18 June 2015

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

Dear Sir/Madam

Announcement from Moody's Investors Service

Please see attached announcement from Moody's Investors Service.

Yours faithfully

Andrew Finch
Company Secretary

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MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes Qantas' Outlook to positive from stable; ratings affirmed

Global Credit Research - 17 Jun 2015

Sydney, June 17, 2015 -- Moody's Investors Service, ("Moody's") has today affirmed all ratings of Qantas Airways Limited (Qantas) and changed the outlook to positive from stable. The ratings affirmed include Qantas' Ba1 corporate family rating, Ba2 senior unsecured rating, NP (Not Prime) short term rating and (P)Ba2/(P)NP program ratings.

RATINGS RATIONALE

"The change in outlook from stable to positive reflects the reduction in adjusted debt due to changes in Moody's approach for capitalizing operating leases. The updated approach for standard adjustments for operating leases is explained in the cross-sector rating methodology Financial Statement Adjustments in the Analysis of Non-Financial Corporations, published on June 15, 2015" says Matthew Moore a Moody's Vice President -- Senior Analyst.

"The change in outlook also considers the considerable progress the company has made on its transformation program, the more conservative approach to capacity management in the domestic market, as well as the benefits being realized from weakening of the Australian dollar and lower fuel prices" adds Moore.

The updated lease methodology will lead to a significant reduction in Qantas' lease adjusted debt, which Moody's expects will decline by around 20% as a result of the change. This combined with recent improvements in Qantas' operating profile will lead to strong credit metrics for its current rating.

"The company is on track to achieve its targeted $1 billion of net debt reduction and we are expecting a substantial improvement in EBITDA for FY15. As a result we expect adjusted gross debt-to-EBITDA could improve to around 3.0x to 3.5x in FY15 with scope for further improvement in FY16 if operating conditions remain supportive and Qantas' continues to execute on its transformation", says Moore.

"Our expectation for improved EBITDA generation is a result of the company's solid progress under its large transformation program and the ongoing improvement in competitive and operating conditions, particularly in the domestic market." Moore says.

"The impact of lower fuel prices and a weaker Australian dollar will also provide solid support to improved earnings over the next twelve months", Moore adds.

The company continues to perform on its transformation program, including realizing $875 million of transformation-led benefits and completing 4,000 of the planned 5,000 headcount reduction by FY15. Qantas' has flagged it expects more than $1.1 billion of benefits over FY16 and FY17 of which $600 million are in the implementation phase.

Qantas' ratings continue to 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 its tie-up with Emirates. The ratings are currently supported by stable earnings generation from its loyalty business and its solid liquidity including access to around $2.9 billion in unrestricted cash balances and approximately A$1 billion of committed bank revolving undrawn lines of credit.

The ratings are balanced by the improved, but still fragile, conditions in the operating and competitive environment both internationally and domestically, as well as the company's cost base, which is still somewhat elevated relative to competitors.

"The ratings could be upgraded if the company is able to continue to execute on its transformation program and if current operating conditions continue to improve in both the domestic and international market" says Moore, adding "Positive momentum would also require ongoing debt reduction, such that Qantas is able to maintain leverage below 4.0x under several scenarios including weaker operating conditions and a return to increased competition".

On the other hand, negative rating pressure could evolve if Qantas is unable to sustain and/or build on recent improvements in 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 5.0x 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 63%.

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

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