

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

As you are already well aware, there is never a dull moment in aviation, a business characterised by intense competition, accelerating change and the impact of unexpected events on the best-laid plans.

While all the aforementioned were experienced in the past year, Qantas still recorded a very good result, due in no small part to our people, who gave a lot, and our board, who trusted management a lot. My thanks to both, and in particular Margaret Jackson for her judgement, support and intense personal effort on behalf of our company.

Our result was a substantial achievement for one of the few legacy airlines that is still capable of providing a reasonable return for shareholders, outstanding customer service and relative security of employment for its staff.

Today, I would like to dwell a little on what being a legacy airline actually means, especially in terms of our people and our employment arrangements.

Qantas is a unique organisation. As union membership in Australia declines quite dramatically, Qantas remains one of the most unionised private sector companies. We deal on a daily basis with 16 different unions. Across the Group, we maintain over 40 separate enterprise agreements, each one of which needs to be renegotiated every two to three years. About 97% of our staff in Australia are employed and paid under enterprise agreements.

So Qantas is a core client for the union movement in Australia and, as a result, we spend much time and energy trying to convince unions that our industry will never be the same again, and that the challenge posed to all legacy carriers by a new operating environment and new low cost airlines must be met.

These new airlines invariably benefit from lower labour costs and much simpler employment systems. Qantas, by contrast, has an inheritance of complex and costly employment agreements, entitlements and interests. These arrangements were created in a period of protected markets, government ownership and limited competition, at a time when air travel was a luxury item. So far we have managed this inheritance by working with the unions and, in particular, our people to respond quickly to changed circumstances, to seize new opportunities and to reduce costs.

This approach has worked to a degree and we hope it will continue to work. But the relationship that we have with unions going forward will more and more depend on their willingness and ability to continue to accept change and to face the realities of a troubled and struggling industry.

Some unions have come along with our strategy of creating new airlines tailored to particular market segments, negotiating agreements that have enabled both Jetstar and Australian Airlines to have more competitive labour costs. Be assured, if these

agreements for lower rates and simplified employment conditions had not been reached, neither Australian nor Jetstar – and the new jobs and access to cheaper air travel that go with them – would have been established. Other airlines would have filled the void, and the Qantas Group would have been smaller and less able to compete as a result.

Our firm but collaborative approach will certainly be tested as airline competition intensifies. Australia has one of the most open airline regulatory regimes in the world. Foreign carriers, many with ownerships that do not call for the same financial disciplines that must be followed by Qantas, have the rights to a further five million Australian seats each year.

The fact is, no matter how strong the Qantas product, reputation, brand, history and performance, air travel is no longer a luxury for the few – it has become a mass market commodity. To succeed, we must continue to explore every option to improve productivity and reduce costs. This is the only way we can provide secure jobs for our people. And it is the only way we can fulfil our obligation to our shareholders and to our customers.

We make no apologies for doing all we can to ensure that our rate of growth is maintained and that our shareholders receive a return for their investment. We are resolute in this approach precisely because we do have complex and competing interests to balance and satisfy.

An example of how we balance competing interests is provided by our plans to establish a new cabin crew base in London. Air New Zealand, Cathay Pacific, JAL, ANA and United have already taken this step. This base will contribute over \$18 million a year in savings by reducing allowance costs and increasing crew productivity. That being said, the overwhelming majority of our cabin crew will still be based in Australia.

Since the decision was made to establish the base, we have spent nearly four months in negotiations with the international cabin crew union. We listened carefully to their concerns, offered some compromises, and made some very important commitments. We have undertaken that none of our current permanent crew will lose their jobs as a result of this decision. We have agreed that all current crew will have an opportunity to work in London – and over 200 crew and their families have taken up this opportunity. We have said that Australian-based crew will still have access to the London route through a daily service. We have reached a collective agreement with the relevant union in the U.K. to cover staff in the base. And we are offering rates of pay that will ensure that there are top quality U.K. applicants competing for the positions not filled by Australians.

In other words, our approach is about balance – making the savings required to remain competitive, maintaining high quality, and taking the interests of our people very much into account. We do sincerely believe our cabin crew do a fantastic job and that our unique style of service is a key factor behind our success in the market place. We have absolutely no desire to put that at risk.

That said, some unions are more prepared to work with us than others. Balance also means that Qantas will not be hostage to a union that is not prepared to change and adapt for the benefit of the whole Qantas Group.

Some unions have recently been doing their best to damage Qantas commercially. The union for international cabin crew has threatened industrial action at Christmas. There are also rumours about the abuse of the very generous sick leave entitlements enjoyed by cabin crew - some 21 days per year - through 'sickouts'. This campaign can only hurt the interests of all Qantas employees.

International cabin crew union members have enjoyed workplace conditions envied throughout the global aviation industry and well beyond the reach of most Australian workers. They have avoided the aggressive contract renegotiations and retrenchments occurring in the United States through the Chapter 11 bankruptcy processes, and they have benefited from the new aircraft and world class product our investors have provided. It is hard to believe they would put all that at risk by using threats to customers in an attempt to stop Qantas taking sensible business decisions.

Whatever the union does decide to do, we will, and we must, have contingency plans in place. I hope there will be no industrial action, but we will ensure that we can fly our passengers and protect our business whatever happens.

We are in no way "ashamed" of what we are doing as the International Cabin Crew Union believe we should be. Nor do we consider as further alleged by the union that it is "unAustralian" to try and drive efficiencies through our company that will do much to protect our future. It certainly would be "unAustralian" for us to stand idly by while union officials threaten to disrupt the Christmas travel plans of their fellow Australians.

Across the Qantas Group, staff have done well from the approach we have adopted to our business. We have created over 10,000 new jobs in the last ten years. We earn a great proportion of our income from overseas, yet even after the establishment of the new London cabin crew, over 90% of Qantas jobs will remain in Australia.

Our people are well paid by community standards. Average earnings for full time staff, not including executives, exceed \$74,000 per year, or 43% above average full time earnings in Australia.

We also provide one of the best benefit packages in the country and we are always looking to improve. We provide extensive development and career opportunities. We are the largest private sector employer of apprentices in Australia.

It has always been true that a lot of Australians want to work for Qantas, and those who do work for us usually want to stay. Our average turnover is less than five per cent per year and our average length of service is still ten years, despite our rate of growth. In some areas our turnover is extraordinarily low – voluntary turnover of international flight attendants is less than one per cent per year.

People are proud to work for Qantas, and that pride shows in their work. Qantas management will continue to support our people even as we seek to modernise employment arrangements to ensure our long term viability and success.

And I have to say, the Qantas way of doing business is constantly put to the test. Our latest challenges are the growth in fuel prices to record levels and the billions of dollars foreign governments in both the Middle East and the United States are pumping into airlines. In the U.S., airlines that under Australian law would have gone bankrupt years ago continue to fly and drive down revenue and yield for the entire industry. In the Middle East, airlines are an arm of government development policies, with investment on an unprecedented scale.

Change will continue to be the one constant in our industry. And while big changes have been made at Qantas there is still a lot more to be achieved. Our strategy to invest over \$18 billion over ten years must continue to be underpinned by a focus on productivity and cost reduction, and flexibility in all areas of our business.

What we cannot do is take success for granted and ease up on the rate of change. We do not take anything for granted. Whatever happens we expect to be ready to respond, as an ever more efficient company, providing a vital contribution to the Australian community.