



**QantasGroup**  
Brands with Spirit

## Highlights of First Half 2008 Result



- Profit before tax doubled to \$905 million
- Earnings per share up 102% to 31.6 cents
- Group returns well above cost of capital
- Interim dividend 3 cents higher at 18 cents
- Net cash of \$2.9 billion and gearing of 42%
- Positioned to deliver range of strategic initiatives for future growth

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## Key Drivers



- Net passenger revenue up 8.4% to \$6.5 billion
- Improved yields and load factors
- Costs contained
- \$311 million of Sustainable Future Program benefits
- 3.3% improvement in non-fuel unit costs, excluding one-off items

## Segment Profit Before Tax



PBT \$m	Half-Year Ended 31 Dec 07 \$m	Half-Year Ended 31 Dec 06 \$m	Variance Fav/(Unfav) \$m	Variance Fav/(Unfav) %
Qantas Flying Operations	829.9	402.2	427.7	106.3
Other Subsidiaries	24.2	19.8	4.4	22.2
<b>Qantas Brands</b>	<b>854.1</b>	<b>422.0</b>	<b>432.1</b>	<b>102.4</b>
Freight Enterprises	53.3	55.6	(2.3)	(4.1)
Loyalty	61.9	60.8	1.1	1.8
*Corporate Cost Centre	(218.3)	(151.9)	(66.4)	43.7
Eliminations	6.7	6.1	0.6	9.8
<b>Total Qantas and Other Entities</b>	<b>757.7</b>	<b>392.7</b>	<b>365.1</b>	<b>93.0</b>
<b>Jetstar</b>	<b>113.4</b>	<b>24.5</b>	<b>88.9</b>	<b>362.5</b>
<b>Qantas Holidays</b>	<b>26.1</b>	<b>26.3</b>	<b>(0.2)</b>	<b>(1.1)</b>
<b>Qantas Catering Group</b>	<b>7.3</b>	<b>6.6</b>	<b>0.7</b>	<b>10.3</b>
Eliminations	0.5	0.2	0.3	150.0
<b>Group</b>	<b>905.0</b>	<b>450.2</b>	<b>454.8</b>	<b>101.0</b>

\* Corporate Cost Centre HY08 result includes a \$64 provision for estimated penalties in relation to alleged price fixing in the air cargo market

## Strategic Priorities (I)



- Capital Management
- Further enhancing Two Brand Strategy
- Expanding the Jetstar Footprint
- Further leveraging the Frequent Flyer Program

## Strategic Priorities (II)



- Developing an integrated freight business
- Introducing the A380 and B787 aircraft and product
- Realising greater efficiencies across all areas of the business

## Capital Management



- Buyback 44% complete as at 1 February 2008
- 86.1 million shares purchased for \$486.5 million
- Dividend growth and attractive payout ratio
- First half payout ratio of 57%
- Business unit separation could create further opportunities

## Qantas Brands



- Profit more than doubled to \$830 million
- Strengthening core premium network
- Investment in product and service
- New Customer Service Centre of Excellence
- Continuing to build distribution advantage

## Qantas – Domestic Network



- All but one route profitable
- Forward bookings remain strong
- Market capacity to grow significantly
- Product and service enhancements supporting yield
- Narrowing cost gap to competition

## Qantas – International Network



- Major improvement - majority of routes profitable
- Premium cabins performing especially well
- Demand strong in most markets
- Launching next generation product
- Growth in select markets



## Qantas – Regional Network



- Profitable capacity growth
- Benefiting from strong resources cycle
- Queensland Air Services Contracts renewed
- Significant new fleet investment
- Addressing pilot supply issues

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## Jetstar Brands



- Profit quadrupled
- Pan Asian brand
- Cost leadership
- Low fares leadership
- Access to aircraft



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## Jetstar - Short Haul



- Aggressive response to new competition
- Continued strong cost focus
- Further enhancement of product and ancillary offerings
- Fleet expansion and A321 introduction
- Short haul international growth

## Jetstar – International Long Haul



- Profitable and performing ahead of expectations
- Positive customer response
- First half 2008 expansion - Japan and Malaysia
- Assessing options to manage B787 delay

## Jetstar - Asian Investments



- Jetstar Asia performance improving
- Pacific Airlines an attractive franchise opportunity
- Operations are being standardised in line with Jetstar
- Growth plans linked to A320 operations and low cost Vietnam base

## Market Access



- Market liberalisation welcome
- Seek balanced and properly sequenced outcomes
- Further access needed to implement Group's growth agenda
- Group well placed to compete under United States Open Skies



## Group Fleet Plan Provides Improved Efficiency And Flexibility

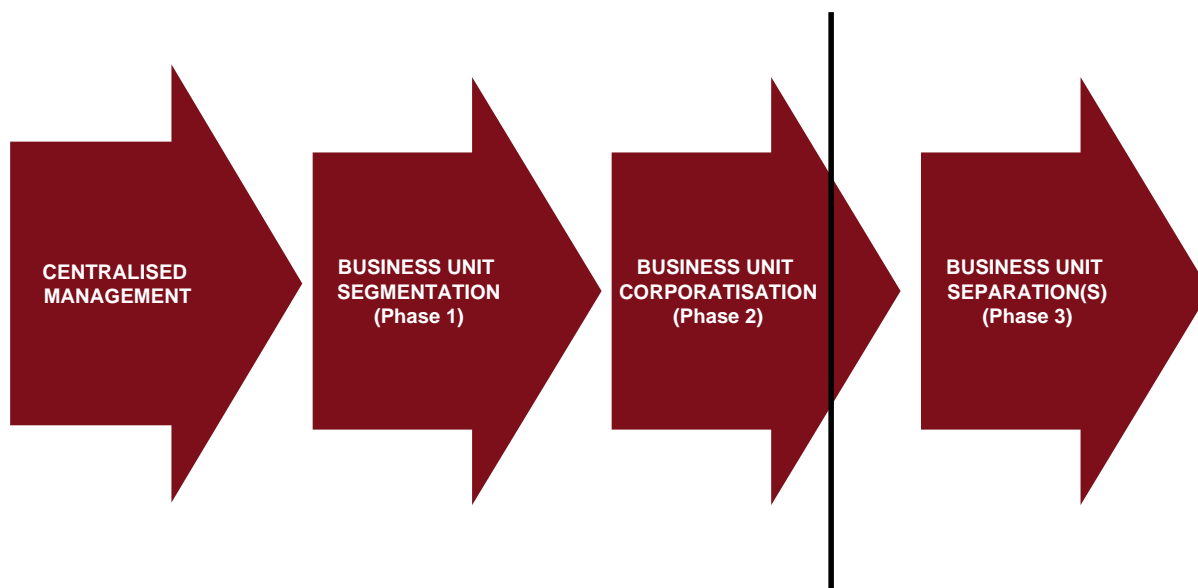


- Excellent order book for next generation aircraft
- A380 arriving August, B787 from 2009
- Aircraft will drive efficient growth
- Considerable flexibility to adjust capacity growth

## Unlocking Value Of Portfolio Businesses



Progress to date



## Internal Progress



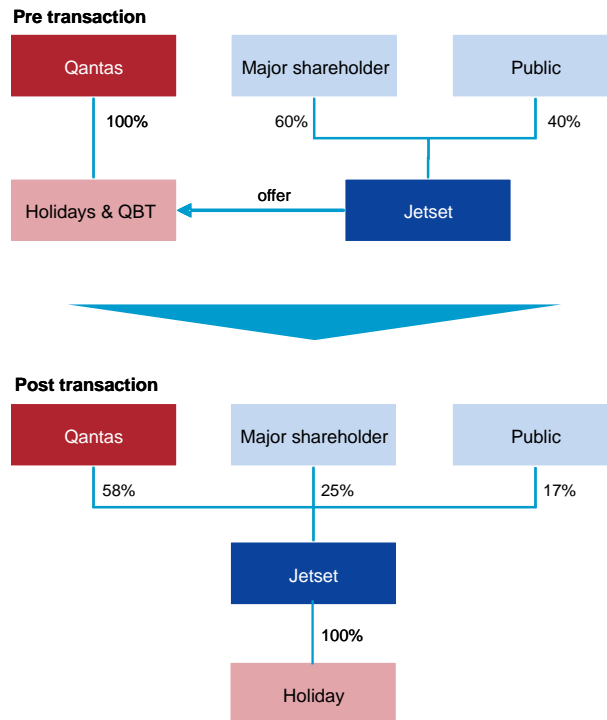
- Loyalty and Freight now separate incorporated entities
- Transfer pricing agreed
- IFRIC 13 implemented
- Agreed labour hire arrangements and brand licensing principles
- Developed interim reporting systems and control processes

## Qantas Holidays and QBT



- Qantas Holidays-QBT/Jetset merger
- Combines three successful and complementary brands
- Creates leading vertically integrated travel services business
- Improved scale to grow
- Earnings per share accretive

## Transaction Structure



## Qantas Frequent Flyer



- 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

## 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

## Qantas Freight Enterprises



- Profit before tax of \$53.3m, down \$2.3m
- Cargo profit before tax of \$40m, up \$2.4m
- Express Freight profit before tax of \$14.7m, down \$3.6m
- Star Track Express addressing fleet and servicing cost pressures
- Australian Air Express one-off costs to drive future growth

## Qantas Freight Enterprises



- Strong platform for growth in Australia, Asia
- Leverage Cargo and DPEX networks
- Pursuing strategic investments in Australia and high growth Asian economies
- Closer integration of Star Track Express and Australian air Express
- Leverage recent infrastructure investment to drive earnings growth

## Fleet Ownership



- Market reevaluating infrastructure funds
- Will only pursue transaction if it generates substantial shareholder value
- Strong fleet order book and flexibility
- Will establish standalone fleet leasing vehicle within Group
- Will be well positioned to participate if market conditions improve

## Sustainable Future Program



- Substantially strengthened Group fundamentals
- Will achieve \$3 billion target by June this year
- More efficient business models
- Streamlined processes
- Improved cost of sale
- Labour productivity



## Program Will Be Extended



- Ongoing challenges require additional savings
- Another \$1.5 billion over next two years
- Focus on margin leadership, efficient growth, business transformation

## People



- Industrial agreements renewed with 40% of workforce
- AIPA Short Haul Pilots
- FAAA Long Haul Cabin Crew
- ASU
- ALAEA
- Within the guidelines set for the business

## Other Emerging Businesses



- Malaysia Airlines' MAS Aerospace Engineering joint venture
- Part of Asia Pacific growth strategy
- Create world class, cost competitive MRO
- Target Asia Pacific MRO opportunities - \$US15 billion market by 2016
- Qantas Group Flight Training
- Investing to meet future business needs

## Outlook



- Qantas is seeing no significant dampening in demand in most markets, especially in the domestic and Australian outbound travel markets, as a result of the global economic slowdown, although there has been some softening in the UK and continued weakness in Japan.
- The first seven weeks of 2008 and our forward bookings are in line with forecast and we are confident of achieving a full year profit for 2007/08 of at least 40% higher than the 2006/07 profit before tax result.
- As well, the Group's ongoing business transformation initiatives have ensured that Qantas is well positioned to meet ongoing challenges, including fuel prices and competitor capacity growth.



## 2007/08 Half-Year Results Supplementary Information

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### Group Highlights



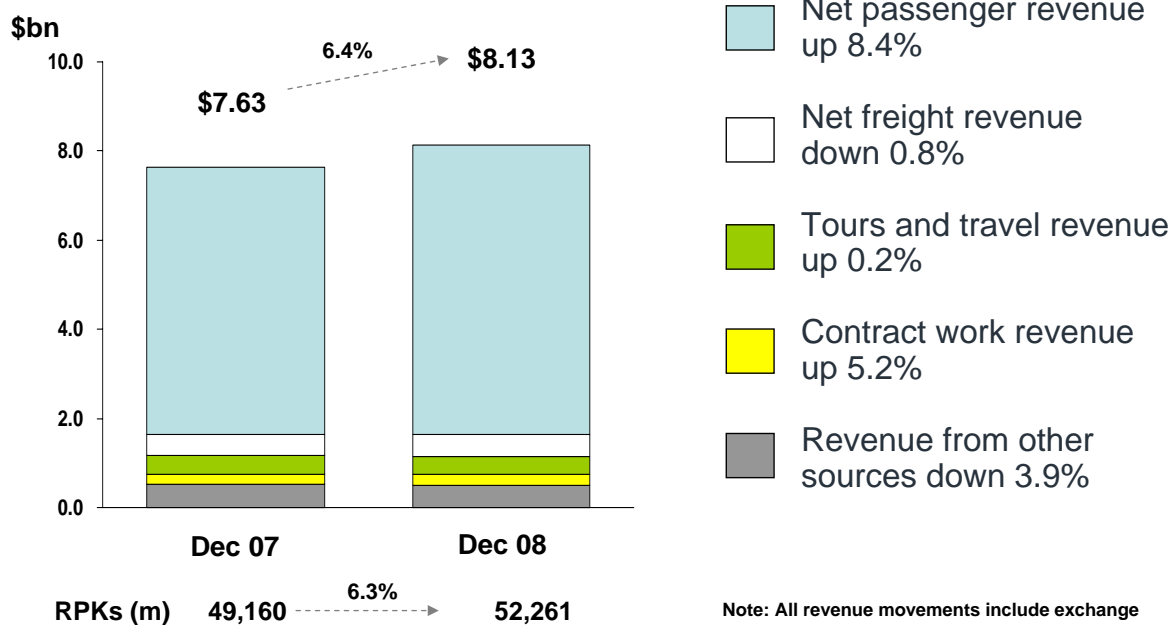
		Half-Year Ended 31 Dec 07	Half-Year Ended 31 Dec 06	Variance Fav/(Unfav)	Variance Fav/(Unfav) %
Revenue	\$m	8,126	7,635	491	6.4
Operating Expenditure	\$m	7,276	7,063	213	3.0
EBIT	\$m	883	472	411	87.2
Profit before tax	\$m	905	450	455	101.0
Profit before tax (pre IFRIC 13)	\$m	908	523	385	73.6

		Half-Year Ended 31 Dec 07	Half-Year Ended 31 Dec 06	Variance Fav/(Unfav)	Variance Fav/(Unfav) %
PBT Margin	%	11.1	5.9	5.2	88.9
Earnings Per Share	(¢)	31.6	15.6	15.9	102.0
Dividend per Share	(¢)	18.0	15.0	3.0	20.0
Return on Equity	%	11.0	5.4	5.5	101.2

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## Revenue



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## Revenue



Sales and operating revenue up 6.4%

- Net passenger revenue up 8.4%
  - Group RPKs up 6.3%
  - Group yield per RPK up 2.2% including exchange
- Contract work revenue up 5.2%
  - Favourable activity in Qantas Defence Services (QDS)
  - Increased third party catering volumes

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## Revenue



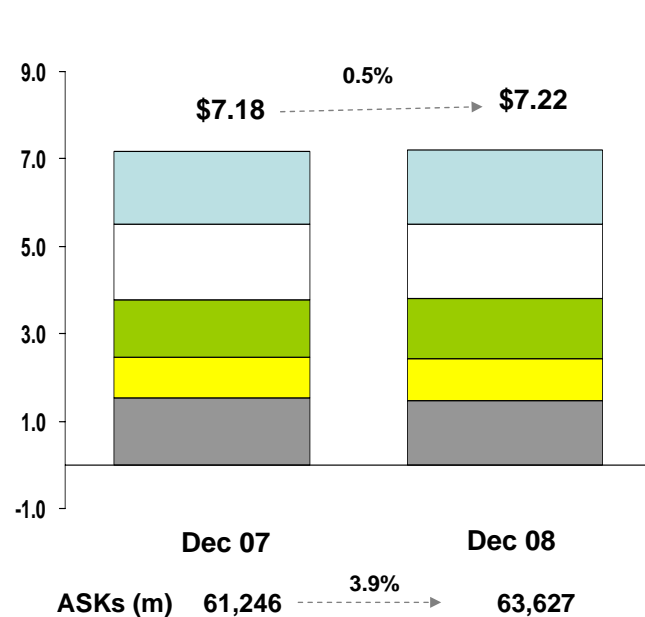
- Net freight revenue down 0.8%
  - Impacted by unfavourable currency exchange movements
- Tours and travel revenue in line with prior half year
- Other income down 3.9%
  - \$98 million in liquidated damages received in the comparative half year
  - Offset by activity related increases

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## Expenditure



\$bn



- Manpower and staff related costs up 1.9%
- Fuel and oil down 1.6%
- Aircraft operating variable costs up 5.3%
- Depreciation, rentals and financing up 0.5%
- Other expenditure down 2.6%

Note: All expenditure movements include exchange

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## Expenditure



- Operating expenditure up 3.0%
- Manpower and staff related costs up 1.9%
  - Includes restructuring costs of \$16 million under the Sustainable Future Program (SFP)
  - Increase in wages of 3% under EBAs
  - Partially offset by SFP Benefits
  - Group ASKs up 3.9%
- Variable aircraft operating costs up 5.3%
  - Reflects activity and price related increases, particularly domestic airport charges and load related passenger expenses
  - Offset by cost saving initiatives

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## Expenditure



- Fuel costs down 1.6%
  - The underlying into-plane fuel price increased by 11.9 per cent
  - Hedging benefits up \$147 million
  - Favourable FX reduced fuel costs by \$203 million
  - Consumption increased by \$68 million due to activity
  - AASB 139 (Financial Instruments) adverse impact of \$57 million due to timing associated with ineffectiveness testing
- Selling and marketing costs down 1.3%
  - Renegotiation of fees with Global Distribution System (GDS) providers
  - Migration of sales to direct channels

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## Expenditure



- Property costs up 3.7%
  - Price increases and additional charges attributable to Hangar 96 in Sydney (due to A380 modifications)
  - Extensive upgrade and expansion of domestic and international Qantas lounges, particularly premium lounges
- Computer and communications up 26.2% (25.0% net of capitalisation)
  - Project costs increase including new projects for Application Support Transformation
  - Application support costs reflecting the outsourcing of internal IT systems support function

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## Expenditure



- Tours and travel cost of sales in line with prior half year
- Capacity hire costs down by 16.1%
  - Favourable FX movements
  - Withdrawal of Japan Airlines from Sydney to Osaka route reduced code-share costs \$10 million
  - Offset by price increases of \$6 million
- Other costs up 43.1%
  - Additional Freight Cartel Provisions of \$64 million
  - Partially offset by capitalisation on IT projects
  - FX hedging losses (offset by benefits in other P&L categories) and AASB139 adjustments

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## Expenditure



- Depreciation and amortisation costs up 8.3%
  - Accelerated depreciation of \$50 million against finance leased B747-400 aircraft
- Net finance costs down by 200.0%
  - Higher interest received and additional capitalised interest on aircraft progress payments
- Net FX movements of \$113 million had a positive impact on the PBT result.

## Group Unit Cost and SFP Performance



- SFP benefits of \$311 million
- Contributed to a normalised unit cost reduction of 3.3%
- Cumulative SFP benefits of \$2.6 billion delivered since the program was introduced

## Yield



- Total yield (Qantas, QantasLink and Jetstar) excluding exchange for the current period increased by 4.3% when compared with the same period last year
- Total domestic yield (Qantas, QantasLink and Jetstar) excluding exchange for the current period increased by 1.8% when compared with the same period last year
- Total international yield (Qantas and Jetstar) excluding exchange for the current period increased by 6.4% when compared with the same period last year

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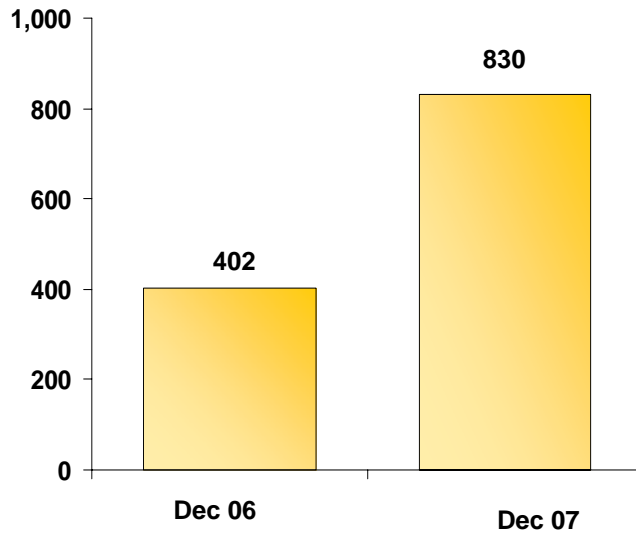
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## Qantas Flying Operations



PBT \$ million



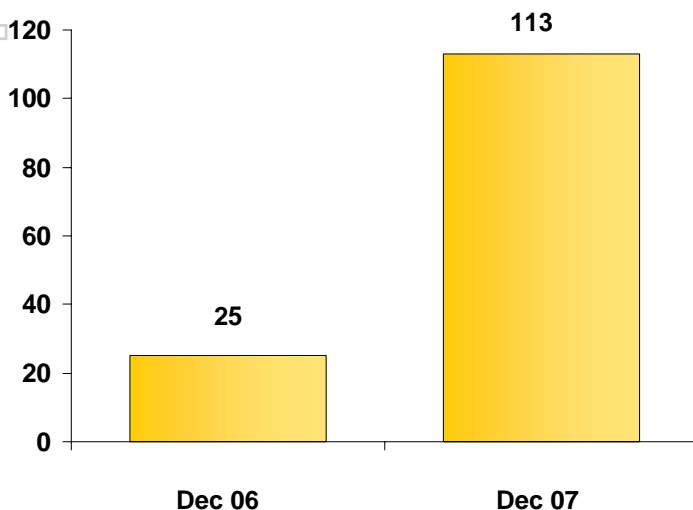
- Includes Network costs and Qantaslink and excludes Freight, Loyalty and Corporate segments
- PBT up \$428m or 106.3% to \$830m
- Passenger Revenue up \$250m or 4.8%
- RPKs up 0.3%
- ASKs down 2.6%
- Seat factor up 2.4 % points to 82.8%
- Yield increased by 4.4%
- Unit cost decreased by 0.5%

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## Jetstar Brands



PBT \$ million



- PBT up \$89m to \$113m
- Passenger Revenue up \$250m or 53.6%
- ASKs up 62.9% (Int 376.1%, Dom 2.2%)
- RPKs up 62.7%
- Seat factor down 0.1% point to 78.6%
- Yield decreased by 5.6%
- Passenger volumes up by 19.5% to 4.5 million
- Net unit cost per ASK down 16.3%
- 1H08 PBT includes start up costs of \$3 million (\$26 million in 1H07)

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## Freight Enterprises



- Qantas Freight Enterprises incorporated 11 December 2007
- QFE reported PBT of \$53 million for half-year end 31 December 2007, includes share of net profit of associates and jointly controlled entities
- New QFE corporate head office established to support QFE's growth

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## Loyalty



- Disclosed as separate segment for the first time in half year
- reporting PBT of \$62 million on revenue of \$399 million
- Frequent flyer membership passed 5 million and continues to grow at about 1,000 members per day

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## Corporate Cost Centre



- Corporate Centre includes the central costs essential for maintaining governance, minimising risk and optimising performance of the Qantas Group portfolio businesses
- 1H08 includes Freight Cartel provision of \$64 million (1H07: Nil)
- Includes SFP and consultancy costs of \$48 million (1H07: \$58 million)

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## Holidays/Catering



### Qantas Holidays

- PBT of \$26 million for half-year ended 31 December 2007, which is in line with prior year
- Gross profit increased by 5.7%, largely attributable to favourable margins as a result of the strong Australian dollar
- Market recovery in key outbound destinations and the launch of Qantas Holidays online offering, have aided in mitigating erosion in the domestic business

### Qantas Catering Group

- PBT increased by \$1 million, or 10% to \$7 million
- Market based pricing has been applied to inter-group dealings

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## Equity Accounted Investments



	Contribution to Net Profit		
	Half-Year Ended 31 Dec 07	Half-Year Ended 31 Dec 06	Variance
	\$m	\$m	\$m
Australian Air Express	6.7	8.7	(2.0)
Star Track Express	6.8	9.6	(2.8)
Air Pacific	4.5	0.1	4.4
Jetstar Asia / Orangestar	-	(4.4)	4.4
Jet Turbine Services	-	(1.9)	1.9
Travel Software Solutions	(2.4)	0.1	(2.5)
Hallmark	0.7	0.7	-
Fiji Resorts Limited	0.5	-	0.5
Other	0.1	0.6	(0.5)
<b>Total</b>	<b>16.9</b>	<b>13.5</b>	<b>3.4</b>

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## Balance Sheet and Cash Flow



	As at 31 Dec 2007	As at 30 Jun 2007	Variance Increase / (Decrease)	Variance Increase / (Decrease)
	\$m	\$m	\$m	%
<b>Total Equity</b>	<b>5,638</b>	<b>5,640</b>	<b>(2)</b>	<b>(0)</b>
<b>Net Debt *</b>	<b>4,119</b>	<b>3,975</b>	<b>144</b>	<b>4</b>
<b>Book Net Debt to Equity ratio **</b>	<b>42:58</b>	<b>41:59</b>	<b>1 point</b>	<b>N/A</b>

	As at 31 Dec 2007	As at 31 Dec 2006	Variance Increase / (Decrease)	Variance Increase / (Decrease)
	\$m	\$m	\$m	%
Net Operating Cashflow	1,223	1,050	173	16.4
Capital Expenditure	(818)	(661)	(158)	(23.8)
Net Investing Cashflow	(747)	(661)	(86)	(13.0)
Net Financing Cashflow	(929)	(238)	(691)	(290.1)
<b>Net Increase/(Decrease) in cash held</b>	<b>(453)</b>	<b>151</b>	<b>(604)</b>	<b>N/A</b>
<b>Cash at End of the Half-Year</b>	<b>2,910</b>	<b>3,053</b>	<b>(144)</b>	<b>(4.7)</b>

\* Includes off Balance Sheet Debt

\*\* Includes Off Balance Sheet Debt and includes hedge reserve

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## Aircraft In Service



Aircraft Type	30/06/2007	In	(Out)	31/12/2007
<b>Qantas</b>				
B747-300	4			4
B747-400	24			24
B747-400ER	6			6
B767-300ER	29			29
B737-300	6		(1)	5
B737-400	21			21
B737-800NG	33			33
A330-300	10			10
<b>Total Mainline Fleet</b>	<b>133</b>	<b>-</b>	<b>(1)</b>	<b>132</b>
<b>Jetstar</b>				
A320-200	24	2		26
A330-200	4	3		7
<b>QantasLink</b>				
Boeing 717-200	14			14
Turbo Props	38		(1)	37
<b>Freighters</b>				
Boeing 737-300	3	1		4
<b>Total Group Fleet*</b>	<b>216</b>	<b>6</b>	<b>(2)</b>	<b>220</b>

\* Aircraft movements are reflected as and when they enter into service.

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## Share Buy-Back Status



Shares Purchased	Shares (m)	Target (%)	Cost (\$m)	Average Cost (\$)
Up to 31 Dec 2007	71.1	36.4	410.1	5.77
Since Half Year	15.0	7.7	76.4	5.09
Total as at 1 February 2008	86.1	44.0	486.5	5.65
<b>Target</b>	<b>195.5</b>	<b>100</b>		

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## 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

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# Simplified Economic Model of Frequent Flyer program



Time:



Point Activity	<ul style="list-style-type: none"> <li>Points Earned</li> <li>Points Added to Points Pool</li> </ul>	<ul style="list-style-type: none"> <li>Points Pool Grows</li> </ul>	<ul style="list-style-type: none"> <li>Points Redeemed from Points Pool</li> </ul>
Cash Impact	<ul style="list-style-type: none"> <li>Cash Received (Billings)</li> </ul>	<ul style="list-style-type: none"> <li>Positive Working Capital (generates interest)</li> </ul>	<ul style="list-style-type: none"> <li>Cash Outflow to Purchase Rewards</li> </ul>
Accounting Treatment	<ul style="list-style-type: none"> <li>Billings Recorded as Deferred Revenue (Liability)</li> </ul>	<ul style="list-style-type: none"> <li>Profit Recognition Deferred</li> </ul>	<ul style="list-style-type: none"> <li>Points Liability Reduced</li> <li>Revenue Previously Deferred &amp; Redemption Costs Now Recognised in P&amp;L</li> </ul>
Sources of Value			
Gross Margin on Points + Working Capital + Breakage (Expiry)			

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## Value for Members, Partners and Qantas means value for Shareholders



	Points Earned by Member	Points Redeemed by Member
Member	<ul style="list-style-type: none"> <li>e.g. A member buys travel insurance on a partner credit card– earns double points</li> <li>Flys Qantas / pays on credit card – earns double or triple points</li> <li>Stays at partner hotel and rents car from partner / pays on premium credit card – earns triple points</li> <li><b>Accumulates points faster to get to a reward faster</b></li> </ul>	<ul style="list-style-type: none"> <li>Member redeems points for flight rewards (best value flight rewards available in Australia)</li> <li><b>Attractive redemptions engage member</b></li> <li>In future, increasing redemption choice by:                             <ul style="list-style-type: none"> <li>- member redeems for Any Seat on Qantas and Jetstar</li> <li>- member redeems for merchandise or vouchers</li> </ul> </li> </ul>
Partner	<ul style="list-style-type: none"> <li>Leverages Qantas Frequent Flyer by allocating marketing spend towards purchasing points</li> <li>Attracts and retains loyal customer – market share gain</li> <li>Partners leverage coalition effect (multiple earn opportunities, one account, faster to redeem) which increases the loyalty program value for its customers/our members.</li> </ul>	<ul style="list-style-type: none"> <li>Engaged member enjoying rewards reinforces value of QFF-aligned loyalty offering by Partner to its customers</li> <li>e.g. A member looks for new opportunities to earn points for next redemption</li> </ul>
Airline	<ul style="list-style-type: none"> <li>Attracts and retains loyal customers</li> <li>Enjoys yield premium</li> <li>“Pays” for QFF points</li> </ul>	<ul style="list-style-type: none"> <li>Engaged member enjoying redemptions increases value of points issued through Airline and enhances yield premium</li> <li>Spare capacity is used for redemptions.</li> <li><i>Any Seat</i> capacity is redeemed through an exclusive, non competed, low-cost distribution channel (in future)</li> </ul>

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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

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## 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

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## 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

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## Value Creation for Qantas



Success of loyalty program:

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

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## Loyalty – Financial Performance



### Segment Result

AS\$M	1H07 <sup>(2)</sup>	1H08
<b>Income Statement</b>		
Total Segment Revenue	388	399
EBITDA/EBIT <sup>(1)</sup>	61	62
Interest Expense	-	-
PBT	61	62

- 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



### Adjusted EBITDA Calculation

AS\$M	1H07	1H08
<b>Adjusted EBITDA Calculation</b>		
Accounting EBITDA (from previous page)	61	62
less: Points Related Revenue	(381)	(391)
add: Billings	444	479
add: Change in Future Redemption Costs	(43)	(56)
<b>Adjusted EBITDA</b>	<b>81</b>	<b>94</b>

- 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

## Explanation of Terms in Loyalty Segment Result



- **Gross Billings:** Proceeds from the sale of Frequent Flyer points.
- **Points Related Revenue:** Gross Billings are deferred and recognised together with redemption costs, when points are redeemed. Points related revenue includes a component of breakage, reflecting the fact that each point sold has a probability of expiring. This component is currently estimated at (and is supported by actuarial review) below 10%. By its very nature, breakage requires estimation from management and is based on historical member activity and may fluctuate over time.
- **Redemption Costs:** The cost of the rewards purchased for and issued to members. Redemptions comprise predominantly Qantas and Jetstar rewards, and are governed by transfer pricing arrangements.
- **Adjusted EBITDA:** Given the lag between the sale of a point and its redemption (currently greater than 2 years), alternative performance metrics have been developed to facilitate a meaningful assessment of business performance. Adjusted EBITDA represents the expected profitability arising from the sale of points in that period, thus eliminating the effect of the time lag.
- **Change in Future Redemption Costs:** Is the provision against cashflow to recognise the change (normally an increase) in period end points balance. If the point balance increases, then future redemption costs will be higher, so in calculating Adjusted EBITDA we provide against cash inflows in the period to reflect this.

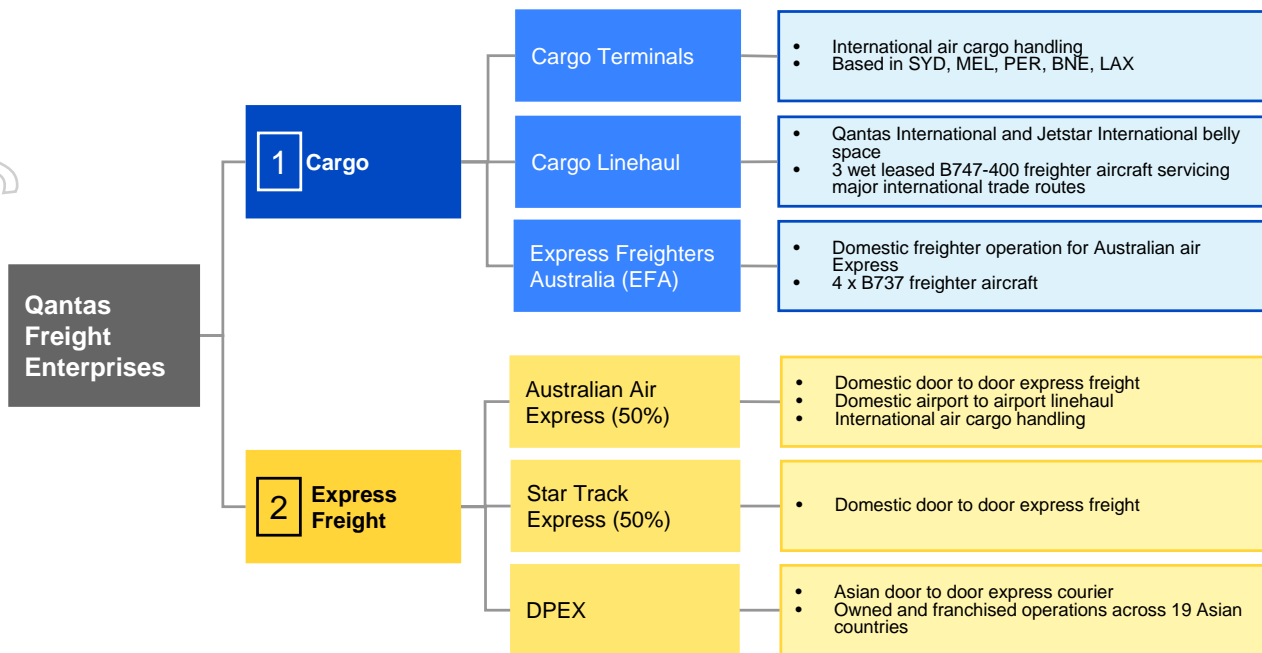
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Supplementary Information – Qantas Freight Enterprises

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# Qantas Freight Enterprises (QFE)



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## Cargo

QFE Cargo is Australia's leading provider of international air cargo linehaul and Cargo Terminal services

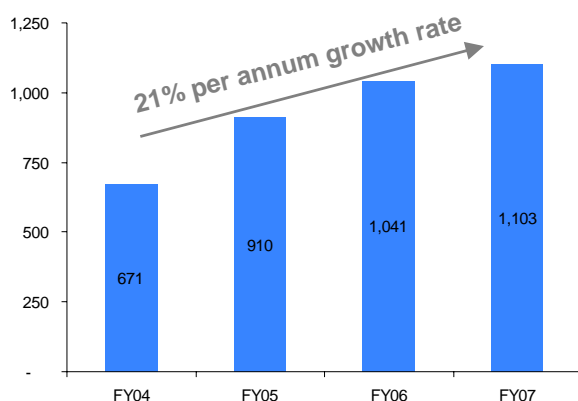


### Established international air cargo business

- 1.5bn Freight Tonne Kilometres (TKMs) of belly space capacity utilising Qantas international and Jetstar international + 50% of Qantas' domestic widebody aircraft
- Three B747 freighters (650m TKMs) generating 30% of Cargo revenue:
  - Flying major freight trade routes not serviced by belly space
  - Substantial presence in Asia
- Terminals in major international gateways SYD, MEL, BNE, PER and LAX
- Express Freighters Australia wet leases four B737 freighters to AaE



### Revenue growth \$m



- Revenue growth averaged 21% p.a. since 2004:
  - B747 freighter operations launched in 2004
  - Sales HQ located in Singapore - 60% of revenue from Asia
  - Future growth with Qantas and Jetstar international
- USD equivalent costs & revenues naturally hedged
- Terminal upgrades have improved capacity, efficiency & customer service. New off-airport Terminal in Sydney
- Focus areas
  - Revenue and Terminal Operations management systems
  - Linehaul capacity costs and Terminal costs
  - Linkages with Express Freight businesses
  - Participate in growth in the Asian region

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## Cargo - QF and JQ belly space



### Contractual arrangements

QFE Cargo has rights to utilise the belly space of all QF and JQ international and domestic services

- International
  - QF belly space - exclusive 10 year term with 2 x 5 year options
    - Revenue is shared to ensure QFE maximises utilisation and yield and QF maximises cargo capacity
    - QFE guarantees a minimum \$ rate per unit of capacity
  - JQ belly space – Exclusive access to JQ international services
    - QFE pays an agreed price per JQ flight by route group
- Domestic
  - Australian air Express (AaE) has contracted the right to utilise the belly space on all QF domestic narrow body aircraft and 50% of all domestic wide body aircraft and all domestic JQ scheduled services
    - rates are based on a per freight tonne kilometre (TKM) basis

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## Australian air Express

Australian air Express is Australia's leading time definite air freight provider jointly owned by Qantas and Australia Post

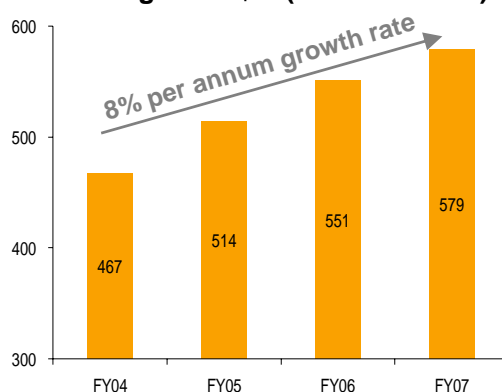


### Comprehensive express air freight services

- Domestic service offering ranges from premium 'Next Flight' to 'Off-Peak' (delivery within 72 hours) using Qantas belly space and dedicated freighters
- Also provides full range of international air freight services
  - Consolidation and cargo handling
- Handles over 35 million items per annum
  - volume supported by sophisticated computerised freight management system



### Revenue growth \$m (total business)



- Revenue growth rate averaged 8% p.a. since 2004
- 1H08 sales and operating revenue up 4%
  - driven by combination of successful tendering and increased volume from existing clients
  - Despite loss of Toll's air cargo volumes
- Increasingly diversified customer base through increased retail business
- Qantas and Australia Post continue to invest to drive efficiency gains
  - Auto sortation equipment installed SYD, MEL, & BNE
  - Introduction of B737 freighters
  - "Build Our Future Program"

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## Star Track Express

Star Track Express is a leading Australian road-based time definite express provider jointly owned by Qantas and Australia Post

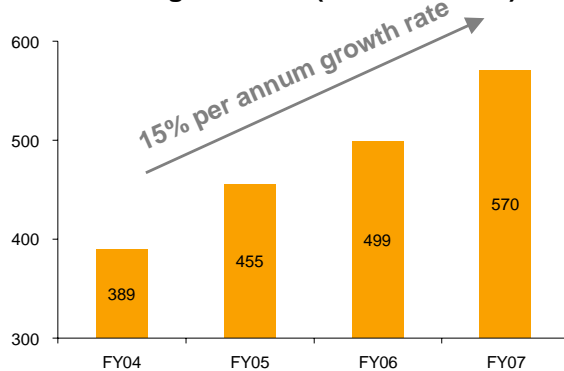


### “The World’s Smartest Delivery System”

- Star Track Express specialises in business-to-business express freight solutions, serving over 12,000 customers every week
  - also provides air courier services, special services (including transportation of high value/sensitive equipment), warehousing and 3PL services
- Delivers over 35 million items per annum with a fleet of over 1,400 vehicles and a network of 30 company owned/operated facilities
- Service target of over 99% reliability



### Revenue growth \$m (total business)



- Revenue growth rate averaged 15% p.a. since 2004
- 1H08 sales and operating revenue up 10%
  - High volume growth, particularly in the Sydney region
- 1H08 margins under pressure:
  - Fleet costs and industry wide driver shortages, fuel price increases
  - “East Coast” project to improve cost performance

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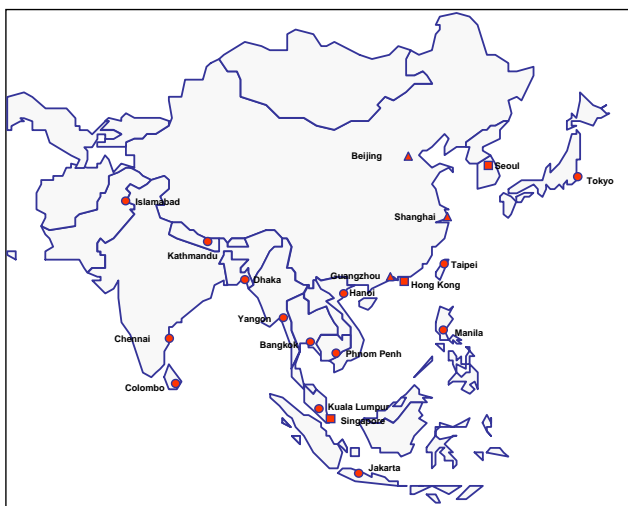
## DPEX

DPEX is an intra Asian express freight operator with coverage of 19 countries using it's extensive franchisee network



### “Whatever it takes”

- DPEX specialises in express courier, serving over 10,000 customers each week
  - also provides special services (including transportation of high value equipment and dangerous goods)
- DPEX's network of owned, franchisee and alliance operations provides access to 7 worldwide hubs, 340 service centres, 265 flights per day, more than 2,500 vehicles and over 4,000 personnel to pick up and deliver customer's consignments



- Qantas purchased DPEX Worldwide in 2007
- Revenue growth rate averaged 17% p.a. since 2005
- Diverse customer base – focussing on serving SMEs
- Develop linkages with QFE's Cargo business and jointly controlled entities (STE and AaE)
- Looking at other possible investments, commercial alliances or partnerships
  - Possible acquisition of some franchisees to increase control over and returns from these operations
  - Possible acquisition of complementary businesses
- Participate in high growth markets

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# Proportionately consolidated HY2008 summary



	Equity accounting method			Proportional consolidation method (Proforma)			Explanation of proportionate consolidation adjustments
	Dec-06	Dec-07	% change	Dec-06	Dec-07	% change	
<b>Revenue</b>	<b>576.4</b>	<b>587.4</b>	<b>2%</b>	<b>848.0</b>	<b>870.6</b>	<b>3%</b>	Subtract share of after tax profits and share of tax expense Add back share of costs and revenues before interest, tax, depreciation and amortisation
Share of profits (after tax) from jointly controlled entities	18.3	13.3					
<b>EBITDA</b>	<b>61.8</b>	<b>59.0</b>	<b>-5%</b>	<b>83.5</b>	<b>79.6</b>	<b>-5%</b>	Share of costs and revenues before interest, tax, depreciation and amortisation
<b>EBIT</b>	<b>55.6</b>	<b>53.3</b>	<b>-4%</b>	<b>68.2</b>	<b>63.9</b>	<b>-6%</b>	Share of costs and revenues before interest and tax

## Notes:

1. The share of profits from jointly controlled entities includes \$5 million interest expense paid by Star Track Express to Qantas.
2. "Share" refers to QFE's 50% share of jointly controlled entities net of any transactions between entities within the QFE Group

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