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Annual General Meeting – 18 October 2013
CEO's Address

Introduction

As Leigh said, this has been a year of progress and achievement for the Qantas Group – amid tough market conditions and persistently high fuel prices.

We have Australia's leading airlines and loyalty business. But we are not standing still.

We are working on all fronts to build a stronger Qantas Group – one that can grow and succeed in the 21st century aviation industry.

We have a clear strategy to strengthen our domestic business; turn around Qantas International; build Jetstar in Asia; and broaden Qantas Loyalty.

This strategy is delivering results – though there is still a long way to go.

We can reflect with satisfaction on the Group's achievements in financial year 2013.

But more importantly, we must focus on the opportunities – and challenges – ahead.

Building the 21st Century Qantas Group

Our strategy is based on the clear evidence that global aviation is changing. It is changing rapidly, it is changing profoundly – and the changes cannot be reversed.

The Asian Century means that the world's centre of economic gravity is shifting to Australia's region.

New competitive forces and new airline partnerships are emerging.

And technology is changing the way airlines do business and serve customers, from new aircraft types to mobile devices.

All these trends present enormous opportunities for the Qantas Group.

But we must act quickly and decisively to realise the opportunities. Because if we do not, others will.

Our vision is for a Qantas Group that is better than ever in Australia. A Qantas Group that connects Australia to global markets. And a Qantas Group that draws on the skill of its people and the best of new technology to deliver world class customer service.

Since we announced our five-plan for a stronger Qantas more than two years ago, we have made great progress.

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We are well advanced in building a global network to meet our customers' needs.

We continue to support regional communities through QantasLink, staying true to our roots in outback Queensland. We are increasing our share of the charter market, working with Australia's mining sector.

We are investing in the best product, service and frequency for business travellers.

Through Jetstar, we offer lower fares and more holiday destinations than any other airline.

And through both Qantas and Jetstar, we provide a range of international destinations from Australia that no other carrier can match.

The Qantas Group has a strong and growing presence in Europe, Asia, North America, South America, and New Zealand. We are strengthening our network via global aviation hubs. And we are extending our reach through strategic partners like Emirates and China Eastern.

The Jetstar brand continues to expand in Asia, working with local investment partners and local management teams.

After nine years, Jetstar is bigger than Ryanair and Easyjet were at the same age.

And Jetstar is one of very few Australian brands to have built a multi-billion dollar business in Asia from scratch.

We are well positioned for growth in this dynamic region that is so important to Australia's future.

Positive Transformation

As Leigh said, domestic and international markets conditions remain challenging. So at the same time as building a global network, we must ensure that our business is as competitive as possible.

We are in the midst of our biggest transformation since Qantas was privatised in 1995.

This transformation program has the goal of returning Qantas International to profit in financial year 2015 and ensuring that the Qantas airlines deliver sustainable returns over the long term.

We've had to make some difficult but necessary decisions to modernise our business, such as in engineering and catering.

But our transformation is much broader than that.

We have renewed over a third of our fleet in just four years, with more than 120 new aircraft. Our average fleet age is now below eight years, better than almost every other legacy airline group.

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With Emirates, we have forged a partnership that has forced other airlines to rethink their strategies.

We have revitalised service on the ground and in the air – and our customers have noticed.

We are seeing record customer satisfaction in Qantas International, Qantas Domestic and Qantas Loyalty – remarkable given the intense competition in the market.

This exceptional result is a tribute to our people, who have committed themselves to our transformation – and lifted Qantas to a new level.

Employee engagement is on the rise, and at record levels for customer facing staff.

With a global network, a modern fleet and the best ever Qantas service, I believe we are entering a new era for this great Australian brand.

Responsible Management

This is a positive transformation. And it is a responsible transformation.

As Leigh said, we are in a stronger financial position thanks to the steps we have taken.

We have lowered debt levels and extended the Group's debt maturity profile, while reducing capital expenditure to ensure we retain a healthy balance sheet with strong liquidity.

Our business model continues to generate strong levels of operating cash flow. While we are planning for free cash flow to be negative in the first half of financial year 2014, with the majority of capital expenditure weighted to that period, we are targeting another full-year of positive free cash flow.

Challenges and Opportunities

We must be realistic about the challenges we face. A volatile economy. An uncertain exchange rate. High fuel prices. And intense competition on domestic and international routes.

We are a national carrier operating in one of the most liberalised aviation markets in the world.

And in the first half of financial year 2014, Group fuel costs will be a record for any half-year – a massive cost impact that will affect our international business in particular.

The domestic market is still absorbing capacity growth that has been double the long-run average. And this growth has come at the same time as weak underlying demand across the market, from the leisure to corporate segments.

The Australian economy is in transition, affecting many of our corporate clients – from the mining sector to financial services. We are hopeful that the recent lift in business confidence will flow through to increased demand for travel, but there will be a lag effect.

As a result of this weak underlying demand and competitive pressures both domestically and on international routes, we expect Group yields to decline in the first half of financial year 2014 by between 2 and 3 per cent compared to the first half of financial year 2013.

Given the high degree of volatility in the competitive environment, global economic conditions, fuel prices and exchange rates it is not possible to provide earnings guidance at this time.

There are many factors that we cannot control, and the immediate challenges they present are real.

Yet for all the hurdles we face, we have many reasons to be optimistic.

Our structural advantages as a Group remain.

We have a world-class business and great aviation brands.

We have skilled, engaged employees.

We are transforming Qantas for the better.

And we have the right strategy for a bright, successful future.

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