



Annual General Meeting – 28 October 2011 CEO's Address

Introduction

As Leigh says, we have seen a very solid performance by the Qantas Group for the full year 2011. And the Qantas Group as a whole is strong and prospering. But no company has a guaranteed future. We must continue to respond decisively to global realities if we are to succeed.

These global realities include intense competition, technological change, and new customer preferences.

Intense Competition

We are operating in an intensely competitive environment. Over recent years the Australian aviation market has opened up. Australia now has a completely open domestic aviation market – anyone can start an airline in this country.

Our response to that challenge has been two-fold.

We have invested heavily in the Qantas premium domestic business. It is now arguably the best premium domestic airline in the world – it has the best network, frequencies, lounges, and the world's leading loyalty program. We are proudly 'best for business'.

We also recognised the competitive challenge posed by the low fares airline model. That's why we started Jetstar in 2004 and it has been a big success. This two-brand strategy has ensured we hold a 65 per cent domestic market share and a high degree of profitability.

Now it is essential that we respond with the same decisiveness to the rapid and permanent changes in the Australian international market. With the advent of strong competition, particularly from the Middle East and Asia, last year Qantas International lost more than \$200 million. The losses will grow if we don't change.

When 100 people go to an Australian international airport, right now, only 18 of them choose a Qantas flight. Meanwhile Qantas International absorbs 38 per cent of our Group's invested capital.

That is why in August we launched a five year plan to turn around Qantas International in the short term, and to ensure the Qantas flying businesses – domestic and international combined – will exceed the cost of capital on a sustainable basis.

This plan will make Qantas more competitive, with more profitable routes, a more efficient fleet, and a cost base that is closer to that of our global peers.

This is the only way to protect Australian jobs.

Our gateway strategy is based on alliances with the world's leading airlines.

- In May, we established Dallas/Fort Worth in place of San Francisco, opening a gateway to 52 destinations in north and Central America with our partner American Airlines.

It is already performing above expectations.

- We will be working with LAN, Latin America's most dynamic airline, to provide great connections for customers and benefits to both companies.
- As we sponsor Malaysia Airlines for its entry into the Oneworld alliance, we are discussing opportunities for commercial cooperation between our two airlines.
- From April next year, in an expanded partnership, British Airways will fly onwards from Bangkok and Hong Kong to London.

This is part of our strategy to reduce loss-making, asset intensive flying.

- We will have more of our award winning A380s on daily services to Los Angeles from Sydney and Melbourne, and on our daily service to London via Singapore from Sydney and Melbourne.

This is all about being the best premium airline for the modern era of travel.

We cannot fly our own aircraft to every port, but we will get our passengers wherever they want to go across the globe, with the best frequencies and connections, and with more opportunities to earn and redeem Frequent Flyer points.

Technological Change

New technologies have always been at the heart of global aviation progress and competition.

We have always known that at Qantas, which is why we commit ourselves to next generation technologies – from our revolutionary new check-in system to the latest fleet. But we can only justify these investments if we can fully maximise their benefits.

The vast majority of the people within our business are helping us to maximise the capabilities of new technologies.

When we introduced our new check-in systems our airport staff worked with us to do things differently, and better. But our maintenance and repair costs are among the least efficient and most expensive in the world.

So it's time to catch up.

We don't maintain our cars the same way we did 40 years ago. We can't maintain our planes the same way either. We can – and we will – be safer, smarter and more efficient.

In July this year the Australia's Civil Aviation Safety Authority issued new aviation maintenance regulations that bring Australia into line with European standards and global best practice.

It is now up to us to align with world's best practice as embodied in the new regulations.

We can't just change a few parts of our business. We have to make every part of our business efficient and in touch with the new realities.

New Customer Preference

Now to customers.

We won't have a business if we don't understand our customers and adjust our business to their preferences. And the biggest shift that has occurred is the rise of Asia.

As a nation we used to fly *over* or *via* Asia, on our way to Europe. Now we fly *to* Asia, both for business and relaxation. And as Asian economies grow, the future will be about travel both to and within Asia.

We need to act now because our competitors are circling the opportunities.

We have already started with Jetstar.

In August, I announced an Australian business breakthrough with Jetstar Japan to be established in partnership with Japan Airlines and Mitsubishi.

Jetstar Japan will launch domestic Japanese services by the end of next year, growing to a fleet of 24 aircraft over the first few years. International operations from Japan will commence within the first year, targeting key destinations in China and South East Asia.

This is great news for Australia.

With Jetstar Japan we will have a feeder network to encourage more Japanese tourism to Australia and particularly Queensland. But we are convinced the future of Asia is not just about low-fares airline travel.

Within 20 years 16 per cent of the world's middle class will be in East Asia. Chinese visitors are pouring into Australia. And we know that Chinese travellers rate prestige brands and safety as among their top travel priorities.

Up until now our flying into Asia has largely been predicated on the best connecting times to Europe. So instead of convenient day time services, we have timed late night arrivals into Singapore. This means that our business customers can't make

same day connections into the many Asian cities which are developing fast and offering exciting opportunities.

It is time to meet the changing preferences of our customers. That is why Qantas intends to invest in a new premium airline based in Asia.

This joint venture airline will have a new name, a new brand, new aircraft and an exciting new look and feel.

The airline will not be called Qantas but it will leverage all our Qantas know-how, making the most of our excellence in brand management, aviation safety, customer experience, finance, marketing, and our valuable corporate customer relationships.

We have narrowed down our location options and an announcement will be made when we have completed negotiations.

We will be meeting the needs of Australian business travellers by offering same day services to and within Asia, and overall frequencies to Asia from Australia will actually grow.

We will be able to feed traffic into the new hub from Europe and Australia, and Asian ports. And for the first time in our history Qantas will fully participate in the benefits of an Asian aviation hub.

This is a breakthrough opportunity for us.

We see tremendous potential for our Qantas domestic and regional businesses, and for the Australian tourism sector, as we bring more premium Asian business and leisure visitors to our shores. Until now Qantas has been a 'home and away' business.

Now we are making the transition to a regional and global business. This is how we will find new sources of revenue and profit and protect our interests at home, including many thousands of jobs.

These new Asian airlines will not cost a single Australian job. Not one.

In fact, they will create new business and bring revenue, profits and visitors back to our country. And we still do 90 per cent of our aircraft maintenance right here in Australia.

Relations with Employees

I want to say some words about our employee relationships.

Qantas has always been a generous and leading employer and will remain so. We deal with 15 unions and we have existing or new agreements with 12 of them.

We do face major challenges with three unions whose agenda is to stop management from making the necessary changes at Qantas.

They are the Australian Licenced Aircraft Engineers Association (ALAEA) representing the licensed engineers, the Transport Workers Union (TWU) representing ramp, baggage and catering staff, and the Australian and International Pilots Association (AIPA).

In the name of 'job security' they demand a say in running the airline.

They want to be paid to do work that no longer exists due to new generation aircraft.

They want to retain outdated work practices.

They want to tell us what we can and can't change in our business. Effectively, they want a veto on management decision making.

Their industrial objective is to force us to accept their impossible demands by slowly crippling our business and trashing our brand. They have created such uncertainty for our customers that we have seen a dive in forward bookings.

Fleet have had to be grounded.

If this continues there will be an impact on jobs.

Today I am informing the Australian Securities Exchange that so far the disruptions caused by industrial action have cost the Group \$68 million.

The uncertainty is driving away customers with a cost impact of around \$15 million per week.

The situation is now very serious. And it is unsustainable.

- 70,000 affected passengers.
- Over 600 flights cancelled.
- Seven grounded aircraft.
- And nearly \$70 million in damage.

But I can tell you this.

We will not be handing over the power to run Qantas to three unions.

We will get through this period, and we will be hard at work in the pursuit of our reform agenda, because it is the right thing to do for Qantas.

We come from a relatively small home market, that is not a major global destination.

We have no global hub ports.

We've got this far by being true to our core values – our commitment to safety first, forward thinking, and representing the best of Australia.

And the Qantas Group has a deep strength in its portfolio, a strong balance sheet, immense flexibility in our investment profile, and a five year plan to turn around Qantas International.

We intend to make Qantas stronger so that we can keep being a great Australian business.

To secure our future, we must face up to the new global realities, seize new opportunities, and make the external and internal changes that will enable us to compete effectively.

We will protect and grow Australian jobs over the long term.

We will create sustainable value for you, our shareholders.

And we will make Australians proud.