Annual General Meeting – 28 November 2008
Chairman's Address

Introduction

On behalf of the Qantas Board it is my pleasure to welcome you to the 2008 Annual General Meeting of Qantas. Welcome also to all those who are following proceedings online.

Before I turn to the highlights of the 2007/08 financial year, I would like to introduce your Board of Directors. Seated with me are:

- Managing Director and Chief Executive Officer Geoff Dixon;
- CEO Designate and Executive Director Alan Joyce;
- Finance Director and Chief Financial Officer Colin Storrie; and
- our Company Secretary, Cassandra Hamlin.

Seated in front of you, from your left, are:

- Peter Cosgrove;
- Patricia Cross;
- Richard Goodmanson;
- Garry Hounsell, Chairman of the Audit Committee;
- Paul Rayner;
- John Schubert, Chairman of the Safety, Environment and Security Committee;
- James Strong, Chairman of the Remuneration Committee; and
- Barbara Ward.

You will find biographies of each Director in our Annual Report.

I would like to welcome Alan, Colin, Richard, Paul and Barbara to their first AGM as Directors. Together with Patricia Cross and John Schubert, they will be seeking your support for election today. So let me turn to the results.

A Record Year

2007/08 was an exceptional year. Qantas generated a profit before tax of $1.4 billion, which was a 46 per cent increase on the previous year. Profit after tax came in at $970 million. Total revenue for the year was $16.2 billion, and operating cash flow was $2.1 billion.

The Directors declared a fully franked final dividend of 17 cents per share, taking the total year's dividend to 35 cents per share, a record ordinary dividend for Qantas with 70 per cent of the year's profit returned to shareholders.

In this volatile market the Board considers it important to maintain an attractive yield for our investors. The year's strong result was primarily driven by the outstanding performance of our flying businesses.

Two Brand Strategy

Our two-brand strategy of Qantas and Jetstar gives the Qantas Group the capacity to respond quickly and effectively to the changing needs of our customers. There was a very strong revenue/yield improvement by our premium brand Qantas, returning over $900 million in profit. Jetstar's domestic build-up and international expansion led to a 42 per cent growth in profit before tax to $116 million.

During the year, the independent agency Skytrax surveyed nearly 16 million passengers from 95 nationalities. Qantas was ranked third best airline in the world in 2007/08, and Jetstar the number three low-cost airline.

A major achievement that highlights the strength of both airlines.

Driving Efficiency

During the year the Qantas Group continued to build underlying cost efficiency. Through better margin management, and despite capacity growth of 4 per cent and CPI increases of over 3 per cent, unit costs actually reduced by 2.3 percent.

Continuing improvements across the Group under the Sustainable Future program led to the achievement of $747 million in underlying savings over the year.

Segmentation

Qantas has also been a leader in segmenting the non-flying aspects of its business in order to produce greater efficiencies, enter new markets, and unlock shareholder value. During the year we completed the establishment of the Qantas Frequent Flyer Program and Qantas Freight Enterprises as stand-alone segments and for the first time we provided separate disclosure of their profitability.

As you know, we had a very successful launch of the new Frequent Flyer Program, with all the benefits of the existing program plus the flexibility of any-seat redemption and attractive offerings through our partners.

And Qantas Holidays joined with Jetset Travelworld to create one group with three of the strongest brands in travel – Qantas Holidays, Qantas Business Travel and Jetset Travelworld.

Operating Environment

Of course, this strong Qantas performance must be seen against the backdrop of a major downturn in the operating environment in the second half of the year.

In particular, the crude oil price increased dramatically through to the end of the financial year. Qantas was able to partially offset this through prudent hedging.

Recent movements in fuel prices have been positive for the Group, however these have been partially offset by a weaker Australian dollar and we still face a significant increase in our fuel bill this year based on current prices.

We are continuing to manage these exposures through our hedging program, which provides both protection and flexibility to participate in favourable movements.

The final results last year were also affected by intense competition in domestic leisure markets, a significant increase in domestic and international market capacity, and also a significant weakening of domestic and international economic conditions.

Operational Excellence

I now want to discuss two significant operational incidents.

On 25 July this year a serious depressurisation incident occurred on flight QF30 from Hong Kong to Sydney and the aircraft diverted to Manila. During this tense incident and its aftermath the calm professionalism of the pilots, cabin crew and the Qantas Care team was without peer.

And on 7 October, an Airbus A330-300, operating QF72 from Singapore to Perth, experienced a computer malfunction that caused it to climb, then dip suddenly twice. This was a frightening experience for the passengers and crew and Qantas has been providing support and assistance, particularly to those who suffered injuries. The pilots again responded expertly to get the aircraft down at the nearest port.

In both cases, the Australian Transport Safety Bureau has carried out its own investigations and Qantas has of course, been fully assisting the Bureau, as well as carrying out our own inquiries.

In the case of QF30, the Bureau made a preliminary conclusion that one of the aircraft's 13 passenger oxygen system cylinders failed and we are working with the Bureau as its investigations continue.

In the case of QF72, the investigation is yet to be concluded but it is now clear that it is a matter for the manufacturer, Airbus, and Qantas is complying with guidance being issued by Airbus.

However, let me emphasise: safety is always the number one priority for Qantas. Our standard of airworthiness checks remains as rigorous as ever, and we will always put safety before our operating schedule.

During the final quarter of the year an industrial dispute between Qantas and the Australian Licensed Aircraft Engineers Association seriously affected the punctuality of the Qantas network and disrupted the travel plans of our passengers.

It has taken us some time to bring the network back to our high standard of punctuality but we have now significantly recovered.

Leadership Team

Let me now turn to Board and management changes, because a major renewal process is underway.

Mike Codd, Paul Anderson and James Packer retired as Directors after each making fine contributions to Qantas. Margaret Jackson retired at the last AGM after 15 years of very distinguished service, including seven as Chairman.

And, I am delighted that three outstanding new non-executive Directors accepted our invitation to join the Qantas Board – Richard Goodmanson, Paul Rayner and Barbara Ward. Together they bring wide international business and aviation experience.

We are also seeing generational changes in the management team.

Peter Gregg has stepped down as Chief Financial Officer and as a Board member. Peter has been integral to the success of Qantas and I would like to thank Peter and wish him all the best for the future.

Peter has been replaced by Colin Storrie who was formerly our Deputy Chief Financial Officer. Colin has worked closely alongside Peter over the past decade, running Group Finance. Colin will make a fine CFO and is a valuable contributor to the Qantas Board.

Also coming on board is Lyell Strambi, in the new position of Executive General Manager Operations, Qantas Airlines. Lyell brings a wealth of experience as an aviation executive, notably his past six years as Chief Operating Officer for Virgin Atlantic.

And we welcome David Epstein, in the newly created role of Executive General Manager, Government and Corporate Affairs. David comes to Qantas with a strong background in government, media relations and public affairs. He was most recently Chief of Staff and Principal Adviser to the Prime Minister, and his appointment underlines the importance that Qantas places on strong relationships with external stakeholders.

At the end of this meeting Geoff Dixon retires as CEO and Managing Director and is succeeded by Alan Joyce. So let me turn specifically to the CEO succession.

Over the course of almost 12 months the Qantas Board managed a thorough process to select a new CEO and to provide for an orderly transition.

On 28 July, the Qantas Board selected Alan Joyce to succeed Geoff Dixon, with Alan serving as a Director since then.

On behalf of the Qantas Board and all shareholders I would like to thank and congratulate Geoff Dixon. He has been an outstanding leader for Qantas, guiding the company with judgment and courage through eight immensely challenging years. I am delighted that Geoff will continue to act as consultant to Qantas until March next year.

His legacy is a record profit, and an airline business that is globally recognised as having the highest management standards. It is also a credit to Geoff's management that after a global search we concluded that the best possible candidate for CEO lay within Qantas.

Alan Joyce has already been a highly successful leader at Jetstar and the Board is convinced he has the talent, the skills and the vision to lead the Qantas Group through a period of continuing rapid change in the aviation market place. I welcome Alan to his new role.

Well Positioned for the Future

Looking ahead, there is no doubt that the Qantas Group faces an extremely challenging environment. The global financial crisis is still playing out and a major global economic slowdown is underway.

It is impossible to predict how long the crisis will last or what specific implications it will have for economies around the world, for the Australian economy, and for the Qantas Group in particular. What we do know is that the Qantas Group must deal with high degrees of volatility in both the fuel price and in foreign exchange values.

Qantas has seen a deterioration in booking intakes over recent weeks, particularly in international markets reflecting this challenging global economic environment and the impact of exchange rate movements. Meanwhile the aviation industry globally is restructuring and this will also exert competitive pressures on Qantas. But few airlines can be better placed than Qantas to manage through this volatile era.

The Qantas Group has immense strengths with its successful two-brand strategy, a strong balance sheet and a portfolio of globally competitive and efficient businesses. And, as always, we are responding quickly to changing market conditions.

This week's announcement of further capacity adjustments is the latest step in a series of actions taken to protect the business. It will position us to emerge even stronger from this downturn, ready to resume growth when market conditions improve. So even in these exceptionally challenging times, Qantas is well placed to succeed. And of course, the key to our long-term success lies with the people of Qantas.

I would personally like to thank all Qantas staff for their contribution over the past year which is a credit to their skills, professionalism and dedication.

And once again, thank you, our investors.   You can be assured that we are all working hard to reward you for your confidence in Qantas.