



7 August 2015

ASX Market Announcements 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



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

Rating Action: Moody's upgrades Qantas' senior unsecured ratings to Ba1; affirms other ratings

Global Credit Research - 07 Aug 2015

Sydney, August 07, 2015 -- Moody's Investors Service (Moody's) has today upgraded the senior unsecured ratings of Qantas Airways Ltd. to Ba1 from Ba2. Moody's has also upgraded Qantas' program ratings to (P)Ba1 from (P)Ba2. At the same time, Moody's affirmed the Qantas' Ba1 corporate family rating and NP (not prime) /(P)NP short term rating. The outlook on all ratings is positive.

RATINGS RATIONALE

"The upgrade of Qantas' senior unsecured rating to Ba1, reflects the considerable progress Qantas has made in improving its financial and operating profile, which has allowed the company to reduce debt levels including secured debt in its capital structure" says Matthew Moore a Moody's Vice President- Senior Credit Officer, "This combined with increases in the unencumbered fleet has improved Moody's expectations for loss given default for Qantas' senior unsecured debt".

As part of the strengthening of Qantas' financial profile, the company has been paying down debt including reducing secured debt. The company has also cash funded several aircraft purchases and has retired debt on a number of aircraft all of which have led to increases in the number of unencumbered aircraft and the value of the unencumbered fleet.

"The upgrade of the senior unsecured rating also factors in Moody's expectation that these trends will continue over the next 12-to-24 months, with Qantas continuing to increase the level of its unencumbered fleet via a reduction in its level of secured borrowings, cash funding of aircraft purchases and the buy-out of operating leases", says Moore.

As Qantas unencumbered fleet increases the value available to unsecured creditors in a potential default scenario improves, which reduces Moody's expectation for the loss given default of the unsecured creditors. The value of Qantas' non-fleet assets, such as its Loyalty Business, land holdings, joint ventures and landing slots also support recovery prospects for senior unsecured creditors.

A further consideration underpinning the upgrade is Moody's view that the security package provided to senior secured creditors provides solid coverage for the secured debt outstanding and that these facilities lack an all assets pledge. As a result, Moody's believes a large portion of the value of the unencumbered fleet and other assets will be available to the unsecured creditors.

Moody's expects that the proportion of secured debt will continue to reduce over the next 12-24 months. Secured debt, excluding finance leases, declined by around \$500 million in FY14 and Moody's anticipates \$300 to \$400 million of repayments in FY15. We expect similar repayments over the next 12-to-24 months based on amortization profiles.

The affirmation of the corporate family rating reflects the continued improvement in the operating environment and Moody's expectations for improvement in Qantas' financial performance. Moody's expects the company to continue to make solid progress on its transformation program, which combined with a more conservative approach to capacity management in the domestic market -- and the benefits from lower fuel prices and a weaker Australian dollar -- should all lead to improving earnings and credit metrics over the next 12-18 months.

The positive outlook captures Moody's expectation that the current positive conditions in the domestic market will be maintained and that Qantas will continue to maintain strong levels of liquidity.

WHAT COULD CHANGE THE RATINGS

The ratings could experience positive momentum if the company is able to continue to execute on its transformation program and current operating conditions are sustained or improved in both the domestic and international market. Specifically, ratings could be upgraded if Qantas is able to maintain leverage below 4.0x under several scenarios, including weaker operating conditions; and a return to increased competition, particularly

in the domestic market, increasing fuel prices and a stronger Australian dollar.

The ratings could face negative pressure if Qantas is unable to sustain and/or build on recent improvements in its 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' senior unsecured ratings could also face negative pressure if the company does not reduce secured debt and increase the level of its unencumbered fleet in line with Moody's expectations over the next 12-18 months.

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.moody.com for a copy of this methodology.

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Matthew Moore
VP - Senior Credit Officer
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

Patrick Winsbury
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

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