

## MEETING OUR CHALLENGES

Today we issued an update on our performance for the first half of this financial year. We expect to report an underlying loss before tax of \$250 million to \$300 million for the six months ending 31 December 2013. These are the toughest market conditions we have ever faced. We are in a fundamentally changed world that is having a huge impact on our business. Virgin is expected to increase its domestic market capacity by double the rate of Qantas for the first half of 2014. It is pursuing its loss-making strategy to cripple Qantas in the domestic market, and ultimately in the international market as well. We also face a flood of foreign airline capacity into the Australian international market (up almost 10 per cent over the past year), attracted by our high dollar and relatively strong economy.

Qantas is up against government owned airlines that are determined to attract passengers through their hub airports, and prepared to make major losses to do so. These airlines can also do things much more cheaply than we can. We will all be extremely disappointed by today's news, because it means we face tough times ahead. But our difficult circumstances are no reflection on the hard work and achievements of everyone in the broader Group. We have much to be proud of. Together we have achieved milestone improvements, demonstrated by soaring customer satisfaction, superior on-time performance, the youngest fleet in twenty years, and cost reduction of 19 per cent.

We continue to be Australia's Qantas, making a huge contribution across Australia's regions and communities, and being there for our country when Australia needs us. We will now embark on an accelerated cost reduction program, with our Transformation Team taking on an expanded mandate. At least 1,000 jobs will be cut within the next 12 months. These cuts will be across the business – corporate and operational. This decision is difficult but absolutely necessary given the current challenges. There will also be a freeze on pay and no bonuses for all Qantas executives this financial year. We will review spending with our top suppliers, work harder at reducing our overheads, and intensify our efforts to optimise our network and fleet utilisation. We will undertake a capital expenditure and structural review. Whatever measures we take will be designed to protect and safeguard the long term future of Qantas.

We will continue to talk to the Government about the urgent need to address the fact that the playing field is tilted firmly in Virgin's favour. We have been raising these issues privately with the current and the previous Federal Government since February 2012. We are talking to the Government about additional measures, but none of the options being discussed would remove the need for us to take comprehensive action. Government action will be key, however, to enabling Qantas to compete effectively on a level playing field. My final message today is this: let's stay proud and strong. Let's keep delivering the best experience for our customers. Many of you have already contributed to making our business more efficient: keep taking active steps to cut costs in your area. We are the custodians of an amazing heritage. We are fierce competitors and we know we can win in any fair competition. The challenges are immense, but we will overcome them. We are the spirit of Australia, and we're going to keep it that way.

Qantas Group Broadcast Message - Issued by Employee Communication - email: [redacted].