

QANTAS AIRWAYS LIMITED
2005 ANNUAL GENERAL MEETING – 13 OCTOBER
CHIEF EXECUTIVE OFFICER'S ADDRESS

It is ten years since Qantas became a public company, and there is one word which sums up what has happened since then. Change.

Ten years ago the World Wide Web was for geeks. Email was just taking off. And Google did not exist. Now they are all part of everyday life, and so are online air travel bookings, e-ticketing and electronic check-in.

Ten years ago, security was an ancillary issue and shocks across the entire aviation system were rare. Then came terrorism, war, and the SARS virus. Now airlines are at the forefront of border control and national security.

Ten years ago, a range of new airline business models challenged all the assumptions about running an airline. But no-one thought that some of the world's established airlines could go broke – names like Sabena, TWA, Swissair and Ansett. Now these are all gone, classic brands suddenly swept away.

In the ten years since privatisation, Qantas has worked very hard to be at the cutting edge of change. We have had to reorient and refocus; we have had to adapt and improvise. And by making the right decisions, with the support of our staff, we have made change work for us.

I believe the fundamentals of this company have never been stronger. We have an excellent structural position in the domestic market, with Qantas and Jetstar both profitable and delivering great value to business, leisure and regional customers. We have strong positions in key international markets. Our product and customer service levels are better than ever. And we have a robust balance sheet. Our increased dividend represented a yield for 2004/05 in the top 10 of ASX 100 companies.

Our people have shared in our success. Staff numbers have grown by nearly a third since privatisation. Pay and conditions are well above most Australian industrials.

In short, in a global aviation industry that is enduring chaotic transformation we have not only survived, we have prospered.

Contrast that with the United States airline industry, which is falling apart. Half of America's industry has now been declared bankrupt, despite having received billions of dollars in support and subsidies from the US Government. Delta and Northwest have just gone into bankruptcy protection, with Delta planning to lay off up to 9,000 people and cut the pay of its remaining workforce. United is now in its third year of operating under Chapter 11 regulations. US Airways has just come out of Chapter 11, after merging with

America West to form a huge low cost airline that is, I understand, targeting a cost base similar to Southwest.

Think of that. Bankrupt one day; one of the world's largest low cost carriers the next. We cannot ignore these developments. Some of these reforms will be successful and these airlines will reemerge as much tougher competitors on international routes.

As we continue through this era of change, it is going to get harder and more challenging than ever to run a successful airline. And once again, Qantas has no choice but to be at the forefront of change. Because if we do not change ourselves, change will surely leave us in the dust along with all the other failed airlines.

That's why we welcome the Federal Government's proposed changes to the industrial relations system. They will give established, successful companies like Qantas greater flexibility to adapt to changing market conditions. Because if we do not, be sure that others will come in and use greenfields costs or foreign structural advantages to devastating effect. Ansett is a stark reminder of what happens to airlines that cannot change.

Change does not mean loss. It's about developing strong, viable business models and workforce structures that will provide growth. Growth for the airline, growth in shareholder returns and growth in jobs.

Only a very brave man would attempt to forecast the next ten years of change. But some things we do know:

- The aviation industry is going to continue to globalise. Full service airlines will have to achieve scale if they want to survive. That means more mergers and more creative partnerships. Few could have predicted that flagships like Air France and KLM would put aside their differences and unite under one banner. But they have - and European regulators have gone along with it. Qantas is an end-of-the-line carrier and will need to build strong partnerships to prosper globally.
- High oil prices are changing the economics of aviation. We cannot assume things will revert to some kind of normal in the foreseeable future. This means we must drive the business very hard indeed to find efficiencies. Where we cannot achieve the right cost structure or scale to compete effectively, we must be prepared to consider joint ventures, outsourcing and offshoring, and relocation of activities in some parts of the business.
- The Asian markets are going to grow in size and importance. They offer tremendous opportunities if we can be flexible and ready to capture them.
- Security challenges and new technological capabilities will combine to drive continuing transformations of aircraft, air space controls, and airport systems. Aviation is already one of the world's leading adopters of new

technologies. Everything from biometric technology to satellites will continue to change the way we operate. We must be ready to embrace new ways of doing things, not shrink from them.

- Customers will continue to be more discriminating and more demanding. Any airline that wants to succeed must be ready to offer the product, timing, price and service that customers want. Qantas has shown that we can deliver very effectively for specific types of customer demand. But the competitive pressures will continue to be intense and we must be ready to adapt to meet our customers' expectations.

Change has been good for Qantas. I recognise, though, that the pressure of change has sometimes been difficult and stressful for staff. Of course we would all rather have certainty in our lives.

But there is no way I can promise that.

What I can say is this. If we respond positively to the challenges, if we stay at the forefront of change, then Qantas can navigate a path that lies in the best interests of all our staff, customers, shareholders, and other stakeholders. We can plan and sequence our actions to minimise disruptions and maximise the benefits to the company.

We can be victims of change, or we can try to be masters of our destiny. The way forward is to face the new realities and continue to be bold, persistent and pragmatic in shaping our future.