Qantas Frequent Flyer
Investor Briefing
June 2010

QFF is a successful business with significant value

**Shareholder Value**

**Positive Working Capital**
- Direct earn rush
- $2 Billion in deferred revenue

**EBIT ($Millions)**
- FY07: 128
- FY08: 128
- FY09: 163

**Member Numbers (Millions)**
- FY08: 5.3
- FY09: 5.8
- Current: 7.1

**Rewards**
- Nonreplicable classic awards
- Award Store 1700+ products
- Any Seat to 100+ destinations
- 3.4 million seats redeemed FY09

**Members**
- Qantas and Jetstar
- All major banks
- Australia’s leading retailer
- Qantas has 65% domestic market share

**Member Engagement**
- Record High
- FY08: 6.9
- FY09: 6.9
- Current: 6.9

- Breakage at industry lows

**Billings ($Millions)**
- FY07: 878
- FY08: 929
- FY09: 1255

- Majority external billings
**Business and Value Model**

- **Points Earned by Spending**
  - $100 Billings
  - $25 Marketing Revenue
  - Recognises that member chooses to shop with Partner
  - Includes Breakage

- **Points Redeemed for Award**
  - $75 Redemption Revenue
  - Recognises the Value of award

- **Points Expire (Breakage)**
  - $25m Margin
  - Recognises the Cost of award

- **Working Capital Benefit**
  - Cash In
  - $100 Billings
  - Cash Out
  - $70 Award Cost
  - $100 Cash Balance

**Illustration Only**

*After interim period when points in existence on 1 January 2009 are extinguished*

**Financials**

<table>
<thead>
<tr>
<th></th>
<th>FY08</th>
<th>FY09</th>
<th>1H 10</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Billings</strong></td>
<td>929</td>
<td>1,255*</td>
<td>477</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td>849</td>
<td>1,133</td>
<td>547</td>
</tr>
<tr>
<td><strong>Total Costs</strong></td>
<td>(721)</td>
<td>(823)</td>
<td>(390)</td>
</tr>
<tr>
<td><strong>Reported EBIT</strong></td>
<td>128</td>
<td>310</td>
<td>157</td>
</tr>
<tr>
<td>Less: Estimated one off impact of direct earn point ‘rush’</td>
<td>(84)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBIT excluding rush</td>
<td>128</td>
<td>226</td>
<td>157</td>
</tr>
<tr>
<td>Revenue recognition adjustment</td>
<td>(63)</td>
<td>(78)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>128</td>
<td>163</td>
<td>79</td>
</tr>
<tr>
<td><strong>Deferred Revenue</strong></td>
<td></td>
<td>&gt;2,000</td>
<td></td>
</tr>
</tbody>
</table>

- **Billings represent cash received when points sold to partners**
  - Majority are external partners
- **Operating Expenditure**
  - Cost of awards are variable to redemption volume
  - All other costs have economies of scale
- **Positive Working Capital**
  - Deferred revenue balance over $2 billion
- **Capital Investment**
  - Investing in market leading CRM systems with Siebel and Oracle

*FY08 includes rush in from direct earn strategy*
Coalition 420+ Partners

- Earn on Qantas and 27 partner Airlines
- Earn products at all major banks
- Earn points at Australia’s largest retailer
- Wide cross section of retail, travel and restaurants

Unique and differentiated rewards

- **Classic Rewards**
  - 27 Partner Airlines available on Classic Rewards
- **Any Seat Rewards**
  - Ability to redeem on addition 46 airlines to over 100 destinations
  - Points plus pay offered – allows low cost fares
- **Store Rewards**
  - One of the largest online retail stores in Australia
  - Choice of over 1,700 products, including over 100 vouchers in Australia

3.4 million seats redeemed in FY09
Value in Partnerships

1. Attrition impact for partners
   - 30% reduction in attrition
   - Spend has increased on tagged accounts by over 5%

2. Customer acquisition impact
   - ANZ Consumer Market Shares

3. Coalition effect
   - ANZ Investor presentations

4. Marketing spend efficiency
   - Google Search Index

---

Growth

Opportunity
- Cross selling and up selling within the coalition is the single biggest growth opportunity
- Membership penetrates nearly 50% of Australian households with 45% increase in members over last 3 years

Track Record
- Existing Frequent Flyer members who linked with WOW saw an increase in travel up 11.7%
- Over 660,000 seats flown from new QFF members (since Woolworths launch to YTD April). Approximately 50% of these bookings are new customers for the airline
- Australia’s largest retailer Woolworths Group joined QFF as partner

Member Acquisition
- Grow membership to 8 million by end FY11
- Membership penetrates 45% increase in members over last 3 years

New partners
- Woolworths billings continues to grow
- Multiple tier 2 opportunities exist in the market
First Half FY10 Highlights

- EBIT up 115% at $157 million
- Billings down 8% at $477 million
  - Up 1% after adjusting in FY09 for direct earn strategy rush billings
- Over 1 million new members since June 2009
- Woolworths alliance successfully launched
- Customer satisfaction at record highs
- Improvement to the member experience including
  - Classic Award Airline Partners increased by 3 to 26
  - Ability to redeem on additional 46 airlines to over 100 destinations with Any Seat Awards
  - Improved Qantas & Jetstar Any Seat Award booking engine
  - Record redemptions on the Frequent Flyer Store, up 7%
- Investment in market leading CRM systems progressing
- Strong people engagement scores
Strategic Journey

**from this**

- Airline program
- Classic Awards only
- Membership satisfaction declining

**Strategy execution**

Segmentation → Relaunch → Direct Earn → Coalition Expansion → Segmented Member Strategies

**to this**

- **Australia’s leading coalition program**
- Largest and most profitable
- Record member satisfaction
- Market leading Awards
  - Classic Awards on 27 Airlines
  - Any Seat Awards to over 100 destinations
  - Competitive Award store

- **Best earn proposition**
  - Points on 27 Airlines
  - Points on Every day spend
  - Direct earn with all major banks

- Membership growth into whole population
- Key Partners in place
- High achieving segment with clear strategy

Business Model

**Point Activity**

- Points Earned
- Points Added to Points Pool

- Points remain in Pool

- Points Redeemed from Points Pool
- Unused Points Expire

**Cash Impact**

- Cash Received (Billing)

- Positive Working Capital

- Cash Outflow to Purchase Rewards

**Accounting Treatment**

- Fair Value of Awards deferred
- Marketing Revenue component recognised in P&L

- Deferred revenue liability maintained for fair value of awards expected to be redeemed

- Points Liability Reduced
- Redemption Revenue & Redemption Costs recognised in P&L

**Time:**

Point Earned by Member → Life of a Point ~2 years → Point Redeemed by Member

**Sources of Value**

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

**Operating Costs**

Salaries, IT, Qantas Royalty, admin etc

*After interim period when points in existence on 1 January 2009 are extinguished*
**Accounting Adjustment**

On the 1st of January 2009 Qantas Frequent Flyer changed the way revenue is recognised for frequent flyer points. Revenue will be recognised:

- When points are sold for the 'marketing' element
- When points are redeemed for the fair value of the award element

Under accounting standards existing points at 1 January 2009 will continue to recognise revenue at the higher value until all these points are extinguished. This will result in higher earnings for approximately 2 years.

**Revenue Recognition - Points**

Pre 1 January 2009

- **Marketing Revenue**
- Amount charged for issuance of point

Interim Recognition

- until balance of points on 1 January 2009 are extinguished (Circa 2 yrs)

- **Redemption Revenue**
  - @ Average issue value of point
  - Prospective recognition

- **Redemption Revenue**
  - @ fair value of award

Normalised Recognition

- after all points in existence on 1 January 2009 are extinguished

- **Marketing Revenue**
- **Redemption Revenue**

Not aligned to cash flow or business performance

Aligns cash flows and performance to earnings

### Table

<table>
<thead>
<tr>
<th></th>
<th>FY 08</th>
<th>1H 09</th>
<th>2H 09</th>
<th>FY 09</th>
<th>1H 10</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reported EBIT</strong></td>
<td>128</td>
<td>73</td>
<td>237</td>
<td>310</td>
<td>157</td>
</tr>
<tr>
<td>Less: Estimated one off impact of direct earn point 'rush'</td>
<td></td>
<td>(84)</td>
<td></td>
<td>(84)</td>
<td></td>
</tr>
<tr>
<td><strong>Underlying EBIT</strong></td>
<td></td>
<td>153</td>
<td>226</td>
<td></td>
<td>(78)</td>
</tr>
<tr>
<td>Revenue recognition adjustment</td>
<td>128</td>
<td>73</td>
<td>90</td>
<td>163</td>
<td>79</td>
</tr>
</tbody>
</table>