Qantas Frequent Flyer Program

- More than 5 million members
- More than 220 partners
- Partnership with Qantas and Jetstar and major financial institutions
- More than 3.3 million seats redeemed in last year
A Discrete, Transparent Business

- Distinct cashflows and risk profile
- High and stable growth profile
- Revenue of $399 million
- 60% of revenue generated outside of core airline business
- PBT of $61.9 million

How a Loyalty Program Works

Earning Loyalty Points:
- Member interacts with program partner (eg. Airline, Credit Card or Retailer)
- Program partner rewards loyalty by purchasing points from loyalty program
- Member earns points

 Redeeming Loyalty Points:
- Members redeem points for reward (eg. Flights, travel, merchandise)
- Loyalty program sources and pay for reward
- Member enjoys loyalty reward
**Simplified Economic Model of Frequent Flyer program**

**Point Activity**
- Points Earned by Member
- Points Added to Points Pool
- Points Pool Grows
- Points Redeemed from Points Pool

**Cash Impact**
- Cash Received (Billings)
- Positive Working Capital (generates interest)
- Cash Outflow to Purchase Rewards

**Accounting Treatment**
- Billings Recorded as Deferred Revenue (Liability)
- Profit Recognition Deferred
- Points Liability Reduced
- Revenue Previously Deferred & Redemption Costs Now Recognised in P&L

### Sources of Value

Gross Margin on Points + Working Capital + Breakage (Expiry)

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**Member Driven Growth**

- More ways to redeem points for rewards
  - access to more air rewards
  - access to merchandise and voucher rewards

- More opportunities to earn points
  - grow the coalition of partners
  - ability to earn double/triple points
  - greater share of consumer spend capable of earning points reinforces member value proposition

- More engaged members generating more activity
  - one account to manage
  - simple to use
  - easy to understand
Partner Driven Growth

Qantas Frequent Flyer as a successful loyalty program drives value to Partners through:

- Customer acquisition
- Customer retention
- Market share gains
- Share of wallet gains
- Enhanced understanding of customer behaviour and preferences
- Enhanced loyalty for the partner thus reinforcing the value of the program

...220 program partners today, a growing network of partners over time
...commercial (non-airline) partners provide majority of cashflow

Exclusive Loyalty Program for Qantas Group

- Mutual exclusivity with Qantas and Jetstar
- Sharing of member database
- Brand licensing arrangements
- Commercial arrangements for purchase of airline inventory and Frequent Flyer points
Value Creation for Qantas

Success of loyalty program:

- Enhances yield
- Enhances load
- Cost effective
- Reinforces future loyalty

Loyalty – Financial Performance

<table>
<thead>
<tr>
<th>Segment Result</th>
<th>ASM</th>
<th>1H07</th>
<th>1H08</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income Statement</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Segment Revenue</td>
<td>388</td>
<td>389</td>
<td></td>
</tr>
<tr>
<td>EBITDA/EBIT(1)</td>
<td>61</td>
<td>62</td>
<td></td>
</tr>
<tr>
<td>Interest Expense</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>PBT</td>
<td>61</td>
<td>62</td>
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</tbody>
</table>

- Includes Points Related Revenue of $391m as well as fees and ancillary revenue – breakage rate estimated below 10% (recognised in revenue on redemption)
- No capital allocated to segment in the half-year – hence nil interest attribution
- Second half 2008 segment profit expected to be lower than first half due to program enhancement preparation and launch costs

(1) Depreciation booked to the Loyalty segment is immaterial. Hence EBITDA = EBIT.
(2) Comparative results have been derived by extrapolating current year trading terms across historical periods.
Loyalty – Adjusted EBITDA - Proforma

• Billings of $479m – Billings create cash inflow, not P&L revenue.

• This adjustment recognises that an increase in the points balance during the period comes with a predictable increase in future cash redemption costs.

• Adjusted EBITDA is a cash-based measure of profitability in the period, which removes the impact of the time lag between sale and redemption of a point.

### Adjusted EBITDA Calculation

<table>
<thead>
<tr>
<th></th>
<th>1H07</th>
<th>1H08</th>
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</thead>
<tbody>
<tr>
<td>Accounting EBITDA (from previous page)</td>
<td>61</td>
<td>62</td>
</tr>
<tr>
<td>less: Points Related Revenue</td>
<td>(381)</td>
<td>(391)</td>
</tr>
<tr>
<td>add: Billings</td>
<td>444</td>
<td>479</td>
</tr>
<tr>
<td>add: Change in Future Redemption Costs</td>
<td>(43)</td>
<td>(56)</td>
</tr>
<tr>
<td>Adjusted EBITDA</td>
<td>81</td>
<td>94</td>
</tr>
</tbody>
</table>

Qantas Frequent Flyer

• Complementary to, not reliant on the airline business

• Value creation for members, partners, Qantas, Jetstar and shareholders

• Program enhancements in July 2008

• Potential to implement new ownership structure by late 2008