DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

The Directors of Qantas Airways Limited (Qantas) present their Report together with the Financial Statements of the consolidated entity, being Qantas and its controlled entities (Qantas Group), for the year ended 30 June 2014 and the Independent Audit Report thereon.

DIRECTORS

The Directors of Qantas at any time during or since the end of the year are:

Leigh Clifford, AO
Alan Joyce
Maxine Brenner (appointed 29 August 2013)
Peter Cosgrove, AK, MC (resigned 28 January 2014)
Patricia Cross (retired 18 October 2013)
Richard Goodmanson
Jacqueline Hey (appointed 29 August 2013)
Garry Hounsell
William Meaney
Paul Rayner
Barbara Ward, AM

Details of current Directors, their qualifications, experience and any special responsibilities, including Qantas Committee Memberships, are set out on pages 24 to 26.

PRINCIPAL ACTIVITIES

The principal activities of the Qantas Group during the course of the year were the operation of international and domestic air transportation services, the provision of freight services and the operation of a Frequent Flyer loyalty program. There were no significant changes in the nature of the activities of the Qantas Group during the year.

DIVIDENDS

No final dividend will be paid in relation to the year ended 30 June 2014 (2013: nil final dividend). No interim dividend was paid during the year.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the Qantas Group that occurred during the year under review.

Any matter or circumstance that has arisen since the end of the year that may affect the Qantas Group's state of affairs in future financial years has been included in the Review of Operations.

REVIEW OF OPERATIONS

A review of, and information about, the Qantas Group's operations, including the results of those operations during the year together with information about the Group's financial position appear on pages 27 to 37.

The Qantas Group's strategies, prospects for future financial years and material business risks have been included in the Review of Operations to the extent that they are not likely to result in unreasonable prejudice to the Qantas Group. In the opinion of the Directors, detail that could be unreasonably prejudicial to the interests of the Qantas Group, for example, information that is commercially sensitive, confidential or could give a third party a commercial advantage, has not been included.

EVENTS SUBSEQUENT TO BALANCE DATE

Refer to page 107 for events which occurred subsequent to balance date. Other than the matters disclosed on page 107, since the end of the year and to the date of this report no other matter or circumstance has arisen that has significantly affected or may significantly affect the Qantas Group's operations, results of those operations or state of affairs in future years.

DIRECTORS' MEETINGS

The number of Directors' Meetings held (including Meetings of Committees of Directors) during 2013/2014 is as follows:

	Qantas Board						Audit Committee[1]		Safety, Health, Environment and Security Committee[1]		Remuneration Committee[1]		Nominations Committee[1]	
	Scheduled Meetings		Unscheduled Meetings		Sub-Committee Meetings[2]									
Directors	Attended	Held[3]	Attended	Held[3]	Attended	Held[3]	Attended	Held[3]	Attended	Held[3]	Attended	Held[3]	Attended	Held[3]
Leigh Clifford	7	7	4	4	2	2[4]	–	–	–	–	–	–	2	2
Alan Joyce	7	7	4	4	2	2[4]	–	–	4	4	–	–	–	–
Maxine Brenner[5]	5	5	4	4	–	–	2	2	–	–	2	2	–	–
Peter Cosgrove[6]	4	4	3	4	–	–	–	–	2	2	–	–	–	–
Patricia Cross[7]	3	3	–	–	–	–	1	1	–	–	1	1	1	1
Richard Goodmanson	7	7	4	4	–	–	–	–	4	4	–	–	2	2
Jacqueline Hey[8]	5	5	4	4	–	–	3	3	–	–	–	–	–	–
Garry Hounsell	7	7	4	4	2	2[4]	4	4	–	–	–	–	2	2
William Meaney[9]	7	7	4	4	–	–	–	–	4	4	2	2	–	–
Paul Rayner[10]	7	7	4	4	–	–	1	1	–	–	3	3	1	1
Barbara Ward	7	7	4	4	–	–	4	4	4	4	–	–	–	–

1 All Directors are invited to, and regularly attend, Committee meetings in an ex-officio capacity. The above table reflects the attendance of a Director only where he or she is a member of the relevant Committee.
2 Sub-Committee meetings convened for specific Board-related business.
3 Number of meetings held during the period that the Director held office.
4 Number of meetings held and requiring attendance.
5 Ms Brenner was appointed as a Member of the Remuneration Committee on 29 August 2013 and as a Member of the Audit Committee on 26 February 2014.
6 Mr Cosgrove resigned as a Director on 28 January 2014.
7 Mrs Cross retired as a Director on 18 October 2013.
8 Ms Hey was appointed as a Member of the Audit Committee on 29 August 2013.
9 Mr Meaney was appointed as a Member of the Remuneration Committee on 19 October 2013.
10 Mr Rayner retired as a Member of the Audit Committee and was appointed as Chairman of the Remuneration Committee and a Member of the Nominations Committee on 19 October 2013, following the retirement of Mrs Cross.

DIRECTORSHIPS OF LISTED COMPANIES HELD BY MEMBERS OF THE BOARD AS AT 30 JUNE 2014 – FOR THE PERIOD 1 JULY 2011 TO 30 JUNE 2014

Leigh Clifford	Qantas Airways Limited	— Current, appointed 9 August 2007
Alan Joyce	Qantas Airways Limited	— Current, appointed 28 July 2008
Maxine Brenner	Qantas Airways Limited	— Current, appointed 29 August 2013
	Growthpoint Properties Australia Limited	— Current, appointed 19 March 2012
	Orica Limited	— Current, appointed 8 April 2013
	Origin Energy Limited	— Current, appointed 15 November 2013
Richard Goodmanson	Qantas Airways Limited	— Current, appointed 19 June 2008
	Rio Tinto Limited	— Current, appointed 1 December 2004
	Rio Tinto plc	— Current, appointed 1 December 2004
Jacqueline Hey	Qantas Airways Limited	— Current, appointed 29 August 2013
	Australian Foundation Investment Company	— Current, appointed 31 July 2013
	Bendigo and Adelaide Bank Limited	— Current, appointed 5 July 2011
Garry Hounsell	Qantas Airways Limited	— Current, appointed 1 January 2005
	DuluxGroup Limited	— Current, appointed 8 July 2010
	PanAust Limited	— Current, appointed 1 July 2008
	Spotless Group Holdings Limited	— Current, appointed 20 March 2014
	Treasury Wine Estates Limited	— Current, appointed 1 September 2012
	Orica Limited	— Ceased, appointed 21 September 2004 and ceased 17 February 2013
	Nufarm Limited	— Ceased, appointed 1 October 2004 and ceased 8 October 2012
William Meaney	Qantas Airways Limited	— Current, appointed 15 February 2012
	Iron Mountain Inc.	— Current, appointed 7 January 2013
Paul Rayner	Qantas Airways Limited	— Current, appointed 16 July 2008
	Treasury Wine Estates Limited	— Current, appointed 9 May 2011
	Boral Limited	— Current, appointed 5 September 2008
	Centrica plc	— Current, appointed 22 September 2004
Barbara Ward	Qantas Airways Limited	— Current, appointed 19 June 2008
	Brookfield Capital Management Limited[1]	— Current, appointed 1 January 2010
	Brookfield Funds Management Limited[2]	— Current, appointed 22 October 2003

1 Responsible entity for the Brookfield Prime Property Fund and the Multiplex European Property Fund, both of which are listed Australian registered managed investment schemes. Previously responsible entity for the Brookfield Australian Opportunities Fund, which was wound up on 30 October 2012.
2 Responsible entity for the Multiplex SITES Trust, which is a listed Australian registered managed investment scheme.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

QUALIFICATIONS AND EXPERIENCE OF EACH PERSON WHO IS A COMPANY SECRETARY OF QANTAS AS AT 30 JUNE 2014

Andrew Finch – Company Secretary

- Joined Qantas on 1 November 2012
- Appointed as Company Secretary on 31 March 2014
- 2002 to 2012 – Mergers and Acquisitions Partner at Allens, Sydney
- 1999 to 2001 – Managing Associate at Linklaters, London
- 1993 to 1999 – Various roles at Allens, Sydney (previously Allens Arthur Robinson and Allen Allen & Hemsley), including Senior Associate (1997–1999) and Solicitor (1993–1997)
- Admitted as a solicitor of the Supreme Court of NSW in 1993

Sarah Jane Udy – Company Secretary

- Joined Qantas on 1 April 2004
- Appointed as a Company Secretary on 9 April 2014
- 2002 to 2004 – Solicitor at Minter Ellison, Sydney
- 2000 to 2002 – Solicitor at Chapman Tripp, Auckland, New Zealand
- Admitted as a solicitor of the Supreme Court of NSW in 2002 and the High Court of New Zealand in 2000

John David Francis Morris – Company Secretary

- Joined Qantas in March 2010
- Appointed as a Company Secretary on 9 April 2014
- 2002 to 2008 – General Counsel and Company Secretary at KAZ Group
- 1997 to 2002 – Solicitor then Senior Associate at Ashurst (previously Blake Dawson Waldron)
- Admitted as a solicitor of the Supreme Court of Victoria in 1992

DIRECTORS' INTERESTS AND BENEFITS

Particulars of Directors' interests in the issued capital of Qantas at the date of this Report are as follows:

	Number of Shares	
Directors	2014	2013
Leigh Clifford	251,622	251,622
Alan Joyce	2,906,202	2,906,202
Maxine Brenner	15,000	–
Richard Goodmanson	20,000	20,000
Jacqueline Hey	30,000	–
Garry Hounsell	80,000	80,000
William Meaney	–	–
Paul Rayner	71,622	71,622
Barbara Ward	47,597	47,597

In addition to the interests shown, indirect interests in Qantas shares held in trust on behalf of Mr Joyce are as follows:

Deferred shares held in trust under:		
2012/13 Short Term Incentive Plan	284,769	284,769

	Number of Rights	
	2014	2013
Rights granted under:		
2012–2014 Long Term Incentive Plan	–[1]	1,675,000
2013–2015 Long Term Incentive Plan	2,575,000[2]	2,575,000
2014–2016 Long Term Incentive Plan	2,151,000[3]	–
	4,726,000	**4,250,000**

1 As a result of performance hurdle testing conducted as at 30 June 2014, all unvested Rights lapsed subsequent to 30 June 2014.
2 Shareholders approved the award of these Rights on 2 November 2012. Performance hurdles will be tested as at 30 June 2015 to determine whether any Rights vest to Mr Joyce.
3 Shareholders approved the award of these Rights on 18 October 2013. Performance hurdles will be tested as at 30 June 2016 to determine whether any Rights vest to Mr Joyce.

RIGHTS

Performance Rights are awarded to select Qantas Group Executives under the Qantas Deferred Share Plan (DSP) and the Qantas Employee Share Plan (ESP). Refer to pages 55 to 56 for further details.

The following table outlines the movements in Rights during the year:

Performance Rights Reconciliation	Number of Rights 2014	Number of Rights 2013
Rights outstanding as at 1 July	28,174,047	18,631,168
Rights granted	13,790,000	15,969,000
Rights forfeited	(4,571,000)	(2,066,000)
Rights lapsed	(3,755,000)	(4,343,801)
Rights exercised	(58,615)	(16,320)
Rights outstanding as at 30 June	**33,579,432[1]**	**28,174,047**

1 The movement of Rights outstanding as at 30 June 2014 to the date of this Report is explained in the footnotes below.

Rights will be converted to Qantas shares to the extent performance hurdles have been achieved. The Rights do not allow the holder to participate in any share issue of Qantas. No dividends are payable on Rights. The fair value of Rights granted is calculated at the date of grant using a Monte Carlo model and/or Black Scholes model.

The following Rights were outstanding at 30 June 2014:

Name	Testing Period	Grant Date	Value at Grant Date	Number of Rights 2014 Net Vested	2014 Unvested	2014 Total	2013 Net Vested	2013 Unvested	2013 Total
2004/05 Performance Rights Plan	30 Jun 07 – 30 Jun 09[1]	13 Jan 05	$2.47	14,860	–	14,860	23,590	–	23,590
2005 Performance Rights Plan	30 Jun 08 – 30 Jun 10[1]	22 Nov 05	$2.67	44,682	–	44,682	63,246	–	63,246
2006 Performance Rights Plan	30 Jun 09 – 30 Jun 11[1]	4 Oct 06	$2.95	156,890	–	156,890	188,211	–	188,211
2011 – 2013 Long Term Incentive Plan	30 Jun 13[2]	12 Aug 10	$1.50	–	–	–	–	2,608,000	2,608,000
2011 – 2013 Long Term Incentive Plan	30 Jun 13[2]	29 Oct 10	$1.76	–	–	–	–	1,147,000	1,147,000
2012 – 2014 Long Term Incentive Plan	30 Jun 14[3]	23 Aug 11	$0.86	–	5,208,000	5,208,000	–	6,563,000	6,563,000
2012 – 2014 Long Term Incentive Plan	30 Jun 14[3]	28 Oct 11	$0.82	–	1,806,000	1,806,000	–	1,806,000	1,806,000
2013 – 2015 Long Term Incentive Plan	30 Jun 15	2 Nov 12	$0.88	–	13,448,000	13,448,000	–	15,446,000	15,446,000
2013 – 2015 Long Term Incentive Plan	30 Jun 15	13 Jun 13	$0.70	–	329,000	329,000	–	329,000	329,000
2014 – 2016 Long Term Incentive Plan	30 Jun 16	18 Oct 13	$0.83	–	12,572,000	12,572,000	–	–	–
Total				216,432	33,363,000	33,579,432	275,047	27,899,000	28,174,047

1 These Rights convert to Qantas shares on the 10th anniversary of the date of award, however Executives may call for the Rights to be converted sooner at their request.
2 As a result of performance hurdle testing conducted as at 30 June 2013, all unvested Rights were lapsed subsequent to 30 June 2013.
3 As a result of performance hurdle testing conducted as at 30 June 2014, all unvested Rights were lapsed subsequent to 30 June 2014.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

REMUNERATION REPORT (AUDITED)

COVER LETTER TO THE REMUNERATION REPORT

Dear Shareholder,

Qantas is pleased to present its Remuneration Report for 2013/2014, which sets out remuneration information for the Chief Executive Officer (CEO), direct reports to the CEO (Executive Management) and Non-Executive Directors.

This was an extremely challenging year for the aviation industry generally and for Qantas in particular. In addition to ongoing record high fuel prices, the trend of intense competitive pressure and high capacity growth continued in both the international and domestic markets, affecting earnings for all carriers.

In response to these fundamental changes in the market, the Group announced and began delivering an accelerated transformation program, targeting $2 billion in cost reduction over three years.

The Group's 2013/2014 financial results and remuneration outcomes reflect the challenging operating environment and the costs associated with large-scale transformation. However, they should be seen in the context of a year in which Qantas took hard but necessary decisions to strengthen its cost base and competitive position, looking towards the Group's long-term future.

2013/2014 Remuneration Outcomes

The Board recognises that Management and all employees have performed very well in accelerating the transformation agenda, in delivering record operational performance and in achieving high levels of customer satisfaction across all areas of the business. Awards under the annual incentive would normally be determined based on performance against a "scorecard" of financial and non-financial measures. Under the default design of the annual incentive, the performance against the non-financial measures could trigger a partial award. However for 2013/2014, in light of the overall financial performance of the Qantas Group, this would not have been appropriate and therefore the Board used its discretion to determine that no annual incentives be awarded.

The Board has ensured that the pay outcomes for the Executive team are closely aligned with the financial performance for the year, as follows:

- A freeze on executive pay was in place throughout the year
- No awards were made under the annual incentive
- There was no vesting of awards under the Long Term Incentive Plan (LTIP)

In addition, the CEO elected to forego five per cent of his Base Pay and the Chairman elected to forego five per cent of his Directors' fee (both from 1 January 2014). For other Directors, their fees were increased by three per cent from 1 July 2013 (the first fee increase since 1 July 2010). From 1 January 2014, they also elected to forego five per cent of their fees.

2014/2015 Executive Remuneration Framework

As part of a review of the Executive Remuneration Framework, the Board has changed the "pay mix" that will apply for Executives for 2014/2015. This involves changing the relative weighting of incentive plan opportunities for Executives, with a decrease in the weighting towards annual incentives and an increase in the weighting towards long-term incentives. This is a pay mix change only and there is no increase in the "at target" pay for Executives.

In addition, participation in the 2015–2017 LTIP, which normally only applies to Senior Executives, will be extended to the broader Management population. This will involve no increase to "at target" pay for each manager, as each manager's LTIP opportunity will be offset by a decrease in their annual incentive opportunity for 2014/2015.

This change in pay mix for 2014/2015 is a one-off change that aligns the entire Management team with the immediate priorities of the transformation agenda, including the achievement of $2 billion in cost reductions over the next three years. The performance period under the 2015–2017 LTIP is for this same three year period.

The Board remains committed to a remuneration framework that is aligned to the Qantas Group strategy, is performance based, motivates and appropriately rewards Management, meets shareholders' requirements and encourages decision making that is focused on the longer-term.

Paul Rayner
Chairman, Remuneration Committee

INTRODUCTION

OVERVIEW OF THE EXECUTIVE REMUNERATION FRAMEWORK

The objectives of the Executive Remuneration Framework are to attract, motivate, retain and appropriately reward a capable Executive team. This is achieved by setting pay at an appropriate level and by linking remuneration outcomes to Qantas' performance. The Qantas Executive Remuneration Framework and the remuneration outcomes for 2013/2014 are summarised as follows:

The Executive Remuneration Framework for 2013/2014

Executive Remuneration Component	Delivery	Performance Measures	2013/2014 Remuneration Outcome
Base Pay A guaranteed salary level inclusive of superannuation. A more detailed description is provided on pages 50 to 51.	Cash, superannuation and other benefits.	An individual's Base Pay is fixed/guaranteed element of remuneration.	No increases to the Base Pay of the CEO and KMP. Additionally, the CEO opted to forego five per cent of his Base Pay (from 1 January 2014).
Annual Incentive Referred to as the Short Term Incentive Plan (STIP). A more detailed description is provided on pages 51 to 55.	Two-thirds cash, one-third shares (with a two year trading restriction). Each year Executives may receive an award that is a combination of a cash bonus and an award of restricted shares if the Plan's performance conditions are achieved.	A scorecard of performance measures. Underlying PBT is the primary performance measure (with a 50 per cent weighting). Other performance measures are explicitly aligned to the execution of the Qantas Group strategy, including delivering on the transformation agenda.	No awards were made under the 2013/14 STIP. Under the default design of the annual incentive, the performance against the non-financial measures could trigger a partial award. However for 2013/2014, in light of the overall financial performance of the Qantas Group, the Board used its discretion to determine that no annual incentives be awarded.
Long Term Incentive Referred to as the Long Term Incentive Plan (LTIP). The LTIP is described in more detail on pages 55 to 56.	Rights over Qantas shares. If performance conditions over a three year period are achieved, the Rights vest and convert to Qantas shares on a one-for-one basis.	The performance measures for each of the 2012–2014 LTIP, 2013–2015 LTIP and 2014–2016 LTIP are the relative Total Shareholder Return (TSR) performance of Qantas compared to: – Companies with ordinary shares included in the S&P/ASX 100 (ASX100), and – An airline peer group (Global Listed Airlines)	No awards vested. LTIP awards under the 2012–2014 LTIP were tested as at 30 June 2014 and the performance hurdles were not achieved. Therefore, 2012–2014 LTIP Rights did not vest and all Rights lapsed.

Changes to the Executive Remuneration Framework for 2014/2015

Changes to Pay Mix for 2014/2015

For 2014/2015 only, the pay mix for the CEO and Executive Management will change, with a decrease in weighting towards annual incentive and an increase in weighting towards long term incentives. In addition, the broader Management population will be invited to participate in the LTIP for 2014/2015 only (generally, participation in the LTIP is limited to Senior Executives).

This one-off change aligns the entire Management team with the immediate priorities of the transformation agenda, including the achievement of $2 billion in cost reductions over the next three years.

These changes do not increase the "at target" pay for each manager, as each manager's LTIP opportunity will be offset by a reduction in their annual incentive opportunity. For Mr Joyce, this change involves:

- Decreasing his "at target" STIP opportunity for 2014/2015 to 80 per cent of Base Pay (2013/2014: 120 per cent of Base Pay)
- Increasing his "at target" LTIP opportunity for 2014/2015 to 120 per cent of Base Pay (2013/2014: 80 per cent of Base Pay)

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

REMUNERATION REPORT (AUDITED) CONTINUED

REMUNERATION OUTCOMES FOR THE CEO IN 2013/2014

Mr Joyce's total remuneration outcome for 2013/2014 was $2 million.

The following table outlines the remuneration outcomes for the CEO for 2013/2014.

CEO Remuneration Outcomes[1]	2014 $'000	2013 $'000	2014 At Target Pay $'000	2014 as a Percentage of At Target pay %
Base Pay (cash)	2,054	2,109	2,125	97
STIP – cash bonus	–	775	1,700	0
STIP – deferred award	–	388	850	0
LTIP	–	–	1,700	0
Other	(45)	59	–	n/a
Total	**2,009**	**3,331**	**6,375**	**32**

1 Detail of non-statutory remuneration methodology is explained on page 61.

The remuneration decisions and outcomes detailed in the table above are particularly useful in assessing the CEO's pay in 2013/2014 and its alignment with Qantas' performance. That is, the table reflects:

- No increase in Base Pay and that the CEO elected to forego five per cent of his Base Pay from 1 January 2014
- No award under the annual incentive for 2013/2014 (under the 2013/14 STIP)
- The long term incentive (under the 2012–2014 LTIP) did not vest based on the three year performance period to 30 June 2014

The CEO's pay is clearly linked to Qantas' performance. This is demonstrated by the CEO electing to forego a portion of his Base Pay from 1 January 2014 and by the performance measures under both the annual incentive and the long term incentive. This resulted in his 2013/2014 total remuneration outcome being:

- 40 per cent lower than his 2012/2013 outcome, due to the CEO not receiving a STIP award in 2013/2014
- 68 per cent lower than his "at target" pay

Base Pay

Mr Joyce did not receive an increase in Base Pay during 2013/2014 and Mr Joyce elected to forego five per cent of his Base Pay from 1 January 2014.

Base Pay (cash) is Base Pay of $2,125,000 less Base Pay foregone of $53,125 and less superannuation contributions of $17,775.

Annual Incentive – 2013/14 STIP Outcome

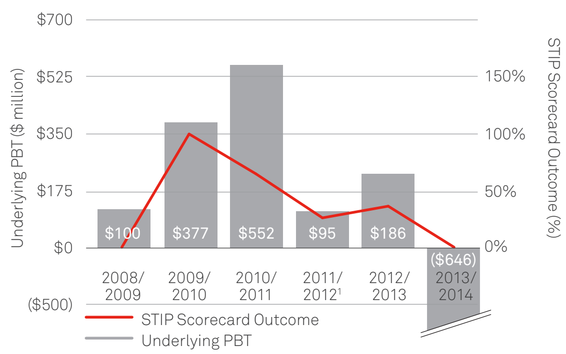
In determining outcomes under the STIP, the Board assesses performance against financial, safety and other key business measures as part of a balanced scorecard, as outlined on pages 52 to 54. While the Board sees this balanced scorecard approach as an important design element of the STIP, it also recognises that the overall STIP outcome must be considered in the context of the Group's financial performance.

In this regard, whilst satisfied that there has been significant progress on the transformation agenda and that customer, operational and safety performance was strong, the Board considered that the Group's financial performance did not warrant any awards under the 2013/14 STIP.

Therefore, the Board determined that no awards will be made under the 2013/14 STIP.

More detail on the 2013/14 STIP scorecard is provided on pages 52 to 54.

CEO INCENTIVE PLAN OUTCOME VS QANTAS PROFIT PERFORMANCE



1 The CEO declined his award under the 2011/12 STIP in 2011/2012 despite the STIP scorecard outcome being 27 per cent.

Long Term Incentive – LTIP Outcome

The 2012–2014 LTIP was tested against the performance hurdles as at 30 June 2014 and did not vest. All Rights in this grant lapsed and the CEO did not receive any shares or payment under this plan.

Therefore, the CEO's remuneration outcome for 2013/2014 under the long term incentive was nil.

STATUTORY REMUNERATION DISCLOSURES FOR THE CEO

The statutory remuneration disclosures are prepared in accordance with Australian Accounting Standards (AASBs) and differ significantly from the outcomes for the CEO resulting from performance in 2013/2014 outlined on page 46.

These differences arise due to the accounting treatment of share-based payments (such as the STIP and LTIP). The statutory disclosures include an accounting remuneration value for:

– Prior and current years' STIP awards

Accounting standards require STIP remuneration to be expensed (and therefore included as remuneration) in financial years which differ from the year of scorecard performance (although any cash bonus would be expensed in the year of scorecard performance). This creates a disconnect between statutory remuneration and the remuneration earned from the corresponding year's financial and non-financial scorecard performance.

Therefore, the statutory remuneration table includes a value of prior year STIP awards of $155,228, even though the CEO did not receive an award under the 2013/14 STIP.

– LTIP awards that have not vested

Accounting standards require LTIP awards to be expensed (and therefore included as remuneration) notwithstanding that the Rights have not met the performance hurdles and have lapsed.

No LTIP awards vested during 2013/2014 (under the 2012–2014 LTIP), however, a value is still required by accounting standards to be included as statutory remuneration.

Additionally, LTIP awards that will be assessed for vesting in future years are expensed over the three year testing period. Therefore, the statutory remuneration table includes an accounting value for part of the 2013–2015 and the 2014–2016 LTIP awards. Testing will be undertaken as at 30 June 2015 and 30 June 2016 to determine whether Mr Joyce receives any shares under these awards.

As a result, an LTIP expense of $1.808 million is included in the statutory remuneration table even though no LTIP awards vested during 2013/2014. The following is a summary of the statutory remuneration disclosures for the CEO (the full statutory table is provided on page 50).

CEO Statutory Remuneration Table	2014 $'000	2013 $'000	2014 At Target Pay $'000
Base Pay (cash)	2,054	2,109	2,125
STIP – cash	–	775	1,700
STIP – share-based	155	375	850
LTIP	1,808	1,794	1,700
Other	(45)	59	–
Total	**3,972**	**5,112**	**6,375**

The following table reconciles the CEO's Remuneration Outcome to the CEO's Statutory Remuneration disclosure for 2013/2014.

Reconciliation of CEO's Remuneration Outcome to Statutory Remuneration Disclosure for 2013/2014	$'000
Remuneration Outcomes for the CEO for 2013/2014	2,009
Accounting treatment of share-based payments:	
Add: Accounting value for prior year STIP award – 2010/11 STIP	33
Add: Accounting value for prior year STIP award – 2012/13 STIP	122
Add: Accounting value for LTIP award that did not vest and all Rights lapsed – 2012–2014 LTIP[1]	512
Add: Accounting value for LTIP award to be tested in a future year – 2013–2015 LTIP[2]	850
Add: Accounting value for LTIP award to be tested in a future year – 2014–2016 LTIP[3]	446
Statutory Remuneration Disclosure for the CEO for 2013/2014	3,972

1 The 2012–2014 LTIP was tested as at 30 June 2014 and did not vest.
2 The 2013–2015 LTIP is due to be tested as at 30 June 2015.
3 The 2014–2016 LTIP is due to be tested as at 30 June 2016.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

REMUNERATION REPORT (AUDITED) CONTINUED

REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2014

The Remuneration Report sets out remuneration information for Non-Executive Directors, the CEO and Executive Management.

Section 300A of the Corporations Act 2001 requires disclosure of remuneration information for Key Management Personnel (KMP), with KMP defined in AASB 124 *Related Party Disclosures* as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The KMP for the 2013/2014 financial year includes some members of Executive Management.

1) EXECUTIVE REMUNERATION OBJECTIVES AND APPROACH

In determining Executive remuneration, the Board aims to do the following:

– Attract, retain and appropriately reward a capable Executive team
– Motivate the Executive team to meet the unique challenges the company faces as a major international airline based in Australia
– Link remuneration to performance

To achieve this, Executive remuneration is set with regard to the size and nature of the role (with reference to market benchmarks) and the performance of the individual in the role. In addition, remuneration includes "at risk" or performance related elements for which the objectives are to:

– Link Executive reward with Qantas' business objectives and financial performance
– Align the interests of Executives with shareholders
– Support a culture of employee share ownership
– Support the retention of Executives

2) ROLE OF THE REMUNERATION COMMITTEE

The Remuneration Committee (a Committee of the Board, whose members are detailed on pages 24 to 26) has the role of reviewing and making recommendations to the Board on specific Executive remuneration matters at Qantas and ensuring remuneration decisions are appropriate from the perspectives of business performance, governance, disclosure, reward levels and market conditions.

In fulfilling its role, the Remuneration Committee is specifically concerned with ensuring that its approach will:

– Motivate the CEO, Executive Management and the broader Executive team to pursue the long-term growth and success of Qantas
– Demonstrate a clear relationship between pay and performance
– Ensure an appropriate balance between "fixed" and "at risk" remuneration, reflecting the short and long-term performance objectives of Qantas
– Differentiate between higher and lower performers through the use of a performance management framework

During 2013/2014, the Remuneration Committee re-appointed Ernst & Young (EY) as its remuneration consultant. The Remuneration Committee has established protocols in relation to the appointment and use of remuneration consultants to support compliance with the Corporations Act 2001, which are incorporated into the terms of engagement with EY.

The Remuneration Committee did not request any remuneration consultants to provide a remuneration recommendation during 2013/2014.

3) EXECUTIVE REMUNERATION FRAMEWORK

The Executive Remuneration Framework as it applies to the CEO and Executive Management contains three elements:

– **Base Pay** – is a guaranteed salary level inclusive of superannuation
– **Annual incentive** – referred to as the Short Term Incentive Plan (STIP)
– **Long term incentive** – referred to as the Long Term Incentive Plan (LTIP)

The "at target" pay for the CEO and Executive KMP is set with reference to external market data including comparable roles in other listed Australian companies and in international airlines. The primary benchmark is a revenue based peer group of other S&P/ASX companies. The Board believes this is the appropriate benchmark, as it is the comparator group whose roles best mirror the complexity and challenges in managing Qantas' businesses and is also the peer group with whom Qantas competes for Executive talent.

4) REMUNERATION OUTCOMES FOR THE YEAR ENDED 30 JUNE 2014

The remuneration decisions and outcomes at Qantas are clearly linked to Qantas' performance via the STIP and LTIP performance measures.

The Underlying PBT result for 2013/2014 was below the target level set by the Board for the 2013/2014 year. Whilst there was strong performance against some of the other measures under the STIP scorecard, the Board determined that the level of Group financial performance did not warrant any award under the 2013/14 STIP. Therefore, the remuneration outcome for 2013/14 STIP was nil. The STIP is detailed on pages 51 to 55.

LTIP awards did not vest during 2013/2014. The 2012–2014 LTIP was tested as at 30 June 2014. As performance hurdles were not achieved, all Rights under this plan lapsed and Executives did not receive any shares or payment under this plan. Therefore, the remuneration outcome for 2013/2014 under the LTIP was nil. The LTIP is detailed on pages 55 to 56.

The following table summarises the remuneration decisions and outcomes for the CEO and Executive KMP for the year ended 30 June 2014. The remuneration detailed in this table is aligned to the current performance periods and therefore is particularly useful in assessing current year pay and its alignment with current year performance.

Remuneration Outcomes Table – CEO and Executive KMP[1]

$'000s		Base Pay (Cash)[2]	STIP Outcomes[3] Cash Bonus	STIP Outcomes[3] Deferred Award	LTIP Outcomes[4] Rights Vested	Sub-total	Other Benefits[5]	Total
Alan Joyce	**2014**	**2,054**	**–**	**–**	**–**	**2,054**	**(45)**	**2,009**
Chief Executive Officer	2013	2,109	775	388	–	3,272	59	3,331
Gareth Evans	**2014**	**981**	**–**	**–**	**–**	**981**	**69**	**1,050**
Chief Financial Officer	2013	981	233	117	–	1,331	96	1,427
Lesley Grant	**2014**	**782**	**–**	**–**	**–**	**782**	**16**	**798**
CEO Group Loyalty	2013	785	178	89	–	1,052	51	1,103
Simon Hickey	**2014**	**982**	**–**	**–**	**–**	**982**	**(34)**	**948**
CEO Qantas International	2013	984	213	106	–	1,303	168	1,471
Jayne Hrdlicka	**2014**	**982**	**–**	**–**	**–**	**982**	**61**	**1,043**
CEO Jetstar	2013	984	213	106	–	1,303	63	1,366
Lyell Strambi	**2014**	**982**	**–**	**–**	**–**	**982**	**95**	**1,077**
CEO Qantas Domestic	2013	984	223	111	–	1,318	112	1,430
Total	**2014**	**6,763**	**–**	**–**	**–**	**6,763**	**162**	**6,925**
	2013	**6,827**	**1,835**	**917**	**–**	**9,579**	**549**	**10,128**

1 Detail of non-statutory remuneration methodology is explained on page 61.
2 Base Pay (cash) paid to each Executive during the year.
3 The full value of STIP awards made to each Executive during each of the 2013/2014 and 2012/2013 financial years.
4 LTIP awards did not vest in either 2013/2014 or 2012/2013, therefore nil value shown.
5 Other Benefits are detailed on page 50.

Refer to section 6 of the Remuneration Report on pages 50 to 58 for detail of the Executive Remuneration Structure, a description of Base Pay, STIP and LTIP and analysis of the 2013/2014 outcomes for the STIP and LTIP.

5) STATUTORY REMUNERATION DISCLOSURES FOR THE YEAR ENDED 30 JUNE 2014

The statutory remuneration disclosures for the year ended 30 June 2014 are detailed below and are prepared in accordance with Australian Accounting Standards (AASBs) and differ significantly from the 2013/2014 remuneration decisions and outcomes outlined above.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

REMUNERATION REPORT (AUDITED) CONTINUED

These differences arise due to the accounting treatment of share-based payments (such as the STIP and LTIP). The statutory disclosures include an accounting remuneration value for:

– Prior years' STIP awards

Accounting standards require STIP remuneration to be expensed (and therefore included as statutory remuneration) in financial years which differ from the year of scorecard performance. This creates a disconnect between reported remuneration and the corresponding years' financial and non-financial scorecard performance.

Despite no awards being made under the 2013/14 STIP, a value for STIP awards is still required to be included in the statutory remuneration table. This is due to the fact that deferred shares granted under the 2011/12 STIP and 2012/13 STIP have a future service period, during which the recipient must remain employed by the Group for the awards to vest. The 2013/2014 statutory remuneration table includes a value for part of those prior year STIP awards.

– LTIP awards that have not vested

Accounting standards require LTIP remuneration to be expensed (and therefore included as statutory remuneration) notwithstanding that the Rights have not met the performance hurdles and have lapsed.

No LTIP awards vested during 2013/2014, however, an accounting value is still required by accounting standards to be included in the statutory remuneration table. Additionally, LTIP awards that will be assessed for vesting in future years are expensed over the three year testing period. Therefore, the statutory disclosures include an accounting value for part of the 2013–2015 and the 2014–2016 LTIP awards, even though no LTIP awards vested during 2013/2014.

Statutory Table – CEO and Executive KMP

			Incentive Plan – Accounting Accrual				Other Benefits				
				Share-based Payments Accounting Accrual[3]							
$'000s		Base Pay (Cash)[1,2]	STIP Cash Bonus[1]	STIP	LTIP	Sub-total	Non-cash Benefits[1,4]	Post-employment Benefits[5]	Other Long-term Benefits[6]	Sub-total	Total
Alan Joyce	2014	2,054	–	155	1,808	4,017	38	64	(147)	(45)	3,972
Chief Executive Officer	2013	2,109	775	375	1,794	5,053	24	55	(20)	59	5,112
Gareth Evans	2014	981	–	76	520	1,577	41	42	(14)	69	1,646
Chief Financial Officer	2013	981	233	335	366	1,915	36	38	22	96	2,011
Lesley Grant	2014	782	–	54	210	1,046	8	41	(33)	16	1,062
CEO Qantas Loyalty	2013	785	178	228	162	1,353	33	34	(16)	51	1,404
Simon Hickey	2014	982	–	66	441	1,489	32	41	(107)	(34)	1,455
CEO Qantas International	2013	984	213	284	280	1,761	16	35	117	168	1,929
Jayne Hrdlicka	2014	982	–	60	439	1,481	8	41	12	61	1,542
CEO Jetstar	2013	984	213	237	224	1,658	43	35	(15)	63	1,721
Lyell Strambi	2014	982	–	72	520	1,574	50	41	4	95	1,669
CEO Qantas Domestic	2013	984	223	323	366	1,896	63	35	14	112	2,008
Total	2014	6,763	–	483	3,938	11,184	177	270	(285)	162	11,346
	2013	6,827	1,835	1,782	3,192	13,636	215	232	102	549	14,185

1 Short-term employee benefits include Base Pay (cash), non-cash benefits and STIP cash bonus.
2 Base Pay (cash) for Mr Joyce is Base Pay of $2,125,000 (2013: $2,125,000) less Base Pay foregone of $53,125 less superannuation contributions of $17,775 (2013: $16,470).
3 A breakdown of Share-based Payments is provided on page 61.
4 Non-cash Benefits include the value of travel benefits whilst employed and other minor benefits.
5 Post-employment Benefits include superannuation and an accrual for post-employment travel of $46,618 for Mr Joyce and $22,809 for each other Executive (2013: $38,714 for Mr Joyce and $18,857 for each other Executive).
6 Other Long-term Benefits include movement in annual leave and long service leave balances. The accounting value of other long-term benefits may be negative, for example where an Executive's annual leave balance decreases as a result of taking more than the 20 days annual leave they accrued during the year.

6) EXECUTIVE REMUNERATION STRUCTURE

Base Pay	What is Base Pay?
	Base Pay is a guaranteed salary level, inclusive of superannuation. Each year, the Remuneration Committee reviews the Base Pay for the CEO and direct reports to Executive Management. An individual's Base Pay, being a guaranteed salary level, is not related to Qantas' performance in a specific year.
	Base Pay (cash), as disclosed in the remuneration tables, excludes superannuation (which is disclosed as Post-employment Benefits) and includes salary sacrifice components such as motor vehicles.

Base Pay *(continued)*	**How is Base Pay set?** In performing a Base Pay review, the Board makes reference to external market data including comparable roles in other listed Australian companies and international airlines. The primary benchmark is a revenue based peer group of other S&P/ASX companies. The Board believes this is the appropriate benchmark, as it is the comparator group whose roles best mirror the size, complexity and challenges in managing Qantas' businesses and is also the peer group with whom Qantas competes for Executive talent.
	Were there any changes to Base Pay for the CEO and KMP during 2013/2014? A general Management pay freeze was in place during 2013/2014 and therefore there were no increases to the Base Pay of the CEO and KMP. In addition, the CEO opted to forego five per cent of his Base Pay (from 1 January 2014). The Base Pay for each Executive KMP is outlined on page 57.
Annual Incentive Also referred to as the Short Term Incentive Plan or STIP	**What is the STIP?** The STIP is the annual "at risk" incentive plan for members of Qantas Executive Management. Each year these Executives may receive an award that is a combination of cash and restricted shares to the extent that the plan's performance conditions are achieved. **How are the STIP performance conditions chosen and how is performance assessed?** The Board set a "scorecard" of performance conditions for the 2013/14 STIP, explicitly aligning the performance measures to the Qantas Group strategy. Underlying PBT is the key budgetary and financial performance measure for the Qantas Group and is therefore the key performance measure in the STIP scorecard. The Board sets targets for each scorecard measure, and at the end of the year the Board assesses performance against each scorecard measure and determines the overall STIP scorecard outcome. A detailed description of the STIP scorecard is provided on pages 52 to 54. The Board retains discretion over any awards made under the STIP. For example, the Board may decide to adjust the STIP scorecard outcome where it determines that it does not reflect the performance achieved during the year. Circumstances may occur where scorecard measures have been achieved or exceeded, but in the view of the Board it is inappropriate to make a cash award under the STIP. The Board may determine that either no award will be made, or that any award will be entirely deferred and/or delivered in Qantas shares. On the other hand, there may be circumstances where performance is below an agreed target, however, the Board determines that it is appropriate to pay some STIP award. While the STIP does not have a formal "profit gate", the Board may also use its discretion to not pay a STIP award where it believes that the profit result does not warrant an award. In 2013/2014, the Board used its discretion to not make any awards under the 2013/14 STIP. **How are STIP awards delivered?** In 2013/2014, no STIP awards were made. In a year where STIP awards are made, two-thirds of the STIP award would be paid as a cash bonus, with the remaining one-third deferred into Qantas shares with a two year restriction period. The Board retains discretion as to how STIP awards are delivered. In each of the 2009/10 STIP, 2010/11 STIP and 2011/12 STIP, the Board exercised this discretion and determined that immediate cash bonuses would not be paid and instead deferred all awards under the STIP. **How are STIP awards disclosed in the remuneration tables?** *Remuneration Decisions and Outcomes Table* The full value of the STIP awarded for the corresponding year is disclosed in the table on page 49. For 2013/2014, this value was nil. *Statutory Remuneration Table* Disclosure of STIP awards in the statutory remuneration table on page 50 is more complicated. In the statutory remuneration table, STIP awards are disclosed as either: – A "cash incentive" for any cash bonus paid or – A "share-based payment" for any component awarded either in deferred shares or deferred cash which is exposed to share price movements during the restriction period Where "share-based" STIP awards involve deferral over multiple reporting periods, they are reported against each period in accordance with accounting standards.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

REMUNERATION REPORT (AUDITED) CONTINUED

Annual Incentive

Also referred to as the Short Term Incentive Plan or STIP *(continued)*

What were the STIP measures for the year ended 30 June 2014?

Scorecard Category / Strategic Objective	Strategic Objective	Measures	Scorecard Weighting	Comment
Group Financial Measures	Delivering sustainable returns to shareholders	– Underlying PBT – Operating Cash Flow to Net Debt	50% 10%	The STIP scorecard is heavily weighted to financial performance. Underlying PBT is the key budgetary and financial performance measure for the Qantas Group and therefore it is selected as the primary performance measure under the STIP scorecard. 50 per cent of the total STIP scorecard is determined based on Underlying PBT performance.
People and Operational Safety	Safety is always our first priority	– People safety measures – Operational safety	10%	As safety is always our first priority, the STIP scorecard includes an assessment of both operational and people safety. In addition, the Board retains discretion to modify the total STIP scorecard outcome to reflect the Group's overall safety performance.
Domestic Businesses (Qantas Domestic and Jetstar Australia Domestic) and the Transformation Agenda	Profitably build on the dual domestic brands Driving operational efficiency in all businesses	– Unit cost – Punctuality – Net Promoter Score (NPS) – Domestic network and frequency advantage – Milestones around key transformation initiatives	10%	To support these strategic objectives, STIP targets were set across financial, operational and customer measures for both the Qantas and Jetstar domestic businesses as well as milestone targets for key business transformation initiatives.
Qantas International and Qantas Loyalty	Strengthen Qantas International and build leading partnerships Deepen Qantas Frequent Flyer Program customer and partner engagement, whilst supporting multiple brands Leverage existing customer relationships in new businesses	– Unit cost – NPS – Strengthening network and alliances – Qantas Frequent Flyer membership numbers – Qantas Loyalty new revenue initiatives	10%	To support these strategic objectives, STIP targets were set across the following areas: – Financial, operational and customer measures in the Qantas International and Qantas Loyalty businesses – Building a stronger network and airline partnerships – Developing new opportunities in Qantas Loyalty
Jetstar in Asia	Positioning Jetstar for success in Asia	– Unit cost – Underlying EBIT – NPS – Key business milestones	10%	To support this strategic initiative, STIP targets were set across key measures of financial, operational and customer performance in the Asian-based Jetstar branded airlines as well as milestones in further developing these businesses.
Total			100%	

Annual Incentive

Also referred to as the Short Term Incentive Plan or STIP *(continued)*

With safety as the first priority, the Board retains an overriding discretion to scale down the STIP (or reduce it to zero) in the event of a material aviation safety incident. This is in addition to the Board's overall discretion over STIP awards. Any such decision would be made in light of the specific circumstances and following the recommendation of the Safety, Health, Environment and Security Committee.

Additional descriptions of STIP scorecard measures

Underlying PBT

The Underlying PBT target is based on the annual financial budget. Underlying PBT is a non-statutory measure, and is the primary reporting measure used by the Qantas Group's chief operating decision-making bodies, being the Chief Executive Officer, Executive Management and the Board of Directors. The objective of measuring and reporting Underlying PBT is to provide a meaningful and consistent representation of the underlying performance of the Group. For reasons of commercial sensitivity, the annual Underlying PBT target is not disclosed.

Underlying PBT is derived by adjusting Statutory PBT for the impacts of AASB 139 *Financial Instruments: Recognition and Measurement* which relate to other reporting periods and items which are identified by Management and reported to the chief operating decision-making bodies, as not representing the underlying performance of the business. The determination of these items is made after consideration of their nature and materiality and is applied consistently from period to period.

Items not included in Underlying PBT primarily result from major transformational/restructuring initiatives, transactions involving investments and impairment of assets outside the ordinary course of business.

Operating Cash Flow to Net Debt

Operating cash flow to net debt is one of the Group's primary measures used to determine the optimal capital structure that maximises shareholder value, maintains creditor confidence and sustains the future development of the business. The measure is calculated as the Group's operating cash flow divided by the Group's net debt. The Group's net debt includes interest-bearing liabilities, the fair value of hedges related to debt and off balance sheet aircraft operating lease liabilities less cash and aircraft security deposits.

People and Operational Safety

The inclusion of safety targets reflects that safety is always our first priority. The Safety, Health, Environment and Security Committee performs a combined assessment of people safety performance and operational safety performance.

The objective of the people safety targets is to reduce employee injuries. For 2013/2014 this involved:

- Reducing the Total Recorded Injury Frequency Rate by eight per cent on the 2012/2013 result
- Reducing the Lost Work Case Frequency Rate by 11 per cent on the 2012/2013 result
- Reducing the Duration Rate by 13 per cent on the 2012/2013 result

Operational safety performance is assessed against outcome-based measures (including operational occurrences that pose a significant threat to the safety of employees and customers) and risk-based lead indicators commonly associated with aviation industry accidents.

Unit Cost

Unit Cost remains an area of focus across the business and, as a result, the STIP scorecard includes unit cost targets for each of Qantas International, Qantas Domestic, Jetstar Australia and New Zealand and Jetstar Asia. These targets are derived from the annual financial budget.

For Qantas International and Qantas Domestic, Net Underlying Unit Cost performance is calculated as net underlying expenditure (excluding fuel) divided by each business' ASKs. Net underlying expenditure is derived from passenger revenue less Underlying EBIT.

For Jetstar Australia and New Zealand and for Jetstar Asia, Unit Cost performance is measured as controllable unit cost, which is calculated as total expenses (excluding fuel) per ASK.

To ensure that these measures focus on the underlying operating activities and efficiencies, they exclude the impact of fuel price changes and items not included in Underlying PBT as described above.

Punctuality

Qantas Domestic targets being the most on-time major Australian domestic airline. Therefore, on-time performance of Qantas Domestic is compared to the on-time performance of its major Australian domestic competitor. As agreed with and reported to the Bureau of Infrastructure, Transport and Regional Economics (BITRE), punctuality is measured as the number of flights operating on-time (on an on-time departure basis) as a percentage of the total number of flights operated.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

REMUNERATION REPORT (AUDITED) CONTINUED

Annual Incentive

Also referred to as the Short Term Incentive Plan or STIP *(continued)*

Customer Service – NPS

Customer Service is measured against NPS targets which involved a five point improvement on each business' 2012/2013 result.

This is a survey-based measure of how strongly our customers promote the services of our businesses in preference to our direct competitors. Individual NPS targets are set for Qantas Domestic, Qantas International, Qantas Frequent Flyer, Jetstar Australia Domestic, Jetstar Asia, Jetstar Japan and Jetstar Pacific.

What was the STIP scorecard outcome for the year ended 30 June 2014?

The Board determined that despite significant progress on the transformation agenda and that customer, operational and safety performance was strong (as outlined in the table below), the Group financial performance did not warrant any awards under the 2013/14 STIP. Therefore, the STIP scorecard outcome for 2013/2014 was nil.

The table below summarises performance vs target against each scorecard category under the 2013/14 STIP.

Scorecard Category		
Group Financial Measures	No achievement	The Underlying PBT and the operating cash flow to net debt results were below target.
People and Operational Safety	Partial achievement	There was an improvement in performance against each people safety measure and the threshold target was achieved for each measure. Operational safety performance for the year was good.
Domestic Businesses and the Transformation Agenda	Full achievement	Qantas Domestic achieved its punctuality targets, leading the competition in all 12 months in 2013/2014. Qantas Domestic and Jetstar Australia Domestic customer performance was very good, achieving significantly improved NPS results during 2013/2014. The domestic businesses (Qantas Domestic (including QantasLink) and Jetstar Domestic) achieved their network and frequency advantage objectives for 2013/2014. Qantas Domestic achieved its unit cost target. Key business transformation milestones were achieved across Qantas Engineering, Catering, Customer Services, Ground Operations, Freight and the Corporate Centre.
Qantas International and Qantas Loyalty	Full achievement	The strategic partnership with Emirates delivered significant customer benefits during 2013/2014. Qantas expanded its Asian network via new codeshare agreements with China Southern and continued to enhance its alliance with American Airlines. Qantas International achieved its unit cost target. Qantas International customer performance was also very good, achieving significantly improved NPS results during 2013/2014. Qantas Frequent Flyer has continued to grow with membership now exceeding 10 million and the program achieving significantly improved NPS results for 2013/2014. Qantas Loyalty successfully launched two new major initiatives during the year, being Qantas Cash and the Aquire business rewards program.
Jetstar in Asia	Partial achievement	Jetstar Asia achieved its unit cost target. Underlying EBIT targets for Jetstar Japan and Jetstar Pacific were not achieved. Jetstar Asia, Jetstar Japan and Jetstar Pacific each achieved significantly positive customer service (NPS) scores in 2013/2014. Continued progress was made in the growth of Jetstar branded airlines in Asia, including: – Jetstar Japan establishing a second base in Osaka – Jetstar Hong Kong further delayed, but some progress made in the Hong Kong regulatory process – Jetstar Pacific agreeing a re-capitalisation plan and fleet expansion plan, to facilitate launching of international services

Key: Full (or above target) achievement against targets; Partial achievement against targets; No achievement against targets

Annual Incentive Also referred to as the Short Term Incentive Plan or STIP *(continued)*	**How are STIP awards calculated?** No awards were made under the 2013/14 STIP. In years where STIP awards are made, the calculation is as follows: Value of STIP Award = Base Pay x "At target" Opportunity x Scorecard Result x Individual Performance Factor **How are STIP awards delivered?** No awards were made under the 2013/14 STIP. In years where STIP awards are made, two-thirds of the STIP award is paid as a cash bonus, with the remaining one-third deferred into Qantas shares with a two year restriction period. This is subject to the Board's overriding discretion as detailed on page 51. **What is the maximum outcome under the STIP?** The STIP scorecard has a hypothetical maximum outcome of 175 per cent of "at target", which could only be achieved if the maximum overdrive level of performance is achieved on every STIP performance measure. For 2013/2014, the STIP scorecard did not consider the possibility of an outcome above the "at target" amount. The scorecard result is then applied to an individual's "at target" opportunity and their Individual Performance Factor (IPF). Hypothetically, a STIP award to Mr Joyce equal to 252 per cent times Base Pay could result (i.e. the "at target' opportunity for 2013/2014 of 120 per cent of Base Pay multiplied by a hypothetical Scorecard Result of 175 per cent and multiplied by a hypothetical IPF of 1.2). The minimum outcome is nil, which would occur if the threshold level of performance is missed on each STIP measure. For 2013/2014, the Board determined that the Group financial performance did not warrant any awards under the STIP and therefore no awards were made.
Long Term Incentive Plan Also referred to as the LTIP	**What is the LTIP?** The LTIP involves the granting of Rights over Qantas shares. If performance and service conditions are satisfied, the Rights vest and convert to Qantas shares on a one-for-one basis. If performance conditions are not met, the Rights lapse. Generally, participation in the LTIP is limited to Senior Executives of the Qantas Group. For 2014/2015 only, the broader Management population will be invited to participate. This will involve no increase to "at target" pay for each manager, as each manager's LTIP opportunity will be offset by a reduction in their annual incentive opportunity for 2014/2015. This one-off change aligns the entire Management team with the immediate priorities of the transformation agenda, including the achievement of $2 billion in cost reductions over the next three years. The performance period under the 2015–2017 LTIP is for this same three year period. **What are the LTIP performance conditions and how is performance assessed?** The performance measures for each of the 2012–2014 LTIP (tested as at 30 June 2014), 2013–2015 LTIP (to be tested as at 30 June 2015) and 2014–2016 LTIP (to be tested as at 30 June 2016) are: – The relative TSR of Qantas compared to companies with ordinary shares included in the ASX100, and – The relative TSR of Qantas compared to an airline peer group (Global Listed Airlines) These Rights will only vest in full if Qantas' TSR performance ranks at or above the 75th percentile compared to both the ASX100 and the Global Listed Airlines peer group. These performance hurdles were chosen to provide a comparison of relative shareholder returns that is relevant to most Qantas investors: – The ASX100 peer group was chosen for relevance to investors with a primary interest in the equity market for major Australian listed companies, of which Qantas is one, and – The Global Listed Airlines peer group was chosen for relevance to investors, including investors based outside Australia, whose focus is on the aviation industry sector

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

REMUNERATION REPORT (AUDITED) CONTINUED

Long Term Incentive Plan

Also referred to as the LTIP *(continued)*

The vesting scale for each measure is:

Companies with ordinary shares included in the ASX100

Up to one-half of the total number of Rights granted may vest based on the relative TSR performance of Qantas in comparison to the ASX100 as follows:

Qantas TSR Performance compared to the ASX100	Vesting Scale
Below 50th percentile	Nil vesting
Between 50th and 75th percentile	Linear scale: 50% to 99% vesting
At or above 75th percentile	100% vesting

Global Listed Airlines peer group

Up to one-half of the total number of Rights granted may vest based on the relative TSR performance of Qantas in comparison to the Global Listed Airlines peer group selected by the Board as follows:

Qantas TSR Performance compared to the Global Listed Airline peer group	Vesting Scale
Below 50th percentile	Nil vesting
Between 50th and 75th percentile	Linear scale: 50% to 99% vesting
At or above 75th percentile	100% vesting

The Global Listed Airlines peer group has been selected with regard to financial standing, level of government involvement and its representation of Qantas' key competitor markets. For the 2014–2016 LTIP, the Global Listed Airlines peer group contains the following full-service and value-based airlines: Air Asia, Air France/KLM, Air New Zealand, All Nippon Airways, British Airways/Iberia (International Airlines Group), Cathay Pacific, Delta Airlines, Easyjet, Japan Airlines, LATAM Airlines Group, Lufthansa, Ryanair, Singapore Airlines, Southwest Airlines, Tiger Airways and Virgin Australia. The 2012–2014 LTIP also included American Airlines (AMR Corporation) but excluded All Nippon Airways, Japan Airlines and LATAM Airlines Group from the Global Listed Airlines peer group. The 2013–2015 LTIP excluded Japan Airlines.

How are Rights treated on termination of employment?

In general, any Rights which have not vested will be forfeited if the relevant Executive ceases employment with the Qantas Group.

In limited circumstances (for example, retirement, redundancy, death or total and permanent disablement), a deferred cash payment may be made at the end of the performance period. This payment is determined with regard to the value of the LTIP Rights which would have vested had they not lapsed, and:

- The portion of the performance period that the Executive served prior to termination, and
- The actual level of vesting that is ultimately achieved at the end of the performance period

The Board retains discretion to determine otherwise in appropriate circumstances, which may include leaving some or all of the LTIP Rights "on foot", or for some or all of the LTIP Rights to vest on cessation of employment having regard to the portion of the performance period that has elapsed and the degree to which the performance conditions have been achieved.

What was the LTIP outcome for the year ended 30 June 2014?

LTIP awards under the 2012–2014 LTIP were tested as at 30 June 2014 and the performance hurdles were not achieved. Therefore, 2012–2014 LTIP Rights did not vest and all Rights lapsed.

How are LTIP Rights treated if a change of control occurs?

In the event of a change of control, and to the extent that Rights have not already lapsed, the Board determines whether the LTIP Rights vest or otherwise.

What happens if companies in the comparator groups de-list?

Companies that de-list due to business failure are assigned a TSR of minus 100 per cent, which fairly represents the negative outcome for shareholders in those companies. Comparator companies that are acquired and the continuing entity is a listed company (for which a TSR is available) will have their TSR measured to the date of acquisition and then it is assumed the proceeds are re-invested in the continuing listed entity. This approach also ensures that shareholder outcomes are fairly reflected in the LTIP results.

Other Benefits	**Non-cash benefits** Non-cash benefits, as disclosed in the remuneration tables, include travel entitlements while employed and other benefits. **Travel** Travel concessions are provided to permanent Qantas employees, consistent with practice in the airline industry. Travel at concessionary prices is on a sub-load basis, i.e. subject to considerable restrictions and limits on availability. It includes specified direct family members or a nominated travel companion. In addition to this and consistent with practice in the airline industry, Directors and KMP and their eligible beneficiaries are entitled to a number of trips for personal purposes at no cost to the individual. Post-employment travel concessions are also available to all permanent Qantas employees who qualify through retirement or redundancy. The CEO and KMP and their eligible beneficiaries are also entitled to a number of free trips for personal purposes. An estimated present value of these entitlements is accrued over the service period of the individual and is disclosed as a post-employment benefit. **Superannuation** Superannuation includes statutory and salary sacrifice superannuation contributions and is disclosed as a post-employment benefit. **Other long-term benefits** The accrual of annual leave and long service leave is included in other long-term benefits. The accounting value of other long-term benefits may be negative, for example where an Executive's annual leave balance decreases as a result of taking more than the 20 days annual leave they accrued during the year.

Summary of Key Contract Terms as at 30 June 2014

Contract Details	Alan Joyce	Gareth Evans	Lesley Grant	Simon Hickey	Jayne Hrdlicka	Lyell Strambi
Base Pay	$2,125,000[1]	$1,000,000	$800,000	$1,000,000	$1,000,000	$1,000,000
STIP "at target" opportunity expressed as a % of Base Pay	120% for 2013/2014 (80% for 2014/2015)	80% for 2013/2014 (50% for 2014/2015)	80% for 2013/2014 (50% for 2014/2015)	80% for 2013/2014 (50% for 2014/2015)	80% for 2013/2014 (50% for 2014/2015)	80% for 2013/2014 (50% for 2014/2015)
LTIP "at target" opportunity expressed as a % of Base Pay	80% for 2013/2014 (120% for 2014/2015)	50% for 2013/2014 (80% for 2014/2015)	25% for 2013/2014 (55% for 2014/2015)	50% for 2013/2014 (80% for 2014/2015)	50% for 2013/2014 (80% for 2014/2015)	50% for 2013/2014 (80% for 2014/2015)
Travel entitlements	An annual benefit of trips for these Executives and eligible beneficiaries during employment[2], at no cost to the individual, as follows:					
	4 Long Haul	2 Long Haul	2 Long Haul	2 Long Haul	2 Long Haul	2 Long Haul
	12 Short Haul	6 Short Haul	6 Short Haul	6 Short Haul	6 Short Haul	6 Short Haul
	The same benefit is provided for use post-employment, based on the period of service in a senior Executive role within the Qantas Group.					
Notice	Employment may be terminated by either the Executive or Qantas by providing six months written notice[3]. Each Executive's contract includes a provision that limits any termination payment to the statutory limit prescribed under the Corporations Act 2001.					
Severance	A severance payment of six months' Base Pay applies where termination is initiated by Qantas[3].					

1 Base Pay for Mr Joyce is $2,125,000. From 1 January 2014, Mr Joyce elected to forego five per cent of his Base Pay. Therefore, Base Pay was paid using an annual rate of $2,018,750 from 1 January 2014.
2 These flights are not cumulative and will lapse if they are not used during the calendar year in which the entitlement arises.
3 Other than for misconduct or unsatisfactory performance.

Remuneration mix

The Base Pay and "at target" STIP and LTIP opportunities are set with reference to external benchmark market data including comparable roles in other listed Australian companies and international airlines.

The "at target" STIP and LTIP opportunities for the CEO and KMP are detailed in the Summary of Key Contract Terms.

For 2014/2015, the Board has changed the remuneration mix for the CEO and Executive Management to further align incentives with the immediate priorities of the transformation agenda. The three year performance period of the 2015–2017 LTIP aligns with the timeframe for achieving the $2 billion cost reductions due for completion by the end of 2016/2017.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

REMUNERATION REPORT (AUDITED) CONTINUED

This change in pay mix involves a decrease in the STIP opportunity and an increase in the LTIP opportunity for each Executive. The pay mix changes that apply to the CEO and KMP for 2014/2015 are also detailed in the Summary of Key Contract Terms on page 57. There is no increase to the total "at target" remuneration as a result of these changes as the increase in LTIP opportunity is offset by a decrease in STIP opportunity.

At Qantas, the "at target" STIP and LTIP awards are normally expressed as a percentage of Base Pay, however, for the purpose of the following remuneration mix tables, Base Pay, STIP and LTIP opportunities are expressed as a percentage of total pay.

The target remuneration mix does not match the actual remuneration mix for 2013/2014, as:

- No awards were made under the 2013/14 STIP
- Actual reward mix is calculated on an accrual basis in accordance with accounting standards, so each year's remuneration includes a portion of the value of share-based payments awarded in previous years.

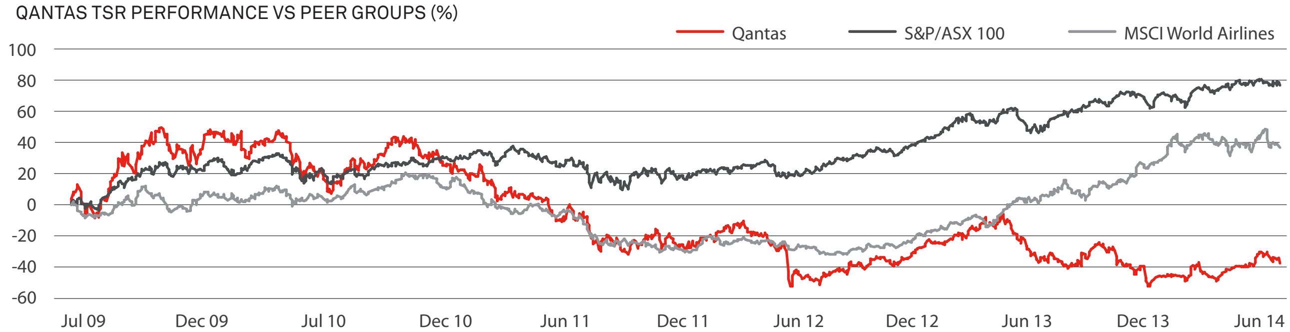
Target Remuneration Mix for 2013/2014	Base Pay %	STIP %	LTIP %
Alan Joyce	33	40	27
Gareth Evans	43	35	22
Lesley Grant	49	39	12
Simon Hickey	43	35	22
Jayne Hrdlicka	43	35	22
Lyell Strambi	43	35	22

		Performance Related Remuneration			
		STIP			LTIP
		Cash-based	Share-based		
Statutory Remuneration Mix	Base Pay & Other %	Cash Incentives %	Cash-settled %	Equity-settled %	Rights Awards %
Alan Joyce	50	0	0	4	46
Gareth Evans	64	0	0	5	31
Lesley Grant	75	0	0	5	20
Simon Hickey	65	0	0	5	30
Jayne Hrdlicka	68	0	0	4	28
Lyell Strambi	65	0	0	4	31

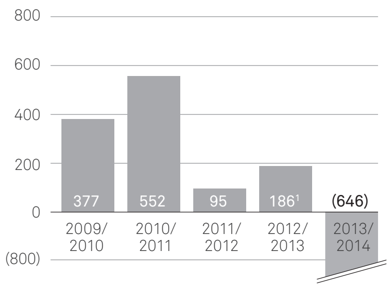
Qantas Financial Performance History

To provide further context on Qantas' performance, the following graphs outline a five-year history of key financial metrics.

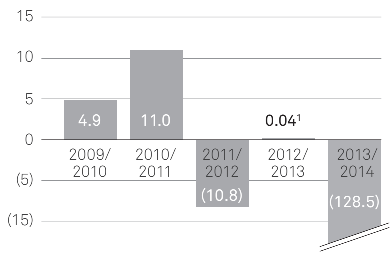
QANTAS TSR PERFORMANCE VS PEER GROUPS (%)



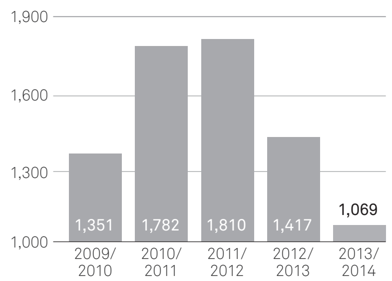
UNDERLYING PROFIT BEFORE TAX ($M)



EARNINGS PER SHARE (CENTS)



OPERATING CASH FLOW ($M)



1 Restated for the impact of revised AASB 119 relating to refined benefit superannuation plans. Refer to Note 38 of the Financial Statements

7) PERFORMANCE RELATED REMUNERATION

STIP awards – Vesting and Forfeiture

One-third of the 2010/11 STIP awards (granted on 31 August 2011) were delivered to participants in deferred shares that are subject to a two-year restriction period. The restriction period on these shares ended during 2013/2014.

One-third of the 2011/12 STIP awards (granted on 22 August 2012) were delivered to participants in deferred shares that are subject to a two-year restriction period. The restriction period on these shares applied throughout 2013/2014.

One-third of the 2012/13 STIP awards (granted on 6 September 2013) were delivered to participants in deferred shares that are subject to a two-year restriction period. The restriction period on these shares applied throughout 2013/2014.

Number of Rights Granted, Vested, Lapsed and Forfeited in 2013/2014

Awards of Rights under the LTIP may vest and convert to Qantas shares subject to the achievement of long-term performance hurdles as described on pages 55 to 56. Any Rights that do not achieve the performance hurdles will lapse.

The following table summarises the Rights granted, vested and lapsed/forfeited in 2013/2014.

	Number of rights		
Executives	Granted	Vested	Lapsed/ Forfeited
Alan Joyce	2,151,000	–	(1,084,000)
Gareth Evans	633,000	–	(119,000)
Lesley Grant	253,000	–	(72,000)
Simon Hickey	633,000	–	(104,000)
Jayne Hrdlicka	633,000	–	–
Lyell Strambi	633,000	–	(119,000)

The Rights granted during the year (on 18 October 2013) were under the 2014–2016 LTIP, which will be tested against the performance hurdles as at 30 June 2016. The fair value of a Right on the grant date was $0.83 per Right.

100 per cent of Rights under the 2011–2013 LTIP as disclosed in the table above lapsed during the year, following the testing of performance hurdles as at 30 June 2013. The fair value of a Right on the grant date was $1.76 for Mr Joyce and $1.50 for other Executives.

There was nil vesting and nil forfeiture under the 2012–2014 LTIP (granted on 23 August 2011 and 28 October 2011) and the 2013–2015 LTIP (granted on 2 November 2012). 100 per cent of Rights under the 2012–2014 LTIP lapsed subsequent to 30 June 2014 following the testing of performance hurdles as at 30 June 2014.

Performance Remuneration Affecting Future Periods

The fair value of share-based payments granted is amortised over the service period and therefore remuneration in respect of these awards may be reported in future years. The following table summarises the maximum value of these awards that will be reported in the statutory remuneration tables in future years, assuming all performance conditions are met. The minimum value of these awards is nil, should performance conditions not be satisfied.

	Future Expense by Plan					Future Expense by Financial Year		
	STIP Awards		LTIP Awards					
Executives	2011/12 $'000	2012/13 $'000	2013 – 2015[1] $'000	2014 – 2016[2] $'000	Total $'000	2015 $'000	2016 $'000	Total $'000
Alan Joyce	–	143	850	1,339	**2,332**	1,642	690	**2,332**
Gareth Evans	5	43	250	394	**692**	489	203	**692**
Lesley Grant	3	33	100	157	**293**	210	83	**293**
Simon Hickey	4	39	250	394	**687**	484	203	**687**
Jayne Hrdlicka	4	39	250	394	**687**	484	203	**687**
Lyell Strambi	4	41	250	394	**689**	486	203	**689**

1 The number of Rights granted under the 2013-2015 LTIP on 2 November 2012 were determined using the fair value of a Right on 1 July 2012 ($0.66 per Right) being the start of the measurement period. For accounting purposes, accounting standards require the share-based payment expense to be calculated using the fair value of a Right on the grant date ($0.88 per Right).

2 The number of Rights granted under the 2014-2016 LTIP on 18 October 2013 were determined using the fair value of a Right on 1 July 2013 ($0.79 per Right) being the start of the measurement period. For accounting purposes, accounting standards require the share-based payment expense to be calculated using the fair value of a Right on the grant date ($0.83 per Right).

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

REMUNERATION REPORT (AUDITED) CONTINUED

Equity Instruments Held By Key Management Personnel

Set out in the following tables are the holdings of equity instruments granted as remuneration to the KMP by Qantas. Non-Executive Directors do not receive any remuneration in the form of share-based payments, although they may salary sacrifice a portion of their Directors' fees to purchase shares.

(i) Short Term Incentive Plan (STIP)

Key Management Personnel		Number of Shares Opening Balance	Granted	Forfeited	Vested and Transferred	Closing Balance
Alan Joyce	**2014**	**375,014**	**284,769**	**–**	**(375,014)**	**284,769**
	2013	958,014	–	–	(583,000)	375,014
Gareth Evans	**2014**	**174,278**	**85,607**	**–**	**(111,658)**	**148,227**
	2013	200,658	62,620	–	(89,000)	174,278
Lesley Grant	**2014**	**107,189**	**65,505**	**–**	**(64,263)**	**108,431**
	2013	140,263	42,926	–	(76,000)	107,189
Simon Hickey	**2014**	**158,353**	**78,164**	**–**	**(109,119)**	**127,398**
	2013	230,619	49,234	–	(121,500)	158,353
Jayne Hrdlicka	**2014**	**85,784**	**78,164**	**–**	**(35,704)**	**128,244**
	2013	35,704	50,080	–	–	85,784
Lyell Strambi	**2014**	**159,373**	**81,889**	**–**	**(99,600)**	**141,662**
	2013	251,100	59,773	–	(151,500)	159,373

(ii) Long Term Incentive Plan (LTIP)

Key Management Personnel		Number of Shares Opening Balance	Granted	Lapsed/ Forfeited	Vested and Transferred	Closing Balance
Alan Joyce	**2014**	**5,334,000**	**2,151,000**	**(1,084,000)**	**–**	**6,401,000**
	2013	3,074,000	2,575,000	(315,000)	–	5,334,000
Gareth Evans	**2014**	**1,351,731**	**633,000**	**(119,000)**	**–**	**1,865,731**
	2013	674,731	757,000	(80,000)	–	1,351,731
Lesley Grant	**2014**	**566,000**	**253,000**	**(72,000)**	**–**	**747,000**
	2013	365,000	303,000	(102,000)	–	566,000
Simon Hickey	**2014**	**1,091,545**	**633,000**	**(104,000)**	**–**	**1,620,545**
	2013	481,545	757,000	(147,000)	–	1,091,545
Jayne Hrdlicka	**2014**	**948,000**	**633,000**	**–**	**–**	**1,581,000**
	2013	191,000	757,000	–	–	948,000
Lyell Strambi	**2014**	**1,332,000**	**633,000**	**(119,000)**	**–**	**1,846,000**
	2013	701,000	757,000	(126,000)	–	1,332,000

(iii) Performance Share Plan (PSP)

Key Management Personnel		Number of Shares Opening Balance	Granted	Forfeited	Transferred	Closing Balance
Gareth Evans	**2014**	**36,621**	**–**	**–**	**–**	**36,621**
	2013	36,621	–	–	–	36,621
Lesley Grant	**2014**	**64,989**	**–**	**–**	**–**	**64,989**
	2013	64,989	–	–	–	64,989
Simon Hickey	**2014**	**90,213**	**–**	**–**	**(41,213)**	**49,000**
	2013	90,213	–	–	–	90,213
Lyell Strambi	**2014**	**75,000**	**–**	**–**	**(75,000)**	**–**
	2013	75,000	–	–	–	75,000

The above shares are vested and available to call.

(iv) Retention Plan (RP)

		Number of Shares				
Key Management Personnel		Opening Balance	Granted	Forfeited	Transferred	Closing Balance
Simon Hickey	**2014**	**400,000**	**–**	**–**	**(200,000)**	**200,000**
	2013	400,000	–	–	–	400,000

The above shares are vested and available to call.

(v) Equity Holdings and Transactions

KMPs or their related parties directly, indirectly or beneficially held shares in the Qantas Group as detailed in the table below:

Key Management Personnel – Executives	Interest in Shares as at 30 June 2012	Awarded as Remuneration	Rights Converted to Shares	Other Change[1]	Interest in Shares as at 30 June 2013	Awarded as Remuneration	Rights Converted to Shares	Other Change[1]	Interest in Shares as at 30 June 2014
Alan Joyce	2,906,202	–	–	–	2,906,202	284,769	–	–	**3,190,971**
Gareth Evans	354,522	62,620	–	–	417,142	85,607	–	–	**502,749**
Lesley Grant	207,752	42,926	–	–	250,678	65,505	–	–	**316,183**
Simon Hickey	912,607	49,234	–	–	961,841	78,164	–	(663,607)	**376,398**
Jayne Hrdlicka	35,704	50,080	–	33,000	118,784	78,164	–	–	**196,948**
Lyell Strambi	337,300	59,773	–	(151,500)	245,573	81,889	–	(110,600)	**216,862**

1 Other change includes shares purchased, sold or forfeited.

Other than share-based payment compensation, all equity instrument transactions between the KMP, including their related parties, and Qantas during the year have been on an arm's length basis.

Additional Information – Share-based Payments

The following table provides a more detailed breakdown of the statutory accounting expense of share-based payments to disclosed Executives.

		STIP		LTIP	
$'000		Cash Settled Share-based Payment	Equity Settled Share-based Payment	Equity Settled Share-based Payment	Total
Alan Joyce	**2014**	**–**	**155**	**1,808**	**1,963**
Chief Executive Officer	2013	–	375	1,794	2,169
Gareth Evans	**2014**	**–**	**76**	**520**	**596**
Chief Financial Officer	2013	202	133	366	701
Lesley Grant	**2014**	**–**	**54**	**210**	**264**
CEO Qantas Loyalty	2013	139	89	162	390
Simon Hickey	**2014**	**–**	**66**	**441**	**507**
CEO Qantas International	2013	159	125	280	564
Jayne Hrdlicka	**2014**	**–**	**60**	**439**	**499**
CEO Jetstar	2013	162	75	224	461
Lyell Strambi	**2014**	**–**	**72**	**520**	**592**
CEO Qantas Domestic	2013	193	130	366	689
Total	**2014**	**–**	**483**	**3,938**	**4,421**
	2013	**855**	**927**	**3,192**	**4,974**

Additional Information – Methodology used for the Remuneration Outcomes Table (Non-statutory)

Base Pay (cash) and other remuneration in the Remuneration Outcomes tables on pages 46 and 49 are the same as those reported in the statutory remuneration tables on pages 47 and 50.

The STIP amount shown in the Remuneration Outcomes tables is the full value of the STIP awarded for the corresponding year calculated as a product of Base Pay, At Target Opportunity, STIP Scorecard Result and Individual Performance Factor (rather than amortising the accounting value over the relevant performance and service period as per the accounting standards).

The LTIP amount shown in the Remuneration Outcomes tables is equal to the number of Rights vested during the year multiplied by the fair value of the Right at grant date (rather than amortising the accounting value over the relevant performance and service period as per the accounting standards).

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

REMUNERATION REPORT (AUDITED) CONTINUED

Risk Management

The STIP and the LTIP have design elements that protect against the risk of unintended and unjustified pay outcomes, that is:

- Diversity in their performance measures, which as a suite of measures cannot be directly and imprudently influenced by one individual employee
- Clear maxima defined for scorecard outcomes under the STIP and a challenging vesting scale under the LTIP
- Diversity in the timeframes in which performance is measured, with performance under the STIP being measured over one year and performance under the LTIP being measured over three years
- Deferral of a portion of awards under the STIP with a restriction period of up to two years. This creates an alignment with shareholder interests and also provides a claw-back mechanism, in that the Board may forfeit restricted STIP awards if they were later found to have been awarded as a result of material financial misstatement

While formal Management shareholding requirements are not imposed, the CEO has a material holding in Qantas shares, currently valued at around two times Base Pay. The potential equity awards under the STIP and the LTIP will assist Executives in maintaining shareholdings in Qantas.

Employee Share Trading Policy

The Qantas Code of Conduct and Ethics contains Qantas' Employee Share Trading Policy (Policy).

The Policy prohibits employees from dealing in Qantas securities (or securities of other listed entities) while in possession of material non-public information relevant to the entity.

In addition, nominated employees (including KMP) are:

- Prohibited from dealing in Qantas securities (or the securities of any Qantas Group listed entity) during defined closed periods
- Required to comply with "request to deal" procedures prior to dealing in Qantas securities (or the securities of any Qantas Group listed entity) outside of defined closed periods
- Prohibited from hedging or entering into any margin lending arrangement, or entering into any other encumbrances over the securities of Qantas (or the securities of any Qantas Group listed entity) at any time

Loans and Other Transactions with Key Management Personnel

No KMP or their related parties held any loans from the Qantas Group during or at the end of the year ended 30 June 2014 or prior year.

A number of KMPs and their related parties have transactions with the Qantas Group. All transactions are conducted on normal commercial arm's length terms. The nature of transactions, other than air travel, is set out below:

- Toolangi Vineyards is a related entity to Mr Hounsell. Toolangi Vineyards' wine has been selected by an independent wine panel for use on Qantas Business Class services. All transactions were conducted on normal commercial arm's length terms. The value of the transactions throughout the year was $25,920 (2013: $7,440). The amount payable as at 30 June 2014 included in Current Liabilities was nil (2013: nil).

8) NON-EXECUTIVE DIRECTOR FEES

Non-Executive Director fees are determined within an aggregate Non-Executive Directors' fee pool limit. An annual total fee pool of $2.75 million (excluding industry standard travel entitlements received) was approved by shareholders at the 2013 Annual General Meeting.

Total Non-Executive Directors' remuneration (excluding industry standard travel entitlements received) for the year ended 30 June 2014 was $2.14 million (2013: $2.02 million), which is within the approved annual fee pool.

Non-Executive Directors' remuneration reflects the responsibilities of Non-Executive Directors. Fees are benchmarked against Non-Executive Director fees of S&P/ASX 50 companies.

The Chairman's fee did not increase during 2013/2014. Other Board fees and Committee fees increased by three per cent from 1 July 2013. From 1 January 2014, all Directors elected to forego five per cent of both their base fee and Committee fee.

	Board		Committees[1]	
	Chairman[2]	Member	Chairman	Member
Board Fees[3]	$560,000	$144,000	$58,000	$29,000

1 Committees are the Audit Committee, Remuneration Committee, Nominations Committee and Safety, Health, Environment and Security Committee.
2 The Chairman does not receive any additional fees for serving on or chairing any Board Committee.
3 From 1 January 2014, all Directors elected to forego five per cent of their fees. From 1 January 2014, the Chairman was paid based on an annual fee of $532,000; other Directors were paid based on an annual fee of $137,000; each Committee Chairman was paid based on an annual fee of $55,000; and each Committee member was paid based on an annual fee of $27,500.

Non-Executive Directors do not receive any performance-related remuneration.

Overseas-based Non-Executive Directors are paid a travel allowance when travelling on international journeys of greater than six hours to attend Board and Committee Meetings or Board-related activities requiring participation of all Directors.

All Non-Executive Directors and eligible beneficiaries receive travel entitlements. The Chairman is entitled to four long haul trips and 12 short haul trips each calendar year and all other Non-Executive Directors are entitled to two long haul trips and six short haul trips each calendar year. These flights are not cumulative and will lapse if they are not used during the calendar year in which the entitlement arises.

Post-employment, the Chairman is entitled to two long haul trips and six short haul trips for each year of service and all other Non-Executive Directors are entitled to one long haul trip and three short haul trips for each year of service. The accounting value of the travel benefit is captured in the remuneration table (as a non-cash benefit for travel during the year and as a post-employment benefit).

Remuneration for the Year Ended 30 June 2014 – Non-Executive Directors

		Short-term Employee Benefits			Post-employment Benefits			
		Base Pay (Cash)	Non-cash Benefits	Sub-total	Superannuation	Travel	Sub-total	Total
Leigh Clifford	**2014**	**511**	**37**	**548**	**35**	**23**	**58**	**606**
Chairman	2013	535	25	560	25	19	44	604
Maxine Brenner[1]	**2014**	**138**	**16**	**154**	**13**	**11**	**24**	**178**
Non-Executive Director	2013	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Peter Cosgrove[2]	**2014**	**107**	**30**	**137**	**10**	**11**	**21**	**158**
Non-Executive Director	2013	180	17	197	16	9	25	222
Patricia Cross[3]	**2014**	**72**	**4**	**76**	**6**	**11**	**17**	**93**
Non-Executive Director	2013	200	30	230	16	9	25	255
Richard Goodmanson[4]	**2014**	**255**	**14**	**269**	**–**	**11**	**11**	**280**
Non-Executive Director	2013	244	51	295	–	9	9	304
Jacqueline Hey[1]	**2014**	**129**	**11**	**140**	**12**	**11**	**23**	**163**
Non-Executive Director	2013	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Garry Hounsell	**2014**	**207**	**24**	**231**	**18**	**11**	**29**	**260**
Non-Executive Director	2013	208	33	241	16	9	25	266
William Meaney[4]	**2014**	**213**	**–**	**213**	**–**	**11**	**11**	**224**
Non-Executive Director	2013	188	1	189	–	9	9	198
Paul Rayner	**2014**	**199**	**19**	**218**	**18**	**11**	**29**	**247**
Non-Executive Director	2013	180	34	214	16	9	25	239
Barbara Ward	**2014**	**179**	**24**	**203**	**18**	**11**	**29**	**232**
Non-Executive Director	2013	180	19	199	16	9	25	224
Total	**2014**	**2,010**	**179**	**2,189**	**130**	**122**	**252**	**2,441**
	2013	**1,915**	**210**	**2,125**	**105**	**82**	**187**	**2,312**

1 2013/2014 remuneration reflects the period served by Ms Brenner and Ms Hey as Non-Executive Directors from 29 August 2013 to 30 June 2014.

2 2013/2014 remuneration reflects the period served by General Cosgrove as a Non-Executive Director from 1 July 2013 to 28 January 2014. General Cosgrove also received payments for services rendered as a Director of Qantas Superannuation Limited during the period served.

3 2013/2014 remuneration reflects the period served by Mrs Cross as a Non-Executive Director from 1 July 2013 to 18 October 2013.

4 Mr Goodmanson and Mr Meaney received travel allowances of $30,000 and $25,000, respectively during 2013/2014 (2013: $30,000 for Mr Goodmanson and $30,000 for Mr Meaney). These amounts were included in their fees (cash).

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

REMUNERATION REPORT (AUDITED) CONTINUED

Equity Holdings and Transactions

KMP or their related parties directly, indirectly or beneficially held shares in the Qantas Group as detailed in the table below:

Key Management Personnel – Non-Executive Directors	Interest in Shares as at 30 June 2012	Other Change[1]	Interest in Shares as at 30 June 2013	Other Change[1]	Interest in Shares as at 30 June 2014
Leigh Clifford	151,622	100,000	251,622	–	**251,622**
Maxine Brenner	–	–	–	–	**–**
Peter Cosgrove	34,565	–	34,565	–	**34,565**[2]
Patricia Cross	30,474	5,000	35,474	–	**35,474**[2]
Richard Goodmanson	20,000	–	20,000	–	**20,000**
Jacqueline Hey	–	–	–	–	**–**
Garry Hounsell	80,000	–	80,000	–	**80,000**
William Meaney	–	–	–	–	**–**
Paul Rayner	71,622	–	71,622	–	**71,622**
Barbara Ward	47,597	–	47,597	–	**47,597**

1 Other change includes shares purchased or sold.
2 The number shown is as at the date the Director ceased to be KMP.

All equity instrument transactions between the KMP, including their related parties, and Qantas during the year have been on an arm's length basis.

ENVIRONMENTAL OBLIGATIONS

The Qantas Group's operations are subject to a range of Commonwealth, State, Territory and international environmental legislation. The Qantas Group is committed to environmental sustainability with high standards for environmental performance. The Board places particular focus on the environmental aspects of its operations through the Safety, Health, Environment and Security Committee, which is responsible for monitoring compliance with these regulations and reporting to the Board.

The Directors are satisfied that adequate systems are in place for the management of the Qantas Group's environmental exposures and environmental performance. The Directors are also satisfied that relevant licences and permits are held and that appropriate monitoring procedures are in place to ensure compliance with those licences and permits. Any significant environmental incidents are reported to the Board.

The Directors are not aware of any breaches of any environmental legislation or of any significant environmental incidents during the year which are material in nature.

INDEMNITIES AND INSURANCE

Under the Qantas Constitution, Qantas indemnifies, to the extent permitted by law, each Director and Company Secretary of Qantas against any liability incurred by that person as an officer of Qantas.

The Directors listed on page 40, the Company Secretaries listed on page 42 and certain individuals, who formerly held any of these positions, have the benefit of the indemnity in the Qantas Constitution. Members of Qantas' Executive Management team and certain former members of the Executive Management team have the benefit of an indemnity to the fullest extent permitted by law and as approved by the Board. In respect to non-audit services, KPMG, Qantas' auditor, has the benefit of an indemnity to the extent KPMG reasonably relies on information provided by Qantas which is false, misleading or incomplete. No amount has been paid under any of these indemnities during 2013/2014 or to the date of this Report.

Qantas has insured against amounts which it may be liable to pay on behalf of Directors and officers or which it otherwise agrees to pay by way of indemnity.

During the year, Qantas paid a premium for Directors' and Officers' liability insurance policies, which cover all Directors and officers of the Qantas Group. Details of the nature of the liabilities covered, and the amount of the premium paid in respect of the Directors' and Officers' insurance policies, are not disclosed, as disclosure is prohibited under the terms of the contracts.

NON-AUDIT SERVICES

During the year, Qantas' auditor KPMG has performed certain other services in addition to its statutory duties. The Directors are satisfied that:

a The non-audit services provided during 2013/2014 by KPMG as the external auditor were compatible with the general standard of independence for auditors imposed by the Corporations Act 2001

b Any non-audit services provided during 2013/2014 by KPMG as the external auditor did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

  - KPMG services have not involved partners or staff acting in a managerial or decision-making capacity within the Qantas Group or being involved in the processing or originating of transactions
  - KPMG non-audit services have only been provided where Qantas is satisfied that the related function or process will not have a material bearing on the audit procedures
  - KPMG partners and staff involved in the provision of non-audit services have not participated in associated approval or authorisation processes
  - A description of all non-audit services undertaken by KPMG and the related fees has been reported to the Board to ensure complete transparency in relation to the services provided
  - The declaration required by section 307C of the Corporations Act 2001 confirming independence has been received from KPMG

A copy of the lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included on page 66.

Details of the amounts paid to KPMG for audit and non-audit services provided during the year are set out in Note 8 to the Financial Statements.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2014

KPMG

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001*

To: the Directors of Qantas Airways Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2014, there have been:

i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG
Sydney

3 September 2014

Duncan McLennan
Partner

Rounding

Qantas is a company of a kind referred to in Australian Securities and Investments Commission (ASIC) Class Order 98/100 dated 10 July 1998. In accordance with the Class Order, amounts in this Directors' Report and the Financial Report have been rounded to the nearest million dollars unless otherwise stated.

Signed pursuant to a Resolution of the Directors:

Leigh Clifford
Chairman

3 September 2014

Alan Joyce
Chief Executive Officer

3 September 2014