18 October 2001

2001 Annual General Meeting

Chairman's address

Introduction
On behalf of the board, I am very pleased to welcome each of you here today to the Qantas Annual General Meeting.

This will be an unusual chairman's address, because we are living in unprecedented times:

- The attack on America on September 11 changed the world, and the aviation industry, forever.
- The appointment of an administrator to Ansett has had major repercussions for the Australian aviation industry.
- And a trading halt was placed on Qantas shares today due to the announcement of an equity raising of $300m for the acquisition of 17 new aircraft.

Before I turn to the fleet and equity announcements made today I would like to outline the events that lead to this decision.

September 11
The September 11 attack on America has changed the world. For the first time in history, passenger airplanes were used as missiles to kill thousands of innocent people and cause major destruction. This represents a new and terrible idea, with profound implications for the world.

I want to assure you that Qantas is taking every necessary measure to continue to offer Qantas staff and the travelling public the highest standards of safety and security. Safety has always been our primary concern; we have an outstanding safety record; in this new and terrible environment safety and security will remain our top priority.

It is no exaggeration to say that the attack on America has been catastrophic for the global aviation industry. It's just over one month since the terrorist attacks, and these are the global consequences so far:

- 150,000 jobs have disappeared from the global aviation industry.
- Nearly every airline in the world is in severe financial difficulty.
- Passenger numbers have dramatically declined.
- Costs are soaring, particularly for insurance and security.
- Insurance costs alone have increased by up to 1000%.

For some time now the global aviation industry has been under extreme pressure; the attack on America both accelerated and aggravated pre-existing forces: intense price competition and rising costs leading to pressures for consolidation to achieve scale efficiencies. No airline in the world can be immune to these pressures, and Qantas certainly is not.

We have to confront the prospect that our passengers will never feel the same about airline travel, and deal with those fears and anxieties. We face the rising costs of insurance and security, at the same time as the Australian dollar is low and oil prices high. We too confront the slump in international travel: the United States has been our most profitable market over the past three years; it has been dramatically affected by the attack on America.

We are taking every step to anticipate and manage the consequences of the attack on America, and I can assure you that we intend to come through this difficult period with credit to Qantas and to Australia.

Ansett

An event which was not related to September 11, but which occurred in the same week, was, of course, the appointment of an administrator to Ansett and the cessation of flying by Ansett. The disruption to business travellers, holiday makers, tourism operators and families across Australia has been huge.

Qantas has been tireless in trying to alleviate the impacts of this event. Let me highlight what Qantas has contributed to help Australia through this difficult time:

- All staff leave was cancelled so that Qantas could provide the utmost assistance during the crisis period.
- We transferred 50,000 stranded Ansett passengers for free. That, by the way, is equivalent to 128 full 747 flights.
- We transferred 65,000 hard up Ansett passengers at a deep discount. That's the equivalent of 166 full 747 flights.
- We also sought to minimise the impact on Australia's regional communities. From 14 September, our QantasLink subsidiary operated an additional 196 flights on existing routes, and added 99 flights on routes previously served exclusively by Ansett regional airlines.
- It is also worth noting that we did not increase **any** airfares, and in fact, we had more discounted seats during September/October than for the same period last year, but, not surprisingly, they were taken up quickly.

And it should be understood that these efforts were taken in the context of:

- The upgraded security environment following the September 11 disaster;
- The grieving and suffering of our staff during this very difficult time for the aviation industry, including the direct loss of two Qantas staff members in the attacks
- A herculean logistical effort to re-deploy aircraft so that we would have the capacity to transport the extra numbers of people.

I want to record the board's profound appreciation of the professionalism and dedication of all Qantas staff and management who have risen superbly to the challenges of this national aviation crisis. Their performance in the national interest has been nothing less than outstanding.

We have received a massive number of compliments in writing and by phone for this effort. On behalf of all shareholders i wish to publicly acknowledge the fantastic effort of all of our staff.

In a moment I will say a few words about the way ahead for the Australian aviation industry. But first I want to refer to today's announcement. This morning trading was suspended in our shares to facilitate announcements on equity raising and fleet acquisitions.

Narrowbody fleet plan and equity raising

Qantas today announced that it will purchase 15 new narrow body aircraft and two dash 8 aircraft as part of a comprehensive revamp of its domestic operations.

The new aircraft will allow Qantas to provide permanent additional capacity and enhance the range of services Qantas offers for travel in Australia, including to regional destinations.

The aircraft will be either Boeing 737-800s or airbus a320s with delivery from January to July next year

These new aircraft will allow Qantas to serve between 65 and 70 percent of the Australian domestic market.

In order to help fund the acquisition of these new aircraft, Qantas today also announced it would raise $300 million through a placement of shares to institutional shareholders.

In addition, to ensure all Qantas shareholders have the opportunity to participate, they will be able to purchase up to $3,000 worth of shares through a special share purchase plan at the same price as the shares issued to institutional shareholders.

The share purchase plan price and the final placement price will be announced tomorrow morning after the global bookbuild to domestic and foreign institutions.

The share purchase plan will allow loyal Qantas shareholders, many of whom had owned their shares since Qantas was privatised six years ago, to participate in the equity raising at the same price as institutions without incurring any charges.

Shareholders will be sent a letter next week explaining this share purchase plan.

Results

Turning now to the more conventional aspects of the AGM. I can inform you that for the year ended 30 June 2001, Qantas performed very creditably, despite low industry profitability worldwide and difficult domestic conditions.

Qantas achieved a profit before tax of $597.1 million, 21.7 percent lower than the result for the prior year. Profit after tax was $415.4 million, 19.7 percent lower than last year's result.

These results were a considerable achievement at a time when many airlines were reporting losses or small profits.

- Last year, average airfares fell by 3.1 percent, while unit costs declined by only 0.3 percent.
- Before the terrorist attacks on America, overall industry profits were expected to average a mere 1.1 percent of revenues in 2000 and 2001.
- In the past six months two Australian carriers, impulse and Ansett, have had to dramatically restructure their operations.
- Qantas was also affected by significant price discounting in the Australian domestic market, a weak Australian dollar, an overall slowing in the Australian and international economies, and continued high jet fuel prices.

Within this challenging operating environment, Qantas laid the positive foundations for future growth.

For the year ended 30 June 2001:

- Qantas carried more than 22 million passengers, operating a fleet of 178 aircraft across a network spanning 129 destinations in 34 countries.
- In November 2000, Qantas announced it would purchase 31 new aircraft as part of a substantial long-term fleet strategy worth $10 billion.
- Qantas also commenced installation of a $300 million total entertainment in-flight system on its international fleet of Boeing 747-400 aircraft to improve customer service.
- The CityFlyer express service between Sydney and Melbourne was launched.
- Qantas introduced a new range of domestic economy class meals.
- Our subsidiary, Qantas flight catering, established a facility to provide snap fresh foods for our travelling customers and for other customers of Qantas.

These investments will ensure that Qantas maintains its capacity for growth and its reputation for excellence.

Board changes

Since our last annual general meeting there have been a number of changes to the Qantas board.

On 1 February, the board welcomed British Airways Chief Executive Rod Eddington as a non-executive director. Rod replaced British Airways Chairman, Lord Marshall, who stepped down from the Qantas board on the same day. On behalf of the board, I would like to extend my gratitude to Lord Marshall for his fine contribution.

On 5 March, James strong retired from Qantas after serving as a member of the board for 10 years and as Chief Executive and Managing Director for more than seven years. On behalf of the shareholders, I would like to extend a vote of thanks to James for his outstanding contribution to Qantas and wish him all the best for the future.

Geoff Dixon assumed the role as chief executive officer on James' retirement from Qantas on 5 March. Geoff restructured the management team including Chief Financial officer, Peter Gregg, and seven executive general managers, each with specified areas of responsibilities.

I think few incoming CEOs have confronted as many unexpected challenges as Geoff Dixon and his management team, and their leadership in difficult circumstances has been inspirational. The board is confident that this team is well placed to build on the past record of success, and to overcome the challenges that Qantas confronts now and in the future.

It has been a privilege for me to serve as chairman of Qantas over the past year. The exceptional relationship between the board and the senior executive team has served Qantas well, and augurs positively for the future of the company.

Qantas strategy

It needs to be acknowledged that over the coming years, Qantas faces an extremely challenging external environment. Qantas is the 13th largest airline in the world, but accounts for only about 2.1 per cent of the world market. The impact of September 11 and the slowing global economy will put very serious pressure on international yields. The Australian dollar's weakness may not improve and Australian dollar fuel prices may remain at near historical highs.

Nevertheless, Qantas is a disciplined and robust company, and goes forward with the aim of retaining and enhancing its status as Australia's global airline. We draw strength from our Australian identity and our global reputation for safety, reliability, engineering excellence and customer service.

The board and management of Qantas will continue to invest wisely, and seek out cost efficiencies, economies of scale and greater legislative and regulatory freedoms to ensure the company is well placed to build on its past record of success.

Future

Now to the future. We are in the midst of a national debate about the best shape and structure for the Australian aviation industry. The severe disruption caused by the appointment of an administrator to Ansett has only highlighted the critical need for stability and certainty.

And as we go forward, all participants in this debate must remember that this industry depends for its very survival on confidence. In this respect then, an airline is rather like a bank. Once people lose confidence in a company a run begins, and an airline can find itself out of business very quickly indeed.

The confidence that customers have in Qantas is a great corporate asset and it's also a great national asset. The board recognises its responsibility to maintain this asset and we will continue to press our case with governments and others as the debate about the future of the aviation industry focuses on more specific ideas over the coming year.

In our view, it is critical that all participants draw the right conclusions from the Ansett situation. As an industry, we cannot afford to try and recreate the recent past of cutthroat competition. Nor can we afford to retreat to some distant past of heavy regulation, limited discount fares and costly government intervention. Neither approach will deliver confidence to the industry. They will not be in the best interests of the travelling public.

Qantas has worked hard to become the strong airline it is today. But no matter how well run Qantas is, we can't expect to prosper if our competition is subsidised heavily by governments (state or federal) or other bodies such as airports.

Our competitors must be commercially viable on similar terms to ourselves if they are to generate the investor and customer confidence needed for long term success. The national interest will not be well served by limiting Qantas' chances of success in an attempt to artificially prop up less competitive domestic players.

We need a competitive but stable industry structure that accords with market realities. **And we need to accept that the australian aviation industry of the future may look very different to that of the past.**

For example, Canada only has one national carrier. So does France. So does Germany, Italy and many other countries. Instead of two national carriers, competition can very effectively be sustained by a range of independent competitors focusing on particular market segments.

Another example. We should prepare for a closer alignment between the Australian and New Zealand aviation markets. It was with this in mind several months ago that we sought to become a cornerstone shareholder in Air New Zealand. Such a partnership made sense to us then, and it still does, but it could now be some time before a real market-driven solution is achievable.

A final thought. In the new aviation environment, flexibility is a critical requirement and Qantas has a major restriction hindering our capacity to perform. The restriction on foreign investment outlined in the Qantas sale act must be lifted to give Qantas greater flexibility to manage its destiny.

Outlook

The significant recent events which have occurred both in Australia and overseas make it difficult to forecast profitability for the current year.

Our desire to raise capital in order to expand our domestic network shows the confidence we have in our domestic operation.

Internationally Qantas is actively managing operations to minimise the impact of current market conditions.

Overall excluding accounting policy changes we expect to deliver a profit before tax result in line with the previous year.

Conclusion

Let me conclude. You can be sure that Qantas is coping well within very unusual and rapidly changing circumstances.

The board and management of Qantas is strongly focused on creating a strong and sound future for this airline within a stable Australian aviation industry. We will continue to act in the best interests of our customers, employees, shareholders and, of course, Australia.