

QANTAS AIRWAYS LIMITED
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CHIEF EXECUTIVE OFFICER'S ADDRESS

First, let me say that all company shareholders rightly expect the firms they invest in to be well managed and to create profits.

Those of us who are part of the Qantas community have an additional investment. An emotional one. We care that Qantas is a proud Australian company contributing to national life and promoting Australia around the world.

That is why I want to talk to you today about concerns over our decision to outsource some Qantas jobs overseas, including up to 340 information technology jobs. These concerns are being debated because a number of other companies, notably banks, are believed to have made similar decisions.

I do not intend to dismiss the concerns being expressed. But I do want to address the legitimate interests of Qantas shareholders and all Australians who care about Australian jobs and our national future. And in doing so, I need to discuss some of the complex issues that are sometimes overlooked in the debate.

Although it is now more than 20 years since Australia took the first decisive steps to create an open economy by floating the dollar and commencing the process of dismantling tariff barriers, globalisation still provokes passion and fear. Then, as now, many Australians feared globalisation would increase unemployment, undermine economic growth and eventually lead to third world living standards. Many people simply could not conceive of a prosperous future in which Australians would not manufacture clothing, footwear, whitegoods or TV sets.

There were difficult adjustments to make and these decisions were tough on many individual companies and families. But looking back over the last 20 years there can be no doubt that Australia is wealthier, better educated, and more productive.

Opening the economy ushered in a period of unprecedented economic growth and opportunity.

Far from there being a problem with unemployment, we are now having a national debate on whether skilled workers should be brought into our country because of skills and labour shortages in many industries. Equally, many thousands of Australians – from backpackers to CEOs – are taking advantage of the opening up of other economies to live and work overseas.

Australia's integration with the world is still evolving. Our resources boom is a direct result of the globalisation benefits spurring economic growth and energy demand in places like India and China. Australian companies are prospering, growing and creating jobs.

Aviation is such a driver of globalisation that you might imagine that it would be at the forefront of this phenomenon. But in fact it is a strange hybrid. The bilateral regulatory framework in aviation limits cross-border flows of capital and hinders global integration. Airlines cannot base aircraft in overseas markets; generally services must originate or terminate in their home markets. Airlines can only participate indirectly in foreign markets through limited investment in locally based carriers; the Qantas investment in Singapore-based Jetstar Asia is one such example.

In short, real Globalisation of the industry is lagging.

Some airlines like Qantas are privatised and vigorously competitive, and we would like to be part of the growing trend to build global scale through partnerships and equity investments for sustained competitive advantage. But many other airlines still remain heavily subsidised, protected or – in a few significant cases - greatly advantaged by the bilateral system which favours airlines based at geographic hub points.

These factors and distortions were obviously recognised by the Australian Government in its recent review of aviation policy, including the decision to deny

Singapore Airlines access to the Australia-United States route. Australia's aviation markets are more liberalised than most others in the world..... However, unwinding the complex web of global market restrictions, while achieving balanced opportunities, is no easy task. Qantas, for example, is unable to access valuable routes such as the United States-United Kingdom, China-United Kingdom and many others.

While aviation has not yet fully globalised, some of the industries that provide key inputs to aviation have done so. In fields like I.T., engineering and catering this has resulted in a concentration of suppliers with superior scale and efficiency. Airlines that want to remain sustainable are under increasing pressure to restructure their operations or source these inputs from these suppliers.

Put simply, we have to keep scrutinising the efficiency of every segment of our operations, because the competitiveness of each and every part of our business is critical to our overall success.

Qantas has taken the position of being outward-looking and engaged globally.

We have more than 37,000 staff, a 17 percent increase on levels six years ago. We are carrying 66 percent more passengers, and have 47 percent more aircraft.

Today, Australia has a domestic aviation market that is one of the most efficient in the world. Customers have a broad choice of product, excellent value for money and our airlines are profitable.

Qantas also has a growing international presence. We have increased services to core markets such as the US, UK, Japan, New Zealand, Hong Kong and South Africa. And we have commenced new services to China and India as well as San Francisco and Vancouver.

Most notably, of course, under the Jetstar brand we have established a domestic value-based airline, an intra-Asian joint venture and next month we will launch long haul international value-based services.

We have spent over \$11 billion on new aircraft since 2000. Our objective is to grow both the Qantas and Jetstar brands and to this end we are committed to ongoing investment in our fleet of around \$2 billion a year.

This growth strategy is underpinned by a commitment to cost containment. We operate in a tough and changing environment. And, as the Chairman has noted, the high cost of fuel has only magnified the challenges, with our total fuel bill last year at \$2.8 billion, up 45% in just 12 months.

We had no choice but to respond to this problem.

In 2003 we established the Sustainable Future Program with a target of \$1.5 billion in cost savings. Last year we doubled the target to \$3 billion. A few months ago we achieved the first target and we are searching diligently for that other billion and a half.

But whatever impressions you may have gathered from some unions and some media, we have not achieved the savings by slashing jobs and exploiting workers in third world countries.

The big savings are in the growth of the online sales channel, process efficiencies in engineering, improved ground handling productivity and international fare simplification. These are not one-off savings. They are permanent changes that provide lower costs every year, and which so far have been achieved with virtually no industrial strife and no drop in service to customers.

We are not in a race to be the lowest cost in everything we do. If we were, we would have no jobs here, because we can never undercut some of our foreign competitors given our geographic position, taxation system and standard of living. Rather, we will succeed by ensuring our cost structure is appropriate for the markets in which we compete and the product we offer, whether that is premium, or value-based.

However, some of the markets in which we operate are so commoditised – or so dominated by larger global players - that we need to make major structural changes so that the Qantas Group can be competitive. In some cases, yes, that means outsourcing jobs, just as we outsource the manufacture of our aircraft. We will not be doing this in order to lose Australian jobs, we will be doing it so that the company overall can preserve and expand them. The more efficient we become, the more jobs will be created for Australians.

The bottom line is this. With all this growth, investment and activity, and with all the cost reduction, today ninety-three percent of Qantas staff are still Australian. We also invest heavily in developing our Australian skills base. As Margaret noted earlier, we spend more than \$280 million a year on training and related costs and we are also one of Australia's largest employers of apprentices, with some 450 across the Group.

We will always be principally staffed by Australians. We will always go to great lengths to preserve Australian jobs where possible. Earlier this year, we decided that instead of sending the work overseas, we would undertake an onshore restructure of our wide body heavy maintenance operations, investing extensive time and resources to bridge the gap with new international standards of efficiency. Provide we achieve these standards, we have every chance of maintaining, and possibly increasing, the highly skilled work that we undertake in this country.

The fact that most of our staff are Australian is extraordinary when you consider that the majority of our assets are invested in flying to 80 international destinations in 40 countries, and we compete with 41 foreign airlines.

We acknowledge the genuine concerns of people affected by our restructuring. It is a reality that the labour force will be affected by globalisation. The rapidly growing markets to our north and west have billions of people and the skills, scale and technology capability to perform the same work that Australians do at a much lower cost. However, as has happened in the past, developed and open

economies like Australia, and its exporters like Qantas, will adjust, redirect investment and continue to create jobs in markets where we can be competitive and grow.

At Qantas, we are endeavouring to make the changes that we need to make with as much sensitivity as we can.

But we have no choice but to keep adapting to new realities and stay at the forefront of change.

If there is any risk that we face, it is the risk of retreating, of turning back the clock. Success for Australia, and Qantas, is all about engaging with the world, being part of it, taking advantage of the opportunities provided by globalisation. We sometimes hear people suggest that the very limited outsourcing Qantas undertakes is unAustralian. On the contrary, what could be more Australian than creating thousands of new jobs, by building a sustainable future for one of Australia's oldest and proudest companies?

Having a strong Australian aviation industry is also critical to the prosperity of the Australian tourism industry and the many more jobs that depend on it.

For Qantas to continue our record of success and expansion, we must look outwards and be a leader, not a follower. That is the basis of our planning for the future.