QANTAS AIRWAYS LIMITED
2006 ANNUAL GENERAL MEETING – 19 OCTOBER
CHAIRMAN'S ADDRESS

Introduction

On behalf of the Qantas Board, a very warm welcome to our 86th Annual General Meeting.

I am pleased to report to you that your Qantas has made excellent progress over the past year.

- We achieved strong cash flows and revenues.
- We made further cost and efficiency improvements.
- We again received international recognition for our customer service.
- We increased dividends to shareholders and
- The fundamentals of the business remain in very good shape.

We have delivered this strong performance, despite the severe impact of higher fuel prices, because Qantas has had the courage to evolve, adapt and improve for changing times.

And we will continue to work for the benefit of our shareholders, our customers, our staff and the communities in which we live.

Before I go into any further detail, I would like to introduce the Board of Directors.

- Managing Director and Chief Executive Officer Geoff Dixon;
- Finance Director and Chief Financial Officer Peter Gregg.
- And to my left is our Acting Company Secretary Cassandra Hamlin.

Our Independent Non Executive Directors are:

- Paul Anderson, Chairman of Duke Energy and a Director of BHP Billiton;

- Mike Codd, Chancellor of the University of Wollongong and Director of the Wealth Management Companies of the National Australia Bank;
- Peter Cosgrove, Chairman of the South Australian Defence Industry Advisory Board and consultant to Deloitte;
- Patricia Cross, Director of Wesfarmers and the National Australia Bank;
- Garry Hounsell, Director of Orica and Nufarm, Chairman of emitch, and an executive of Investec Bank;
- James Packer, Executive Chairman of Publishing and Broadcasting Limited;
- John Schubert, Chairman of the Commonwealth Bank and the Great Barrier Reef Research Foundation and a Director of BHP Billiton;

And James Strong, our newest non-Executive Director, who was Managing Director and Chief Executive of Qantas between 1993 and 2001. James is also Chairman of Woolworths and Insurance Australia Group. He brings to Qantas his deep knowledge of aviation as well as business and Board experience across various sectors. We are delighted to welcome James back.

During the year we farewelled Jim Kennedy. On behalf of the Board I would like to publicly thank and acknowledge Jim for his great contribution to Qantas over a decade.

2005/06 Performance

Qantas' performance in the financial year ended 30 June 2006 was strong.

We reported a profit before tax of $671 million.

It included $182 million of restructuring costs. It also included $104 million of compensation related to the delay of the A380 aircraft.

Net profit after tax was $480 million.

The result was achieved in a very difficult operating environment, with jet fuel prices rising by nearly $1 billion, although we were able to offset $282 million of this increase by hedging.

Highlights of the year included:

- A strong revenue performance, with net passenger revenue growing by nearly 10 percent;
- Another half a billion dollars of savings achieved through our Sustainable Future Program; and
- Very good cashflows, so that cash held at the end of the year increased by nearly $1 billion to $2.9 billion and gearing improved.

The company's strong cash position has allowed us to reward shareholders with a 10 percent increase in the full year dividend to 22 cents a share.

Fuel

Looking ahead, fuel remains our biggest challenge.

Qantas introduced the first fuel surcharge in May 2004. Even with surcharges, we have substantially under-recovered the increase in our fuel costs. It is important to recognise the way surcharges work. We do not apply surcharges immediately when fuel prices rise. We have applied them after fuel prices had been high for some time. Generally, that means we have pre-sold around $1 billion of revenue at the lower prices.

In the same way, we need to see a sustained reduction in fuel prices before we can remove surcharges. We announced today that, given the recent decrease in fuel prices, we will reduce our international surcharges for tickets issued on or after 24 October. Fuel prices remain volatile, so we will monitor the situation closely over coming weeks and review our surcharges as appropriate.

Qantas will also continue to manage our fuel price risk through hedging. We have protected 90 percent of our expected crude oil requirements for the current financial year at a worst case price of US$70 a barrel. And we will also employ other measures to save costs and increase revenue to offset the increase in fuel costs compared with last year.

Security

Security continues to be a major priority for the industry and a huge cost burden.

Qantas has spent well over a billion dollars on security since the attack on America five years ago. Today we employ, directly and indirectly, the equivalent of a sizeable police force.

The cost of security burden will grow because of specific measures for airports and airlines mandated by the Australian and other governments. Airports pass on the cost to us in full, but we cannot pass on the full costs to our customers. Nor can we afford to keep carrying the national burden of security.

The challenge for Government and industry is going to be to achieve effective security while minimising the "hassle factor" for passengers. Qantas is working very closely with the relevant authorities to achieve this.

Aviation remains an identified target for terrorists and the security environment within the industry will continue for the foreseeable future.

International developments

The future will also be shaped by changes in the international aviation environment that are profound, rapid and strategically important.

They include:

- Asia's rapid growth. China is expected to become the world's second largest aviation market over the coming decade and also Australia's biggest source of visitors after New Zealand.
- Low cost carriers. These are making air travel affordable for many more people, but also changing the economics of markets.
- Airline consolidation. In some of the world's largest markets, major airlines in Europe like Air France and KLM; Lufthansa and Swiss; and closer to home Cathay Pacific, Air China and Dragonair are coming together to achieve the benefits of scope and scale. This is giving them greater sustainability and competitiveness. As you know, Qantas was barred from forming a strategic alliance with Air New Zealand three years ago, although we are seeking approval now for a more limited cooperative arrangement with Air New Zealand.
- Restructuring. The world's largest aviation market, the US, is undergoing major reform. Four of the big five carriers have been or are still in Chapter 11. As protected "failing firms", these airlines have been able to restructure their businesses, renegotiate union and wage agreements and not pay pension liabilities. This process has enabled the US industry to remove the equivalent of an entire airline through capacity cuts.

These developments present both opportunities and risks for Qantas. We must continue to transform our business if we are to compete effectively and participate in the strongest growth markets.

Today I want to outline our strategies to achieve this.

Segmentation

A major area of focus for Qantas this year will be taking our segmentation program to the next level.

Over the past three years, we have separated our businesses into units with their own revenue, cost, profit and return targets. This has given us a new perspective on each unit's real contribution to the Group.

This year, we will focus on transitioning units that were cost centres – including service businesses such as engineering, catering and ground handling – to profit centres. Each business will need to cover its cost of capital. We will invest where we can generate the highest relative returns.

Every part of the business will be part of this process.

- Our flying brands, Qantas and Jetstar will compete for growth routes and new aircraft based on the returns they can generate.
- Our service businesses will compete for investment based on the returns they can generate using market-based pricing.

Two Brand Strategy

As Qantas moves forward, we continue to deliver the high standard of product and services that our customers rightly expect of us. Our two brand strategy - Qantas and Jetstar – is giving us the flexibility to serve and support our different customer groups more effectively.

Domestic

In the domestic market, we have consistently maintained a market share above 65 percent. Qantas and QantasLink have strengthened their position on premium and regional routes. And Jetstar now has an all-A320 fleet. Jetstar and QantasLink are growing into new capacity. And Qantas has added capacity to key markets such as the East-West Coast routes, where we now fly Boeing 747s to Perth.

International

And this year we will take our two brand strategy to international markets.

Qantas will focus on defending its position on key markets where there is demand for the premium product such as the US, UK, Tokyo, Hong Kong and South Africa. Qantas is also developing its presence in growth markets such as Shanghai, Beijing and Mumbai. We plan to further increase Qantas flights to China in the lead-up to the Beijing Olympics in 2008.

Next month, Jetstar will become the world's first long haul international value-based carrier. This is a huge step and very exciting. With a cost structure at least 40 percent below that of Qantas, Jetstar will focus on point-to-point flying. Subject to final regulatory approvals, its inaugural Melbourne-Bangkok service will commence on the 23rd of November, followed the day after by Sydney-Phuket. It will then add services to Ho Chi Minh City, Bali, Honolulu and Osaka. Forward bookings are meeting expectations with strong support for markets like Bali and Vietnam. This strategy is about taking advantage of some of the fastest growing markets in our region. It is also about meeting the needs of our busy customers, who want to fly direct. And it is an effective way for us to counter the traditional advantages of hub-based carriers.

Jetstar International will offer three simple fare classes and very competitive prices as well as a quality product. The initial response has been very strong, with all markets selling well.

Jetstar's international operations will transition from its start-up fleet of A330-200s to the Boeing 787 aircraft from 2008. Once Jetstar is established in the Asia-Pacific, we will look at extending it to Europe and the US.

We believe Jetstar represents a wonderful growth opportunity. It also creates some healthy competitive tension within the Group. As I said, we will invest in the airline that is able to generate the best returns. This will give us improved flexibility to respond to changes in our markets.

We now market Jetstar as one brand, with a single web site which promotes Jetstar's domestic and international operations, plus our Singapore-based joint venture. And we are looking at more joint venture opportunities in Asia to establish additional hubs.

Product and Service

While cost control is a major focus, we are passionate about the quality of our product and service for our customers.

Qantas was rated Number Two airline in the world for the second consecutive year in the world's benchmark passenger survey, Skytrax. Let me add that this is a very prestigious award. More than 13.6 million passengers from 93 nationalities are surveyed, so the Qantas performance is something to be very proud of. Also for the second year running, we won the Best Overall Inflight Entertainment award in the World Airline Entertainment Association's Avion Awards, plus honours for Best Inflight Entertainment Guide and Best Entertainment for Inseat Systems.

And our new airline, Jetstar, is also a top performer. Jetstar was named the Low Cost Airline of the Year in December 2005 by the Centre for Asia-Pacific Aviation.

Apart from the ongoing international recognition of our great service standards, our Frequent Flyer membership base has continued to grow strongly. It increased by 7.6 percent last year to 4.6 million – nearly a quarter of the Australian population!

We will open new International First and Business Qantas Club lounges in Sydney and Melbourne in the first half of 2007.

Fleet

We have a mixed story in terms of fleet.

On the one hand, breakthrough airline technologies are coming on stream that will provide a fantastic platform for Qantas into this century. We will receive the Boeing 787 from 2008. It will be lighter, more fuel efficient and ideal for the point-to-point flights that our customers are looking for in growing markets. We have acquired our 115 firm orders, options and purchase rights at a very good price. We are confident that our early commitment to this aircraft will provide a significant competitive advantage.

But you would also have seen the extensive press coverage of the delays to A380 deliveries. We still believe the A380 is the ideal aircraft for high volume two sector routes and dense point to point markets. There is no evidence of any technical problems with the plane, the problems lie in production processes.

We will now receive our first aircraft in August 2008, nearly two years late. These delays are frustrating, however we are working on a number of solutions, including deferring retirement of some aircraft to meet our requirements.

But it is not uncommon to have these kinds of delays in the introduction of new aircraft. In fact, some of you will recall that the first delivery of the 747s was two years late. And I have no doubt that these major investments will continue the Qantas tradition of aviation leadership and help us to grow and prosper.

Sustainable Future

Now let me turn to the other side of the equation, because success in this era is as much about cost constraint as investment.

We have extended our Sustainable Future Program. We aim to deliver another $1.5 billion of benefits over the next two years. Already we have identified initiatives to deliver up to $1.2 billion of that target.

The Sustainable Future Program is not about short-term cost cutting. It is about changing old business models and processes to create efficiencies through higher productivity and removal of waste and variability.

The goal is to provide a high quality product for our customers while reducing the cost of production to world leading levels of efficiency.

The principal areas of focus are:

- Streamlining distribution and simplifying fares
- Greater use of on-line channels, as well as automation and self-service kiosks in airports
- Establishing the right business models for our various markets; and
- Improving productivity, flexibility and efficiency in all that we do

This efficiency drive is being led by the corporate centre. We have targeted a reduction of 1,000 full-time equivalent positions in management and business support roles. This will result in an annual saving of $100 million for the financial year ending June 2008.

Freight

Another core strategy for the Group is extracting more value from our freight operations.

Our freight businesses include international and domestic freight line haul operations, air freight terminals, logistics centres and our joint ventures with Australia Post in Star Track Express and Australian Air Express.

Together, these businesses contributed approximately $100 million of Profit Before Tax for the past financial year.

We are looking at the benefits of consolidating these businesses as a separate unit. This will give greater clarity as to their performance, help us improve the customer proposition and enable us to take better advantage of growth opportunities.

Qantas People

Let me turn now to Qantas people, who are critical to the airline's success. I would once again like to thank and acknowledge the wonderful work of Qantas staff. They are a talented and committed group. I often receive feedback from passengers who are grateful for the dedication and professionalism of Qantas employees around Australia and the globe. And as I travel around the network I see this commitment in action, and get fantastic feedback from staff about how good they feel about Qantas.

This year the Board was pleased to approve a cash bonus of $500 to each of our employees. The Board believes it was appropriate to recognise the hard work and commitment of our staff, and their contribution to a strong result during a difficult period.

Our high profile in the community means occasional disagreements over industrial issues tend to attract attention. The reality is that Qantas has a generally harmonious working environment and most staff are proud to work here.

Qantas is committed to being a responsible employer, providing well paid jobs with good conditions in a safe working environment.

- We invest in developing our people, spending more than $280 million a year on training and related costs;
- Injury rates have been reduced by 75 percent since 2001;
- On average, Qantas staff earn 50 percent more than average Australian employees, and enjoy very generous conditions.

And Qantas staff are committed to the company in return. Attrition is less than 1 percent for long haul flight attendants, 1.2 percent for short haul flight attendants and 1.4 percent for long haul pilots. That compares with a median of 9.4 percent for Australian companies!

The Community

Finally I want to mention the Qantas role in the community, because this is so important to us. For 86 years now Qantas has been there for Australia – helping travellers in emergencies, donating to local and international charities, and sponsoring sport and the arts. Our **Sharing the Spiri**t program is all about bringing people together and strengthening communities – whether it's a charity flight, a sporting clinic for outback kids, or programs in regional Australia for fashion and design students. Our Annual Report gives more information on all the ways that Qantas makes a difference. And we will continue to do so.

The Board is very grateful to our Chief Executive, Geoff Dixon, and his hard working executive team. We are delighted that Geoff, and Chief Financial Officer Peter Gregg, agreed in August to extend their employment contracts with Qantas.

- Under Geoff's leadership, Qantas has been one of the best performing airlines in the world.
- Peter's contribution as CFO since September 2000 has been immense. Indeed, CFO Magazine declared Peter CFO of the Year for 2006.
- Geoff and Peter will ensure continuity of leadership as we undertake the next phase of our transformation.

Now, I would like to introduce our CEO Geoff Dixon and invite him to address you.

[CEO's Address]

Thank you Geoff.

Outlook

Now to our outlook. In August we said that after allowing for significantly higher fuel and restructuring costs, the group expected to deliver a result for 2007 in line with the prior year.

Given recent improvements in our trading conditions, we now expect the current year's results to exceed last year's.

Conclusion

To conclude, Qantas is better placed than it has ever been to respond to the changes in our industry and build a strong platform for profitable growth. Given the magnitude of our business transformation program, this will not be without challenges.

However, we have an excellent portfolio of businesses, strong financial fundamentals, the right strategies, excellent leadership and a team of people with the ability and dedication to deliver results.