

BUILDING A STRONGER QANTAS

Alan Joyce, CEO Qantas Airways

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INTRODUCTION

Earlier this year I laid out the grave challenges faced by our Qantas International operations and announced that we were undertaking a wholesale review.

Qantas International is an important part of the Qantas Group.

It is part of our national Australian story.

And it represents a core element of our appeal to valuable corporate clients, leisure customers and Frequent Flyers.

So the economic sustainability of Qantas International matters to the whole Qantas Group.

But it is a steadily fading business, suffering big financial losses and a substantial decline in market share.

The issues are neither cyclical nor temporary.

Qantas International faces serious structural challenges, to do with the progressive deregulation of our market at home, the influx of competition here and abroad, and our high cost base.

Right now 82 out of every 100 people flying out of Australia are choosing to fly with an airline other than Qantas, not including Jetstar.

Competitors are piling in, many with substantial foreign government backing, meaning we have some of the fastest capacity growth of any market in the world.

Foremost among them are Middle Eastern and Asian carriers with well-positioned hubs.

Today a large numbers of our routes, primarily to Asia and Europe, are loss-making, with no improvement in sight.

Our share of the Asian international market has collapsed to 14%.

Our profitable international routes are not sufficient to make up the shortfall.

And our cost base is around 20% higher than our key competitors.

Today Qantas International absorbs large amounts of capital that could arguably be better invested in profitable, growing parts of our business.

We don't have the option of pretending that things will change if we stay the same. They won't.

To do nothing, or tinker around the edges, would only guarantee the end of Qantas International in our home Australian market.

That would be a tragedy.

So we must change. We have a five year plan and it starts today.

This is a big task but we start from a position of strength.

The Qantas Group is a large, stable and profitable enterprise.

Our core domestic operations are performing very strongly and generating good profits.

We have a bedrock of 65% market share in the domestic market, driven by the combination of our two-brand flying model and Australia's favourite loyalty program.

The Qantas brand is at the heart of our powerful domestic business.

The Qantas Frequent Flyer program is the world's best and most profitable loyalty program, with high potential.

And Jetstar is one of the world's fastest growing and most profitable low-fares airlines, set for significant future growth.

This morning I want to set the scene by laying out our plan for the transformation of Qantas International.

And I want to make several announcements, the first in a series over the coming months as we complete the negotiations that we have currently underway.

Our five year plan has the objective, first, of returning Qantas International to profitability in the short term.

In five years the Qantas flying businesses, both domestic and international combined, will exceed the cost of capital on a sustainable basis.

A NEW SPIRIT

I also want to emphasise the confidence I have in the path we are taking.

For more than 90 years Qantas has been the Spirit of Australia, connecting Australians to the world.

Now more Australians are making more journeys, to more destinations, than ever before.

Even in the midst of the current economic volatility, Australians are still going to be very well-off in global terms, with a strong currency, ready to do business around the world, and to enjoy all that global travel has to offer.

So it's time for a new Spirit of Australia, one that reflects how we live, work and travel today.

Our plan has four elements:

- Opening gateways to the world
- Growing with Asia
- Being best for global travellers
- Building a strong, viable business to create shareholder value.

GATEWAYS TO THE WORLD

Today I announce our new 'gateway' strategy, based on an expanded network of alliance relationships.

We are choosing the world's leading airlines to help us take our customers to their favourite places around the world and to their key business destinations.

- In May, we established Dallas/Fort Worth in place of San Francisco, opening a gateway to 52 destinations in north and central America with our partner American Airlines.

Together we are now working on joint commercial planning, joint sales and marketing, and more Frequent Flyer benefits.

- We're also looking at new opportunities to work with **oneworld** member elect, Malaysia Airlines particularly given its services to continental Europe including Istanbul, Rome and Amsterdam.

This will be ideal for price-sensitive premium leisure passengers looking to come home to Qantas and start building up their Frequent Flyer points again.

- Santiago is the exciting hub city for booming South America, as well as an important destination for Australian business.

Commencing in April next year, we will replace Buenos Aires with Santiago on our network, starting with three non-stop services per week.

We will be working with LAN, Latin America's most dynamic airline, to provide great connections for customers and benefits to both companies.

- From April 2012, we will expand our partnership with British Airways.

This will see the consolidation of our Qantas flights to London through Singapore on our A380s.

We will also partner with British Airways to fly onwards from Bangkok and Hong Kong to London.

This is part of our strategy to reduce loss-making, asset intensive flying, while continuing to provide great connections and Frequent Flyer points for travellers to the UK, and other destinations in Europe.

Valuable Heathrow slots will be preserved for future access requirements.

- The Kangaroo Route and the Pacific Route are our iconic, flagship routes. We will have more of our award winning A380s on daily services to Los Angeles from Sydney and Melbourne, and on our daily service to London via Singapore from Sydney and Melbourne.
- Johannesburg will remain our gateway into the great game parks, beaches and business opportunities of Africa, and we will continue our strong relationship with South African Airways.

We are negotiating further opportunities to advance our 'gateway' strategy.

This is all about being the best premium airline for the diverse, modern era of Australian international business and leisure travel.

We cannot fly our own aircraft to every port, but we will get our passengers wherever they want to go across the globe, in comfort, style and ease, with the best frequencies and connections, and with more opportunities to earn and redeem Frequent Flyer points than ever before.

GROWING WITH ASIA

Now let me turn specifically to the most important region in the world for Australia and for Qantas: Asia.

As a nation we used to fly over or via Asia, on our way to Europe.

Now we fly *to* Asia, both for business and relaxation.

And as Asian economies grow, the future will be about travel both to and within Asia.

Our customers want to do business in Asia and so do we.

Whatever happens in financial markets over the coming weeks and months, one thing we know.

Asia will continue to play a larger part in the global economy and a bigger role in the world.

It is already the world's largest, fastest growing and most profitable aviation market.

There is nowhere like it. It has massive untapped potential.

We have an historic opportunity to position Australia's two great airline brands, Qantas and Jetstar, in Asia and create a platform for the future of our business.

We need to act now because our competitors are circling the opportunities.

There is probably only a brief window to establish a leading aviation position in the market.

We want to be growing with Asia.

We have already started with Jetstar.

Our outstanding performance so far shows we have what it takes to succeed.

Today I am delighted to confirm that the Qantas Group will be establishing a new low cost carrier in Japan in partnership with Japan Airlines and Mitsubishi.

This is a major opportunity in a major market.

It is, we think, the first joint venture partnership of its kind between an Australian company and two iconic Japanese brands.

Jetstar Japan will launch domestic Japanese services by the end of next year, growing to a fleet of 24 aircraft over the first few years.

International operations will commence within the first year, targeting key destinations in China and South East Asia.

Here in Australia the Qantas Group has proven its ability to manage a premium airline and a low fares airlines within the same market, maintaining strong growth and profitability, and growing both brands simultaneously.

This unique capability will now be maximised in Japan.

Today Qantas and Jetstar fly to Tokyo and Osaka.

Now, with Jetstar Japan, we will have a feeder network across the whole country, encouraging a boost to Japanese tourism to Australia and particularly Queensland.

But it is absolutely clear that the future of Asia is not just about low-fares airline travel.

I asked the Lowy Institute to take a look at the future shape of Asia.

Within 20 years 16% of the world's middle class will be in East Asia.

China may already have the world's fourth largest population of millionaires; and India the twelfth largest.

Leisure tourism is ranked highly as a consumer experience by Asia's emerging middle classes.

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These are many, many millions of premium travellers in-waiting.

And we know that Chinese travellers rate prestige brands and safety as among their top travel priorities.

Today I can confirm that Qantas intends to invest in a new premium airline based in Asia.

This joint venture airline will have a new name, a new brand, new aircraft and an exciting new look and feel.

The airline will not be called Qantas but it will leverage all our Qantas know-how, making the most of our excellence in brand management, aviation safety, customer experience, finance, marketing, and our valuable corporate customer relationships.

We have narrowed down our location options and an announcement will be made when we have completed negotiations.

I can also confirm that 11 A320 aircraft will initially provide the operating fleet for the new airline.

We know from our research and from global experience that this popular aircraft type will enable more frequencies while offering a 21st century premium experience.

For the first time in our history Qantas intends to fully participate in the benefits of an Asian aviation hub.

We will be offering same day services to and within Asia, and overall frequencies to Asia from Australia will grow.

We will be able to feed traffic into the new hub from Europe and Australia, and Asian ports.

We see tremendous potential for our Qantas domestic and regional businesses, and for the Australian tourism sector, as we bring more premium Asian business and leisure visitors to our shores.

Until now Qantas has been a 'home and away' business.

Now we are making the transition to a regional and global business.

This is how we will find new sources of revenue and profit and protect our interests at home, including many thousands of jobs.

BEST FOR GLOBAL TRAVELLERS

We live in a world of more aviation choice than ever before for Australian travellers.

For Qantas to succeed, we need to keep investing in what delights our customers and brings them back to us.

We need to be the best airline for global travellers.

That's why we are spending nearly \$400 million on benefits for our Qantas International customers.

By the end of this calendar year we will have 12 of our award-winning A380s in service.

Our people in Avalon are hard at work right now refitting nine Boeing 747s with the same A380 seats and interiors, including new Panasonic inflight entertainment systems.

The first of the upgraded 747s will be ready and flying within three months.

By October next year 21 of our biggest aircraft will be the latest in style and comfort, with fully flat Skybeds, and 23 will be flying by the end of June 2014.

Today I announce that we will be establishing Marc Newson First lounges in Los Angeles, Singapore and Hong Kong.

We think they are the best First lounges in the world.

And the combined size of our First and Business lounges in Los Angeles will be three times bigger than today.

We are also rolling out our new Boeing 737 aircraft on our trans-Tasman services to offer better premium product, even as the competition retreats.

Stage one of our international roll out of smarter faster check-in will soon be available for passengers travelling to New Zealand.

We will keep improving our loyalty program.

We've upped the benefits for the most valuable customers because we want to encourage them not to split their international travel between us and other airlines.

Gold and Silver Frequent Flyers are being given more bonuses.

Our deepening alliance relationships create more opportunities for all Frequent Flyers to earn and redeem points: Any Seat Redemptions with no less than 43 airlines and Classic Seat Redemptions with 26.

From Alaska to Africa, from Istanbul to Hong Kong – our extended global network means that no matter how far you roam, you'll always find a Frequent Flyer Partner with which to earn and redeem Qantas points.

That's a truly global proposition for premium globetrotters.

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A STRONG, VIABLE BUSINESS

All the plans I announce today are predicated on the need to create a strong and viable business and build long-term shareholder value.

The right fleet plan is fundamental.

Over the coming decade, our fleet strategy will deliver a simplified, highly flexible fleet of next generation aircraft capable of meeting our needs while driving down operating costs.

Today I announce that Qantas has placed an order with Airbus for up to 110 new aircraft from the A320 family.

This is a major investment in our future.

Of this order, between 28 and 32 will be current generation A320s.

And we are delighted to announce that 78 will be next-generation A320neos, the most sought after aircraft on the planet, with about an 8% unit cost advantage over current A320s, with up to 15% lower fuel burn, up to 20% lower engine maintenance costs, and improved payload range capability.

Over the period to 2020, this order will:

- Provide us with early access to the most popular aircraft in the world, with secure delivery slots on market-leading financial terms
- Provide 24 aircraft for the Jetstar Japan franchise, which means they will be funded off our balance sheet
- Of the 78 A320neos, approximately half will be for lease replacements, replacing older aircraft with more efficient, next-generation models
- The other half will support base growth in the existing Jetstar businesses, and provide flexibility for the later part of this decade.
- Provide eight aircraft to deploy in our planned new investment in a premium carrier in Asia, with up to three additional aircraft to come from the Group's existing fleet orders.

While the order is large in number, it is actually low on risk.

It is a very prudent investment in the right fleet for the next decade.

This order will give us a high degree of flexibility based on our lease/buy arrangements so that we can respond quickly to evolving markets and emerging opportunities.

We have negotiated with Airbus to defer delivery of six of our 20 A380s by five to six years, so that numbers 15 through 20 will be delivered between 2018 and 2021, to line up with the retirement of the last B744ER aircraft in our fleet.

This will significantly reduce the capital invested in the Qantas International business, as the deferred aircraft will replace our B744 aircraft to match our long-term fleet requirements at the end of the decade.

This involves capital of \$2.3 billion at list prices¹ and by 2021 we will have completed the transition to a 21st century flagship fleet of our magnificent A380s.

By working with our partners on our 'gateway' strategy we will be extending our reach on behalf of customers, while considerably improving the profitability of these routes.

Four out of our fleet of 26 B744s will be retired this financial year.

During this period Qantas will continue its tradition of prudent capital management.

We are very well positioned to manage the current economic turbulence, to fund our program and to manage any future shocks.

We will continue to review our portfolio and release capital from non-core assets and operations where appropriate.

OUR PEOPLE

Now to the impact of these changes on our people.

As a result of aircraft retirements, network changes and more efficient practices, approximately 1000 jobs will become redundant.

The areas affected include management positions, pilots, cabin crew and engineering.

We will be providing full information on these matters to all our people and of course, we will be supporting all employees affected by these changes.

There's no doubt this is tough. But consistent with past practices, we expect the majority of these redundancies will be voluntary.

We will certainly be looking to minimise the number of compulsory redundancies, and also to preserve links with skilled personnel.

For example, some pilots will be offered leave without pay to take up a range of opportunities across the Group and in other companies.

¹ Actual prices paid are commercial-in-confidence

But over the next few years, there will also be job opportunities opening up.

Our expansion into Asia provides openings for our people to capitalise on their Qantas training and experience overseas.

This is the way of the future for smart Australian companies.

Like our leading mining, finance and IT companies, as an Australian company we can take our unique skills and knowledge to the world and see the benefits flow back to us.

We will become more productive, more efficient, more innovative.

That is how we will create a strong and viable future for Qantas, and preserve the vast majority of our 35,000 jobs.

A BETTER FUTURE

This is just the beginning of what will be a lengthy change process. But we know where we want to end up.

In the short term our objective is to return Qantas International to profitability.

In five years time the Qantas flying businesses, both domestic and international combined, will exceed the cost of capital on a sustainable basis.

This will complement our strongly performing Jetstar, Qantas Frequent Flyer and Freight businesses.

Working with our alliance partners, our gateways will offer our customers a huge range of ports, connections, frequencies - and a great flying experience.

We will be the best premium airline for Australia's global travellers.

Our Frequent Flyer program will offer the best incentives and benefits.

We will be doing things smarter and more efficiently, extending our reach while we lower our costs. We will be creating value for our shareholders.

And instead of being restricted to an Australian-based international airline, Qantas International will be participating in regional Asian opportunities, and the world beyond.

And in ten years time the Qantas Group will have completed the transition to a modern, efficient fleet.

We will be a global, multi-brand enterprise that is a flagship for Australian expertise and quality around the world.

We will have extensive assets in Asia, the world's most dynamic region.

From today we are building a stronger Qantas. A Qantas for our times and for the future.

An Australian company, owned by Australians, with the vast majority of our operations based in Australia.

A business with a sustainable future, creating long-term shareholder value.

And we'll always call Australia home.