INVESTMENT POLICY STATEMENT
JUNE 2007

QANTAS
SUPERANNUATION PLAN

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1. Introduction

1.1 The purpose of this Statement is to document the processes formulated by Qantas Superannuation Limited (the "Trustee"), the trustee of the Qantas Superannuation Plan (the "Plan") in relation to the investment of the assets of the Plan (including any reserves).

1.2 Under section 52(2) of the Superannuation Industry (Supervision) Act 1993 (the "SIS Act") and associated regulations (the "SIS Regulations") trustees of superannuation funds are required to formulate and give effect to an investment strategy having regard to their plan's objectives and circumstances.

1.3 It is intended for this Statement to go beyond the minimum requirements of the SIS Act and Regulations, with the intent of being a useful working document to facilitate all aspects of the ongoing prudent and efficient management of the Plan's investment arrangements. It describes the investment objectives, strategies and policies in detail, together with the procedures for monitoring and reviewing the investment managers.

1.4 These policies and objectives will be reviewed and changed, as appropriate, to reflect changing capital markets, Plan characteristics, government regulations and the Trustee's requirements.

1.5 A copy of this Statement will be provided to all existing directors of the Trustee and to any new directors on appointment.

1.6 The Trustee has taken into account the whole of the circumstances of the Plan in formulating the investment objectives, strategies and policies. The Plan has the following summarised characteristics:

Plan as a whole

- The Plan is one of the largest corporate superannuation funds, is open to new members and benefits from continued employer support.
- The Plan has both accumulation and defined benefit members. The accumulation and defined benefit sections of the Plan are discussed below.
- The Plan has a diverse membership profile as members as a whole have a broad range of ages, expectations and occupational profiles. This means that there is a broad range of investment time frames, investment objectives and investment knowledge across the members.
- Few members have compulsory membership because most members can choose to have their future superannuation contributions made to another fund (under the choice of fund rules) and can move their existing superannuation to another fund (under the portability rules). The choice of fund and portability rules have not materially impacted the number of Plan members or the amount of Plan assets.

Accumulation Section

- The Plan provides benefits for accumulation members based on the accumulation of contributions plus credited investment returns and debited investment losses. The liabilities are denominated in Australian dollars.
- For most accumulation members, Member Investment Choice ("MIC") is available. Members of Division 1, 4 and 12 are not eligible for MIC, and for these members the Growth Option applies. From 1 July 2007 members of Division 9 will be eligible for MIC.
- Members entitled to MIC may choose to invest in one of five investment options. Historically, for the members as a whole, there has been a spread of the amount invested across the five investment options.
- Having regard to the matters listed below, the Trustee has decided that offering some members one of five investment options that are discussed below is consistent with investment objectives and investment strategy for the Plan as a whole:
  - the need for Plan diversification and liquidity, that a member selecting an undiversified portfolio does not pose a risk to the Plan given the size of the Plan and that offering MIC has not caused a lack of diversification in Plan assets;
  - that the Trustee does not know what investments a member holds outside of the Plan;
  - the diverse membership profile of the Plan; and
  - as a member can move their superannuation to another superannuation fund, the need for the Plan to offer members investment options with a range of risk and return profiles so that they can chose one that suits their investment objectives.

- For accumulation benefits, members generally bear the investment risk and reap the rewards in respect of the positive returns credited to accumulation accounts and bear the losses in respect of negative returns debited to accumulation accounts. Fluctuations in investment returns can directly affect the accumulation accounts of members. However, the employer also bears an element of investment risk in respect of those accumulation benefits in Division 1 of the Plan which enjoy a Guaranteed Minimum Benefit which is related to salary and in respect of some Division 2 members who have guarantees arising from their Australian Airlines membership.
- The Trustee aims to credit or debit accumulation accounts as closely as practicable with the actual investment return on the Plan's assets after tax and expenses. For members entitled to MIC, this is in accordance with their chosen investment option. For other members this is in accordance with the Growth Option. The Trustee aims to pass on in full the rewards of investment performance, recognising that Members generally bear the investment risk. No smoothing applies.
- Credited Interest Rates ("CIRs") are declared by the Trustee quarterly, based on the benchmark portfolio for each investment option. In any quarter, CIRs can be positive or negative.
- The Trustee also maintains an Investment Fluctuation Reserve (IFR). The IFR captures any deviations between the actual returns of the Plan and the amounts credited to the investment options. For example, any deviations of the actual investment strategy from the benchmarks used to calculate the CIR for each investment option. The IFR is expected to be very small.
- The IFR will be calculated every year, and any IFR balance (either positive or negative) will be fairly distributed to members in the accumulation section and to the assets backing the defined benefit liabilities (as the return on these assets are calculated in the same manner as the assets for the accumulation section). In determining a fair distribution of any IFR balance, whether positive or negative, the Trustee will (amongst other considerations) take into account the factors which led to the IFR emerging and the investment risk of each investment option (as the greater an investment option's investment risk the greater the potential for the actual return to deviate from the benchmark that is used to calculate the CIR for that investment option).
- The Trustee may also use its discretion to take into account other factors relevant to the maintenance of equity within the Plan and between generations of members.
- Interim CIRs will be calculated monthly in a manner consistent with the final quarterly CIRs. Hence, the Interim CIRs will be based on the investment performance of the benchmark portfolio of each investment option. Interim CIRs can also be positive or negative.
- New members are offered accumulation style benefits.

Defined Benefit

- The main benefits provided by this section of the Plan are linked to salary and membership. In some cases, the defined benefits are subject to a minimum benefit based on the accumulation of compulsory contributions with interest at the rate earned by the section of the Plan.
- The employer bears the investment risk in respect of the defined benefits. Fluctuations in investment returns affect the amount of contributions required by the employer in order to fund accruing retirement benefits.
- The vested benefits index is above 100%.

2. Mission and Investment Governance

Mission

The Trustee has established the following Investment Mission for the Plan's Accumulation Section:

- We will configure a range of multi-asset class investment options, which will span the risk spectrum in an effort to provide investment risk profiles that will be suitable to a broad cross-section of our membership. These options will seek to deliver superior long term returns consistent with the volatility (or probability of a negative returns) of each of those investment options and taking into account practical/governance constraints.
- In particular we will take advantage of our scale and resources to exploit innovative investment opportunities within each MIC option, with the aim of lowering the frequency and severity of poor short term returns, without compromising long term returns. This goal will be balanced with the aim of keeping investment costs at competitive levels.
- We will be comfortable for the Plan to deviate from the typical investment options offered by other superannuation funds where we believe this will deliver superior long-term risk-adjusted returns to our members. We acknowledge that this approach will at times expose the Plan to underperformance compared to other funds.

The Trustee has established the following Investment Mission for the Plan's Defined Benefit Section:

- We aim to maximise long-term investment return (and thereby minimise the cost to the employer) of the assets backing the defined benefit section, subject to an acceptable level of risk. Risk in this context would reflect:
  - the likelihood of a substantial fall in the funding level; and
  - the likelihood that the employer would be unable to meet the required contributions.
- We will continue to seek opportunities to lower the investment risk associated with the funding of the Defined Benefits liabilities.
- In particular we will take advantage of our scale and resources to exploit innovative investment opportunities, with the aim of lowering the frequency and severity of poor short term returns, without compromising long term returns. This goal will be balanced with the aim of keeping fund costs at competitive levels.
- We will be comfortable for the Plan to deviate from the typical investment mixes seen across other superannuation funds where we believe this will deliver superior long-term risk-adjusted returns.

Investment Governance

2.1 The Trustee recognises that the development of investment objectives and the implementation of appropriate strategies for the investment of assets is one of its key responsibilities.

2.2 Due to the particular demands required to efficiently formulate and implement investment objectives, investment strategy and to carry out manager monitoring, the Trustee has formed an Investment Committee to assist the Trustee with parts of the investment process. The Investment Committee meets at regular intervals and its powers are defined under a charter entitled Investment Committee Charter.

2.3 In order to support the activities of the Plan, there is a full time executive management team whose role is, in part, to provide the Investment Committee with assistance in the strategic and operational aspects of the investments.

2.4 Due to the specialised nature of investment markets, the Trustee employs independent asset consultants to assist in the formulation of investment strategies, to monitor the investment managers and to keep the Investment Committee appraised of leading edge developments in investment thinking.

3. Investment Objectives and Strategies

General Investment Objectives

3.1 The Trustee's general investment objectives for the Plan's assets (including any reserves) are as follows:

3.1.1 To invest the assets of the Plan as permitted by the power of investments under the Trust Deed or by law.

3.1.2 To prudently manage all aspects of risk in relation the Plan's assets, including:

- Ensuring the assets are adequately diversified.
- Ensuring the assets have an appropriate level of liquidity.

3.1.3 To ensure that there are sufficient assets to meet benefit payments when benefit payments fall due.

3.1.4 To ensure that any third party to whom investment decision making is delegated exercises integrity, prudence and professional skill in fulfiling the investment tasks delegated to them, and that the actions of the third party are fully accountable to the Trustee.

Investment Strategy Beliefs

3.2 In determining efficient investment strategies the Trustee has recorded the following beliefs:

3.2.1 The principal goal is to set an appropriate level of investment risk, and then subject to this create value by maximising the return per unit of risk. For the accumulation section the primary risk measure is defined as the frequency and severity of poor absolute returns. For members eligible for MIC, this is assessed within the context of each investment strategy. Peer group risk (i.e. the risk of underperforming other superannuation funds of a similar nature) is assessed as a secondary measure only. For the defined benefit section, risk is defined relative to the liabilities.

3.2.2 The strategic asset allocation is the primary determinant of the returns of an investment strategy. Strategic asset allocation is set with reference to an asset model that factors in long term expected return and risk characteristics of various asset sectors.

3.2.3 Other things being equal, a strategy that comprises a more diverse exposure to different types of risk premia (e.g. equity, credit, liquidity, skill, etc.) is preferable to one with concentrated risk exposures.

3.2.4 For asset classes for which assumptions are expected to be less robust, or for which there are additional important considerations such as illiquidity, a practical limit on the exposure is imposed.

3.2.5 For the introduction of a new asset class into an investment strategy to be worthwhile in terms of risk and/or return, and taking into account the overall governance, it must be awarded an allocation sufficiently large so as to have a meaningful impact on the expected characteristics of that investment strategy. Typically this will be in the order of 5% at least.

3.2.6 The investment objectives are long term in nature, and the Trustee does not typically seek to tactically adjust the strategic allocations to asset classes or currencies to exploit short term changes in market conditions. However, the strategic asset allocation is expected to be reviewed periodically (typically annually) to allow for significant changes in market conditions and/or long term asset class assumptions, or to assess potential new asset classes for inclusion. The Trustee will take market valuations into account when implementing strategic decisions.

Specific Investment Objectives and Strategy – Accumulation Investment Options

3.3 The Trustee has regard to the historical and expected future rates of return on various classes of asset (including equities, fixed interest, property, various alternative assets and cash). It recognises that whilst growth assets (eg equities and property) are expected to yield a higher total return over the longer term than defensive assets (eg fixed interest and cash), the associated volatility is higher, increasing the likelihood of a poor or negative return over shorter time frames.

3.4 The Trustee has taken this trade-off into account in forming the investment strategy for each investment option. The probability of a poor or negative short-term return is the Trustee's primary definition of risk. The specific objectives for each option are given in the following tables.

Investment options

	RETURN OBJECTIVE	RISK OBJECTIVE
Cash Option	To achieve a return (net of tax and investment expenses) that exceeds the increase in CPI by at least 1.5% pa over moving three and five year periods.	To limit the probability of achieving a negative return over moving 1 year periods to approximately 1 year in 100 or 1%.
Conservative Option	To achieve a return (net of tax and investment expenses) that exceeds the increase in CPI by at least 3.0% pa over moving three and five year periods.	To limit the probability of achieving a negative return over moving 1 year periods to approximately 1 year in 14 or 7%.
Balanced Option	To achieve a return (net of tax and investment expenses) that exceeds the increase in CPI by at least 3.5% pa over moving three and five year periods.	To limit the probability of achieving a negative return over moving 1 year periods to approximately 1 year in 6.5 or 15%.
Growth Option	To achieve a return (net of tax and investment expenses) that exceeds the increase in CPI by at least 4.0% pa over moving three and five year periods.	To limit the probability of achieving a negative return over moving 1 year periods to approximately 1 year in 5 or 20%.
Aggressive Option	To achieve a return (net of tax and investment expenses) that exceeds the increase in CPI by at least 4.5% pa over moving three and five year periods.	To limit the probability of achieving a negative return over moving 1 year periods to approximately 1 year in 4 or 25%.

3.5 The Trustee recognises that the level of investment returns are uncertain, in that they will vary both above and below the targeted return over time. However, the Trustee considers the targeted returns to be realistic long term expectations.

3.6 The current strategic asset allocations for each option are as follows:

	Cash %	Conservative %	Balanced %	Growth %	Aggressive %
Australian Equities (main stream)	0.0	9.0	18.9	26.1	31.5
Australian Equities (small caps)	0.0	1.0	2.1	2.9	3.5
International Shares (Unhedged)	0.0	4.3	9.7	14.0	17.0
International Shares (Hedged)	0.0	2.9	6.5	9.4	11.3
Emerging Markets Equity	0.0	0.8	1.8	2.6	3.2
Unlisted Property	0.0	3.0	5.0	8.0	10.0
Listed Property	0.0	1.0	1.0	2.0	3.0
High Yield/Emerging Markets Debt	0.0	2.0	3.0	5.0	7.0
Infrastructure & Private Equity	0.0	0.0	2.0	2.5	3.5
Diversified Hedge Funds	0.0	3.0	5.0	7.5	10.0
Total Return Seeking Assets	**0.0**	**27.0**	**55.0**	**80.0**	**100.0**
Australian Fixed Interest	0.0	36.0	20.0	10.0	0.0
Inflation Linked Bonds	0.0	22.0	15.0	6.5	0.0
International Fixed Interest	0.0	15.0	10.0	3.5	0.0
Australian Cash	100.0	0.0	0.0	0.0	0.0
Total Risk Controlling Assets	**0.0**	**73.0**	**45.0**	**20.0**	**0.0**
Total Assets	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

3.7 The appropriateness of these benchmark portfolios will be formally assessed at least once a year and kept under constant review to reflect any fundamental changes in the investment environment and changes to the Plan's investment policy.

Rebalancing

3.8 The exposures to the various asset classes will be monitored and rebalanced, taking into account the underlying exposures in any pooled investment vehicles and the impact of futures and options on an effective exposure basis. An investment manager is appointed to manage a futures overlay program to ensure the actual exposures closely match the required strategic asset allocation. In addition the Chief Executive is responsible for directing cashflows (positive and negative) to rebalance the physical exposures to the various asset classes as far as possible.

3.9 Effective exposure of an option contract will be measured by reference to the relationship between the change in the price of the option relative to a change in the price of the underlying asset to determine an equivalent market value exposure to the underlying asset. Effective exposure to any asset or asset class is the sum of the market value of physical assets, the underlying market value represented by futures contracts and the effective exposure derived from options contracts.

Specific Investment Objectives – Defined Benefit

3.10 The Trustee's specific objectives for the Plan's assets supporting the defined benefit liabilities are described as:

3.10.1 Return Objectives
To achieve a return (net of tax and investment expenses) of at least 4.0% pa in excess of inflation (as measured by the Consumer Price Index (CPI)) over rolling 5 year periods.

3.10.2 Downside Risk Objective
To limit the probability of a negative return over rolling 12 month periods (calculated each quarter) to 1 in 5, or 20%.

Specific Investment Strategy – Defined Benefit

3.11 In setting the objective and strategy, the Trustee has regard to the historical and expected future rates of return on various classes of asset (including equities, fixed interest, property, various alternative assets and cash). It recognises that whilst return seeking assets (eg equities and property) are expected to yield a higher return over the longer term than risk controlling assets (eg fixed interest and cash), the associated volatility is higher, increasing the likelihood of poor or negative return over shorter time frames.

3.12 In deciding on the appropriate level of investment risk for the Defined Benefit section, the Trustee has taken into account various factors, including the financial strength (solvency), the very specific nature of the liability profile, and the views of the employer.

3.13 The Trustee believes the following long term strategic asset allocation for the Plan's Defined Benefit assets is consistent with achieving the Specific Investment Objectives:

	Defined Benefits
Australian Equities (main stream)	26.1%
Australian Equities (small caps)	2.9%
International Shares (Unhedged)	14.0%
International Shares (Hedged)	9.4%
Emerging Markets Equity	2.6%
Unlisted Property	8.0%
Listed Property	2.0%
High Yield/Emerging Markets Debt	5.0%
Infrastructure & Private Equity	2.5%
Diversified Hedge Funds	7.5%
Total Return Seeking Assets	**80.0%**
Australian Fixed Interest	10.0%
Inflation Linked Bonds	6.5%
International Fixed Interest	3.5%
Australian Cash	0.0%
Total Risk Controlling Assets	**20.0%**
Total Assets	**100.0%**

3.14 The appropriateness of this benchmark portfolio will be formally assessed at least once a year and kept under constant review to reflect any fundamental changes in the investment environment and changes to the Plan's investment policy.

Taxation

3.15 The Plan's investment income is subject to the normal taxation rules for complying superannuation plans. Under these rules, all investment income (dividends, interest, rent, etc) and realised capital gains less tax credits (such as expenses, dividend imputation credits, withholding tax) are subject to taxation. The Trustee recognises the effect of taxation in forming and implementing the investment objectives and policy.

Social, environmental and ethical issues

3.16 The Trustee has delegated responsibility for the selection, retention and realisation of investments to investment managers – see Section 4 following. The Trustee's current policy is not to impose any specific requirements on its managers (or to use pooled investment products that themselves include any specific requirements) in regard to the extent to which labour standards or social, environmental or ethical considerations are to be taken into account for the purpose of selecting, retaining or realising investments.

Rights attaching to investments

3.17 The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers.

Other issues

3.18 A derivatives charge ratio in excess of 5% will be notified to members in annual reports.

3.19 Holdings of more than 5% in any one asset or security will be notified to members in annual reports.

4. Investment Management Arrangements

4.1 With respect to implementing the investment objectives and strategy, the Trustee has established a policy in regard to the investment management arrangements. This section describes that policy. In this section a reference to an investment manager includes a manager of a pooled investment vehicle or a life insurance company that issues the Trustee with an investment policy.

Delegation of Investment Management Responsibilities

4.2 The Trustee recognises that it is empowered to delegate the investment of the Plan's assets to investment managers. The Trustee believes that it is in the interests of the efficient running of the Plan to appoint external investment managers to undertake the daily investment process and related matters. Any investment manager:

4.2.1 Must be a body corporate and either a licensed dealer under the Corporations Law or a registered Life Insurance Company.

4.2.2 Must not be a disqualified person as defined in Section 120 of the SIS Act.

4.3 The Plan will retain the services of professional specialist sector investment management organisations who will have responsibility for the investment of specific classes of assets within specified constraints.

4.4 A maximum of 20% of the Plan's assets will be placed with any one external fund manager.

4.5 Consistent with superannuation industry practice, investment managers are permitted to use futures, options and other derivative instruments to assist with the effective management of the Plan's assets. However these instruments may not be used to gear the portfolio. Derivatives may be used to enhance returns on the Plan's assets, improve liquidity in some asset classes and control risk. The Trustee's policy on derivatives is set out in the Plan's Part A Risk Management Statement and the Part B Risk Management Statements provided by the Plan's investment managers. These Statements are carefully reviewed by the Trustee and its advisers.

Investment Management Beliefs and Structure

4.6 In determining the most efficient manager structure for the Plan, the Trustee has recorded the following beliefs and views regarding investment management:

4.6.1 Historic manager performance has limited predictive power and is only really useful to assist with understanding and validating a manager's processes and approach.

4.6.2 Active manager mandates should offer a wide range of investment opportunities capable of being exploited, with minimum constraints applied to satisfy prudent risk control.

4.6.3 Active management should ideally be distributed across a range of managers and investment styles offering low correlation with each other.

4.6.4 Core investment managers (low tracking error) will be used to provide a control on the total tracking error of the portfolio where appropriate.

4.6.5 Satellite investment managers (high tracking error) will be used where investment skill can be exploited efficiently to generate strong additional expected returns after fees.

4.6.6 The generally low correlation of tracking error risk with market risk means that the additional volatility generated through active management is largely diversified away at the total Plan level, whilst the additional expected return remains.

4.6.7 Benchmark insensitive mandates may be employed where highly skilled managers can be found to deliver long term risk adjusted returns without the tracking error constraints relative to a benchmark.

4.6.8 The small capitalisation segment of the equity market offers particularly strong opportunities for skilled managers to add value. Furthermore it offers a greater level of diversity by both stocks and sectors than the relatively concentrated large capitalisation segment of the market. For both these reasons it is appropriate to overweight the small capitalisation segment within the Australian equity structure.

5. Monitoring of Investment Managers

5.1 The Trustee recognises the importance of an ongoing process of monitoring the appointed investment managers to ensure they continue to demonstrate a sufficient level of skill to meet the Plan's objectives. The Trustee will monitor the extent to which the managers give effect to the policies set out in this Statement.

5.2 Each manager is required to provide regular information on its investment performance and asset allocation.

5.3 Each portfolio manager will be expected to report to the Trustee any major shifts in investment strategy which may be implemented, or significant change in the management structure or other characteristic of the manager including changes in key personnel as soon as is practicable after their occurrence.

Monitoring Performance Objectives

5.4 The principal goals of performance monitoring are to:

5.4.1 Compare the performance of the Plan's appointed managers against expectations, the performance of other relevant professional managers and market indices;

5.4.2 Ascertain the existence of any particular weakness in the manager; and

5.4.3 Allow the Trustee to continually assess the ability of the managers to successfully meet the Plan's objectives.

5.5 Returns achieved by the appointed managers will be assessed by the Trustee in relation to their standard objectives and the objectives of the Plan.

5.6 Manager performance will be monitored monthly with a view to an annual evaluation of rolling three and five year results.

5.7 Whilst the Trustee is not involved in the investment managers' day-to-day method of operation and therefore cannot directly influence the performance targets, it will assess performance and review each manager's suitability for the Plan on a regular basis.

Qualitative Monitoring

5.8 The Trustee recognises that monitoring of performance alone is not sufficient to assess the future capability of the managers. The Trustee retains an investment consultant, to monitor the quality of the investment managers on the Trustee's behalf and report to the Investment Committee. This ensures that they continue to have the appropriate skills and capabilities necessary to outperform in the future, and that their process remains appropriate for the investment objectives of the Plan.

Selection Criteria

5.9 The Trustee has identified criteria by which managers should be selected (or deselected). These include:

5.9.1 Business

5.9.2 People

5.9.3 Process
- Investment philosophy
- Decision structure
- Investment research
- Trading

5.9.4 Suitability of style and structure

5.9.5 Past performance
- Total performance
- Variability of performance

5.9.6 Reporting and service

5.9.7 Fees

De-selection Criteria

5.10 Managers may be replaced if they fail to meet the performance objectives set out above and/or the Trustee believes that the manager is not capable of achieving the performance objectives in the future (by virtue of a loss of confidence in the manager's ability to satisfy the selection criteria above), or where in the opinion of the Investment Committee there is a material event which will change or put at risk the ability of the manager to continue the appointment to the satisfaction of the Trustee.

6. Updates and Changes to this Statement

6.1 This Statement, and the objectives, strategy and policies contained herein, is to be reviewed by the Trustee as appropriate and at least annually.

6.2 This Statement is intended to be effective for an indefinite period. However, changes may need to be made and should be considered if:

6.2.1 There is a major change in the circumstances of the Employer.

6.2.2 Benefit changes are made to the Plan.

6.2.3 Changes are made to Government Regulations relating to the Plan's investments.

6.2.4 New (appropriate) forms of investment arise.

6.2.5 Fundamental long term social, political or economic restructuring occurs.

This Statement was adopted by the Trustee of the Qantas Superannuation Plan at a meeting held on 21 June 2007.

Qantas Superannuation Plan

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