# QANTAS AIRWAYS LIMITED
# 2003 ANNUAL GENERAL MEETING – 16 OCTOBER 2003
# CHAIRMAN'S ADDRESS

**Introduction**

We have just come through yet another turbulent year for aviation. In the first half of the year, our industry was recovering reasonably well in the aftermath of the terrorist attacks in the United States and Bali, and the war in Afghanistan. We were coping with the broader implications of a heightened global security environment. But the war in Iraq and the outbreak of the SARS virus were devastating for international travel, particularly around the Asian region. These events inevitably had a significant impact on Qantas' second half performance.

I can report to you that in these difficult and challenging global circumstances our Qantas performed well. Qantas recorded a profit before tax of $502.3 million for the year ended 30 June 2003. The net profit after tax was $343.5 million. The Directors declared a fully franked final dividend of 9 cents per share, bringing total fully franked dividends for the year to 17 cents per share. These profit results were below earlier expectations – indeed, prior to the outbreak of SARS and the war on Iraq Qantas was headed for a record profit. Nevertheless by global standards the performance was of a very high calibre.

Over these past few years Qantas has demonstrated beyond doubt that we can adapt to and successfully manage large external shocks.

As Chairman, I have been proud of the way this company has responded to the extraordinary challenges it has confronted:

- Qantas rapidly responded to the SARS threat in this recent reporting period by reducing capacity and minimising the economic impacts where possible;

- A year ago this week, Qantas played a major rescue and support role following the horrific terrorist attacks in Bali;
- Two years ago, Qantas was involved in the sudden return of thousands of Australians following the terrorist attacks in the United States; and
- Qantas was able to meet the challenge to Australian aviation posed by Ansett's collapse by growing the equivalent of seven years overnight – probably a feat unrivalled for size and complexity in Australian corporate history and indeed global aviation.

Today I don't want to focus on these considerable achievements. On the contrary, I want to assure you that the Qantas Board and management have not been distracted from their strategic purpose. Qantas is undergoing a steady transition to underpin future competitiveness – to position Qantas to seize long term opportunities and also to manage future threats. We are achieving success through our commitment to quality, cost containment, and speed and flexibility.

**Leadership on product and service**

Qantas has always had an outstanding global reputation for quality. In the past year Qantas management has been investing heavily in new aircraft, product and service improvements to reinvent the company for a modern era of excellence:

- We are progressively rejuvenating our fleet so that customers will experience a better product as well as improved reliability and on-time performance;
- During the twelve months to June 2003, Qantas invested a total of $3.1 billion on new aircraft, product and infrastructure. This included payments for a total of 17 new aircraft – four 747-400ERs, nine 737-800s and four A330-200 aircraft;
- Since June 2003, we have taken delivery of a further two 747-400ERs and an additional 737-800;

- By the end of next calendar year you will see new seating and interiors on almost all Qantas international aircraft. So far we have spent $300 million on an in-flight entertainment upgrade through the entire fleet of 747-400 aircraft, including features such as personal video screens in the economy cabin;
- We have also invested $385 million reinventing international business class travel, with the launch of our state-of-the-art sleeper seat Skybed, dedicated business class flight attendants, new food and wine, and higher service standards. The result is a business class experience which I believe will set a new world standard;
- Our international first class customers will also see improvements in food and wine selections, new bathrooms and amenities, as well as new-style sleeper suits;
- We are also investing in our international lounges. During the year, we completed a new lounge at Los Angeles airport, and opened new international Qantas Clubs in Sydney, Melbourne, Singapore, Bangkok and Honolulu;
- In another world first, Qantas has just introduced a SMS messaging service with response capabilities for our international passengers – once again putting us at the forefront of technology and service;
- This year Qantas introduced stylish new uniforms, and these will continue to enhance the image and reputation of our company; and
- We are also continuing to invest in customer service through training and support programs for our people.

All of these measures are consistent with a global network carrier focused on excellence and service. Bedding them down will continue to require concentrated management effort and focus.

In our domestic market a similar program of transition is taking place:

- Qantas has upgraded or built new lounges in Sydney, Melbourne, Brisbane, Perth and here in Adelaide;

- Meals are being upgraded on all domestic services;
- Ticketing is being made cheaper and easier through simplified, more flexible fare structures and upgrades to our website. qantas.com currently receives around 35 million hits per week. More than one ticket is sold on qantas.com every ten seconds and one in four domestic tickets is purchased via qantas.com; and
- Check in is being made faster through the installation of Quick Check kiosks at major domestic airports.

I want to acknowledge here my very sincere appreciation to Qantas' domestic customers for their patience with us. We grew very rapidly following Ansett's collapse and this undoubtedly put pressure on our products and service in our domestic operations. But we are progressively putting things right. Here in Adelaide, for example, we have not had the quality of infrastructure commensurate with the importance of this market to us. However, construction of a new $240 million integrated domestic and international passenger terminal at Adelaide is scheduled to commence over the next few months. Qantas has been very supportive of the development – we were the first airline to sign up – and we have worked closely with Adelaide Airport Limited on the enhanced facilities for our South Australian customers and all visitors to this state.

**Company reorganisation**

Qantas is also strengthening its long term competitive capacity through a company reorganisation. This will help the company to align costs, people and resources more effectively. The reorganisation will involve the creation of a number of business segments, each to share the services of the Corporate Centre:

- First there will be the flying businesses, including Qantas, Australian Airlines, Qantaslink and our new low cost carrier. Australian Airlines had a difficult inaugural period due to SARS but will be the vehicle to grow profitable international leisure markets that cannot profitably sustain a two or three class operation;

- It is with the same philosophy in mind that the Board has approved the establishment of a low cost domestic airline. This demonstrates Qantas' commitment to ensuring our ongoing competitiveness;
- A second group of businesses will support these airlines. These include the vital tasks of engineering and maintenance as well as airports and catering; and
- The third group consists of associated businesses: Freight, Qantas Holidays, Qantas Defence Services and Qantas Consulting. These non-flying subsidiaries have contributed substantially to our financial results, and will continue to smooth bumpy aviation cycles and provide opportunities for growth.

The Corporate Centre, including a shared services division, will provide information technology, human resources, financial services and other support functions to each business.

Qantas managers will be given greater flexibility and capacity to extract optimum results and focus on increased profitability. Accountability across the company will be improved, and this will help Qantas adapt quickly to changing external conditions.

**Financial position**

However, as the last financial year again demonstrated, operational flexibility is not enough. We also need to actively manage the financial aspects of our business, including our capital base. Following the onset of SARS and the war in Iraq, we reduced our planned capital expenditure by a combined $1 billion in the previous and current financial years. This was in part achieved through the utilisation of "slide" rights on the delivery of new aircraft. We also retain the flexibility to move aircraft retirement dates as operating conditions dictate, as we demonstrated with the early retirement of our 767-200 fleet.

To fund our committed capital requirements during the year ended June 2003, we raised over $3 billion in debt and more than $700 million in new equity. At 30 June 2003, we carried cash and cash equivalents of more than $2 billion. This financial strength is essential to Qantas' ability to adapt as operating conditions dictate.

**Costs**

Let me turn now to costs. A transition to a new cost base is essential to Qantas' long term success. Over the past few years, low-cost entrants have revolutionised the airline industry. Qantas has to find ways to do things better for less. Our Sustainable Future program aims to reduce our cost base by $1 billion over the next two years. So far $800 million in cost saving initiatives have been identified, with $350 million targeted for achievement in the current financial year.

One major way that savings will be achieved is through reorganising and simplifying our fleet. For example, as I mentioned, the 767-200s will be progressively retired over the next twelve months. In addition, our entire fleet of A330s, which will ultimately comprise four A330-200s and nine A330-300s, will fly in our international operations. This will leave only one widebody aircraft type in the domestic operations, the 767-300.

Labour costs are a big issue for Qantas. As you will know, trade unions have negotiated a lower cost base with our Australian rival. This is a competitive disadvantage we simply have to deal with. So we are progressively making a long term transition to a lower labour cost base. We will be doing this by means of improved work practices, better rostering, increased use of technology and more casual and part time staff.

At the same time, Qantas remains one of the largest private sector employers in Australia, employing 37,000 people, and Qantas will continue to be an important provider of jobs in Australia.

**Scale**

The history of banking, telecommunications and car-making has shown us that globalising industries mature only by moving from fragmentation to consolidation. They achieve scale. Today the global aviation industry is fragmented. The future must be about alliances to create scale.

Partnerships are already vitally important to Qantas. We have a close relationship with British Airways and our other **one**world partners, including American Airlines and Cathay Pacific. We have also forged successful alliances with non-**one**world carriers such as Japan Airlines and South African Airways.

We have also been seeking to form an alliance with Air New Zealand. Both Qantas and Air New Zealand see the alliance very much as a partnership of equals and believe that the alliance, if approved, will:

- Provide significant benefits to the economies of both Australia and New Zealand;
- Enhance the long term viability of New Zealand and Australian-owned aviation interests, while also
- Ensuring continued strong competition within Australia, New Zealand and across the Tasman.

However as you know, we were unable to secure the ACCC's approval for the agreement and have now lodged an appeal with the Australian Competition Tribunal. We expect a decision from the New Zealand Commerce Commission next week.

By contrast, in Europe, two of the region's largest carriers, Air France and KLM, have acknowledged that consolidation is necessary if the aviation industry is to secure a sustainable future. Together, these carriers will serve 226 destinations, operate 540 aircraft and employ 106,000 people. This compares with Qantas' 77 international destinations, 196 aircraft and 37,000 staff.

Scale is vital to Qantas' long term future and management attention will continue to be devoted to this task.

**Security**

At the beginning of my remarks this afternoon, I described September 11 as one of a series of external shocks we have faced over the past few years.

This appalling event represented a paradigm shift, and no industry has been - or will be - more affected by this shift than aviation.

As you are all aware, safety and security - both in the air and on the ground - are paramount at Qantas.

Qantas has built a reputation for excellence in safety and security and we take our responsibilities very seriously. We have always had the highest standards in these areas and we exceed the requirements set down by the industry and relevant authorities.

Unfortunately, security is now a permanent issue for governments, airport operators and airlines. At Qantas, we have raised the bar even higher over the past two years, tripling our expenditure since the events of September 11. Qantas spent more than $180 million on security measures during the last financial year.

Discussions and negotiations with the Australian Government will continue to evolve as we find the best way to manage the costs of a heightened security environment.

A key element of our increased expenditure on security has been additional training for all flight and cabin crew, as well as for contract screening staff at all airports where Qantas is the screening authority.

Over the past year, the strength of these training procedures has been highlighted - not just by our fantastic response to the terrible bombings in Bali one year ago, but also by the outstanding actions of the crew of Flight 1737 from Melbourne to Launceston on 29 May this year.

You will recall that a passenger armed with two wooden stakes was confronted and restrained by crew and passengers as he made his was toward the front of the aircraft, soon after it left Melbourne.

In August, I had the great pleasure of presenting the crew of Flight 1737 with a special, new Qantas award - the Chairman's Award. This award will honour Qantas staff members who exhibit a degree of valour and/or selflessness and/or community spirit so extraordinary that the reputation of the airline is enhanced in the eyes of other Qantas staff and the Australian public.

I am sure you will agree that there could be no more fitting recipients of the inaugural awards than the crew of Flight 1737.

There are two levels of the Award - the Diamond Award, for highest merit, and the Ruby Award.

Greg Khan, the CSM on that flight who displayed such remarkable bravery and determination, received the Diamond Award while the other five members of the crew received the Ruby Award.

**Corporate Governance**

For any company looking to sustain long term success, sound corporate governance is essential, both to the management task itself and to the continuing confidence of shareholders.

Qantas broadly accepts the release last week of the Government's proposed Bill on corporate governance known as CLERP 9. The reforms foreshadowed in the Bill aim to promote transparency, accountability and shareholder activism.

Qantas has always upheld high standards of corporate governance, and has in place a program of continuous review and improvement:

- We have complied with the ASIC guidance on the reporting of equity payments;
- We have stringent processes to ensure continuous disclosure requirements are met;
- We have drafted and approved a Board Charter;
- We have reviewed and reissued the charters of our Board committees to ensure they are consistent with the ASX Corporate Governance Guidelines;
- We have revised the role and composition of our Audit Committee;
- We have a five year audit lead partner rotation policy. The previous lead partner rotated off two years ago;
- We have instituted Board structures for oversight of remuneration policy and senior executive reward; and
- We were early adopters of the ASX Corporate Governance requirements this year in relation to the reporting of post retirement benefits and disclosure of our remuneration philosophy.

In fact, prior to the release of CLERP 9, Qantas already met the vast majority of the requirements it contains.

Our view is that the ASX Corporate Governance guidelines together with the increased disclosure requirements of CLERP 9, create a solid foundation for good corporate governance.

With CLERP 9 now going before Parliament, Qantas is keen for more detail on the Government's plan for greater shareholder involvement in the remuneration of executives.

We are less convinced that introducing a direct shareholder involvement in non binding votes on remuneration issues will be helpful to good governance. Qantas has a responsible and diligent approach to governance and a modest approach to remuneration. By way of example, we did not pay bonuses to executives in two of the last three years.

Qantas' approach was commended in a recent survey undertaken by Governance Metrics International, which rated us above average for Corporate Behaviour, Board Accountability, Remuneration and Financial Disclosure, and for Internal Controls. And this survey was undertaken based on Qantas' 2002 Annual Report disclosures - we have made further significant improvements since that time.

However, Governance Metrics International rated Qantas below average on our Ownership Base, noting that the ownership restrictions placed on foreign shareholders are inappropriate. I concur with Governance Metrics International. As you are aware, Qantas has so far been unsuccessful in seeking government amendments to the Qantas Sale Act to give us greater freedom to access capital and improve our ability to compete in the longer term in the increasingly competitive and globalising international environment.

The limitations on foreign investment restrict our capacity to access global equity capital and serve to impose an artificial ceiling on our share price and consequently increase our cost of capital. For these important reasons, Qantas will continue to put its case to the government to remove these restrictions.

**Conclusion**

Before I ask our Chief Executive Officer, Geoff Dixon, to make some comments on Qantas' operations, I want to let you know what our airline is doing right now:

- 109 aircraft are in the air, carrying more than 18,000 passengers, more than 800 crew and more than 1,450 tonnes of fuel;
- Almost 2,500 Qantas staff are currently away from their base;
- Eleven aircraft are in the hangar being maintained;

- 26 pilots are training in the aircraft simulators;
- More than 11,000 people are accessing qantas.com; and
- 1,425 people are taking calls in our call centres.

I want to conclude by thanking my fellow Board members for their contributions. I also want to record my appreciation to Geoff Dixon and his executive team for their tireless efforts in a tough environment, and to recognise the contribution of all Qantas staff during what has been a challenging and difficult time.

If another crisis erupts, the company is well prepared to react quickly and effectively. But whatever the external environment, our Qantas is now well down the path of transition to new levels of quality, service and efficiency.

I'm proud of where Qantas is – prepared to face the future whatever it brings. And I know that you are proud too – a number of you took the opportunity to send very favourable comments through the shareholder question form that was included with your Notice of Meeting this year. Thank you.