

QANTAS AIRWAYS LIMITED
2004 ANNUAL GENERAL MEETING – 21 OCTOBER 2004
CHAIRMAN'S ADDRESS

Introduction

On behalf of the Qantas Board, I am delighted to warmly welcome you all here today. This is my fifth Annual General Meeting as Qantas Chairman, and it's good to see so many familiar faces and to welcome newcomers as well.

Qantas is committed to strong and open communication with shareholders and the broader community, so we were particularly pleased to recently receive the acknowledgment of "Best Annual Report to the Retail Investor" by Investor Relations Magazine at their recent Australian awards.

I should note that we are also webcasting this meeting and I welcome all shareholders attending over the internet.

Board Changes

Since our last Annual General Meeting there have been a number of changes to the Qantas Board.

On 1 January, the Board welcomed Patricia Cross as a Non-Executive Director. And on 1 March, James Packer accepted the Board's invitation to join us as a Non-Executive Director. On behalf of the Board, I am delighted to have two Directors of the calibre, experience and dedication of Patricia and James serve on the Qantas Board. I look forward to their successful re-election later this afternoon.

Trevor Kennedy resigned from the Board on 17 November 2003. He had been a Director of Qantas since 1994, served as a Director of Qantas Superannuation and made a major contribution to Qantas over nearly a decade. His contribution is missed.

On 8 September 2004, following BA's announcement of its intention to sell its shareholding in Qantas, Roger Maynard and Nick Tait resigned from their positions as BA-appointed Directors on the Qantas Board. Both Directors brought significant aviation industry experience to the Board's deliberations. On behalf of the Board, I would like to extend my gratitude to Roger and Nick for their fine contribution to Qantas over more than 10 years.

Industry Structure

Before I move on, it is appropriate to acknowledge BA's departure as our largest single shareholder, as it is further evidence of the continually evolving aviation environment. First though, I would like to assure you as shareholders that it is "business as usual" for Qantas and BA – both airlines have formed a strong and constructive commercial relationship over some ten years. Neither Qantas nor BA believes the shareholding is now necessary for the ongoing conduct of that relationship.

BA stated that the sale would strengthen its balance sheet and place the airline in a robust position for any future European consolidation. Qantas fully understands this position, and continues to be a strong proponent of consolidation in the global aviation industry.

Overall performance

You will all know that the last four years have been very turbulent for the aviation industry. Terrorism, SARs, war and now record high fuel prices have all taken a toll. Qantas has coped well with these difficult short term challenges. But more importantly, Qantas has kept its focus on the future – investing in new products and services, reducing costs, reshaping the company, forming strategic partnerships and planning for future growth.

That future outlook and that positive orientation are now paying off.

Qantas reported a profit before tax of \$964.6 million for the 2004 financial year, a 92 per cent increase on the prior year's result. The net profit after tax was \$648.4 million, up 89 per cent from last year.

And it's extremely pleasing to note that in the 2004 financial year, Qantas' operating cashflow covered our capital expenditure. We are looking to repeat this achievement in the current financial year. Our gearing, including off balance sheet debt, improved from 51 per cent at June 2003 to 49 per cent at June 2004. We have maintained our investment grade credit rating – and we are the only airline in the world to have done so in the period since the events of September 11 2001.

In February, Air Transport World, the leading international aviation publication, acknowledged our outstanding performance by naming Qantas 'Airline of the Year'.

The success of Qantas this year – and the strong platform that has been created for future growth – does not rely upon any one single factor. Long term success is about building a company that has great relationships with customers, that develops high quality staff, and that has a strong standing in the community to underpin our iconic brand.

And today I want to speak to you about the Qantas performance in these terms – our customers, our staff and our contribution to the community.

The needs of aviation customers have changed. Some travel for business and want the extra services and support of business class. Some just want to get from point A to B as cheaply as possible. Other times they want a premium leisure experience as part of their holiday package.

That's why the Qantas group is now five airlines – Qantas International, Australian Airlines, Qantas Domestic, Jetstar and QantasLink – and why we will continue to adapt ourselves to deliver the highest possible customer satisfaction in whatever class, category or geography our customers choose to fly.

International

In the international arena, some of our strongest competition comes from airlines with considerable government backing. But we are continually investing and working hard to consolidate our position as one of the world's great international airlines. And the hard work is paying off:

- For the second year in a row, Qantas has won 'Best Overall Inflight Entertainment' for the large airline category (comprising 42 airlines) at the World Airline Entertainment Association Awards.
- UK Travel Weekly takes a vote of the UK's 11,287 travel agents. Qantas was awarded the Best Airline to the Pacific, New Zealand and Australia in January 2004.
- More than 10 million airline customers participated in the independent Skytrax 2004 survey – they ranked Qantas fourth in the airline world.

So what are we doing right?

First there is Skybed, our state-of-the-art Business Class sleeper seat, which has been extremely well received. It won two prestigious design awards during the year – an Australian Design Award and a Good Design Award from the Chicago Athenaeum Museum of Architecture and Design. Even more importantly, customers who have experienced Skybed consistently rank the product and service as "excellent".

And we are progressively improving our service standards to complement our new product offerings. In fact, our overall international customer satisfaction result for the fourth quarter of 2003/04 reached its highest level since we began our customer service surveys.

Australian Airlines is our full service leisure international airline. Australian's capacity nearly doubled during the last financial year. We now operate 102 flights per week to 12 destinations in six countries. And we have commenced a twice-weekly Cairns-Sapporo service for the northern winter season – Sapporo is the fourth Japanese city in the carrier's network.

Qantas has now become the major investor in Jetstar Asia, a new low-cost airline to be based in Singapore. Our equity contribution to the airline is 50 million Singapore dollars and the airline will commence flying by the end of this calendar year to a range of destinations within five hours of Singapore, a region with a population of more than three billion people. This puts Qantas squarely in the centre of the growing intra-Asian marketplace.

Domestic

Meanwhile, the Qantas domestic strategy has been successful in its aim to co-ordinate the Australian network and capacity, while delivering the most appropriate product, service and economics for each market segment.

- Qantas Domestic continues to offer a two-class, full-service, Australia-wide network.
- Jetstar is a 'point-to-point' airline that focuses on non-stop services with the lowest possible fares in the market.
- QantasLink services regional markets throughout Australia, connecting the regional business and leisure markets with the major cities.

Since Jetstar commenced operations in May this year, the Group has maintained a domestic market share of over 65 per cent. We continue to believe that targeting a combined domestic market share of 65 per cent is the most profitable strategy for our business.

The introduction of Jetstar is proving a success. Jetstar – which is progressively adding brand new A320 aircraft and leather seats – offers customers excellent product at everyday low fares.

There have, of course, been some teething problems. There have also been some pockets of regional concern about the impact of Jetstar – concern that the introduction of Jetstar somehow means the downgrading of a destination. This is not the case.

Take the Gold Coast. I can simply say this:

- With the introduction of Jetstar, the Qantas Group now offers 14 per cent more seats per week for travel to and from the Gold Coast.
- Airfares to and from the Gold Coast are up to 20 percent cheaper now than before Jetstar commenced flying.
- Four Qantas flying businesses – Qantas, QantasLink, Australian Airlines and Jetstar – continue to operate into the Gold Coast.

And I want to mention our regional service QantasLink. QantasLink, too, is improving. Its cost efficiency improved over the year with the replacement of older 36 seat aircraft with newer, 50-seat Dash 8-Q300 aircraft. These aircraft deliver better fuel efficiency, improved economics and greater comfort for passengers. QantasLink will continue to maintain its competitive advantage through high frequency schedules and peak-time-of-day service.

Non-flying businesses

Qantas' non-flying businesses – Qantas Holidays, Qantas Catering, Qantas Freight and Qantas Defence Services – have all contributed positively to the profitable outcome last year. We continue to see these businesses as a means of providing earnings stability and growth.

And our cost reduction initiative, the Sustainable Future Program, delivered a total of \$512 million in efficiency initiatives across the group during the 12 months. This included labour savings of \$156 million, distribution savings of \$145 million and \$211 million in fleet, product and overhead savings. The Sustainable Future Program aims to reduce costs and provide efficiencies of a further \$500 million in 2004/05 and another \$500 million in 2005/06.

Qantas people

Let me turn now to our Qantas people, the people who create, maintain, support and protect this great enterprise. Qantas today is one of Australia's largest employers. Direct employment has grown by more than 10,000 over the past decade. Qantas employs approximately 35,000 full time equivalent employees, including 2,800 pilots and other flight crew, 6,900 cabin crew and 25,000 ground and administration staff.

In fact, direct employment has grown by more than 6,000 over the past five years. That's a big growth spurt for any company. More than 33,000 Qantas people are Australia-based, a high percentage for any Australian company that operates internationally – and particularly high when compared with the number of Australians employed by other international airlines. Qantas' excellent record compares favourably to its five major international competitors who employ a total of around 1,000 people in Australia. We should also not forget that airlines around the world have shed hundreds of thousands of jobs since September 11 2001.

Sometimes the strongest commendation can come, quite literally, out of the blue. A few weeks ago I received a letter from a Qantas customer, Ms Barbara White. Ms White wrote to me in praise of Lori, a flight attendant on a recent flight from Brisbane to Sydney. Ms White told me that when she warmly thanked Lori for her excellent service, Lori replied that she always felt privileged to be working for Qantas. Ms White was inspired, delighted and touched by this experience. As was I by her letter.

It is, quite simply, another tribute to a strong culture, great people and a real sense of collective history and achievement. And it's why we have paid a \$1,000 cash bonus to each eligible staff member in recognition of their contribution to this year's results.

We have also put in place a range of new measures costing \$50 million over the next three years to help our staff balance their work and family life. These include better maternity and paternity leave provisions and recognition of the role many of our staff play as carers. A "keep in touch " program for staff on maternity and adoption leave is being introduced. We are building two new child care centres, one here in Brisbane and another in Melbourne.

We've also improved workplace safety during the year, reducing lost-time injuries (which lead to people being absent from work) by 27 per cent. There are now at least 70 fewer lost-time injuries per month than when an intensive occupational health and safety initiative focusing on workplace safety began in 2001. And we are introducing a well-being program for all staff, including health assessments.

We are looking after our people and it's also important that we reward and inspire our organisational leaders. In our Annual Report this year and on our website we fully disclose our philosophy regarding executive remuneration. The reward amounts and contract details are also laid out. I just want to reinforce here that we have a scrupulous process, one that I think is good for the company. We are confident if you compare our Executive rewards to those of our peer group of ASX-listed companies, they pass the tests of transparency and reasonableness.

We compare our executive remuneration to other Australian companies and we deliberately position ourselves in the middle of the market. We're not extravagant, and we're not miserly either. Qantas is a major Australian company, a major Australian employer, and we want to attract and retain the best people. Our approach is to "pay for performance". We have incentives for short, medium and long term performance. Some executive pay is at risk – and for two out of the past four years, no bonuses have been paid. This is a stringent reward process by any measure. And of course we have equity programs, which give our executives a stake in the company's shareholder performance.

In all that we do, we meet or exceed the developing regulatory framework concerning Remuneration – ASX Corporate Governance Guidelines, ASIC and CLERP 9 requirements, and all relevant Accounting Standards (including AASB 1046).

In considering remuneration, particularly for CEO Geoff Dixon and CFO Peter Gregg – and for Directors as well – I also want to mention the growth in the sheer size of the job. Compared to our situation just five years ago, we now have 41 per cent more aircraft, employ 22 per cent more people and carry 56 per cent more passengers. The Qantas Group now includes two new airlines here in Australia – Jetstar and Australian Airlines, as well as Jetconnect operations based in New Zealand, and Jetstar Asia is coming on-line soon. Qantas now spends around \$2 billion in capital expenditure each year on new aircraft, product and infrastructure so that we can continue to compete and grow. That's more than double the capital expenditure budget of five years ago. And of course, we have a significantly changed and highly charged security environment in which to operate – Qantas' security costs have tripled since September 2001, while insurance costs have increased by more than 1,000 per cent over the same period.

I know you will join with me in thanking Geoff Dixon for his hard work and achievements over recent years. And we know you and the Board look forward to Geoff's continued strong leadership of Qantas until 2007. Geoff's commitment to this company is incredible. He has been tireless in building this year's success and the success of future years. As I mentioned earlier he has not received any cash bonuses in two of the past four years. His new contract includes a program of incentives which will, of course, continue to be subject to stringent performance hurdles. But while it is important to show restraint when the times demand it, it is equally important to reward strong performance and offer continuing incentives.

We will also be asking you to consider increasing the aggregate amount of funds available for payment of Non-Executive Directors. The main purpose is to allow the expansion of Board committees, moderately increase the remuneration of committee

chairmen and to provide for increases in Directors' Fees over the next few years in line with market practice. This is a necessary response to the growing size and complexity of Qantas. Qantas undertakes an annual review of the fees paid to Non-Executive Directors by other major Australian listed companies to ensure that the fees paid by Qantas are competitive to enable Qantas to attract and retain the highest calibre Directors.

Qantas and community

Let me now say something about Qantas and the Australian community. There's been a lot of talk about corporate responsibility in recent times, but Qantas has always been deeply enmeshed in the Australian community. We're here for Australia in times of need, and we always will be.

In 2004, Qantas launched Sharing the Spirit, an extensive program of events and activities aimed at bringing Australian people together – connecting the city with regional Australia and the bush, connecting young people with their futures and connecting Qantas staff and customers with their families and the broader community. Sharing the Spirit specifically benefits five charitable organisations – CanTeen, CARE Australia, Mission Australia, the Starlight Children's Foundation of Australia and UNICEF – and it constitutes a long-term commitment by Qantas to the future of Australia. Qantas was the first airline to take part in the UNICEF Change for Good program in 1991. It is now the global charity for oneworld alliance airlines and a total of 40 million US dollars will have been raised for the cause by the end of this year. In June 2004, donations from Qantas customers through the Change for Good program passed \$10 million.

Beyond these big programs Qantas is often quietly helping individuals in real need. Let me share a few examples with you:

- There's George Vidler of Rockhampton an 88 year old World War II veteran, who travelled to London on another carrier and fell ill. Mr Vidler was hospitalised and unable to leave without a suitable escort back to Australia. The carrier and travel agent involved did not come to Mr Vidler's aid. Mr Vidler's granddaughter, Donna Dicker, appealed to the Rockhampton community for help. Qantas heard of Mr Vidler's plight and contacted the family to offer assistance. Donna departed Brisbane for London in late July to be reunited with Mr Vidler in London. The pair then left London a few days later to travel home to Rockhampton.
- Luca in Sydney is a two-and-a-half year old boy with a brain tumour. Chemotherapy has not worked for Luca. The type of treatment that may work is only available in the United States or Germany. When Luca is well enough, Qantas will be flying Luca and his family to Frankfurt so that he can undergo this treatment.

Most of these stories don't hit the papers. They are just part of the Qantas commitment to doing good where we can, to helping those most in need.

Some of the biggest inspiration for Qantas as an organisation comes from our staff. The Qantas Cabin Crew Team was founded by Qantas Flight Attendant Laurie Curley 25 years ago. It's still going strong and doing great things. This is the story of Manyowa of Harare, Zimbabwe. In 1989 his mother was badly injured after stepping on a land mine and 8 year old Manyowa went to live at a Harare children's home. In 1994, team members met 13-year-old Manyowa at the children's home and decided to pay for him to attend a boarding school. He did well in his studies and was accepted to study medicine at the University of Zimbabwe. He is now a third year medical student with an interest in orthopaedic or cardiovascular surgery. Qantas is flying Manyowa to Sydney where he has been accepted to do a two-month internship at Royal Prince Alfred hospital.

Conclusion

I want to conclude by assuring you that the Qantas group is now focused more than ever on providing customers with flight and fare options which match their requirements. Customer service standards are continually being elevated. Equally important, we are improving conditions for staff while growing total staff numbers, and expanding the business while improving profitability. With your support for the resolutions we shall shortly put forward, the company can look forward to a very stable and hard-working board and executive team. We have a company that we can all be proud of, that plays a great part in national life and contributes to the well being of Australians as well as people in need around the world.

There is good reason for optimism about the future of your company.