



Annual General Meeting – 23 October 2015 CEO's Address

Good morning - it's great to be here in Perth. As Leigh said, the Qantas Group has a big presence in WA and we've made some exciting announcements over the past year that really underline our commitment – including a return to the international market and the opening of a new Business lounge at Perth Airport.

A Result to be Proud Of

I'd like to reinforce what Leigh said about our people. I'm incredibly proud of what they have achieved – and continue to achieve – for Qantas.

Our performance in FY15 was one of the biggest turnarounds corporate Australia has seen. And it has only been possible because of the skill, commitment and passion that our people bring to the job each and every day.

Nor would our turnaround have been possible without the backing of you, our shareholders.

Again, thank you for your belief in this great company and your support for our strategic direction.

Transformation is Shaping Qantas' Future

The speed and scale of our transformation program shows a clear path to a strong, sustainable future for Qantas.

And let me repeat that this transformation was by far the biggest driver of our financial turnaround. Without the \$1.1 billion in benefits it has generated so far, we would not have announced a profit in August this year.

We are committed to delivering the full \$2 billion of benefits targeted in the Qantas Transformation program, and with \$450 million targeted in this current financial year, we are confident it will be delivered on schedule by the end of financial year 2017.

Customers are at the Heart of our Strategy

We said that customers would remain at the heart of our strategy through transformation - and we have met that commitment.

We have maintained core investments in aircraft interiors, airports, lounges, and training for our staff. Our fleet is currently the youngest it's been since privatisation – currently at 7.7 years, which is especially young when you compare this to our global peers.

Our continued investment in the customer has ensured our two brands remain strong, with record levels of customer advocacy, in turn protecting our yield premium.

As Leigh said: our progress with Qantas Transformation gives us a solid base for disciplined investment in future growth.

Our Dreamliner order for Qantas International is a good example. These next generation aircraft are significantly more efficient than the 747s they will gradually replace from late 2017 onwards. They open up new network opportunities and offer customers a more comfortable flight.

There are many other improvements as well. We are working through an ambitious digital transformation agenda to reflect the way people travel today – from social media customer service, to SMS check-in, to real-time flight information via mobile apps.

Our goal is to build a culture of constant innovation that underpins the world's best airline customer service.

Building Resilience to Volatility

Let me turn to the outlook – and describe how we are navigating current market conditions.

We see mixed performance in the Australian economy as it transitions away from the peak of the mining boom.

Demand from the resources sector continues to taper, and we have adjusted capacity and our cost base in Queensland and WA to reflect that, which includes working closely with our mining sector customers to support their needs.

Our expectation is that softness in the resources sector will continue and we have reduced our footprint accordingly.

However, the Australian economy is not limited to what is happening in mining and resources. Other sectors of the economy are strengthening, including tourism, financial services, professional services, education, construction and infrastructure.

Overall, we expect modest capacity growth of 0 to 1 per cent in the domestic market in the first half of financial year 2016.

In the international market, a rejuvenated Qantas International is reaping the rewards of transformation.

We're using our aircraft more efficiently, with increased utilisation giving us the ability to grow into markets where there is demand – like extra Sydney–Hong Kong services and our new Brisbane–Tokyo, Sydney–Haneda and Sydney–San Francisco routes. This growth is being achieved in a very cost-efficient manner, using the Group's existing fleet.

And we are complementing that organic growth with the expansion of strategic partnerships in key markets – particularly our China Eastern and American Airlines joint ventures, which sit alongside our Emirates partnership.

Jetstar International has completed its transition to an all-Dreamliner long-haul fleet and, across all its markets, is focussing on meeting demand to key leisure destinations. Uniquely to low-cost long-haul carriers, Jetstar International continues to deliver strong returns on invested capital.

Both Jetstar and Qantas international operations are beginning to see the role a lower Australian dollar plays in global traffic flows. At the price-sensitive end of the market, we are seeing greater demand for holidays in the region or at home in markets such as Queensland.

At the premium end of the market, business demand is robust while we expect to see an uptick in inbound tourism as Australia becomes a more attractive holiday destination. Our new partnership with American Airlines, commencing in December, will be positive for spurring demand from one of our most important inbound markets.

With the lower Australian dollar, international competitor capacity growth has slowed to around two per cent this half, and we expect that growth rate to stabilise at around four to five percent from the second half of financial year 2016 - in line with historical averages.

Much of that growth is coming from markets like China, where an influx of inbound tourists is a distinct positive for our domestic operations.

While the impact of a cheaper currency varies across each segment, the Aussie dollar around current levels is a distinct benefit for the Group as a whole.

The Group's airlines are complemented by the Qantas Loyalty business, which continues to go from strength to strength.

The Qantas frequent flyer program has now reached 11 million members, compared with 10.1 million at this time last year. Alongside the core Frequent Flyer program, significant growth is happening in newer ventures like the Qantas Cash travel money card, with just under \$1.4 billion loaded by members so far, or the Red Planet data and marketing services business.

As our 2015 result clearly shows, the fundamentals of the Group portfolio have strengthened significantly through transformation.

Trading Update

As our traffic statistics released today show, trading for the first three months of the financial year has improved relative to the prior period.

Group Revenue per Available Seat Kilometre in the financial year to September has increased.

In the domestic market, despite the resources slowdown we have outlined, our dual brand strategy and network enhancements have resulted in a stronger RASK performance compared to the prior year.

Group international RASK is also positive in the financial year to September.

In terms of our fuel bill, with high levels of hedging in place, and based on current forward market prices, we expect the Group's first half fuel cost to be \$1.76 billion. Including additional consumption from increased flying, our full year fuel bill is currently expected to be \$3.61 billion, with a worst case of \$3.85 billion.

And due to our disciplined hedging approach, we have retained 70 per cent participation to lower fuel prices for the remainder of the year, should that eventuate.

Combined with the \$450 million of Qantas Transformation benefits we will deliver this year, the outlook is positive and we expect a significant improvement in first half performance.

Conclusion

Our strategic priorities going forward are clear.

We will build on our competitive advantages: the Group's portfolio model, our strong domestic market position, our global network, and the customer service excellence that will continue to differentiate our brands.

We will drive forward with transformation to secure a sustainable future in a competitive market.

And, guided by our financial framework, we will grow long term shareholder value in everything we do.

You can be proud of what Qantas has achieved in the past 12 months. And as we prepare to mark our 95th anniversary, you can be equally excited about our future.

It is a privilege to lead this company, particularly as we enter what I believe to be a very exciting phase in our history.

Thank you.