progressing satisfactorily.

Recommendations

Mr Lockery recommended that Company contributions to the Plan to provide for defined benefits be equal to the Normal Costs determined on a category by category basis, set out below, but reduced by an amount totalling \$200 million over the four-year period from 1 July 1999 to 30 June 2003.

The contribution rates recommended for each category were:

Group	Contribution Rate (% of salary)
Division 2 Category A	9.7%
Division 2 Category B	10.6%
Division 2 Category C	13.5%
Division 3	10.9%
Division 4	19.5%
Division 5	1.3%

In addition to these contributions Mr Lockery recommended that the Company contribute such additional amounts as specifically required by the trust deed and rules or as agreed with individual members.

Finally, Mr Lockery recommended that the next full actuarial investigation be made on or before 1 July 2002 and that the funding level of the Plan be reviewed annually.

Other Matters

The Plan self insures the majority of its risks in regard to benefits in excess of the actuarial reserve payable on death or disability. More specifically, a catastrophe insurance contract is maintained to limit the overall exposure to severely adverse experience, with the Plan self insuring the deductible of \$5 million and all disability income risks. As stated in the actuarial valuation report, the self insured risks are quite acceptable for a Plan of the size of the Qantas Plan, while the catastrophe insurance provides very cost-effective protection against severely adverse experience.

No allowance was made in the actuarial valuation for the introduction of the Superannuation Surcharge with effect from 20 August 1996. It was assumed that any surcharge assessed against the Plan (together with interest up to the date of the benefit payment) would be debited to the relevant members' benefits.

ACTUARIAL STATEMENT FOR AAS25 PURPOSES

This section of this letter has been prepared for the purposes of AAS25 at the request of the Trustee of the Qantas Superannuation Plan.

Accrued and Vested Benefits

AAS25 requires the disclosure of Accrued and Vested Benefits at the reporting date. The table below shows the amounts determined for the purposes of AAS25, together with the market value of assets (these amounts were calculated by Mr Lockery as part of the actuarial valuation as at 30 June 1999):

Reporting Date	Accrued Benefits \$ million	Vested Benefits \$million	Assets at Market Value \$ million
1 July 1999	3,056.4	2,884.2	3,455.7
1 July 1996	2,113.4	1,986.0	2,318.7

“Accrued Benefits” have been determined as the present value of expected future benefit payments which arise from membership of the Plan up to the reporting date. Present values have been calculated using the same assumptions as for the actuarial valuations of the Plan, except that at 1 July 1999 the long term rate of general inflationary salary increases assumed for the actuarial valuation was 4.0% per annum while the “Accrued Benefits” for AAS25 purposes have been determined assuming a salary increase rate of 3.5% per annum.

“Vested Benefits” are benefits which the Plan would be required to pay if all members were to voluntarily leave employment on the reporting date.

The Accrued Benefits were calculated in a manner consistent with Guidance Note 454 issued by the Institute of Actuaries of Australia.

CURRENT FINANCIAL POSITION

This section of this letter comments on developments since the last actuarial investigation and updates the current financial position of the Plan.

In the period since the actuarial investigation as at 1 July 1999 the only notable change to the benefits provided by the Plan has been the increase in the Superannuation Guarantee minimum contribution rate from 7% to 8% of salary from 1 July 2000. However that change does not have a significant effect on the financial position of the Plan.

I am not aware of any changes in the circumstances of the Plan since 1 July 1999 that would have had a substantial adverse effect on the financial position of the Plan. Accordingly, I expect that the Plan continues to be in a sound financial position.

Yours faithfully,



Mark Thompson

Fellow of the Institute of Actuaries of Australia