

ASX/Media Release

QANTAS BOARD GOVERNANCE REVIEW UPDATE

8 August 2024: The Qantas Board has today released a report following a review of key governance matters.

The review, which commenced in October 2023 and considered matters over the preceding 12 months, scrutinised the decision-making and governance processes of the Board that led to the loss of trust amongst stakeholders.

The review involved external and internal input on several separate key governance matters identified by the Board. The Board appointed experienced business adviser Tom Saar to review these matters and present areas of improvement to the Board.

The review found that mistakes were made by the Board and management which contributed to the Group's significant reputational and customer service issues. There were no findings of deliberate wrongdoing.

The Board, led by Chairman Richard Goyder and Chairman Elect John Mullen, and the management team have committed to implementing actions to address all 32 recommendations in the report, with many actions already completed or underway. These include:

- Changes implemented to increase more detailed reporting to the Board on customer metrics, employee engagement and key stakeholder relations.
- Amendments made to the Group's remuneration framework.
- Tightened protocols for the approval of share trading by the Group CEO and senior management.
- Enhanced Board consultation and approval required for involvement in significant stakeholder and community issues.

These actions are in addition to organisational changes, including the appointment of two new Independent Non-Executive Directors and the commencement of a transition to a new Chairman and senior management renewal with the early commencement of a new Group Chief Executive Officer.

A copy of the report can be found below.

Update on Board renewal

Qantas Chairman Richard Goyder announced in October 2023 that he would retire prior to the Annual General Meeting (AGM) in October 2024.

Mr Goyder has confirmed that his last day with Qantas as Chairman and Non-Executive Director will be Monday 16 September 2024.

John Mullen, who joined the Board in April this year and has been Chairman Elect, will then assume the role of Chairman. Mr Mullen's position on the Board will be put to a shareholder vote at the AGM.

Comments

Qantas Chairman Elect John Mullen said the review provides clear direction for the Board and management to build a better, stronger Qantas and restore pride in the national carrier.



“It’s important that the Board understands what went wrong and learns from the mistakes of the past as it’s clear that we let Australians down,” Mr Mullen said.

“As the national carrier it is our duty to make sure we always act in the best interest of stakeholders and hold ourselves to the highest level of accountability.

“Vanessa and her new management team have made positive progress towards delivering better outcomes for customers and employees, but there is still a significant amount of work to be done to rebuild the trust of all stakeholders.

“The implementation of the recommendations in the report will result in stronger governance and better decision-making within Qantas and ultimately better outcomes for our stakeholders. I’d like to thank Tom Saar for his work on the review.

“On behalf of the Board, I’d like to recognise the contribution that Richard has made during almost six years as Chairman of the Qantas Board, particularly guiding the airline through the unprecedented challenges faced during the pandemic.”

Independent business advisor Tom Saar said: “The task set by the Qantas Board in bringing together the elements of the Governance Review was instigated with a genuine desire to improve the Group and ensure the mistakes of the past led to lessons learned and improved governance.

“Many of the actions taken by Qantas in response to the recommendations are complete or well underway. While some of the recommendations will take some time to embed across the organisation, if the current momentum is maintained, my expectation is that tangible benefits will occur within a short period.”

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Authorised for release by the Qantas Board of Directors.



Qantas Governance Review Report

8 August 2024

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Message from the Chairman and Chairman Elect

In October 2023, the Qantas Board announced that it had commenced a process of independently reviewing key governance matters over the previous 12 months (**Governance Review**).

The Governance Review involved external and internal input on key governance matters identified by the Board, and the Board appointed experienced business adviser, Mr Tom Saar, to review and present the outcomes of these elements to the Board. Those elements were then workshopped with the Board and Management and again with the Board, with Ten Improvement Themes being distilled by Mr Saar. The areas covered and the improvement themes are listed in Mr Saar's letter on page 5. The following report brings this work on the Governance Review together, and has been reviewed and approved by Mr Saar.

The Governance Review was directed to scrutinise the decision-making and governance processes that led to a loss of trust amongst stakeholders and to present to the Board key recommendations.

The context of the previous few years is important. The global aviation sector faced significant challenges during the COVID-19 crisis, requiring decisions to be made by Qantas to ensure the viability of the airline through and beyond the pandemic.

In order to save Qantas from bankruptcy during the unprecedented crisis of COVID, the Board and Management were obliged to make many critical decisions under pressure and within short timeframes. However, some of the decisions made during the COVID-19 crisis and recovery had a detrimental impact on many stakeholders. The ongoing repercussions have rightly been the subject of much scrutiny.

As COVID-19 restrictions eased and the industry began to normalise in 2022, it was clear that the Group failed to consistently deliver the reliable and quality service expected by our customers. While some operational failings were beyond our control and were experienced across the global aviation sector, others resulted from us not achieving the right balance between the interests of our different stakeholders.

The Board acknowledges this contributed to the Group's significant reputational and customer service issues. While there were no findings of deliberate wrongdoing, mistakes were made and, as the Governance Review has highlighted, in some cases, the responses of the Board and Management were a contributing factor. While the Board and Management focused heavily on safely reopening the airline, we recognise that we needed to more quickly address the early warning signs of operational and customer service difficulties.

The Board recognises that the way we operate needs to change. More robust debate and deeper examination of options and risks, particularly during times of volatility, are required.

Importantly, the Governance Review provides clear direction for the Group as we continue, under a renewed Board and leadership team, to rebuild trust with our customers, employees, investors and other stakeholders.

The Board and Management team are committed to implementing the recommendations in full, and in many respects are well advanced in doing so. This includes:


- Accelerated Board renewal with the retirement of directors and the appointment of a further two new Independent Non-Executive Directors since October 2023 together with the transition to a new Chairman before the 2024 Annual General Meeting;
- Management renewal with the early commencement of a new Group Chief Executive Officer and further renewal of the Group Leadership Team (70 per cent of the current Group Leadership Team are new either to Qantas, to their role or to the Group Leadership Team);
- Changes implemented to the executive remuneration framework, including greater weighting on customer outcomes and reputation, and improved transparency around remuneration outcomes;
- Changes implemented to increase more detailed reporting to the Board on customer metrics, employee engagement and key stakeholder relations;
- Changes implemented to variable remuneration rules to broaden Board discretion over both Short-Term and Long-Term Incentive Plan remuneration outcomes;
- Tightened protocols for approval of CEO and Group Leadership Team share sales, with Chairman and Chair of the Audit Committee to provide approval for any share sale by the CEO, and with Chairman and CEO to provide approval for any share sale by the Group Leadership Team; and
- Enhanced Board consultation and approval required for external communications on significant stakeholder and community issues.

The Board is committed to the implementation of the recommendations to provide stronger governance and enhance both the speed and breadth of Board oversight, resulting in better decision-making.

One thing that will not change is the Group's strong safety governance and culture, with the review reinforcing the strength of the existing approach at all levels of the organisation.

The Board will be tracking and embedding recommendations and actions. We will intensify the rigour of annual Board Reviews to maintain an ongoing focus on continuous improvement.

We once again apologise for those times where we got it wrong. The Group is focused on rebuilding the trust of all our stakeholders and restoring pride in Qantas as the national carrier.



Richard Goyder AO
Qantas Chairman



John Mullen
Qantas Chairman Elect

Message from independent business advisor

The task set by the Qantas Board in bringing together the elements of the Governance Review was wide-ranging. In all my interactions it was clear that the Governance Review was instigated with a genuine desire to improve the Group and ensure the mistakes of the past led to lessons learned and improved governance.

The Board wanted the benefit of my 30-plus years of experience in management and governance consulting to help them address the structural, policy, procedural and cultural elements that contributed to the deterioration of trust in the Group in the lead-up to the October 2023 announcement of a review.

The Governance Review process was robust. The areas examined included Board culture and effectiveness, risks, customers, people and culture, stakeholders, remuneration and rewards, management of legal issues, corporate policies and safety. It entailed sub-reviews conducted by external and internal experts. In addition, I conducted a survey on the Board's modus operandi and did multiple rounds of in-depth interviews with current and former Qantas Non-Executive Directors, plus spoke with current members of the Group Leadership Team and Qantas' lead external audit partner.

Following this, I facilitated a series of three interactive workshops: first with the Board; then with the Group Leadership Team; and then again with the Board. In these workshops, the sub-reviews were discussed, findings and lessons were distilled, and actions were agreed. In these sessions, I found the Board and Management forthright in confronting their improvement areas and committing to make necessary changes. Accordingly, they have embraced all findings and agreed to all recommendations.

The Governance Review resulted in the identification of ten "Improvement Themes" which will form the basis of the Group's response. The outcomes from the Governance Review recommended that Qantas should:

1. Continue to focus intensively on aviation and workplace safety, security, cyber, health, quality and environment from top to bottom, and where appropriate use those cultural frameworks and strengths as a catalyst for change in other areas;
2. Invest more time to understand customers better, recover lost trust and loyalty and ensure that their needs are better reflected in planning, decision making and governance;
3. Make staff a bigger priority and re-energise Qantas' culture so that Qantas is a "great place to work" again where everyone feels trusted to deliver for customers;
4. Understand the full array of stakeholders better, increase the rigour with which Qantas hears their "voices" and adopt more open and empathetic two-way communications, including a commitment to strong governance for decision-making on disclosures;

5. Realign remuneration and benefits policies to reflect a more balanced scorecard and best practice, including shareholding and trading guidelines;
6. Utilise more comprehensive risk identification, analysis, debate and mitigation, and broaden non-financial criteria for escalation and decision-making;
7. Change the modus operandi of the Board to free up more time and attention for important matters and to challenge Management more effectively;
8. Coalesce around agreed Board and Management interaction norms (focused on sharing and collaboration, accountability and challenge, respect and support);
9. Commit to more formal feedback mechanisms and development cycles covering skills and behaviours for both the Group Leadership Team and Board effectiveness; and
10. Capture lessons learned regarding "governing during a crisis" for future use.

Whilst the Governance Review also identified the importance of leadership renewal, the Board had already commenced refreshing both Board and Management leadership prior to commencement of the review, and has continued to do so.

The following report properly reflects my view of the findings and recommendations of the Governance Review and outlines the actions Qantas is taking in response to these recommendations. I also note many of the actions taken by Qantas in response to the recommendations are complete or well underway. While some of the recommendations will take some time to embed across the organisation, if the current momentum is maintained, my expectation is that tangible benefits will occur within a short period.

It is my observation that the Qantas Board and the Group Leadership Team are acutely aware that the success of many initiatives instigated by the Governance Review will ultimately be judged by their stakeholders, including customers, employees, investors, governments, regulators and the broader community.

In turn, I believe that realisation has fostered an openness to feedback and reflection, and a commitment to achieve market or industry-leading practices in governance, culture and "ways of working".

I look forward to witnessing the implementation – and the success – of the recommendations of the Governance Review.



Tom Saar

Key recommendations and Qantas' response

Introduction and scope of report

The Governance Review was commissioned to review the key governance matters over the previous 12 months prior to October 2023.

The Governance Review involved external and internal input on key elements, with the external input being provided by ten separate subject matter experts. These different elements were brought together by Mr Saar and workshopped with the Board as outlined in his letter. The Governance Review involved the following streams:

- Board Effectiveness;
- Board Culture;
- Policies;
- Legal;
- People and Culture;
- Stakeholders;
- Customers;
- Remuneration; and
- Safety.

The key findings and recommendations of the Governance Review for each of these streams and Qantas' response is outlined below.

Key events and root causes

Before examining the findings and recommendations of the Governance Review it is helpful to note the context for the review.

There were a series of actions or events involving Qantas that led to a loss of trust amongst stakeholders in the 12 months prior to October 2023, as Qantas recovered from the unprecedented impact of the COVID crisis. Mr Saar summarised the key actions or events as follows:

- Customer service shortcomings: late flights, lost baggage and call centre wait times;
- The handling of customer COVID credits and post-COVID pricing;

- The ACCC legal proceedings relating to the handling of cancelled flights;
- Qantas losing its appeal to the High Court against earlier Court determinations that Qantas' outsourcing of ground handling services involving approximately 1,700 redundancies was unlawful;
- Media events: commentary around the 'match fitness' of customers and the removal of the AFR from Qantas lounges;
- Government relations: Qantas' appearances at Senate Committee hearings in 2023, and Qatar Airways' capacity expansion application;
- Support levels for front-line employees;
- Qantas strong profit performance for 2023;
- The sale of a large parcel of shares in June 2023 by the Qantas CEO; and
- The significant adverse shareholder reaction to executive remuneration at the 2023 AGM.

Based on the perspectives of individual Board members and Management interviewed as part of the Governance Review, Mr Saar distilled the following root cause dynamic that underpinned these actions and events:

1. Culture - Qantas' strong safety culture was not representative of the leadership culture of the Group as a whole, which contributed at times to a focus on financial performance before stakeholders and non-financial risks (other than safety);
2. Leadership style - top-down leadership with a dominant and trusted CEO, leading to insufficient listening and low speak up;
3. Corporate governance - the Board's mode of engagement with management did not always achieve the right balance between support and challenge;
4. COVID impact - managing the COVID crisis both during the pandemic and when reopening required decisive action but the potential cumulative impacts on the company and its stakeholders were not always fully appreciated; and
5. External communications - external communications were at times combative which exacerbated issues.

These are reflected in the findings summarised below in this Report.

1. Governance and Risk

The Governance Review examined Board governance and risk practices, including structures, frameworks, processes, reporting, delegations and other policies. With the assistance of various experts, it led the Board to consider and implement changes which enhance Board focus on critical and emerging issues, so that the Group has a best-practice approach to governance and risk with an enhanced focus on non-financial risk.

This section addresses the Governance Review's findings and recommendations in relation to Board effectiveness and Board culture, Qantas Group policies, legal issues and observations on risk governance.

1.1 Board effectiveness and culture

Board engagement and interaction

KEY FINDINGS

- The Board was actively engaged during the COVID-19 crisis, participating in over 40 formal meetings in 2020 and 2021. When the Group moved to restart its operations, the Board and Management moved to a business-as-usual governance mode with a heavy focus on 'safely re-opening', viewing the re-opening as more operational than strategic in nature, and therefore a Management responsibility. As a result, the Board was reactive in its response and could have more actively sought information regarding the developing operational and customer difficulties.
- There was too much deference to a long-tenured CEO who had endured and overcome multiple past operational and financial crises. The mode of engagement between the Board and Management did not always facilitate robust challenge on some issues. Issues could have been brought to the Board earlier for input and reporting could have included more analysis of options and risks for Board debate.
- The Board was collegiate in their approach. This should be complemented by more "tough but fair" debate and challenge.
- The Board would benefit from adopting a set of norms or 'ways of working' to capture desired changes and enhance the working relationship with the CEO and Group Leadership Team.
- The Board would benefit from drawing more upon external expertise and insights when needed and more informal interaction with employees and stakeholders.
- The Board did not maximise the benefits of past Board reviews. Board and Board-Management culture was not an explicit topic of conversation and there was no shared view of desired culture.
- The Board was financially, commercially and strategically oriented. This should be complemented by enhanced focus on non-financial issues, employees, customers and all stakeholders.

RECOMMENDATIONS

- Introduce norms or "ways of working" for the Board, in the form of behavioural and process changes, that aim to maximise Board dialogue, debate and challenge, and review these norms annually as part of formal Board Reviews.
- Reallocate Board meeting time for increased effectiveness in light of Committee changes, reporting enhancements and identified priorities.
- Introduce further mechanisms for the Board to engage more directly with the full range of stakeholders.
- Codify 'crisis management protocols' for the Board modus operandi.

QANTAS RESPONSE

- Practical changes have or are being made to the operation of the Board to elevate discussion and debate:
 - Codifying the Board's 'ways of working' norms to serve as a shared commitment to the way the Board works together, with Management, in Committees and more broadly, and to use as a reference tool for periodic check-ins and the formal annual Board Review; (DUE FOR COMPLETION Q2FY25 AND ONGOING)
 - Restructuring the Group's strategy planning process, to ensure Board engagement and input in the formative stages of the strategy; (COMPLETED AND ONGOING)
 - Providing prompt and proximate feedback to the Management team on submissions, papers and discussion at Board forums; (COMPLETED AND ONGOING)
 - Redesigning the typical Board and Committee meeting pattern to free up more time for key strategic, stakeholder, reputational and emerging issues; (COMPLETED AND ONGOING)
 - Accommodating and allocating additional time to examine topics, for or about which any Director perceives greater inquiry is warranted, and holding more regular and as needed impromptu in-camera sessions; (COMPLETED AND ONGOING)
 - Creating further opportunities for Directors to engage directly with Group employees to witness the culture, values and work of Qantas personnel and with external stakeholders to hear firsthand their perspectives; and (COMPLETED AND ONGOING)
 - Enhancing the Group's existing Director induction and education program, including by regular updates on key operational, customer, financial and regulatory issues. (DUE FOR COMPLETION Q3FY25 AND ONGOING)
- The Board will be provided with clear crisis management protocols that reflect on phases of a developing crisis and accompanying principles and tactics. (DUE FOR COMPLETION Q3FY25)

Information flow with the board

KEY FINDINGS

- The Board's oversight of non-financial issues and risks could be enhanced by having more targeted stakeholder reporting, including in relation to non-financial risk. There should be earlier input from the Board on initiatives with potentially significant reputational consequences.
- The formalised nature of information flows to Directors inhibits the speed and ease with which the Board can consider and respond to issues as they emerge.
- There is an opportunity to ensure that key insights and judgements, options and risks are drawn out more prominently and presented more succinctly within the Board materials.

RECOMMENDATIONS

- Introduce process changes that improve the cadence and format of information flows, reporting and discussion to the Board on key proposals, projects, risks and issues. In particular, improved regular reporting of all stakeholder relations and the escalation of non-financial matters to the Board that have the potential to adversely affect the Group's reputation.
- In the information and proposals presented to the Board, clearly articulate differences between the risk management settings for safety, operational, commercial and/or network planning domains.
- Ensure the delineation of responsibility for environmental and sustainability initiatives and reporting is clear between the Safety, Health, Environment and Security Committee and the Audit Committee, with the Board retaining oversight of the broader sustainability strategy.

QANTAS RESPONSE

- Changes have been introduced to improve the cadence and format of information flows, reporting and discussion to the Board on key proposals, projects, risks and issues, with particular focus on the protocols for escalation of non-financial, operational reliability, customer, people, investor, regulatory and legal issues. (COMPLETED)
- Risk management settings have been included for safety, operational, commercial and/or network-planning domains. (COMPLETED)
- Introduced less-formal mechanisms for rapidly disseminating news/issues to Directors. (COMPLETED)
- Processes have been updated to ensure the appropriate flow of environmental and sustainability initiatives and reporting to the Safety, Health, Environment and Security Committee and the Audit Committee, respectively, with the Board retaining oversight of the broader sustainability strategy. (COMPLETED)

Board skills and assessment

KEY FINDINGS

- The Board's skills assessment would be enhanced by regular and independently conducted skills and experience updates of Directors.
- The Board should continue and enhance its practice of rigorously assessing the skills and experience of potential new Directors.

RECOMMENDATIONS

- Regularly monitor the skills mix of the Board to ensure it best serves the Group and strengthen the independent assessment of each Director's skillset.

QANTAS RESPONSE

- The Board's skills matrix has been revised to clarify and update the skills and experience of Directors needed by the Group, with future skills assessments to be based on three levels of competence to make them more informative. (COMPLETED AND ONGOING)
- Lessons, insights and recommendations from the annual Board reviews, which will continue to include external assessments of Board performance, will be formally and thoroughly monitored for implementation. (COMPLETED AND ONGOING)
- The Group's Board succession planning will be informed by these two initiatives, noting the appointment of two new Directors since the commencement of the Governance Review. (ONGOING)

Risk governance

KEY FINDINGS

- The Group’s risk management framework is heavily weighted to focus on strategic and financial risks, and could benefit from the re-weighting of non-financial risks, with particular focus on operational reliability, customer, culture and people issues to provide enhanced visibility of these issues.
- There was a tendency for emerging risks, particularly non-financial risks, to be assessed on an individual, rather than cumulative basis, with the result that the overall impact of potential combined risk actualisation may be underestimated in assessments and contingency planning.

RECOMMENDATIONS

- Give greater attention to non-financial risks (non-financial risks in risk matrix, behavioural risks covered by internal audits, more holistic decision-making criteria) and cumulative risk.
- Unify the Group’s approach to all risk classes (operational and enterprise) across the framework, approach, language and toolkit used for risk management to strengthen this core Group capability and update the risk appetite framework.
- The Board should establish non-financial escalation norms.

QANTAS RESPONSE

- The re-developed Risk Taxonomy and updated Risk Appetite Framework developed by Management will be utilised to ensure there is a structured classification of, and decision-making framework for, major risks – financial and non-financial – across the Group with associated reporting to the Board. (DUE FOR COMPLETION Q4FY25)
- A detailed quarterly report for Audit Committee meetings that includes non-financial and reputational legal risks, and a cumulative or combined risk actualisation assessment, has been developed and is being provided on an ongoing basis. (COMPLETED AND ONGOING)

1.2 Policies

Governance framework enhancements – updates to key policies

KEY FINDINGS

- Some elements of the Group’s policy suite are not market-leading in governance practice.
- Non-Executive Directors, the CEO and Group Leadership Team should comply at all times with the Minimum Shareholding Guidelines and only in exceptional cases can Group Leadership Team members sell Qantas shares as they build towards satisfaction of the Minimum Shareholder Guidelines.
- There should be additional scrutiny of share dealings proposed by the CEO and members of the Group Leadership Team.

RECOMMENDATIONS

- Review and update key policies including the Group Code of Conduct and Ethics and Whistleblower policies to ensure currency and ease of use.
- Update critical Group governance policies to leading market practice, in particular, the Group’s Share Trading Policy and Minimum Shareholding Guidelines.

QANTAS RESPONSE

- A suite of Group policies have been updated to align with leading market practice, including significant changes to the Group Code of Conduct and Ethics policy and enhanced governance around continuous disclosure via forming an internal Market Disclosure Committee, and conflict of interest provisions. (COMPLETED)
- The Share Trading Policy and Minimum Shareholding Guidelines have been amended, to tighten approval chains for senior executive share trading – including that any trading in Qantas shares by the CEO will require approval of the Board Chair and the Audit Committee Chair under the Share Trading Policy and by the Board if the Minimum Shareholding Guidelines are applicable to the trading. There will be limited exceptions to meeting the minimum shareholding guidelines. (COMPLETED)
- Whistleblower Procedures have been updated to better define responsibilities within the reporting and investigation chains, to make the process of reporting, investigating and concluding whistleblower reports more efficient, effective and easier. (COMPLETED)

1.3 Legal

Legal

KEY FINDINGS

- Legal issues are not just about ‘right or wrong’, justice and fairness, but also about risk management.
- Decisions are made with a strong financial and legal orientation, but need to balance with non-financial and reputational aspects.
- There can be potential conflicts between legal risks and business opportunities, especially in crisis or in high-stake situations.

RECOMMENDATIONS

- Enhance Board and Management debate on risk scenarios for key matters.
- Enhance reporting on legal/regulatory matters and government interactions.

QANTAS RESPONSE

- Board and Audit Committee reporting on current, emerging and potential legal, regulatory and other disputes or controversies has been enhanced, both in regularity and assessment, analysis and mitigants. (COMPLETED AND ONGOING)
- Board and Audit Committee protocols have embedded agenda and time-allocation for the consideration of that enhanced reporting. (COMPLETED AND ONGOING)

2. People and Culture

The Governance Review focused on identifying and recommending for remediation the structural, governance and reporting elements of the Group's focus on the experience for employees.

While the Governance Review was underway, the Group Leadership Team focused on executing the people strategy, led by the Group's new Chief People Officer.

People and culture

KEY FINDINGS

- Leadership culture is part of the root cause dynamic that has underpinned the events under review. The Group had a “command and control” leadership style with centralised decisions and an experienced and dominant CEO. This contributed to a top-down culture, which impacted empowerment and a willingness to challenge or “speak up” on issues or decisions of concern except in relation to safety matters. In turn, that cultural characteristic underpinned some of the events that affected the Group's reputation.
- The Board had limited visibility or appreciation of the manifestation of this cultural characteristic. The Board overly extrapolated the strong top-to-bottom safety culture to be representative of the broader leadership culture. The Group would benefit from a more rigorous and comprehensive cultural monitoring program, building on existing and regular data points, and incorporated in an appropriate form into the Group scorecard.
- The Group would benefit from stronger governance of Group Leadership Team hiring, employee retention and departure, and broader talent management and development.
- The Remuneration Committee's ambit should be expanded explicitly to include people and culture, albeit with the full Board retaining oversight of the most significant people and culture issues.
- The Board should introduce a broader lens and more rigorous process for performance reviews of the Group CEO and, in turn, the CEO's review of the Group Leadership Team.

RECOMMENDATIONS

- Amend the Remuneration Committee Charter to include key people and culture oversight, including testing the application of the Group's values across the suite of policies, processes and systems.
- Enhance and expedite the reporting to the Board on key employee and culture insights to facilitate more meaningful discussion on key proposals, projects and issues.
- With the significant overhaul of the Group Leadership Team, enhance and refresh the rigour and breadth of performance reviews of the CEO and the Group Leadership Team.

QANTAS RESPONSE

- There has been a significant refresh of the Group Leadership Team (70 per cent are new either to Qantas, to their role or to the Group Leadership Team) including the appointment of new roles to the Group Leadership Team (Chief Risk Officer and Chief People Officer).
- The Board has proposed changes to the objective setting, and performance reviews of the CEO and, in turn, the Group Leadership Team, including:
 - Regular and comprehensive 360-degree assessments from reports, peers and key stakeholders; and (COMPLETED AND ONGOING)
 - Full Board discussion and engagement in the reviews. (COMPLETED AND ONGOING)
- The Remuneration Committee Charter will be amended to include key people and culture oversight, including testing the application of the Group's values across the suite of policies, processes and systems. The People and Remuneration Committee Charter will be amended to include oversight of the Group's:
 - Framework of policies, systems, processes and reporting mechanisms that are designed to reinforce the desired organisational culture, principles and values;
 - Strategies to address the Group's current and future capability needs, including strategic workforce planning and organisational design;
 - Design, implementation and operation of the framework(s) and approach for attracting, developing, and motivating or engaging personnel to enable Qantas to deliver on its strategic goals and objectives and to uphold its principles and values; and
 - Over-arching industrial relations strategy and posture, including consultation, delivery plans, key employment contract terms and conditions, and compliance with unfair dismissal obligations.(DUE FOR COMPLETION Q1FY25)
- Process changes have been introduced that improve the cadence and format of information flows, reporting and discussion to the Board on key employee and culture proposals, projects and issues, including:
 - Introducing less-formal mechanisms for rapidly disseminating information and updates to the Board on employee-related issues, insights, developments and escalations;
 - Improvements in the information provided by the Management team to the Board in relation to employee and cultural insights, including strategy and risk metrics; and
 - The CEO and Group Leadership Team – in particular, the Chief People Officer – will continue the strong enhanced focus on listening, creating “safe spaces” and encouraging a “speak up” mindset.(COMPLETED AND ONGOING)

3. Stakeholders

The events which led to the Governance Review have negatively impacted Qantas' relationships with its stakeholders including customers, employees, investors, governments, regulators and the broader community. The Governance Review identified that Qantas should look to better understand its full array of stakeholders, increase the rigour with which Qantas hears their 'voices' and adopt more empathetic two-way communications. Specific findings and recommendations for employee and customer stakeholders are addressed separately in sections 2 above and 4 below.

Stakeholders

KEY FINDINGS

- Poor relationships with some external stakeholders exacerbated problems for Qantas.
- The company often had an adversarial approach to engagement with key stakeholders and external communications.
- There was not a specific Board approval requirement for major support of social issues or campaigns.

RECOMMENDATIONS

- Establish stakeholder relationship owners to undertake re-sets with key stakeholders.
- Adopt a more cooperative approach to stakeholder interactions and external communications.
- Clearly frame and adjust the threshold for Board consultation on, and approval of, significant political, social campaigns, proposals or interactions.
- Devote more time and resources to understand, monitor and incorporate into Group strategies the breadth of perspectives across the Group's stakeholder matrix, including drawing on external expertise to stay abreast of community and societal sentiment and issues of concern.
- Provide the Board with greater oversight of a comprehensive Group stakeholder management matrix, which identifies, reviews and monitors the execution of regular engagement across the suite of key stakeholders.

QANTAS RESPONSE

- Stakeholder relationship owners have been established to undertake re-sets with key stakeholders. (COMPLETED AND ONGOING)
- More cooperative approach to stakeholder interactions and external communications has been implemented. (COMPLETED AND ONGOING)
- The Board has provided input into a comprehensive Group stakeholder management matrix. (COMPLETED)
- A program of regular engagement by Management with regulators has been implemented and will be extended to the Board. (COMPLETED AND ONGOING)
- The threshold for Board consultation and approval on external proposals or interaction on significant stakeholder and community issues will be clearly defined, with a particular focus on issues that have the potential to:
 - Significantly impact the Group's reputation or its social licence to operate;
 - Significantly impact customers, employees or other key stakeholders (or the Group's relationship with them);
 - Become a party-political issue; and/or
 - Result in litigation or regulatory intervention.(COMPLETED AND ONGOING)

4. Customers

The Governance Review focused on identifying the structural, governance and reporting elements of the customer experience.

The Governance Review found that there was not enough focus on customers (in feedback mechanisms, in reporting, in incentives, in discussions, in decision making, in governance) which hampered Qantas' ability to 'do the right thing' for customers. Qantas did not adjust quickly enough when the aviation sector emerged from the pandemic, failing to re-point the Group's energies and effort to maximising the customer experience.

Since the Governance Review was announced in October 2023, the Board and leadership team has focused on restoring the trust of customers. Qantas is implementing a comprehensive customer recovery strategy. However, there remains much to be done to rebuild the confidence of customers, and ongoing investment is required.

Customers

KEY FINDINGS

- Even during crises that challenge the organisation in areas seemingly far removed from customer impact, the Board and Management must remain acutely conscious of the criticality of the Group's relationship with customers. Adverse leading customer indicators warrant immediate attention, as much as adverse financial and operational signals.
- The Board should have sought more comprehensive, and preferably leading indicator – as opposed to trailing indicator – customer touchpoint data and insights, including emerging risks and opportunities to maximise the customer experience.
- Some contentious decisions were made in the challenging environment which prevailed during the recovery from the pandemic (e.g. COVID credits, pricing and cancelled flights) which had an adverse impact on customer outcomes and relationships and damaged trust and loyalty.

RECOMMENDATIONS

- Enhance and expedite the reporting to the Board on customer insights to facilitate more meaningful discussion on key customer proposals, projects and issues.
- The Board should have oversight of a comprehensive Group customer management matrix, which identifies, reviews and monitors the execution of regular engagement and relationship management across the suite of the Group's customers. More direct exposure to customers can also help the Board to better gauge customer sentiment.

QANTAS RESPONSE

- Reporting to the Board on customer insights, including strategy and risk metrics, has been updated and enhanced at regular cadence. (COMPLETED AND ONGOING)
- Increased insights for the Board in reporting of:
 - Customer recovery progress;
 - Pricing policies and initiatives;
 - Credit and refund policies;
 - Complaints resolution, analysis, trends and remediation;
 - Cancelled and delayed flights procedures and technical systems;
 - Operational performance, particularly on time performance;
 - External communications affecting or perceived by customers;
 - The insights from customer focus groups; and
 - Internal training, particularly of contact centre interactions with customers.(COMPLETED AND ONGOING)

5. Remuneration and Reward

Set out in the table below is a high-level summary of the key findings or concerns identified both in the Governance Review and/or during the significant program of work launched after the “First Strike” at the 2023 Annual General Meeting to effectively respond to the concerns of shareholders and their advisers with the Group’s remuneration framework, policies and processes, and the corresponding Group response and proposed action.

It is acknowledged that the remuneration model was not in line with market leading practice and was a constraint to corporate governance in an environment where the company was facing a reputational crisis. Accordingly, the planned changes aim to ensure a balanced approach is taken to leading the business going forward.

Full details will be published in the Remuneration Report within the 2024 Annual Report.

Remuneration and reward

FINDINGS

Balanced scorecard and structure

- Incentives were heavily focused on financial performance and less on customers and reputation. The Group Scorecard did not achieve the right balance between employee, customer and shareholder expectations.
- Many ASX companies defer 50 per cent of Short-Term Incentive Plan (**STIP**) payments to shares.
- The use of an individual performance factor in the STIP calculation is not common ASX practice.

Discretion

- The Board does not have market-leading discretion on historical Long-Term Incentive Plan (**LTIP**) awards.
- The Board does not have market-leading discretion on the award, vesting, amendment and revocation of STIP.

Transparency

- STIP targets and performance are not disclosed in the Remuneration Report within Qantas’ Annual Report.

RECOMMENDATIONS

Balanced scorecard and structure

- A greater balance is needed in the Group’s scorecard between employee, customer and shareholder expectations.
- Changes to remuneration structure should be made including increasing the percentage of shares awarded as part of STIP to 50 per cent and remove the individual performance factor in the STIP calculation.

Discretion

- The Board should have greater discretion over STIP and LTIP awards.

Transparency

- STIP targets and performance should be disclosed in the Remuneration Report within Qantas’ Annual Report.

QANTAS RESPONSE

Balanced scorecard and structure

- The Group increased the weighting to Customer measures in the Group STIP Scorecard for 2023-24 to 30 per cent. (COMPLETED)
- The Group introduced a reputation (RepTrak) metric into the 2024-27 LTIP, being a 3rd equally weighted measure. (COMPLETED)
- The Group intends to introduce in the 2024-25 STIP Scorecard an employee engagement or other cultural metric, with an appropriate weighting. (DUE FOR COMPLETION BY Q1FY25)
- The Group is implementing a more transparent and streamlined process of objective setting for the CEO and Group Leadership Team in 2024-25, which will see a Balanced Scorecard developed which will include a mix of Group financial and non-financial performance measures (Group Scorecard) and individual objectives. The Group Scorecard with targets and outcomes will be disclosed in the Remuneration Report within Qantas' Annual Report. (DUE FOR COMPLETION BY Q1FY25)
- The Group has increased the proportion of at target STIP delivered in shares from one third to 50 per cent, deferred for two years, commencing in 2024-25. At the same time, the Group removed the one-year additional holding lock as ongoing alignment with shareholders is addressed by the Minimum Shareholding Guideline. (COMPLETED)

Discretion

- The Board delayed finalising the 2022-23 STIP outcomes pending further information. The Board has now determined and disclosed the remuneration consequences for Management arising from these matters in its announcement of 8 August 2024. (COMPLETED)
- The Board recognised the need to enhance governance over the LTIP and has implemented broader Board discretion over the LTIP outcomes commencing with the 2024-2026 LTIP and beyond. (COMPLETED)
- The Board recognised the need to enhance governance over the STIP and has implemented broader Board discretion over the STIP outcomes commencing with the 2023-24 STIP and beyond. (COMPLETED)

Transparency

The Group is publishing a transparent Group Scorecard, with performance targets and outcomes against the Group Scorecard to be disclosed in the Remuneration Report within the 2024 Annual Report. (DUE FOR COMPLETION BY Q1FY25)

6. Safety Management

Safety has always been and will continue to be the number one priority for Qantas. This was particularly the case during the COVID-19 crisis and the reopening of travel.

As part of the Governance Review, an assessment was conducted on the effectiveness of the Group's Safety, Security, Workplace Health and Safety, Quality, and Environment Governance structures, mechanisms and practices. This assessment was conducted by Qantas' former Independent Board Safety Advisor, and then reviewed by Qantas' current Independent Board Safety Advisor.

More specifically, the assessment evaluated efficacy of the risk governance and management systems that provide the Board (and the Board's Safety, Health, Environment and Security Committee (also known as **CHES**)) with the information required to perform their oversight responsibilities as required by Australian law and international aviation best practice.

The assessment found the safety management system design and performance met or exceeded all regulatory requirements, with Qantas industry leading or considered best practice in almost every component.

The findings support Qantas' reputation as a global aviation leader in safety management. While no corrective actions were required, a number of continual improvement considerations have been proposed.

Safety management

KEY FINDINGS

- Key elements of the Group's existing safety systems and practices meet or exceed regulatory requirements and were assessed as industry leading including:
 - The Group Safety Management System;
 - CHES review process depth, information accuracy, and transparency;
 - Clarity of accountability for Business Unit executives and support roles;
 - Risk Governance Framework including Independent Board Safety Advisor appointment and activities;
 - Culture of active listening and stress-testing information, causes, actions, and verification;
 - Demonstration of just/learning culture and openness of CHES meeting process, papers, dialogue, and quality of interactions; and
 - Relationship with aviation regulator (CASA) is open, transparent, and respectful.

CONSIDERATIONS

- While the assessment did not make any recommendations, there were a number of considerations put forward as part of continuous improvement, including:
 - Consider strengthening the application of quality management concepts, including aligning all quality management principles with those practiced in Engineering;
 - Conduct a biennial 360-degree review of the performance of the Independent Board Safety Advisor; and
 - Facilitate Directors observing meetings of Airline Safety Committees or Group Safety and Operations Committee.

QANTAS RESPONSE

- The Qantas safety management and risk team – led by the newly appointed Chief Risk Officer – are implementing these initiatives. (DUE FOR COMPLETION Q3FY25)

Conclusion

Both the Qantas Board and Group Leadership Team have reflected on the key lessons learned from the Governance Review relating to better governance, the consideration of non-financial issues and risks, prioritising our customers and people and understanding our full array of stakeholders.

The Board takes full accountability for the events which damaged the trust that so many of our stakeholders place in Qantas, and is actively working with Management to fully understand the lessons learned from the Governance Review and implement the identified actions.

We are committed to the changes to structures, policies, practices, behaviours and people that we are implementing to recover and sustain our high-quality reputation with all of our stakeholders. Many of the actions are already in place and making a difference and the rest are underway.

However, we won't stop here and are committed to continuous improvement to rebuild the trust of our stakeholders and restoring pride in Qantas as the national carrier.