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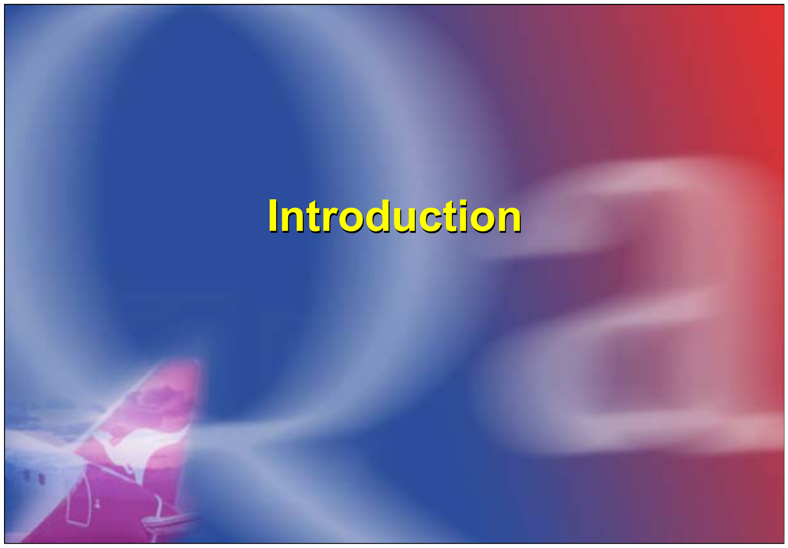
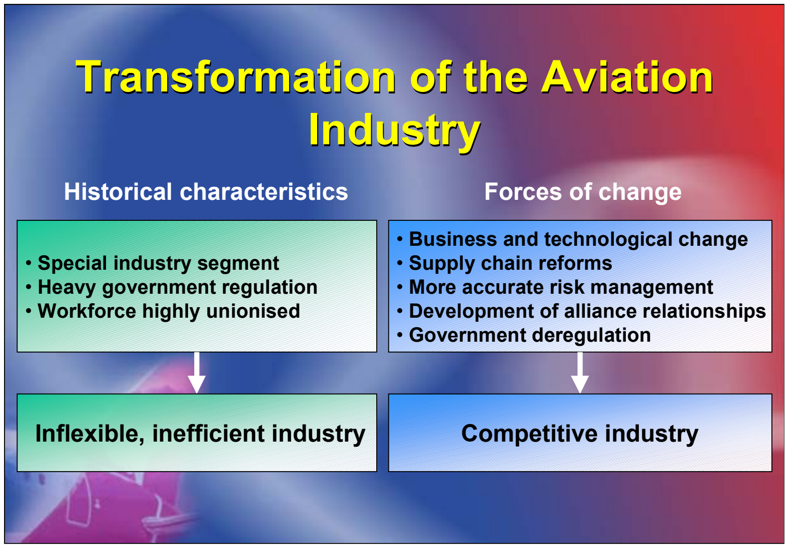


During the past few weeks I have been on the road, presenting our interim half yearly results to investors. It was quite a half year. To say it was exceptional would be a serious understatement. And there is still a long way to go as we all come to terms with the consequences of September 11, the unfolding of the war on terrorism, the collapse of Ansett and the rise of Virgin Blue.

In these uncertain times, I do not pretend to know in detail what the future will hold for commercial aviation. After all, in just one dramatic week last September, this industry changed forever. But prior to that date, global aviation had been subject to powerful, if slow-building forces. September 11 accelerated some of these pre-existing trends and, paradoxically, slowed or reversed others. Understanding these forces, anticipating their impacts, and responding to them intelligently, will be critical to the success of airlines in the 21st century.

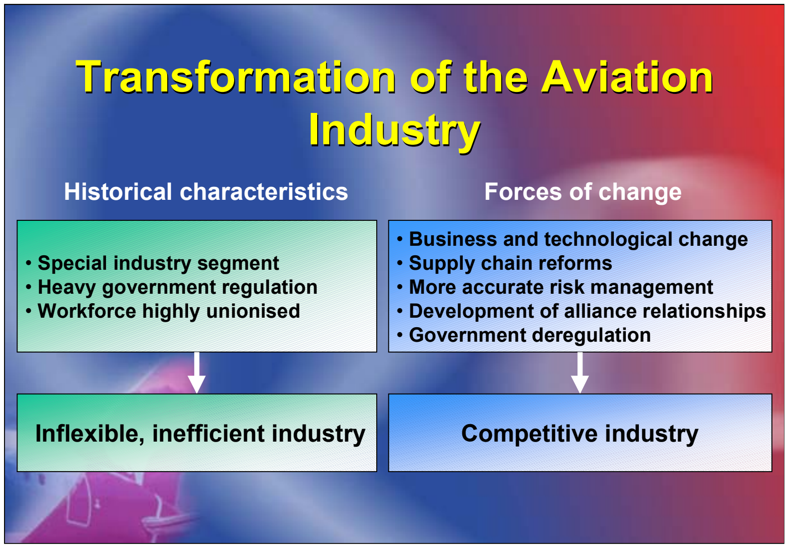
At Qantas, we intend to be among the success stories of the global aviation industry, and we will achieve this by taking nothing for granted. We will continue to survey our operating environment - its opportunities and threats - with nothing less than ruthless clarity.

And whatever we do will accord with our strategic framework: we aim to become more flexible; more responsive to our customers; and more efficient, while continuing our commitment to technical excellence. That is how we will successfully exploit our growth opportunities. And it is what I want to talk about today.



Let me begin with some background. Only twenty years ago the aviation industry was regarded - and indeed, viewed itself - as a special industry segment. Which to some extent it was. Airlines had high fixed costs and long investment lead times, but sold a perishable product - passenger seats - which made them extremely vulnerable to market shocks. In addition, airlines were commonly thought to play a vital role in national economies and national prestige. Because of these special circumstances - and in order to create market stability - governments heavily regulated the industry and took ownership positions within airlines. The industry workforce was highly unionised, with unusually generous working conditions. The result of all this was a very inflexible, inefficient industry, with high prices to consumers and low returns to investors, including taxpayers.

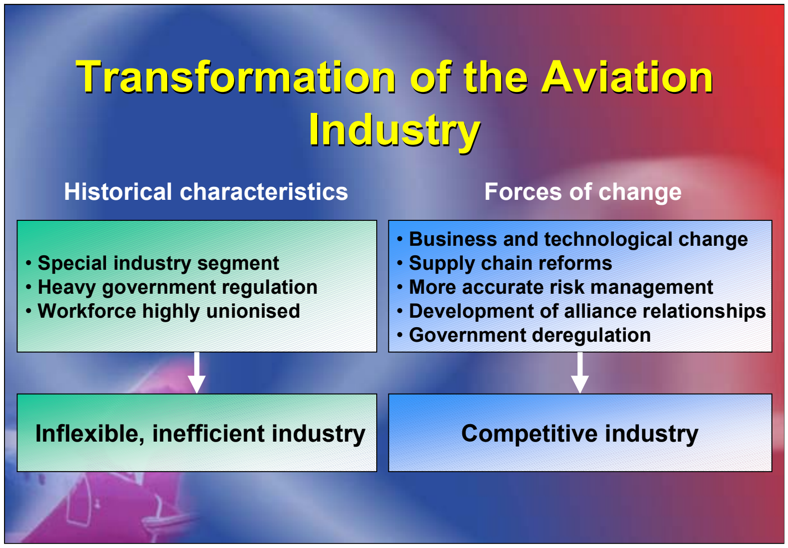
Over the past twenty years those traditional tenets of aviation have been transformed by business and technological change. Information technology and the internet delivered the software to create sophisticated yield management and ticketing systems. New financial instruments allowed finely tuned management of capital and investments. Supply chain reforms provided the opportunity for dramatic economies of scale: outsourcing some activities altogether, and creating profitable new businesses out of others. More accurate risk management techniques meant that safety standards could be achieved with greater efficiency. Over the last decade in particular many airlines drew together in alliance relationships in a not so successful attempt to achieve even lower investment costs in systems and technology, and to deliver seamless global experiences to their passengers.



During the 1980s and 90s governments around the world began responding to this changed environment, relaxing controls over aviation. Australia has been one of the most aggressive in this regard. In contrast to the practice in many countries, Qantas was not partially but fully privatised in 1995. Moreover, in Australia there is nothing to prevent a foreign airline setting up and competing in the Australia domestic market - a right taken up by Virgin Blue – which does not exist in the US, Canadian or European markets. So Qantas, more than most of the premium airlines, has been forced to compete aggressively on a global basis.

This has made us strong and competitive. We never take our future for granted. Our prosperity means making the most of the latest management and technological tools and we have invested in these at every level of our business. Just last November, for example, Qantas won the Australian Training Award for Qantas College Online, our e-learning training college. We aggressively seek out growth opportunities and forge strategic commercial relationships. And at all times we factor flexibility into our decision making so that we can adapt to a rapidly changing environment.

While Qantas embraced the future, a lot of the established airlines resisted it. They persisted in regarding themselves as special cases, refusing to modernise their management techniques, arguing for government subsidies and special arrangements, and hanging on to outmoded business practices for reasons of "prestige". It's no wonder that start-up, no frills airlines like Ryanair or Southwest



Airlines, for example, proved so successful. In short, a challenge was being thrown to full service airlines to adopt the flexibility, efficiency and market responsiveness of these smaller competitors – or face extinction. By September 11, the industry was under extreme pressure, with global over-capacity and pressure for consolidation. It seemed clear that the industry was heading for a necessary and significant shake up.

In fact, however, September 11 has had contradictory effects. On the one hand the sudden collapse in demand made the virtue of flexibility and efficiency very clear. Those companies that could not respond quickly and decisively either collapsed or lost very sizeable amounts of their share value. Gone are European carriers Sabena and Swissair, and from the North American market, Canada 3000. Many others are struggling.

On the other hand, some governments moved back into the marketplace to re-regulate and subsidise airlines. We have seen this trend in the US, New Zealand, Switzerland and Malaysia.

But the fact is, the underlying and inexorable forces of modernisation will continue. Competitive pressures will be fierce. And airlines will continue to search for ways to create the scale and dynamism for long term profitability. No doubt we will see further experiments as airlines restructure and reposition themselves in a complex marketplace.

Which brings me to Qantas and our approach. If the events of the second week of September showed us anything, they demonstrated that our commitment to flexibility, market responsiveness and efficiency was essential. And impressed upon us the need for continuing attention to these core virtues.

Going forward, our priorities might be defined in six categories. They are to:

- Service our markets through segmented product offerings - to ensure acceptable returns
- Grow our profitable non-passenger businesses
- Improve the efficiency of our labour cost base - to further increase our competitiveness
- Re-equip and grow our fleet - to take advantage of the new domestic environment and the changed international arena
- Manage capital prudently to provide a sound basis for the fleet re-equipment and to maximise our flexibility, and
- Achieve repeal of the Qantas Sale Act, the provisions of which are restricting our ability to access global equity capital markets.

Let me quickly run through each of these.

Customer responsiveness is core to aviation success. For Qantas this means we grow our profitable markets and withdraw from unprofitable ones, or go back to our customers with a more appealing product. To do this successfully means carefully aligning our product and cost base with the yields available in each of our markets.

Looking ahead we are planning to have a range of services:

- Our premium international carrier with a three and two class product, on which we are currently spending hundreds of millions of dollars to further improve;
- Australian Airlines, an all economy leisure carrier, initially operating between Cairns and Asian ports and potentially beyond;

- CityFlyer, a two class super shuttle between Melbourne, Sydney and Brisbane, principally using widebody aircraft;
- A full service two class product for the other capitals including a transcontinental shuttle between Perth and the East Coast using new 300-seater A330 aircraft.

- An all economy domestic service for trunk routes with little or no business class traffic demand; and
- Expansion of QantasLink, our lower cost jet and propjet operation, to service all of regional Australia in all states.

This culture of flexibility extends to all aspects of scheduling. Following September 11 we rapidly rationalised flights to many international ports. Now we are expanding services again in line with growing demand. We recently recommenced flights to New York, for example, and are considering Chicago and another North American city.

In Australia, a more rational domestic environment clearly represents a positive for Qantas. And Virgin Blue, with its new partners and any of the other rumoured competitors will maintain a healthy degree of competition.

Understanding and exploiting value chain efficiencies is another area of concentration. Qantas businesses like Flight Catering, Holidays, our joint venture freight business with Australia Post and the Frequent Flyer Program are targeted for growth.

The Qantas flight catering business will be boosted by the recent opening of the SnapFresh facility in Queensland. This is a world leading plant capable of providing 20 million high quality meals per annum. It will service the aviation market and other high volume customers such as hospitals.

The Qantas Holidays business is the largest leisure travel and tour wholesaler in the southern hemisphere, and it continues to grow. Despite obvious difficulties in the last half year there was a strong performance in the Japan, UK, Fiji and Australian domestic markets. It is a great strategic asset, and a formidable distribution channel.

Discipline on costs is hugely important. With labour comprising 25 per cent of our total cost base we see no option but to bring our staff costs down, in line with our competitors. In the past year we undertook a staff reduction of 1,500 positions, an executive salary freeze, and a freeze on the appointment of consultants, contractors and non-operational staff. We have proposed a 12 month wage freeze in return for a profit-based incentive scheme, and so far 85 per cent of the workforce have accepted it. We will continue to strive for productivity improvements through increased flexibility, removal of outdated work practices and by encouraging our employees to review the way in which they work and what they expect in return.

What we are trying to do is make ourselves more efficient and get our costs in line with new, modern "greenfields" carriers who aren't burdened with the higher cost structures of incumbent airlines. While we've gained 85 per cent acceptance for our wage pause, the entire union movement will need to work with management to provide better productivity so Qantas can get its costs down, retain employment and grow.

Last year we embarked on a major fleet re-equipment program, which will lift efficiency as well as capacity. The new B737-800, for example, has a 25 per cent lower unit operating cost than the aircraft it replaces. Again we have focused on

flexibility. We have negotiated 'slide rights', which enable us to slip the delivery dates of new aircraft to better fit with changing capacity requirements. We also have flexibility in the retirement dates of our older aircraft. So we are retiring six aircraft, early, which produces considerable savings while lifting the quality of our product.

This re-equipment program reflects our long term positive view. We need to re-equip to compete. That's why we forge ahead despite the low Australian dollar and continuing nervousness about the future of air travel. We think it is in our interests to remain at the aviation forefront, one of the reasons the 600 seat A380 will come into our fleet in 2006. If we are to re-equip and grow, we need to acquire aircraft now, even with the Australian dollar at these low levels.

Underpinning the fleet re-equipment program is our capital management strategy. Our commitment to flexibility demands a strong balance sheet, despite very heavy demands for capital expenditure. We estimate that in 2001/2 we will outlay approximately $2.5 billion dollars of capital expenditure, mostly on progress and delivery payments for new aircraft. Yet our book leverage, including off balance sheet debt, for this financial year is forecast to be slightly over 55 per cent, reflecting the impact of the $663 million equity raising undertaken last October. This is quite an achievement and within our long term target band. It gives us confidence going forward, and a good credit rating.

Finally, repeal of the Qantas Sale Act would remove the limitations on foreign ownership and put us on a similar footing to that of other Australian businesses in seeking to secure its future in an increasingly competitive and globalising international environment.

The limitations on foreign investment restrict our capacity to access global equity capital and to date has resulted in our exclusion from benchmark free-float international indices such as the MSCI. They also serve to impose an artificial ceiling on our share price and consequently increase our cost of capital.

Qantas acknowledges the need to gain broad community support and to assure the public that the airline will remain identifiably Australian. We believe we can demonstrate that the benefits of more foreign participation and Australian control go hand in hand.

While we certainly have no agreement on repeal of the act, both the Government and the opposition have acknowledged that our arguments have some validity in the current environment and we are hopeful that they will be given every consideration some time this year.

Let me conclude. Qantas will continue to take the view that our future is not guaranteed; no-one owes us a living. But Qantas is well prepared to respond to changes in customer demand and to the challenges of our competition. Our strong position does not stem from recent events, but from hard decisions and good work based on a consistent strategy over several years. The greatest threat to our future success comes, I believe, from the non-market forces that could restrict our future flexibility and hold back our progress towards greater efficiency.

At the same time we firmly believe that Qantas is special. We have a great and proud history. We play a special role in Australian society. Our brand and the culture of our company is tied up in a tradition of excellence, safety and service. We will continue to build on this legacy. But we are also modern, vital and vigorous. It's this combination of attributes, expressed in our strategy of increasing flexibility, market responsiveness and efficiency that, I believe, will lead to continuing success for Qantas. A strong Qantas is good for staff, consumers, shareholders and all Australians.