Annual General Meeting – 2 November 2012
CEO's Address

Introduction

As Leigh has said, 2011/12 was a challenging year for the Group – but it was also one where we took great strides.

To report an underlying profit despite the challenges is testament to the quality of the Qantas Group's portfolio.

Over the past few years we have built up the strength of the core businesses in that portfolio.

We have a profitable domestic premium business, a profitable low-cost carrier and a profitable frequent flyer program.

In 2011/12, Qantas and Jetstar's domestic networks delivered Underlying EBIT of approximately $600 million.

Qantas Frequent Flyer returned Normalised Underlying EBIT of $231 million, a record result.

Jetstar has a growing pan-Asian network that is expanding into Japan and Greater China.

These are wonderful assets for the Qantas Group.

They saw us through the GFC.

Now they are a platform for a transformation program that will turn around Qantas International and build a more competitive Qantas Group.

This is the right thing to do for the Qantas Group – for our employees, our customers and our shareholders.

It is the responsible thing to do when we consider the structural changes that are shaping the global and Australian economies.

There is still a long road ahead but we should not discount the progress we have made.

We are embedded in the growth sectors of the Australian economy and the growth economies of the Asian region.

We have a broad global network, and we extend that network through partnerships with the best airlines in the world.

As Leigh said, our finances are healthy.

We have a new structure that allows each of our core business segments to be managed more effectively.

And, most importantly, we are delivering for our customers.

The research shows that Qantas' brand health and customer satisfaction are now better than they were before the industrial action of 2011.

So I repeat: it has been a challenging period, but a pivotal one in Qantas Group's recent history.

Stabilising Industrial Relations

Before I move on, I'd like to briefly address the last year's industrial dispute – because it is important to understand the context for the progress we are now making.

The facts today are clear. By October 2011 the industrial campaigns undertaken by three unions were having a devastating impact on operational reliability, forward bookings, and employee morale.

Under the threat of another 12 months of industrial action – a 'slow bake' – we responded in the only way available to us as an employer under the Fair Work Act.

The grounding of the Qantas fleet and subsequent termination of industrial action by Fair Work Australia brought stability and certainty for our customers, employees and shareholders.

And the agreements subsequently reached with these unions, and endorsed by Fair Work Australia, have reinforced management's right to manage.

I deeply regret the disruption caused to many of our customers by the grounding.

But I believe our recovery has been in the finest traditions of Qantas' commitment to customer service.

In nine of the past 11 months, we have defeated Virgin for on-time performance.

By mid-2012, our domestic customer satisfaction had reached its highest sustained level since 2007.

We have continued to invest in new aircraft, technology and training to ensure that we provide a world class customer experience.

And we have begun to implement the hard decisions needed to ensure that the Qantas Group has a profitable, successful future.

Transforming the Business

In August last year I set out a five year plan for Qantas International, along with broader transformation initiatives for the Group as a whole.

The plan has the goal of returning Qantas International to profit in the short term.

It will restore a great Australian airline to financial health – the only Australian-owned international airline serving this country.

Within five years of August 2011, our intention is that Qantas Domestic and Qantas International combined will exceed the cost of capital on a sustainable basis.

In 2011/12 we made rapid progress.

We have restructured our network to target global gateways and deepen alliances with our major airline partners. We have increased capacity on the successful Dallas route and launched a new route to Santiago, the gateway to South America.

Where necessary we have cut loss making routes.

We have improved the economics of our fleet through new and upgraded aircraft, while reducing capital expenditure by $900 million in the current financial year.

Our average passenger aircraft age is now a highly competitive 8.3 years.

In operational areas, we consolidating heavy maintenance and catering infrastructure and introducing new work processes.

These changes reflect modern aircraft technology, regulatory change and global industry standards. They are essential to ensure we can compete with the major international airlines targeting Australia.

The new global partnership with Emirates is the most significant in Qantas' history.

It is a partnership of equals – an integrated commercial arrangement that will give our customers a global network, world class travel experiences and extensive frequent flyer benefits.

It will revitalise Qantas International on the fiercely competitive Kangaroo Route. We will fly through Emirates' Dubai hub and offer one stop access from Australia to more than 70 destinations in Europe, the Middle East and Africa.

Equally, it will allow us to recalibrate our Asian network to better meet the needs of business travellers.

The partnership is subject to regulatory approval and we take nothing for granted. But it has received the backing of the federal government and been warmly welcomed by our customers, employees and the tourism industry.

Financial Management

I'd like to briefly cover our financial position before concluding.

As Leigh said, we remain one of only two airlines in the world with an investment rated by two agencies.

This is a direct result of our disciplined approach to cash management the actions taken to address our cost base, and the potential of the Emirates' partnership.

Our capital expenditure requirements for 2012/13 are now at the lower level of $1.9 billion and will be at most $1.9 billion next financial year.

As a result we are turning our attention to paying down debt, mindful of the volatile economic and financial environment.

In the second half of 2011/12, we were cash flow positive by $200 million – meaning that our operating cash flows exceeded our capital investment requirements.

We will invest only where we can be confident of sustainable returns, and we retain the flexibility to adjust capital expenditure as operating conditions demand.

We have divested our stake in the Star Track Express road freight business as we focus on our core portfolio.

Having worked closely with Australia Post to restructure our joint venture, we will generate over $400 million in cash from the sale of Star Track and strengthen our cargo operations by integrating Australian air Express.

The agreement with Boeing to restructure our Boeing 787-9 deliveries generate more than $400 million of cash from the cancellation of 35 aircraft – while bringing forward 50 options by two years to 2016.

This is both financially responsible and strategically sound, because it means that these aircraft will be available for delivery immediately after the Qantas International turnaround plan is complete.

Conclusion

To conclude, all parts of the Qantas Group are strong and profitable, with one exception – Qantas International – which we are moving at pace to fix.

Our focus now is on realising the full benefits of transformation measures and securing approval for the Emirates partnership.

As we do so, we will be maintaining our strong domestic position, continuing to expand Qantas Frequent Flyer and building Jetstar's pan-Asian network.

We have the right strategy and the right structure for the future.

We have a wonderful, Australian-owned, Australian-based, Australian-made brand.

We have great people who represent the Qantas Group proudly in Australia and the world.

These are challenging times, but the Qantas Group is equal to them.

Thank you.