

Qantas Airways Limited
2002 Annual General Meeting – 17 October 2002
Chairman's Address

Introduction

When I stood before you a year ago I said that I would be making a somewhat unusual Chairman's address. We were still absorbing the shock of the attack on America of September 11th and the collapse of Ansett.

It is with deep sadness that I must again refer to tragic events before continuing with our meeting today.

The massacre in Bali is an outrage. It has brought tragedy to the lives of many Australian families. Qantas is directly affected with the loss of Kathy Salvatori, a Qantas customer services agent at Sydney International Terminal. Our thoughts are with her family at this tragic time. I am relieved to say that all Qantas staff on duty in Bali have been accounted for, but some other staff members were on holiday in Bali over the weekend and unfortunately not all have been accounted for.

To those who have lost loved ones, all of us at Qantas send our deepest sympathy. As much as we possibly can, we share your grief. To those who wait anxiously, we wait with you. To all those who were injured, we send our best wishes for a full and speedy recovery.

I want to acknowledge in particular the pain felt by the people here in Western Australia at this time. The loss of young lives is always a source of sorrow. But this barbarous and pointless attack strikes especially hard.

It is too early to assess the longer term implications of this appalling event. Qantas will continue to do everything necessary to help people cope with the immediate impact. I would like to record my appreciation to the staff of Qantas who once again stepped in so quickly to respond to the crisis, mounting a massive evacuation with speed, efficiency and compassion, returning approximately 2,500 people to Australia in three days.

Results

I now turn to the results. I can report to you, that for the year to 30 June 2002, Qantas delivered a profit before tax of \$631 million. This is up 5.7 per cent on last year. Profit after tax was \$428 million, up 3 per cent on last year.

The Directors declared a fully franked final dividend of nine cents per share, bringing total fully franked dividends for the year to 17 cents per share.

This was a very solid result, achieved under extraordinary conditions. Consider what has happened over the past year:

- The terrorist attacks of September 11th in the United States;
- The collapse of Ansett Airlines, which cost 15,000 jobs and threatened economic chaos;
- The war in Afghanistan and the continuing threat of war in Iraq; and
- The economic downturn in the United States, with a nervous atmosphere compounded by high profile corporate collapses.

In these circumstances your Qantas:

- Stepped up to the emergency situation in September 2001, flying 110,000 stranded Ansett passengers for free or at deep discounts to avert a national transport crisis.
- Qantas was called upon to expand by 50 percent domestically in less than nine months. This size and pace of growth is almost unprecedented in Australian corporate history, and its success represents a major achievement for Qantas management and staff.

- Qantas increased staff numbers to around 33,000 people, of whom more than 31,000 were employed within Australia. Among the new recruits were 1,500 former Ansett staff.
- Qantas carried more than 27 million passengers, operating a fleet of 187 aircraft across a network spanning 142 destinations in 32 countries.
- Qantas took delivery of 21 new aircraft between February and August this year and advanced plans to take delivery of a further 14 aircraft by December 2003, including two new types of aircraft, the Airbus 330-200 and the Boeing 747-400ER.

These strong results in exceptional times are a reflection of the size, scale, resilience and flexibility of your Qantas, which is one of the few profitable, stable, commercial airlines in the world.

According to the International Air Transport Association, calendar year 2001 was only the second year in the history of civil aviation in which international traffic declined. Member airlines of the Association lost \$36 billion for the calendar year.

As an illustration of how the value of some airlines has been affected, the market capitalisation of United Airlines, which operates a fleet of over 500 aircraft, is today A\$186 million, which could not purchase a single Boeing 767-300 aircraft. Yet this financial year, Qantas recorded one of its strongest results and is embarking on a major fleet re-equipment program.

For the period since the float in 1995 to 16 October, Qantas' total shareholder return, a measure which includes share price performance and dividends, was 267 percent. This compares very favourably to the average performance of peer airlines including Singapore, American and Lufthansa, which achieved total shareholder return of negative 43 per cent. And Qantas' total shareholder return of 267 percent also compares favourably to the Australian market average of 44 per cent (measured against the S&P ASX 200).

Strategy

Qantas has had to move rapidly over the past year to adapt to dramatically changing circumstances. But the company has also made great progress in its long term objective of securing a strong and stable future.

First, Qantas is segmenting the flying businesses to profitably deliver the right cost/service equation to customers. So within Qantas there are effectively five airline businesses, each one carefully configured to meet customer needs and maximise returns.

- The premium international carrier with a three and a two class product;
- Australian Airlines, to be launched in about a fortnight, will be a full service, single class international leisure airline, initially linking Cairns and six Asian ports: Osaka, Fukuoka, Nagoya, Taipei, Hong Kong and Singapore. The first month of operations are nearly booked out, and Australian Airlines has more than a 70 per cent load factor through to April 2003;
- There's Cityflyer, the very successful two class shuttle that operates between Melbourne, Sydney and Brisbane which will soon be extended to Adelaide and here to Perth;
- There's a full service two class product for a number of other domestic destinations and an all economy service for routes with little or no demand for business class travel; and
- Of course there is QantasLink, which is now a major operation in its own right, providing important services for regional Australia.

Second, Qantas is focusing on growing non-flying businesses which have great potential not only to deliver strong profits, but to also smooth aviation cycles. Qantas Flight Catering, Qantas Holidays and Qantas Freight all contributed strongly to the year's result. Qantas will invest in and grow these subsidiary businesses so that they, along with QantasLink, contribute about one third of future profits.

Third, Qantas is committed to international alliance relationships which will extend network coverage to improve customer choice and profitability. Qantas is a member of the **oneworld** alliance, with leading international airlines including BA and American Airlines.

As you are aware, Qantas is in discussions with Air New Zealand about the possibility of a strategic alliance between the two airlines and an acquisition of a minority equity interest in Air New Zealand. While constructive discussions are continuing, no agreement or commitment has been entered into at this time and any agreement would be conditional on a number of approvals. I cannot add anything more at this stage.

To sum up, your Qantas is developing into an integrated set of aviation and related businesses.

These businesses are managed for maximum innovation and efficiency. For example, Qantas is one of the world leaders in yield management to align costs and services to varying levels of demand.

They are closely targeted to customers needs. For example, Internet-only fares were available to only about 22 domestic destinations around one year ago – now they are available to more than 160 domestic destinations. More than 20 percent of Qantas domestic bookings are now made via qantas.com – the highest of any traditional airline.

All our businesses are committed to the highest service and safety standards. And this is where the airline's capital investment program becomes very important.

Investing for the future

An airline is, of course, highly capital intensive, and a key part of the Board's deliberations have been about giving Qantas the capability to invest for future success. Qantas has a planned \$13 billion capital expenditure program over the

next decade that will see more new aircraft, further improved in-flight product and even better facilities on the ground. Some highlights to date include:

- This time last year I announced the introduction of the next generation Boeing 737-800 aircraft into the domestic fleet. The engineering and maintenance team introduced 15 of these aircraft into the fleet between February and August this year – a fantastic achievement, as well as adding six Boeing 717s to the existing fleet;
- The substantial progress of our \$300 million project to install a new in-flight entertainment system on the Qantas fleet of Boeing 747-400s. The Qantas in-flight entertainment product recently received three prestigious awards, including best overall in-flight entertainment, from the World Airline Entertainment Association;
- A separate program to upgrade the interiors of the Boeing 747 fleet;
- The upgrading of a number of international and domestic lounges; and
- The establishment of SnapFresh, our meal production centre near Brisbane, that uses state-of-the-art rapid freezing technology and is able to produce up to 20 million meals a year for Qantas, other airlines and other businesses in the hospitality, health care and mining industries. SnapFresh presently employs 90 staff with plans to increase to 200 staff over five years. SnapFresh is currently averaging 190,000 meals per week, just under 50 per cent of its capacity.

To fund these and other capital related projects, the Board is committed to maintaining a reasonable mix between debt and equity, and of course to maintain a strong and sustainable profit performance. During the past twelve months, Qantas has company successfully raised over \$1.3 billion in equity through two separate capital raisings – the first being a placement in October 2001 and the second being an entitlement offer completed in September 2002.

People

The relative success of Qantas over the past year has not been a matter of luck. It's been about performance at all levels of the company.

I would like to acknowledge my fellow Board members who have worked tirelessly on your behalf this year. They have brought an unrivalled resource of intellect, judgment, wisdom and commitment to their deliberations. Right now the media is running a major debate about global corporate governance standards, sparked by failures in the US and here in Australia. Your Board takes this matter very seriously indeed, and earlier this year our Audit Committee undertook an extensive review of the independence of auditors, the role of the Audit Committee and Board. I can assure you that we are operating at the highest levels of corporate governance by the best international standards.

No matter how good the formal structures and processes, good corporate governance must be linked to broader corporate and social values of transparency, accountability, fairness and responsibility.

Your Qantas Directors have the independence, ethics, integrity, judgement and where necessary, the bravery to ask the hard questions. Frankly, transparency and accountability can't be built into a set of prescriptive rules. Rather, they must be achieved by a commitment from the top down to using these values as the basis for daily management behaviour.

Qantas is extremely fortunate to have Geoff Dixon as CEO. He has led the company through a time of unprecedented change, and, with his outstanding management team, is setting Qantas on a path of sustainable success. Excesses in executive remuneration in the United States have reached mind boggling levels, with failed executives receiving hundreds of millions of dollars in salaries and options. At Qantas, your Board is seeking to deliver fair incentives for performance, as well as transparency for shareholders. Shortly, I will put to your vote a proposal which we believe gives Qantas executives the right kind of rewards to retain them and ensure their long term interests are aligned and consistent with shareholders.

The Deferred Share Plan is for shareholder approval today, under which a minimum of 10 percent of executive performance bonuses in future will be delivered through shares, which will be locked up for two years.

Approval is also sought for the two Executive Directors, Geoff Dixon and Peter Gregg, to be granted additional shares which will be locked up for four years, as part of their long term incentive. This is in recognition of their extraordinary contribution over the past two years, particularly the last 12 months and the exceptional circumstances Qantas has faced. It is important to note that during the past two years, no equity has been granted to them. Consistent with market practice to provide executives with some equity, the Board is of the view that these grants are modest, consistent with how other companies are addressing equity for executives, and reflect the values I just mentioned – transparency, accountability, fairness and responsibility.

Finally, I want to recognise and applaud the hard work, the professionalism and the performance of all of the Qantas staff. Qantas paid \$54 million to staff via a special four per cent bonus payment in recognition of their efforts during the year and earlier wage restraint. The Board also decided to allocate \$30 million for \$1,000 worth of Qantas shares to all Australian-based eligible employees under the Qantas Profitshare Scheme. 273 shares were issued to each eligible employee yesterday.

I believe the idea of a direct and transparent link between company performance and employee remuneration is now well accepted and will serve the company well.

Brand and reputation

Of course, all of us associated with Qantas, past and present, know that this is far more than just another company. Qantas is an Australian icon. Qantas both promotes and reinforces Australia's image. I can assure you that this reputation will be jealously protected.

Over the past year, Qantas spent \$38 million in marketing and sponsorships to attract travellers from Australia and around the world. Qantas spends billions of

dollars with Australian suppliers and continues to be a major supporter of many arts, sports and charitable organisations across the country.

About one third of all Qantas domestic tickets are sold at a deep discount. This equates to about 7.5 million tickets each year. Only about 20 per cent of domestic tickets are sold at the full rate – and most of these attract corporate rebates.

For regional Australia, QantasLink now serves 55 cities and towns throughout this land and operates more than 400 flights each day. QantasLink has grown substantially over the past year and introduced a number of new regional destinations – including to Port Hedland and Newman here in Western Australia. QantasLink employs 1,600 people and is a strong supporter of regional events, organisations and tourism.

QantasLink continues to operate a significant number of marginal or loss making routes. This “social flying” reflects Qantas’ recognition of the airline’s important role and responsibility to the Australian community.

Over this past year, Qantas has demonstrated again that it is a source of strength and support for the Australian economy and broader Australian community. This close identification with Australia will remain an integral part of the company’s energy and vitality.

Conclusion

Let me conclude. Airlines operate on wafer thin margins most of the time. And this has been one of the worst years the industry has ever experienced. So the fact that Qantas has delivered a strong result is good news in itself, and a sign that the company is primed to succeed whatever circumstances may prevail.

I can assure you that the Board and the company as a whole is working with great determination to deliver to you the owners, to employees, customers and the Australian community the best in results and performance over the coming years. I hope that you take pride, as I do, in the Qantas performance.