28 August 2014

Companies Announcement Office
Australian Securities Exchange
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

Moody's rating unchanged

Please find attached information on Qantas Airways Limited published by Moody's.

Yours faithfully

Andrew Finch
Company Secretary

Qantas Airways Limited ABN 16 009 661 901
10 Bourke Road Mascot NSW 2020 Australia
Telephone +61 2 9691 3636

qantas.com

MOODY'S
INVESTORS SERVICE

Announcement: Moody's: Qantas' FY14 results highlight significant challenges; Outlook still negative

Global Credit Research - 28 Aug 2014

Approximately USD1.38 billion in debt securities affected

Sydney, August 28, 2014 -- Moody's Investors Service says that Qantas Airways Limited's (Qantas) full year results to 30 June 2014 are credit negative but have no immediate impact on its Ba1 corporate family rating, Ba2 senior unsecured long term rating or non-prime (NP) short term rating. The outlook on the ratings remains negative.

"The financial metrics for the fiscal year ending 30 June 2014 were weaker than what we factored into the ratings, when we downgraded the ratings earlier in the year with a negative outlook", says Matthew Moore a Moody's Vice President -- Senior Analyst.

The weak results therefore place further pressure on Qantas' ability to return to within rating parameters, including Debt/EBITDA declining below 5.0x (on a gross adjusted debt basis). As at June 2014, the pro forma ratio is estimated to be in the mid 6x range. This includes the recent debt reduction of AUD450 million, which was implemented in August 2014.

"We will continue to closely monitor the carriers plans to execute on its cost reduction initiatives, improve profitability in its core domestic business and gain traction in returning its mainline international operations to profitability", says Moore.

"We expect to see improvements in earnings and leverage level, and any lack of progress in this area over the next six months would likely lead to a rating downgrade", Moore adds.

Qantas has reported that domestic capacity additions in the first half of FY14 are likely to be flat for the group. This, combined with the company's forecast of total domestic capacity adds in Australia of around 1%, signal a more conservative approach to capacity additions in the domestic market. If this is sustained, it should support improved performance in the domestic business, albeit, with a lag.

Qantas' results (reported basis) revealed a meaningful deterioration in group revenue (minus 3.5% compared with the previous corresponding period or "PCP") and group yield (-2.6% on PCP). In addition, underlying EBIT was a AUD440 million loss. However cash on-hand increased to AUD3bn (+6%).

Also as part of the release, Qantas announced that it has decided to create a new holding structure and corporate entity for Qantas International, which has triggered an around AUD2.56 billion non-cash write down of international assets.

"The current rating and outlook reflects the expectation that management will continue to execute on its cost reduction plans while reducing debt levels such that Debt-to-EBITDA reverts to more comfortable levels for the rating" says Moore.

Qantas' ratings reflect its high financial leverage and significant operational challenges as a result of the heavy competition, both domestically and in its principal offshore markets. At the same time, the ratings reflect the carrier's large scale and coverage in the Australian domestic aviation market, its dual flying brands and extensive global route network and code-sharing arrangements, including tie-up with Emirates. The ratings are currently supported by solid liquidity including access to unrestricted cash balances.

The rating outlook could be revised to stable if Qantas is able to restore the profitability of both its international and domestic operations to levels that are able to sustain appropriate levels of debt. Financial metrics that Moody's would look for include Debt/EBITDA remaining below 4.75x on a consistent basis.

On the other hand, further negative rating pressure could evolve if Qantas is unable to restore the core profitability of its international and domestic businesses or reduce debt to appropriate levels, commensurate with its sustainable earnings. Financial metrics that Moody's would look for include Debt/EBITDA remaining above 5.0 x on a sustained basis. In addition, a material deterioration in liquidity could impact the carrier's ratings.

Qantas is Australia's largest domestic carrier and estimates its total domestic market share at around 62.2% at the end of June 2014.

The principal methodology used in this rating was Global Passenger Airlines published in May 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Matthew Moore
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service Pty. Ltd.
Level 10
1 O'Connell Street
Sydney NSW 2000
Australia
JOURNALISTS: (612) 9270-8102
SUBSCRIBERS: (852) 3551-3077

Terry Fanous
Associate Managing Director
Corporate Finance Group
JOURNALISTS: (612) 9270-8102
SUBSCRIBERS: (852) 3551-3077

Releasing Office:
Moody's Investors Service Pty. Ltd.
Level 10
1 O'Connell Street
Sydney NSW 2000
Australia
JOURNALISTS: (612) 9270-8102
SUBSCRIBERS: (852) 3551-3077

MOODY'S
INVESTORS SERVICE