The Qantas Frequent Flyer Story

1987
- Qantas Frequent Flyer launched
- Loyalty segment created

2004
- Jetstar joined

2007
- Any Seat Awards
- Qantas Frequent Flyer Store
- Restaurant program launched

2008
- Direct Earn card focus
- Earn points directly

2009
- Woolworths Caltex Fuel

2010
- Woolworths - Supermarkets - Big W

Timeline not to scale
**Qantas Frequent Flyer**

- Australia’s premier coalition Loyalty program
- More than 6 million members
- First mover in broad based coalition Loyalty
- Access to a large range of great value awards
- Strong and stable cash flows and margins
- Deep understanding of member segments and behaviours
- Scalable business model
**FY09 Financial Highlights**

- Record PBT up 64% at $384 million
- Record EBIT up 142% at $310 million
- Record billings of QFF points up 35% at $1,255 million
- Total cost per point redeemed has reduced by 2.9%

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**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 (Billings)
- 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

**Sources of Value**
- Gross Margin on Points + Working Capital + Breakage (_EXPIRY)

**Operating Costs**
- Salaries, IT, Qantas Royalty, admin etc

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

<table>
<thead>
<tr>
<th></th>
<th>FY 08</th>
<th>1H 09</th>
<th>2H 09</th>
<th>FY 09</th>
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<tbody>
<tr>
<td>Reported EBIT</td>
<td>128</td>
<td>73</td>
<td>237</td>
<td>310</td>
</tr>
<tr>
<td>Less: Estimated one off impact of direct earn point ‘rush’</td>
<td></td>
<td>(84)</td>
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<td>(84)</td>
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<td>Underlying EBIT</td>
<td></td>
<td>153</td>
<td></td>
<td>226</td>
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<tr>
<td>Revenue recognition adjustment</td>
<td></td>
<td>(63)</td>
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<td>(63)</td>
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<tr>
<td></td>
<td></td>
<td>90</td>
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<td>163</td>
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- 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
- Redemption Revenue
  - @ Average issue value of point

Interim Recognition
- Until balance of points on 1 January 2009 are extinguished (Circa 2 yrs)
- Redemption Revenue
  - @ fair value of award

Normalised Recognition
- After all points in existence on 1 January 2009 are extinguished
- Redemption Revenue
  - @ fair value of award

Amount charged for issuance of point
- Redemption Revenue – Prospective recognition
- Not aligned to cashflow or business performance

Amount charged for issuance of point
- Marketing Revenue
- Aligns cashflows and performance to earnings
**Partner Value Proposition**

- Attract new customers
- Increase customer retention and tenure
- Increase frequency of visits
- Increase propensity to spend
- Increase spend per customer
- Reduce cost to serve
- Understand customer behaviour
Interaction with Airline

Reward Program
- Earn points from activity with partners
- Redeem points for awards

Airline Recognition
- Lounges
- Airline point earning proposition
- Tier Status (Bronze, Silver, Gold, Platinum)

Qantas Frequent Flyer
Controlled by Qantas Airlines

Business Development

- Key categories of the coalition now in place
  - Airline
  - Credit Card spend
  - Supermarkets, retail & fuel
  - Travel & Entertainment – Hotels, car hire, restaurants

- Expansion into more consumer spend categories
**Credit Cards**

- The Direct Earn strategy successfully executed
  - Participation of all major banks and charge card companies
  - Over 1 million Qantas Frequent Flyer members with a Direct Earn card in Australia and New Zealand
  - The majority of Indirect Earn members have taken up a Direct Earn card

- Immediate focus
  - Increase penetration
  - Launch new targeted products
  - Expand banking relationship

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**Woolworths Alliance**

- Earn points on everyday spend at
  - Woolworths and Safeway supermarkets
    Launched 22 June 2009
  - Woolworths and Safeway Liquor
    Launched 22 June 2009
  - Big W
    Launched 16 July 2009

- Since launch
  - Over 1.1 million Qantas Frequent Flyer members have linked to earn points at Woolworths

"The alliance between Woolworths Everyday Rewards and Qantas Frequent Flyer will provide us with substantial competitive advantage, and is already resulting in a noticeable change in the behaviour of our shoppers"

Richard Umbers, General Manager Customer Engagement at Woolworths Limited.
**Member Award Enhancements**

- New reward options introduced 1 July 2008.
  - Total points redeemed up 18%.
  - Qantas and Jetstar Any Seat Awards
    - Over 280,000 award seats redeemed
  - Qantas Frequent Flyer Store
    - Choice of over 1,200 products, including over 100 vouchers in Australia
    - Over 330,000 products redeemed

- Enhancements nearing completion
  - Qantas Any Seat Awards is being expanded to include 100 new destinations
  - Qantas and Jetstar Any Seat Awards will be merged into a single product in Q4, 2009, providing an improved customer experience

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**Segmented Member Strategies**

- Focus on member attributes including transactions, demographics and attitudes
- Advanced analytics are employed to find groups of members with common attributes
- Segmented member strategies are then developed to increase value to the program
- Testing, learning and refining strategies

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**Phase 1**
Understand behaviour of existing customers

**Phase 2**
Refine segmentation and develop segment strategies and targets

**Phase 3**
Understand drivers of customer behaviour

**Phase 4**
Execute, learn and refine

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Operations

• Customer satisfaction at record highs
• e Newsletter now produced with up to 8,000 variations
• Investment planned in improved data warehouse
• Investment planned in new generation CRM platform

People

• High calibre Loyalty professionals
• High engagement levels
• Organisation design structured on key market verticals
• Focused project teams drive rapid business change