

**QANTAS AIRWAYS LIMITED**  
**2007 ANNUAL GENERAL MEETING – 14 NOVEMBER**  
**CHAIRMAN’S ADDRESS**

**INTRODUCTION**

On behalf of the Qantas Board, a very warm welcome to our 2007 Annual General Meeting.

I am delighted to begin my final AGM as Chairman by announcing that Qantas has made outstanding progress over the past year.

- We achieved a record profit and - for the first time ever - each one of our businesses generated returns above its cost of capital;
- The two-brand strategy of Qantas and Jetstar continued to produce outstanding results;
- We received excellent customer ratings and international recognition for our product and service standards;
- We increased dividends to shareholders and announced an on-market buy back; and
- Our share price is at an absolute historic high.

Today I’d like to put these achievements into context. These results are not the outcome of one year’s effort. They are the result of a series of milestone decisions made over a number of years.

Before I go into further detail, I would like to introduce the Board of Directors and those on stage today.

From your far left are:

- Paul Anderson, Chairman of Spectra Energy Corporation and a Director of BHP Billiton;
- Mike Codd, Chancellor of the University of Wollongong and Chairman of INGEUS Ltd;
- Peter Cosgrove, Vice Chairman of the Australian Rugby Union and a Director of Cardno Limited;
- Patricia Cross, Director of Wesfarmers and National Australia Bank;
- Chairman-elect Leigh Clifford, who was appointed to the Board on 9 August. I will introduce Leigh more formally to you in a moment;
- Chief Executive Officer Geoff Dixon;
- Company Secretary Cassandra Hamlin;
- Chief Financial Officer Peter Gregg;
- Garry Hounsell, Director of Orica and Nufarm, and Deputy Chairman of Mitchell Communication Group;
- John Schubert, Chairman of the Commonwealth Bank and a Director of BHP Billiton; and
- James Strong, Chairman of Woolworths, Insurance Australia Group and the Rip Curl Group.

### **RESULTS FOR 2006/07**

During the financial year ended 30 June 2007 Qantas delivered outstanding results.

We reported a profit before tax of \$1,032 million. This was nearly 54 percent above the previous year's result.

We reported a net profit after tax of \$720 million - also a record.

The result was underpinned by the excellent performance of the Group's flying businesses, which benefited from favourable operating conditions in both international and domestic markets.

During the year:

- Qantas consolidated its position on major routes while continuing to set new standards in premium product and service;
- Qantaslink further expanded its network connecting regional Australia to the capital cities; and
- Jetstar strengthened its position as the cost leader in the Australian market, while successfully launching international services that will allow the Group to grow in leisure markets.

In an environment of rising fuel prices, we made further progress in reducing our underlying cost base, with unit costs improving by nearly 2 per cent, as a result of a further \$753 million in efficiencies achieved by the Sustainable Future Program.

Meanwhile, our customers were more satisfied than ever. Our two brand strategy has been a huge success domestically and is now being extended into the international market as well. In recognition of our achievements, Skytrax, the world's largest passenger survey of more than 14 million people, named Qantas in the top five airlines in the world. It is one of only two airlines in the world to have made the top five in each of the past five years. And after only two years of operations, Jetstar was named the world's best low cost airline by Skytrax and the best low cost

airline in Asia Pacific by the Centre for Asia Pacific Aviation, incredible achievements and among six major awards it won during the year.

In recognition of the efforts of all our people to achieve these outstanding results, the Board approved the granting of \$1,000 worth of shares and a cash bonus of \$1,000 to all eligible employees.

And the company's cash position improved by \$461 million to \$3.4 billion, allowing us to reward shareholders with dividends totalling 30 cents per share, an increase of 36 per cent over last year. It has also allowed us to undertake an on-market buy-back of approximately 10 per cent of Qantas shares which will return over \$1 billion to shareholders and provide a sound basis for our capital acquisition program.

## **MILESTONES**

Great business success never comes about by accident. It is the product of vision, belief and hard work. Going right back to our beginnings in the Queensland outback 87 years ago – in fact we celebrate our 87<sup>th</sup> birthday this Friday - Qantas has consistently been about innovation and excellence.

I have had the privilege of being a Member of the Qantas Board for 15 years and Chairman for seven. During my tenure as Chairman, the Board and management of Qantas have drawn on the best traditions of this great company to build for the future. For us the mantra has been simply this: Bold, Brave and Innovative. And in that spirit we have made the decisions that we believe will ensure Qantas is not just a famous 20<sup>th</sup> century airline, but a great 21<sup>st</sup> century aviation business as well.

Let me share with you seven milestone decisions taken over the past seven years. Looking back, they seem inevitable, sensible and right. At the time, though, some of them challenged conventional wisdom.

#### One - Investment in new fleet

In the year 2000 the Qantas Board approved a multi-billion dollar fleet plan that included A380s, A330s and extended range B747-400s. This massive commitment looked particularly ambitious after that week in September 2001 when aircraft were used to attack the United States of America and Ansett collapsed. Yet Qantas went bravely - and as it turned out, wisely - against the trend. Since 2000, we have spent \$13 billion on aircraft and other capital expenditure. And we will continue to invest. In 2005, we added another massive order for 65 Boeing 787s with options and purchase rights for a further 50. Today, as Geoff will discuss in a moment, we have announced another major order of narrowbody aircraft for Qantas and Jetstar's growth in short haul markets. This will take our total aircraft order book to close to \$35 billion at list prices. Qantas will shortly have unrivalled flexibility to match the aircraft to the flying brands and to the needs and preferences of customers in Australia and around the world.

#### Two - Creating a new aviation model

In 2005 the Qantas Group launched Jetstar. At the time people said legacy airlines don't have the skills or smarts to do low cost airlines. The conventional wisdom was that one would cannibalise the other: instead Qantas has created a highly flexible, nimble and competitive aviation model based on two fantastic brands. Qantas has been able to concentrate on strengthening its position on key business and premium markets and has invested to maintain and enhance its reputation for outstanding

product and service. Jetstar has gone from strength to strength as the low fares leader in leisure markets - it is now one of the most recognised brands in Australia. The two brands are a very effective combination. Both will grow to meet the needs of business and leisure customers and extend the Group's network reach.

### Three - Investing in new product

Even when aviation was perceived to be in the doldrums, Qantas never faltered from a commitment to deliver the best product that Australia can offer. In the second half of the 1990s Qantas embarked on a complete overhaul and upgrade. We brought together extraordinary Australian designers, architects and, of course, chef Neil Perry - to create very special experiences for our customers.

In 1998, we introduced the First Class bed. Neil commenced the reinvention of our inflight cuisine -our inflight food and wine service today is second to none.

In 2003, we introduced the revolutionary Skybed in Business Class, designed by the acclaimed Marc Newson. Skybed has gone on to win prestigious design awards here and overseas, including from the Chicago Athenaeum Museum.

We have continued our partnership with Marc, along with Australian designers Collette Dinnigan and Akira Isogawa, to enhance our inflight amenities and pyjamas.

And of course, we have steadily upgraded Qantas lounges worldwide, culminating in the opening this year of the new First Class Lounges in

Sydney and Melbourne which are quite simply the most beautiful in the world. The Sydney lounge recently returned customer satisfaction levels of 100% - the first time this result has ever been achieved in any part of the business.

From February next year Qantas will introduce the new Premium Economy class. And of course, both the Premium Economy and A380 Economy seats have been designed by Marc and manufactured by specialist seat manufacturer Recaro, which also provides seats for leading luxury sports cars. This represents the biggest improvement in economy class seats in the past two decades. So expect the accolades to continue.

#### Four - Our Sustainable Future Program

In 2003 Qantas established the Sustainable Future Program with a target of \$1.5 billion in cost savings. Subsequently the target was doubled to \$3 billion. The Sustainable Future Program was never about short-term cost cutting. It was always about changing old business processes to create efficiencies through higher productivity, removal of waste and eliminating defects and variability. Qantas has now achieved \$2.3 billion of cumulative benefits and is on track to meet its target of \$3 billion by the end of this financial year. The tough efficiency decisions have underpinned the Qantas capacity to invest, prosper and grow. We called it building a sustainable future four years ago - and that's what has been achieved.

#### Five - Restructuring the business

In 2003, Qantas began a major business reorganisation that we called segmentation. Over its long history, Qantas had grown into an amalgamation of businesses – from passenger services to freight, from

engineering to catering - and so on. Segmentation has been about establishing each business as a stand-alone entity under the Group umbrella, each with its leadership, profitability targets and balance sheet accountabilities.

Over the past four years, Qantas has used this process to create greater transparency and accountability, enabling each business to compete more effectively in its market. Some of these businesses represent substantial growth and value opportunities.

Further value will be unlocked with the establishment of the Frequent Flyer Program and the Freight business as separate entities within the Group. Qantas will separately disclose the profitability of these businesses in our results for six months to 31 December this year.

Qantas is also working on enhancements to the Frequent Flyer Program which will make it even more rewarding for members and drive future program growth. Qantas is also investigating the formation of a Fleet vehicle.

By giving Qantas a more accurate picture of cost structures, the segmentation program has allowed the Group to make widespread improvements, for a major long-term effect on the bottom line.

### Six - A great Australian Company

Qantas has always been an iconic Australian company through our sponsorships of sport and the arts, our charitable efforts, and because of our readiness to come to the aid of Australians here and overseas in times of crisis. During my time as Chairman Australians around the world have



faced some terrible trials and Qantas has always been there to make a difference.

Building on this tradition of service, over the past few years Qantas has become better organised and more focused in making our community contributions. The Sharing the Spirit program was established in 2004 to bring together and interlink the full range of our community activities. Next year the Qantas Foundation will be established to take the focus on the arts, environment, and community to another level again.

Qantas has always been at the forefront in using new technologies and smart business practices to save fuel and protect the environment. In 2005 a dedicated Department was established to manage Qantas environment programs. This year Qantas launched a carbon offset program and announced a carbon dioxide savings target of more than 2 million tonnes by June 2011.

While Qantas has always had a strong focus on the future, it's a matter of great pride to me that we have also protected and nurtured our heritage. In my time as Chairman we have donated a 747 to the Longreach Founders Museum and earlier this year I welcomed home the magnificent 707, restored lovingly by volunteers. We opened the wonderful Heritage Museum in Sydney. We commenced an oral history program to record the memories of those who contributed to Qantas over the years. We had an extraordinary party to celebrate our 85<sup>th</sup> birthday. The strength of this company is built on our history, and I've always believed in the importance of cherishing and celebrating our heritage.

## Seven - Supporting our people

Finally, Qantas has always been about great people - employees who personify the bold, brave and innovative ethos that started with the airline's founders. We were never going to achieve sustained and successful change without bringing our staff along with us. And they have responded magnificently. As Chairman it's been a source of constant inspiration to see the enthusiasm and effort of Qantas staff - and hear the appreciation of the Australian community for their professionalism and kindness.

So a big part of our agenda of the past seven years has been to re-energise the Qantas performance as a great employer, providing well paid jobs with good conditions in a safe working environment:

- We invest in developing our people, spending more than \$280 million per year on training and related costs;
- Injury rates have been reduced by 80 percent since 2000;
- We have created more than 5,000 additional full time equivalent jobs and
- At eight percent, the attrition rate for Qantas staff is below the average for corporate Australia.

So with these milestone decisions to our credit I invite you to consider the outcomes - a scorecard of achievement, if you like, over the period of my tenure as Chairman from 2000 to 2007. Over that seven year period profit before tax has increased by 35 per cent and net profit after tax is up by nearly 40 per cent. Over the past year we carried 16 million more passengers than in 1999/2000 - that's up by 78 percent on seven years ago. And we've doubled the number of aircraft in that time frame - an

extraordinary figure. Over the past seven years we've paid out \$2.4 billion in franked dividends. And our gearing has decreased by 5 points.

The strength and the success of the company is what attracted a private equity bid for Qantas by Airline Partners Australia late last year. A great deal has already been written and said about it and all I really want to add is this. The Board was on the receiving end of the Bid. We handled it with impeccable integrity and with the toughest protocols ever established to manage conflicts of interest. We took advice from the best lawyers and financial advisers in the country. The Directors made the unanimous decision to put the bid to shareholders and we believe we did exactly the right thing. The Bid period coincided with a dramatic rise in the Australian and global sharemarkets. It was always up to you, the shareholders, to decide the outcome and the outcome was that Qantas remains a listed company.

One positive from the bid experience is that a group of experienced aviation investors examined the company and expressly endorsed our strategies. For my own part, I take the decision to keep the company as ultimately a vote of confidence in the milestone decisions over many years, and the overall strategy and performance of the Qantas Board, management and staff.

### **The new era**

One of the most important jobs of a Chairman and the Board is managing succession planning - getting that right is one of the best ways you can serve a company. On behalf of the whole Board I would like to welcome Leigh Clifford, our Chairman elect. Leigh has an outstanding record of achievement, in particular serving as CEO of Rio Tinto for seven years.

Leigh will bring to Qantas his immense expertise and experience in running a complex global business. He is a man of great integrity, energy and wisdom and I know he will serve Qantas magnificently. I wish Leigh all the very best and look forward to his election by shareholders shortly.

In conclusion, it has been my great privilege to serve as Qantas' Chairman. Like all of us in leadership roles in this company I have always been aware of my custodial role of an iconic Australian business, a technology leader, a major employer and the flagship of Australia around the world.

It has been an honour and a joy for me to play my part in this amazing national story.

As I leave Qantas I am proud to be able to say that Qantas is a stronger, larger, more secure enterprise than ever, with a strong Board, a talented management team, a record share price and low gearing, doing the right thing by our staff, customers and shareholders, strategically well-placed for the future - and making a fantastic contribution to Australia.

Finally, I'd like to personally record my immense gratitude to all the people of Qantas for their support over the past seven years. In particular I want to acknowledge Geoff Dixon - a wonderful CEO and a personal friend.

Now, I would like to introduce Geoff and invite him to address you.

[CEO's Address]

Thank you Geoff.