Those of you who follow Qantas will know that our business is continually evolving in line with strategies we have been communicating to the market for some time now.

I would like to take this opportunity to provide you with an update on further developments in each of our businesses.

First, let me revisit Qantas' strategy. Broadly, this is to return the Qantas Group to a position where it generates a positive spread to its cost of capital. We will achieve this by:

- Securing a competitive advantage in each of our major business segments and markets by selectively investing in our product and creating a superior customer experience;

- Growing a set of next generation flying businesses to meet specific market needs;

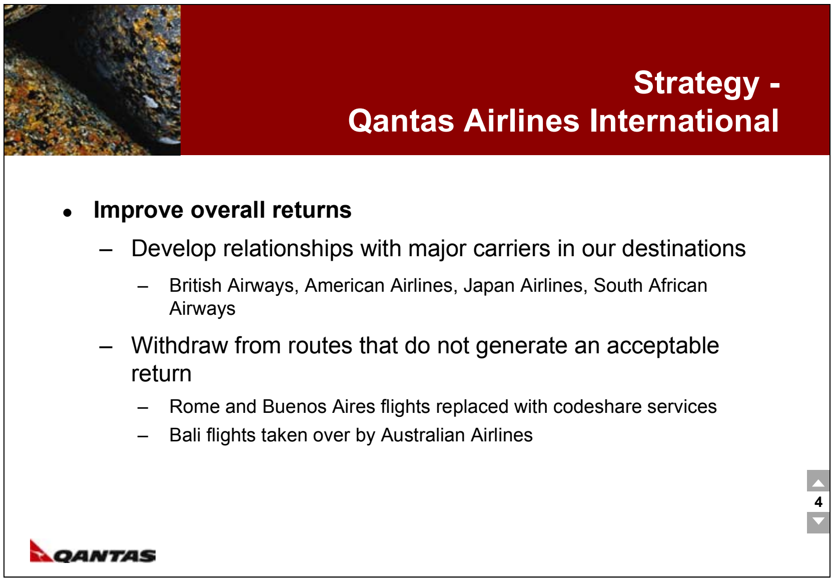
- Generating earnings from airline-related activities to smooth the earnings profile of the Group through the cycle;

- Implementing a company reorganisation to improve accountability, transparency and collaboration;

- Achieving permanent unit cost efficiencies in all areas of the business under the Sustainable Future Program; and

- Maintaining our investment grade credit rating.

I will now focus on the progress of these strategies, both by business segment and under the Sustainable Future Program.



First, the Qantas international business.

Our international business operates in a challenging environment. But the market is improving, as seen in our latest interim results and operating statistics releases. We remain focussed on improving the overall returns of this business as it is central to the success of the entire Group of companies.

We have consistently followed a strategy of developing relationships with the major carrier in the destinations to which we fly, including British Airways in London, American Airlines in Los Angeles, Japan Airlines in Tokyo and South African Airways in Johannesburg.

In markets where this has not been possible we have developed frequency or, where necessary, have withdrawn from routes that do not generate an acceptable return – Rome, Buenos Aires and Bali are recent examples (with Australian Airlines taking over Bali services).

However, we continue to grow our presence on profitable routes. We now offer more capacity than ever before between Australia and Los Angeles, including the peak period of the Sydney Olympics. From June, three new direct flights per week between Brisbane and Los Angeles will take the total number of flights between Australia and Los Angeles to 37 per week. In addition, we fly three times each week to Honolulu.

Qantas will also add direct Perth-Hong Kong and Brisbane-Hong Kong flights to its network this week, meaning the airline will offer more non-stop services to Hong Kong than it did before the onset of SARS.

We have applied to the International Air Services Commission for the rights to commence non-stop services from Australia to Mumbai in India and Shanghai in China, two markets where we see significant opportunities. The Mumbai services will operate three times per week from September 2004, using two-class Boeing 747-300 aircraft. We expect to finalise plans for our Shanghai flying by the end of 2004.

We are also evaluating options for additional flights to the UK beyond our current 21 services per week – either via existing intermediate cities or new cities.

And we remain committed to the A380, which will provide for growth in slot constrained airports from 2007.

Across the Tasman, our New Zealand-based low-cost subsidiary, Jetconnect, continues to significantly improve our cost competitiveness. Jetconnect now operates a fleet of eight B737-300s within New Zealand and on Trans-Tasman services.

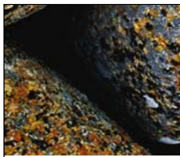
At the same time, we are continuing to invest in our international product, to retain our position as a premium international airline. Skybed, our award winning international business class sleeper seat, was launched in September 2003. It is getting a very positive customer response. We currently have eight aircraft fitted with Skybed and our entire fleet of three class B747-400 aircraft will be flying with Skybed by the end of 2004. A330 aircraft fitted with Skybed will be progressively added to our international network from later this year.

We are evaluating the introduction of on-demand inflight entertainment for our international fleet and we have introduced new food and service initiatives.

Qantas will continue to evaluate international consolidation and partnership opportunities. We have watched KLM and Air France’s merger proceed and this raises the question, of course, why a similar progressive path cannot be contemplated by regulators in our part of the world.

With respect to our proposed alliance with Air New Zealand, we will wait to see the outcome of our appeals later this year. In the meantime, we are giving consideration to a number of alternative ways in which the two airlines can co-operate.

Australian Airlines recovered from the SARS pandemic and has been profitable since last September. Australian took delivery of a fifth aircraft in October and added the outbound destinations of Bali and Sabah to its route network from Sydney and Melbourne.



Strategy - Australian Airlines

- **Continue to profitably grow route network**
  - Will operate 96 flights per week to 12 destinations in six countries from May 2004

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QANTAS

From May, Australian will commence services between Cairns, Darwin and Singapore and will operate 96 flights to 12 destinations in six countries, destinations that would be unprofitable if operated by Qantas.

Australian will continue to grow its route network. New destinations in China, Thailand, Vietnam and additional ports in Japan are currently under consideration.

I would now like to turn to our domestic operations.

Our latest domestic result was strong and the two operating units – Qantas and QantasLink – held their own against the capacity push and cost structure of Virgin Blue. Qantas, and in particular the Cityflyer routes, continued to achieve a margin that was competitive with Virgin's. Our latest traffic and capacity statistics show that our domestic business continues to perform well.

The success of our domestic operations is due principally to our differentiated business and leisure product, schedules, overall cost reductions and efficiencies from new aircraft, improved on-time performance and the new simplified fare structure introduced in July 2003.

Our clearly differentiated business offering continues to attract a high level of corporate customer loyalty.

The Qantas domestic airline will continue to offer a two-class, full service product with increased frequency on key business routes.

In addition, QantasLink – our regional airline – continues to compete very successfully with its fleet of 33 Dash 8 aircraft, which are ideally suited to its route network.

The rationalisation of the turboprop fleet to one aircraft type, together with further restructuring of the business contributed to QantasLink's improved interim financial results.

While Qantas continued to perform well in all segments of the domestic business market, our returns in the leisure segment were not as strong and, in some cases, were unacceptable.

The price-sensitive leisure segment is the fastest growing domestic market and accounts for almost all the 12 to 15 per cent growth domestically we have seen recently. In fact, leisure has grown from 35 per cent to around 60 per cent of the total domestic market.

Which brings me to Jetstar, our domestic low cost carrier, which will commence flying on 25 May. Jetstar, together with Qantas Airlines and QantasLink, will enable the Group to compete profitably in all segments of the domestic market.

Jetstar was a necessity – if we did not start Jetstar someone else would have taken the growth we are seeing. The task is to ensure the integrity of the Jetstar operating model, while maintaining the integrity of the two-class Qantas model. I have no doubt we will achieve this.

Jetstar will commence operations with a unit cost of 8.25 cents per ASK for 2004/05. When Jetstar moves to an all-A320 fleet in 2006/07, its unit cost will fall to 7.8 cents per ASK.

(continued over)

These figures are real:

- We have locked in Gate Gourmet – not Qantas – for our inflight catering. This will be a revenue share model, not a cost centre for Jetstar;

- The Navataire Open Skies system has been chosen for Jetstar's reservations – this system, combined with a stronger focus on direct distribution channels will ensure Jetstar has a lower cost of sales than Virgin Blue;

- Express Ground Handling, a low-cost "greenfield's" Qantas owned company, will provide ground handling service to Jetstar in its major ports and a competitive process is underway for handling arrangements in smaller ports;

- Jetstar's labour agreements, which have been reached with all staff groups, are very competitive with Virgin Blue and we will achieve higher aircraft utilisation and productivity through Jetstar's production driven schedule.

Jetstar announced its route and fare structure on 25 February. Jetstar's initial schedule includes flights from Brisbane, Sydney and Melbourne – using both Tullamarine and Avalon airports – to 10 eastern Australian destinations. Jetstar will operate more than 600 flights per week from 25 May, increasing to around 800 flights per week by August 2004. Jetstar plans to expand progressively from November 2004 as A320s are delivered, with flights to Perth, Alice Springs, Ayers Rock, Darwin, Broome, Townsville and Adelaide.

While the introductory $29 fares understandably attracted strong interest, Jetstar's "everyday low fares" have also sold well.

The level of on-line sales achieved by Jetstar has also been high. Jetstar's business case called for on-lines sales of 75 per cent. However, recent statistics show that on-line sales are currently trending around 80 per cent.

Before I speak about developments in our flying-related businesses, I want to cover two important points with respect to the domestic market.

Firstly, while Jetstar will be encouraged to grow profitably, Jetstar's flying and pricing decisions will be made by a "Flying Group", as will the capacity and pricing decisions of all other airlines in the Qantas Group. The CEOs of Qantas Airlines, Australian Airlines, QantasLink and Jetstar will all be represented in this Group, as will Geoff Dixon, myself and the EGM of Airports and Catering. This Group is critical to ensuring that incremental flying and pricing decisions are made for the overall benefit of the Qantas Group and its stakeholders.

Secondly, from what we know of the capacity plans of Virgin Blue and the other domestic carriers over the next two years, and our own plans for capacity increases, the three-product offering of Qantas, Jetstar and QantasLink will have around 65 per cent of the domestic market.

This is our line in the sand and we will provide the capacity and infrastructure to defend it against Virgin Blue and the other carriers. This is the most profitable course of action for our business.

However, while the domestic market remains competitive, it also remains stable – both Qantas and Virgin's planned capacity increases are in line with what the market has seen in recent times.

As you are aware, Qantas has been progressively implementing a strategy of growing its non-flying businesses for some time now.

This strategy is highlighted by Qantas and Australia Post's recent joint acquisition of Star Track Express. This purchase adds to our portfolio of quality flying-related businesses and forms part of our specific plan to build a multi-faceted inter-linking freight business.

Star Track Express is a quality asset, with superior technology and service levels in a high return, high growth market.

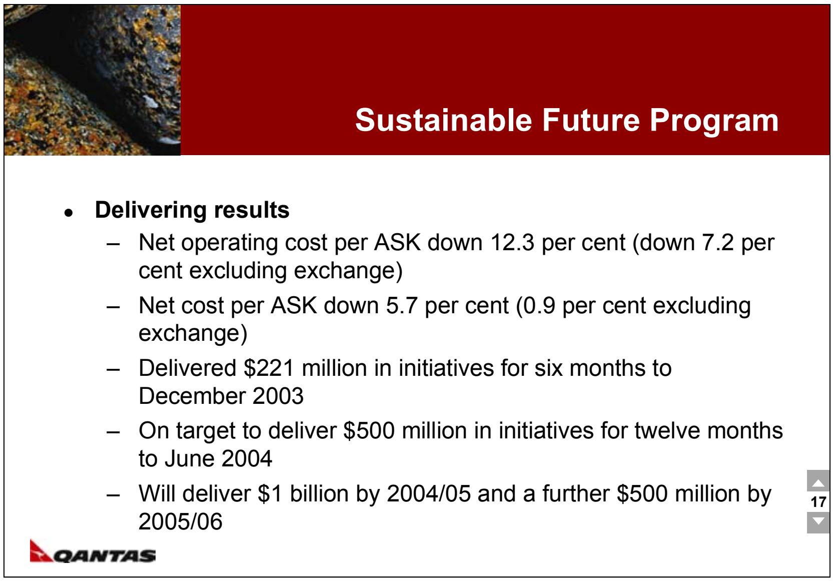
Star Track Express is principally a road express operator, but is also a significant user of air freight.

The acquisition will allow Qantas to secure and grow the Star Track Express air freight business while giving us access to the large and growing road express markets.

Qantas is also investigating third and fourth party logistics in association with Australia Post and Star Track Express. Qantas has a heavy logistics need throughout the business, which would benefit significantly from coordination and centralisation between these businesses.

We also see significant opportunities in combining the express freight offerings of Qantas, Australia Post, Australian air Express and Star Track Express – effectively offering a "one stop shop" for our customers.

As a result, we anticipate significant growth and synergy opportunities for Star Track Express, both in Australia and overseas.



I want to turn now to the significant progress we have achieved under our Sustainable Future Program.

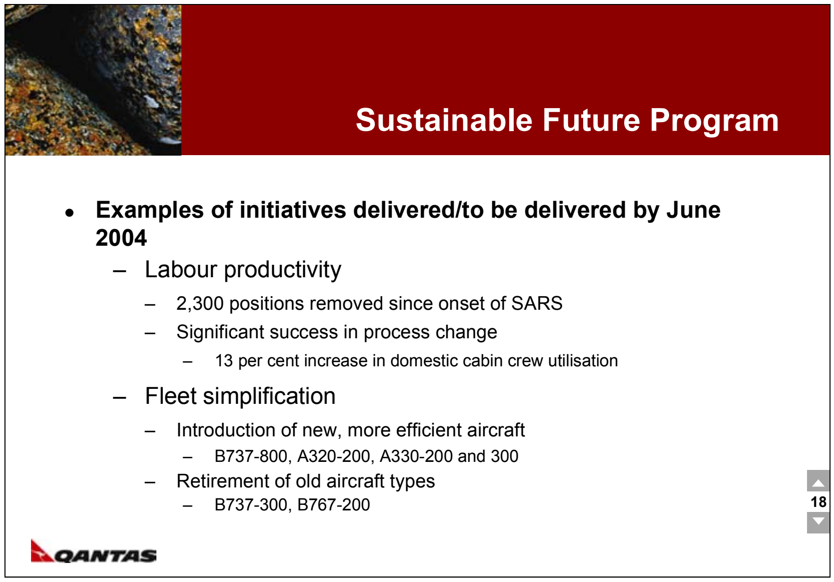
Without compromising on safety or on service levels, we aim to generate cost of capital returns for the group over the business cycle, ensuring our long term competitiveness and growth.

For the six months to December 2003, Qantas' net operating cost per ASK fell by 12.3 per cent. After excluding the impact of favourable foreign exchange movements, our net operating cost per ASK still fell by a notable 7.2 per cent.

Even after including the higher depreciation and financing costs associated with our fleet investment program, cost per ASK fell by 5.7 per cent including exchange or by 0.9 per cent excluding exchange.

The Sustainable Future Program delivered initiatives totalling $221 million during the six months to December 2003. We are on track to exceed our previous target of $350 million and will now reduce costs by $500 million in 2003/04.

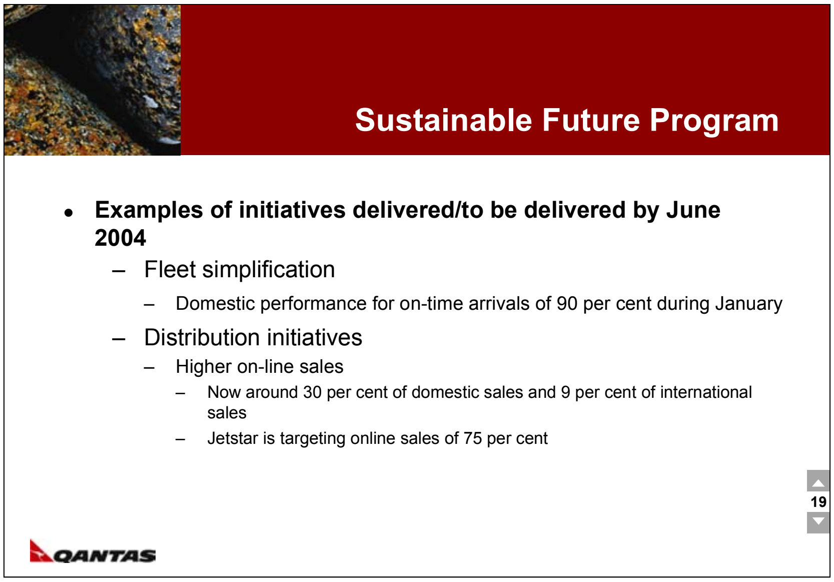
We remain on target to remove $1 billion in net operating costs by 2004/05, but have now extended the program and expect to achieve a further $500 million in efficiency savings in 2005/06.



Initiatives that been delivered so far, or that will be delivered by June 2004, include:

•Labour productivity improvements. Across the Group, the manpower reduction program we undertook during the middle of last year is also yielding productivity savings. Most importantly, all areas of the business are achieving significant success in process change. For example, we will achieve a 13 per cent improvement in domestic cabin crew utilisation.

•Fleet simplification. The introduction of new, more efficient aircraft and retirement of older aircraft types is providing maintenance and fuel efficiency savings, and also improving punctuality.



•Our domestic performance for on-time arrivals during January was 90 per cent.

•Distribution initiatives. Sales made through qantas.com now account for around 30 per cent of all domestic sales and approximately nine per cent of international segments sold in Australia. We expect this trend to continue. As I mentioned earlier, Jetstar is targeting online sales of 75 per cent and currently achieving levels above this.

Other initiatives include:

•the new domestic fare structure;

•the expansion of QuickCheck kiosks at our airports;

•engineering productivity and process improvements;

•improved arrangements with materials and service suppliers, notably within Catering and Inflight Services;

•working-capital improvements aimed at reducing our borrowing costs; and

•the introduction of a credit card surcharge, to recover part of our considerable banking charges.

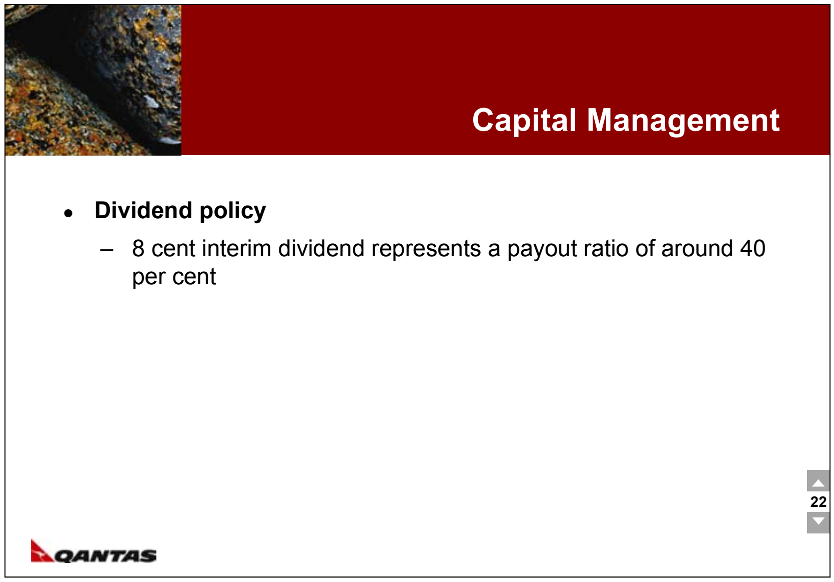
We have also continued to invest in technology, which will deliver substantial efficiency gains in the years ahead.

As you are aware, a key tenet of the Qantas strategy is to maintain our investment grade credit rating.

Projected capital expenditure for the three years from 2003/04 to 2005/06 sits at $6.7 billion, including capital expenditure associated with 20 A320s for Jetstar and five additional B737-800 aircraft for our Qantas domestic operation. Favourable foreign exchange movements have helped to reduce our unhedged capital commitments.

This capital expenditure will be funded from operating cashflows and debt. Operating cashflows for the Group have strengthened considerably and totalled just under $1 billion for the six months to December 2003. Our gearing at 31 December 2003 was 50 per cent, including off balance sheet debt, which is at the lower end of our target band of 50 to 60 per cent. Our modelling indicates that our gearing will remain comfortably within our target range throughout the years of our fleet plan.

We have no plans to raise equity, other than the continued operation of the Dividend Reinvestment Plan. While we will retain the flexibility of dividend underwriting as an option, we have no commitment to underwrite future dividends.



Our interim dividend of 8 cents per share represents a payout ratio of around 40 per cent.

We are comfortable with this payout ratio.

To conclude, Qantas has emerged from a difficult period with sustained profitability. We have achieved this through removing inefficient practices from our business. At the same time we have continued to invest significantly in aircraft, product and technology.

However, we had no choice but to continue down this path, given the structure of the industry we operate in.

We must continue to reduce our costs and gain greater efficiencies. But we have established an integrated transport company that has considerable strength in key areas.

We are confident of the industry's growth prospects and believe Qantas is well placed to participate profitably in this growth.