

www.qantassuper.com.au

QANTAS
SUPERANNUATION PLAN

2003 ANNUAL REPORT



MESSAGE FROM THE TRUSTEE DIRECTORS



The last financial year was pivotal for the Qantas Superannuation Plan (QSP). The October 2002 trustee meeting welcomed 4 new member-elected Directors and a new company-appointed Director. Also at that meeting, Patricia Cross was elected Chairman by the trustee Directors.

During the year, our General Manager Superannuation, Mark Boesen, moved to a new position in the Finance Department, and your Directors appointed a new Chief Executive, Jeremy Edmonds, to lead the Plan. Jeremy has extensive investment management experience, reflecting the high priority we place on managing your money. We would all like to thank Mark Boesen for his strong and untiring contribution to the development of the QSP over many years.

Since year end, the trustee has witnessed yet more change, with the election of Captain Ian Woods as the new Group A member-elected Director, replacing Captain Rick McDonald in this role, and the recent departure of our Group E member-elected Director, Mr Peter Bysouth and Company appointed Director, Mr Trevor Kennedy. We wish to welcome Captain Woods to his new role, and wish to formally record our thanks to Captain McDonald, Mr Bysouth and Mr Kennedy for their important contributions.

On the investment front, financial markets continued to be volatile and uncertain during the financial year, and the median market performance of -1.6% compared to the actual Plan return of -0.9%.

The trustees have taken several initiatives to try and improve the investment performance.

The measures we have taken include:

- ▶ the introduction of a Chief Executive focused on investments,
- ▶ a review and subsequent change in our asset consultant,
- ▶ a comprehensive asset/liability study that reviewed our strategic asset allocations covering both accumulation members and defined benefit members, and
- ▶ significant investment training for most trustees.

MESSAGE FROM THE TRUSTEE DIRECTORS

CONTINUED



The trustee has also reviewed some aspects of the governance of the Plan. Although we have been fully compliant and comprehensive in this area, we have decided to take a step forward and adopt “best practice” corporate governance. Importantly for funds of our size – the third largest corporate superannuation fund in Australia – we believe that we should take a leadership role on issues such as audit committees, internal audit, voting of shares, and

board performance reviews. Being a leader of good governance can assist the superannuation industry in its role as a major investor in the share registries of corporate Australia. As the industry is increasingly demanding good governance in corporate Australia, we must equally be prepared to adopt unconditional best practice ourselves.

The 12 months ahead will also be very challenging. Legislative changes including the reduction in

surcharge tax and means-tested co-contributions are to be introduced, as well as the new Financial Services Regulations (FSR) which will impact on our communications with members.

Alongside these legislative changes, the Trustee Directors will also be considering issues such as the introduction of member investment choice.

Finally, the Trustee Directors would particularly like to acknowledge

that the past year has been exceptional for the Qantas Superannuation staff. The Trustee is deeply grateful to all of the staff of Qantas Superannuation, for their very hard work, outstanding level of professionalism, and unflinching enthusiasm.

Member-elected Directors



Captain Ian Woods
Technical Aircrew
(Group A)



Mr Gary Wilson
Flight Attendants
(Group B)



Mr Kash Gillies
LAME, TWU, Airline
Officers' Award
(Levels 1-4)
& Nurses (Group D)



Mr George Moudawar
Aircraft Industry
Unions (Group C)



Mrs Patricia Cross
Chairman, Qantas
Superannuation
Limited



Mr Kevin Brown
Executive General
Manager, People



Mr Paul Hopkinson
Head of Financial
Services



Mr Colin Storrie
Deputy Chief
Financial Officer

Company-appointed Directors

2002/2003
ANOTHER YEAR OF CHANGE

HIGHLIGHTS OF THE YEAR



▲ Credited Interest Rate

-1.9%

Your accounts were credited with -1.9% for the year ended 30 June 2003.

For members in the Allocated Pension Division (Division 9) the crediting rate was 0% for the period from 1 September 2002 to 30 June 2003.

▲ Company contributions

\$230 million

The Company contributed \$230 million towards members' super during the year.

▲ Investment performance

-0.9%

The Plan earned -0.9% on its investments after deductions for investment tax and fees.

▲ Size of the Plan

\$3.61 billion

The net market value of the Plan's assets was \$3.61 billion at 30 June 2003, down from \$3.67 billion at 30 June 2002.

▲ Credited Interest Rate over five years

4.7% p.a. (average)

The average compound rate of interest credited to members' accounts over the past five years was 4.7% p.a. This compares to an average rate of inflation over the same period of 3.1% p.a.

▲ Membership

32,227 members

3,573 new members joined the Plan throughout the year.

QANTAS SUPERANNUATION STAFF

Please contact the Superannuation Hotline or visit the website for a copy of the Plan's:

- ▶ Trust Deed & Rules
- ▶ Audited accounts, or
- ▶ Auditors report



Jeremy Edmonds
Chief Executive
Qantas Superannuation Limited



Gail Taylor
Superannuation
Administration Manager

The Qantas Superannuation Staff Team



from left to right:

Sidney Tan, Jeremy Edmonds, Gail Taylor, Julie Robinson, Debbie Burt, Kerrie Lyons, Margaret Longin, Delia Simpson, Marilyn Loyer.

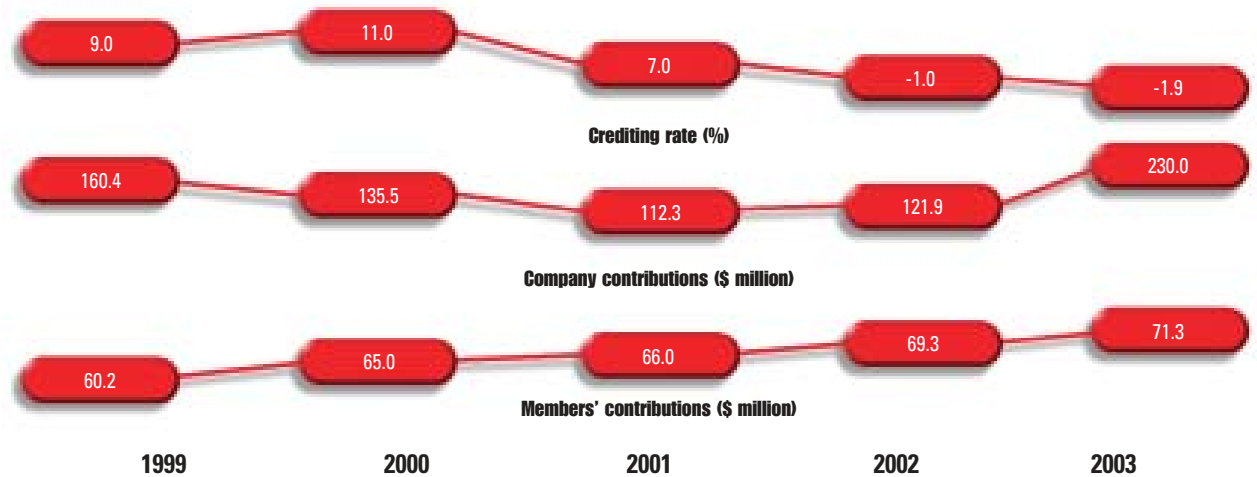
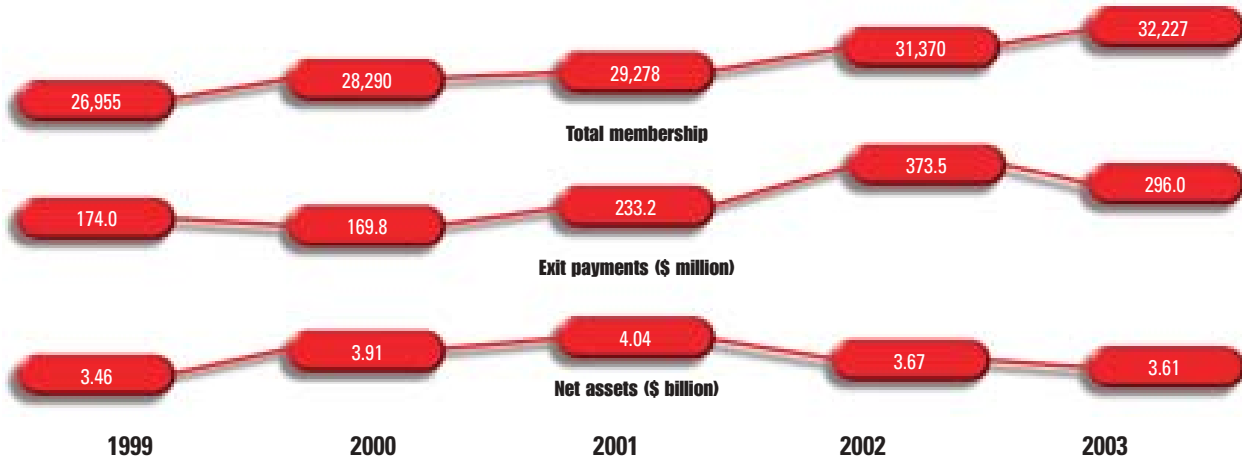
TO CONTACT QANTAS SUPERANNUATION:

email us at qsl@qantas.com.au, or call the Superannuation Hotline on 1300 654 384, or fax us on 25688 or (02) 9691 5688

KEY FACTS



2002/2003 saw the membership of the Plan continue to grow and contributions by the Company and member increased.



THE PLAN'S FINANCIAL POSITION

The Plan's financial position was reviewed by an independent actuary as at 1 July 2002. As a result, the company contribution rates were adjusted and in many circumstances increased. A series of trigger events was introduced which if any occur require the financial position (and company contribution rates) to be reviewed earlier than scheduled.

The next full review is scheduled for 1 July 2005 although annual updates and reviews are undertaken.



Abridged statement of changes in net assets (\$ million)

	2003	2002
Plan at the start of the year	3,666.0	4,038.0
PLUS		
Employer contributions	230.0	121.9
Member contributions	71.3	69.3
Investments and other income	-18.6	-190.0
LESS		
Benefits	296.0	373.5
Administration expenses	4.3	3.8
Superannuation surcharge	7.1	5.7
Investment expenses	12.7	11.9
Income tax	16.6	-21.7
Plan at the end of the year	3,612.0	3,666.0

Abridged statement of net assets (\$ million)

	2003	2002
Investments	3,682.3	3,742.1
PLUS		
Other assets	89.3	19.7
LESS		
Liabilities	159.6	95.8
Net assets available to pay benefits	3,612.0	3,666.0

THE PLAN'S INVESTMENTS

Investment objectives

- ▶ to maximise long-term investment returns, subject to constraints aimed at containing fluctuations in returns over shorter periods within acceptable limits
- ▶ to earn long-term returns (after tax and fees) that exceed the Consumer Price Index (CPI) by at least 3% per year over rolling three- and five-year periods
- ▶ over shorter periods, to outperform the notional return on the benchmark portfolio in the Investment Policy Statement
- ▶ over rolling three-year periods, to achieve an average return in the upper third of results as measured by the Mercer Pooled Fund Investment Survey
- ▶ over rolling three-year periods, to achieve a rate of return above the asset weighted results as recorded in the Mercer Pooled Fund Investment Survey of diversified superannuation funds.

Investment strategy

The Plan's strategy to achieve its objectives is to use the services of a range of professional investment managers.

The Plan's investment with MLC Ltd is through an investment linked insurance policy and represents a single investment greater than 5% of the Plan's assets.

A part of the portfolio managed by Invesco is held in their Wholesale Indexed International Fixed Interest Trust, also representing a single investment greater than 5% of the Plan's assets.

With the exception of Constellation and SeQant, none of the Plan's investment managers had any financial relationship with the Trustee or with Qantas Airways Limited, except as investment managers of the Plan.

The Plan has an equity stake in Constellation and SeQant which dates back to the establishment of these start up ventures. Decisions to have monies managed by these managers was made independently of the decision to invest equity.

At 30 June 2003, the Plan had approximately \$3.2 million (at market value) invested in Qantas Airways Limited.

Investment policy

The Plan's strategy is implemented through its Investment Policy Statement (IPS). The IPS can be found at the Plan's website at www.qantassuper.com.au. The benchmark asset allocation is shown on the next page.

Plan Benchmark

Asset Class	(%)
Growth assets	
▶ Australian shares & listed property	35.0
▶ Overseas shares (unhedged)	20.0
▶ Overseas shares (hedged)	10.0
▶ Direct property	5.0
▶ Private capital	5.0
▶ Total	75.0
Defensive assets	
▶ Australian fixed interest	4.8
▶ Indexed bonds	1.6
▶ Overseas fixed interest (hedged)	15.6
▶ Cash	3.0
▶ Total	25.0

Investment Managers at 30 June 2003

	\$ million	%
Acorn Capital Limited	21.0	0.6
AMP Asset Management Limited	117.6	3.2
AMP no.2 Statutory Fund	97.5	2.6
Bank of Ireland Asset Management Limited	162.7	4.4
Baring Asset Management Limited	0.1	0.0
CBA Custodian House Account	86.9	2.4
Citigroup Asset Management Limited	187.8	5.1
Constellation Capital Management Limited	193.2	5.2
Dresdner RCM Global Investors Limited	121.6	3.3
Harbourvest Partners LLC	86.7	2.4
ING Investment Management Limited	488.1	13.3
Invesco Investment Management Limited	265.2	7.2
Lazard Asset Management Limited.	56.3	1.5
Maple-Brown Abbott Limited	181.2	4.9
ME Portfolio Management Limited	5.0	0.1
Merrill Lynch Investment Managers Limited	201.2	5.5
MLC Limited	480.6	13.1
Paradice Cooper Investors	165.2	4.5
Qantra (Transition Portfolio)	1.4	0.0
Schroder Investment Management Australia Limited	199.3	5.4
State Street Global Advisors Australia Limited	57.9	1.6
Tactical Global Management Limited	63.1	1.7
Vanguard Investments Australia Limited	113.5	3.1
Wellington International Management Company Limited	329.2	8.9
Total	3,682.3	100.0

THE PLAN'S INVESTMENTS



The Crediting Policy

Every year the Trustee determines an interest rate which is "credited" to your accumulation accounts, which represents the earnings on the assets of the Plan.

In the past, the Trustee has adopted an approach involving smoothing of actual returns from year to year, and in recent years the average crediting rate has exceeded the average earning rate (see page 17).

This approach was possible because of the use of an undistributed reserve (the Investment Fluctuation Reserve).

Last year this reserve was fully distributed, and since 1 July 2002, the Trustee has credited returns based directly on estimates of the return on Plan assets.

A similar approach is taken for determining an interim interest rate, which is applied to exits during the year (the interim rate applies from 1 July until the date the benefit is paid).

Calculating the crediting rate

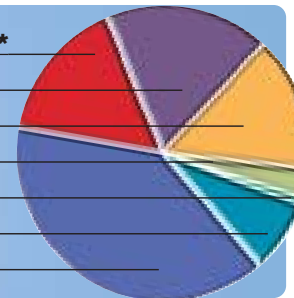
To determine the crediting rate, the Trustee and the Plan's independent actuary take into account the following factors:

- ▶ the actual estimated investment return on the Plan's assets after tax and expenses
- ▶ the actual level of the IFR (if any); and
- ▶ any other factors relevant to the maintenance of equity within the Plan

Note that in order to commence the annual review process, an early estimate of the actual return is made (on 1 July each year), which is used for the final crediting rate. Because this is an estimate, it is anticipated that small variations between the final return and the early estimate will occur from time to time.

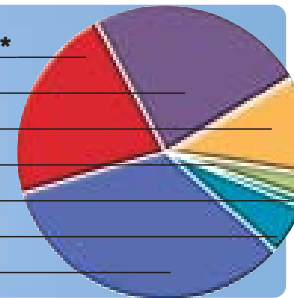
Asset allocation at 30 June 2003

- ▶ Investment-linked insurance policies **15.7%***
- ▶ Overseas shares **18.4%**
- ▶ Overseas fixed interest **14.9%**
- ▶ Australian fixed interest **3.2%**
- ▶ Property **0.5%**
- ▶ Other investments **8.1%**
- ▶ Australian shares **39.2%**



Asset allocation at 30 June 2002

- ▶ Investment-linked insurance policies **21.9%***
- ▶ Overseas shares **23.9%**
- ▶ Overseas fixed interest **11.2%**
- ▶ Australian fixed interest **2.8%**
- ▶ Property **0.5%**
- ▶ Other investments **5.9%**
- ▶ Australian shares **33.8%**



*The **effective** asset allocation of the Plan, taking into account the underlying assets of the investment-linked insurance policies, is shown in this table:

Asset Class	2001/2002	2002/2003
▶ Australian shares	31.5%	32.1%
▶ Overseas shares	31.6%	28.5%
▶ Private capital	3.1%	3.2%
▶ Listed property	1.3%	1.0%
▶ Direct property	4.8%	5.2%
▶ Australian fixed income	4.9%	5.4%
▶ Australian indexed bonds	1.2%	1.2%
▶ Overseas fixed income	14.7%	15.6%
▶ Cash	6.9%	7.8%

INVESTMENT RETURNS



Short Term View

The financial year started poorly for world equity markets, which were weighed down by a wide range of factors, such as a weak global economic outlook, ongoing corporate uncertainty, increased tension in the Middle East and North Korea, and clear signs that terrorism was far from over.

Despite some recovery in the December 2002 quarter, the equity markets again weakened in the March 2003 quarter as the US and allied forces began hostilities against Iraq and the Severe Acute Respiratory Syndrome (SARS) made its presence felt.

However, world equity markets rebounded strongly in the June 2003 quarter as the war subsided in Iraq, the reported cases of SARS slowed, and official interest rates were lowered in some economies. These

factors all lead to stronger than expected company profits and increased confidence in economic growth prospects.

Overall, although share markets improved in the second half of the financial year, they still failed to recover the losses experienced in the first half year. For the year to 30 June 2003 the Plan experienced a negative investment return of -0.9% (after tax and fees). This result was below inflation as measured by the increase in the Consumer Price Index (CPI) of 2.7%.

Long Term View

Poor investment returns have prevailed for the last two financial years. The Plan's return of -0.5% pa over three years was below the corresponding CPI inflation rate of 3.8% p.a.

Measured over a longer period, the Plan's return of 3.5% p.a. over five years was slightly above inflation, and the Plan's return of 7.5% p.a. over ten years was well above inflation.

The Plan has underperformed its long-term objective of exceeding CPI by at least 3% p.a. over three and five year periods to 30 June 2003. This relative underperformance was due to low absolute returns associated with share market declines, and by the once off "jump" in CPI on 1 July 2002, which occurred when GST was introduced.

Further, the Plan's performance over five years fell short of industry averages.

However, relative to survey averages, the Plan has adopted a slightly more growth oriented investment strategy, which is expected to provide superior long term returns (particularly in an expansionary economic environment).

Monitoring Our Strategy

The trustee has taken several initiatives aimed at improving the Plan's investment performance as highlighted in the trustees message on page 1 of this report.

The Plan's strategic asset allocation was not changed over the year. However, the Trustee made several important changes to investment

managers over the past year with the aim of improving the long term performance of the Plan. In Australian shares, MLC was terminated after disaggregating their diversified mandate into sector specialist mandates.

Furthermore, Paradise Cooper Investors, Schroder Investment Management and Acorn Capital were

appointed. In overseas shares, Lazard was terminated and replaced with Bank of Ireland.

	Earning rate % p.a.	Crediting rate % p.a.	CPI % p.a.	Benchmark % p.a.	Mercer Asset Weighted mean % p.a.
2003	-0.9	-1.9	2.7	-0.6	-1.6
2002	-5.3	-1.0	2.8	-5.7	-4.8
2001	5.1	7.0	6.0	4.2	5.6
2000	11.7	11.0	3.2	12.2	13.2
1999	7.5	9.0	1.1	11.1	8.2
3-year average	-0.5	1.3	3.8	-0.8	-0.4
5-year average	3.5	4.7	3.1	4.0	3.9

ADVISERS TO THE TRUSTEE



TRUST DEED AMENDMENTS

The Trustee has taken out professional indemnity insurance through AON Professional Services to indemnify the directors against insurable losses for which they are personally liable, and to indemnify the Plan and, if appropriate, the sponsoring company where the Trustee is indemnified for such loss.

Master Custodian

National Custodian
Services Limited

Investment managers

See page 14

Auditor

Mr Pebbles Punia, ACA, Partner,
PricewaterhouseCoopers

Actuary

Mr Mark Thompson, BSc,
FIAA, Principal, Towers Perrin

Legal Advisers

Freehills
Mallesons

Investment Advisers

Mr David Neal, B.A. Hons (Oxon)
Watson Wyatt Australia Pty Ltd

Tax Adviser

Ms Elsa Payne, ACA, B.Ec.(Hons)
B.Leg.St., Partner,
PricewaterhouseCoopers

During the year, a number of amendments were made to the Plan's Trust Deed which can be summarised as follows:

- ▶ The capacity for the Trustee to meet the requirements of the Family Law legislation was introduced;
- ▶ Where Family Law Settlement payments are made from the Plan, the capacity for members to make offsetting voluntary contributions was introduced; and
- ▶ All of the Trust Deed amendments over the last few years were amalgamated into a single new Deed.

Visit the Plan's website at www.qantassuper.com.au to view a consolidated copy of the Plan's Trust Deed.

FEES AND CHARGES



Administration fees

For Division 1 members, fees are deducted from the Company Account based on contributions paid. For the current year, the amount charged was 1.1% of contributions.

For divisions 6, 7 and 10 members administration fees (representing the share of the expenses attributable to each Division) are deducted from the company Account at 30 June or the date of termination.

For Division 8 and 9 members a fee of 1% of assets is deducted from the account balances each year.

For members of all other divisions, no fees are deducted from members' accounts.

Insurance premiums

For members of Division 1, 6, 7 and 10, premiums are deducted from the Company Account at 30 June or date of termination.

For members of all other divisions, no premiums are deducted from members' accounts.

Investment expenses and tax

Investment expenses and tax on investment earnings are paid from the Plan's investment income before the annual crediting rate is determined.

A company contributions tax of 15% is deducted from all Qantas contributions.

Superannuation surcharge tax

If your adjusted taxable income was below \$90,527 in the year to 30 June 2003, then you will not be liable for any surcharge tax, provided you have supplied us with your tax file number (TFN).

In the year to 30 June 2003, the rate of surcharge tax was 1% of employer or before-tax contributions for every

\$1,295 earned in excess of \$90,527. This rate reached a maximum of 15% if your adjusted taxable income was \$109,924 or above.

If you have provided us with your TFN, the Australian Taxation Office will issue an assessment notice to you and the Plan administrator. Any surcharge payable will be allocated to your surcharge account which rolls up with interest at the Plan's Credited Interest Rate each year. The balance of this account is deducted from your benefit when you leave the Plan unless you elect to pay a contribution for part or all of your surcharge account prior to this time.

There currently exists a facility allowing surcharge payments to be offset by additional voluntary contributions. This provides the option of paying off all or part of the surcharge debt and reducing the interest accruing on surcharge amounts.

When considering whether to make these (or any other) additional voluntary contributions, careful consideration should be given to whether these are made on a pre-tax (salary sacrifice) or post-tax basis. The best approach will differ between members, and will depend upon personal circumstances (tax position, RBLs and other items.)

Therefore, before making any voluntary contributions on either a pre tax or post tax basis, careful consideration should be given to your financial position and we strongly encourage you to seek appropriate financial planning advice.

COMPLAINTS PROCEDURE

If you have a complaint, please start
by contacting Qantas Superannuation



The Plan has a formal Dispute Resolution Procedure to deal with inquiries or complaints. This is how it works.

1. Initial inquiries and complaints are handled by Qantas Superannuation staff, who are available on 1300 654 384 or email at qsl@qantas.com.au
2. If more information is required, the inquiry or complaint is forwarded to the Qantas Superannuation Inquiry Officer (SIO).
3. In exceptional circumstances, the SIO will take the inquiry or complaint to the Trustee for a decision or further advice. The Trustee has 90 days to address the issue.
4. If you are not satisfied with the outcome of your inquiry or complaint after you have followed the above procedure, it can be referred to the

Superannuation Complaints Tribunal (SCT). The SCT operates as a conciliator between members and trustees, and can make decisions which are binding on both parties.

The SCT is an independent body and can be contacted on:

☎ 131 434

✉ Locked Bag 3060
GPO Melbourne
VIC 3001

🌐 www.sct.gov.au

Your SIO

Your SIO is Gail Taylor, located at Ground Floor, Airport Central Office Tower, Corner Robey & O'Riordan Streets, Mascot NSW 2020 (SYD APC/G) and can be contacted on 02 9691 9552 (extension 29552).

UNPAID BENEFITS FROM THE PLAN



When you leave employment, we will advise you of your benefits in the Plan, and your options.

You may elect to transfer your monies to the Division 8 Retained Benefit Division or the Division 9 Allocated pension Division, but you must do so within 90 days.

If you do not nominate where and how your benefit should be paid within 90 days, Qantas Superannuation will transfer the amount to an Eligible Rollover Fund (ERF) nominated by the Trustee.

An ERF is a fund specifically approved by the Government to receive superannuation benefits that have remained unpaid for a certain period of time.

Once rolled over into the ERF, benefits can be later transferred to another superannuation fund or cashed out, depending on whether they must be preserved to retirement.

If your benefit in the Plan is transferred to an ERF, you will cease to be a member of the Plan. The Trustee's liability to administer and pay your benefits will also cease, as will any rights you have against the Plan. In this event you will need to contact the ERF directly to access your benefit.

The ERF nominated by the Plan's Trustee is:

AMP Eligible Rollover Fund

✉ **Locked Bag 5400
Paramatta NSW 1741**

☎ **1300 653 456**

PRIVACY AND THE PLAN

Last year, the Fund launched its privacy policy required under legislation. This policy adheres to the National Privacy Principles set out in the Privacy (Private Sector) Amendment Act 2001.

A copy of the policy is available to members on the Plan website at

www.qantassuper.com.au and the policy covers:

- ▶ The purposes for which information is collected by the Plan;
- ▶ The consequences of not providing information;
- ▶ The times and circumstances under which your information may be provided to others; and
- ▶ How you can access your personal information held by the Plan.



The Plan's full financial statements

To view the Plan's full financial statements for the year ended 30 June 2003, visit the Plan's website at www.qantassuper.com.au, go to the "publications" section and download the full document.

If you can't access the website or would like a hard copy sent to you, please fill out this coupon and send it to the address below or email us at qsl@qantas.com.au

Mail this completed form to:

**Qantas Superannuation
Qantas Centre (SYD APC/G)
203 Coward Street
Mascot 2020**

Name

Staff no.

Department

Company location



Designed and produced by Qantas Superannuation and Towers Perrin, November 2003.
Issued by Qantas Superannuation Limited (ABN 47 003 806 960) as Trustee for Qantas Superannuation Plan (ABN 41 272 198 829).
Also available at www.qantassuper.com.au