



Annual General Meeting – 24 October 2014 Chairman's Address

Good morning and welcome to the 2014 Qantas Annual General Meeting.

Today's proceedings begin with a review of the 2014 financial year, before we move on to the formal part of the meeting.

I will make some brief remarks, followed by Alan Joyce.

Paul Rayner will speak to you separately about remuneration.

At the conclusion of the meeting I invite you to join us for light refreshments.

Before we begin, let me introduce your Board of Directors. From the far right:

- Bill Meaney;
- Barbara Ward;
- Paul Rayner, Chairman of the Remuneration Committee;
- Jacquie Hey;
- Chief Executive Officer, Alan Joyce;
- Company Secretary, Andrew Finch;
- Richard Goodmanson, Chairman of the Safety, Health, Environment and Security Committee;
- Maxine Brenner; and
- Garry Hounsell, Chairman of the Audit Committee.

Turning first to the Qantas Group result for 2014.

Qantas reported an Underlying Loss Before Tax of \$646 million for the financial year. This is a totally unsatisfactory result.

The result was driven by several factors:

- Market capacity growth that outstripped demand in both the international and domestic markets, leading to a revenue drop of \$550 million.
 - A record high fuel bill of \$4.5 billion, up \$253 million on the prior year.
- and
- Weaker general demand in the domestic market, for both leisure and business travel. Business activity was particularly subdued in the mining and government sectors.

The statutory loss after tax of \$2.8 billion reflected this underlying loss, plus:

- The costs associated with the \$2 billion Qantas Transformation program, including redundancies and early aircraft retirements.



and

- A separate non-cash write-down of \$2.6 billion to the value of the Qantas International fleet. The size of the impairment reflected the fact that these planes were bought when the Australian dollar averaged just 68 cents to the US dollar.

Not surprisingly, given this performance, we are not yet in a position to pay dividends.

These unsatisfactory numbers reinforce the importance of Qantas management's reform agenda, the acceleration of which was announced by Alan Joyce in December last year.

The accelerated Qantas Transformation program represents the most significant reform program since Qantas was privatised in 1995.

In August the market was advised that the Group anticipated an earnings recovery in the 2015 financial year and an underlying profit before tax for the first half.

That guidance stands.

It is underpinned by the hard and continuing work of transformation; a stabilising capacity environment; falling fuel prices; and a lower Australian dollar which provides a significant disincentive to foreign airline capacity growth.

Let me stress that the accelerated Qantas Transformation program builds on a reform agenda underway since 2008.

The challenge was – and is - to build a sustainable premium airline model for the 21st century.

Over the past five years that task has been complicated by difficult and volatile operating conditions.

First, the Global Financial Crisis destroyed airline profits.

Second, a wave of aviation capacity from foreign airlines swept over the Australian market, to take advantage of Australia's strong dollar and relatively strong market conditions, depressing international yields in the process.

And third, fuel costs rose to record levels.

These factors have to some extent overshadowed the quiet revolution underway within the Qantas Group.

So let me give you some numbers to illustrate the scale of change.

- Since 2008, the Qantas Group has taken delivery of approximately 150 passenger aircraft while retiring or returning about 90. The fleet is now far younger, more attractive to customers, costs less to maintain, and is more fuel-efficient.



- Productivity has increased dramatically, with the introduction of new technologies and improved workplace practices. Unit costs have come down by more than 20 per cent since 2009, even as the Group continues to invest in better experiences for customers in the air and on the ground.
- As a result of this commitment to the customer, satisfaction levels are at - or near - record highs for Qantas International, Domestic, Loyalty and Jetstar. This exceptional result across the Group reflects the skill and dedication of Qantas employees, who have risen magnificently to the undoubted challenges of these times.

With the accelerated Transformation Program, \$204 million of benefits were realised in the second half of 2014.

In financial year 2015, at least \$600 million of benefits will be realised – that is \$800 million of cost reduction in the first eighteen months of this three and a half year program.

All of us in this room care deeply about the future of Qantas. On behalf of the Qantas Board I thank you sincerely for your support.

You have shown great patience and loyalty through difficult times.

And I know that you share our ambitions for a strong, successful Qantas delivering sustainable earnings growth and returns to shareholders.

That is the Board's expectation of management, and that is your rightful expectation as shareholders.

Right now the Australian economy is in transition and the immediate outlook is somewhat mixed.

- There is still a general cautiousness among consumers that is affecting all sectors of the Australian economy.
- Government traffic has been weaker, as a result of the tighter fiscal environment.
and
- The mining industry has changed gears from construction to production.

We are well aware of the challenges in the current economic environment, and are responding with both cost reduction and careful capacity management.

For the Qantas Group, however, the key point is that the business should be able to meet its targets and deliver on its guidance to the market.

The Group's domestic earnings recovery will be driven by cost reduction in the short-term – positioning the Group for strong returns as and when the market picks up.

In addition, the domestic industry is stabilising, with a significant easing of the capacity growth of recent years.



And the Group will benefit from a more benign competitive outlook for international markets, with the lower Australian dollar discouraging further excesses in international capacity growth.

The benefit of this significantly outweighs any downside in terms of US dollar denominated costs for the Group, including jet fuel costs.

But the Group will be pushing relentlessly forward with the accelerated Qantas Transformation program to unlock the full, \$2 billion in permanent benefits.

There can be no let up or slow-down in this process, because it is essential to a sustainable future for the Qantas Group.

After 94 years, Qantas continues to be part of the fabric of our national life and a symbol of our nation for Australians everywhere.

All our efforts today must be focused on strengthening Qantas for the decades to come – for our customers, our employees, the communities we serve, and for you, our owners.

Thank you.