QANTAS

27 February 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

oneworld

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MOODY'S
INVESTORS SERVICE

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

**Global Credit Research - 26 Feb 2015**

Sydney, February 26, 2015 -- Moody's Investors Service, ("Moody's") has today affirmed all ratings of Qantas Airways Limited (Qantas) and changed the outlook to stable from negative. 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.

The change of outlook and affirmation follows Qantas' announcement of better than previously expected earnings for the half year period ended 31 December 2014.

RATING RATIONALE

"The change in outlook to stable from negative reflects the strengthening in Qantas' credit profile following the significantly improved earnings and credit metrics for the first half of FY15, which we expect to be sustained for the next 6 to 12 months", says Matthew Moore a Moody's Vice President -- Senior Analyst.

"The improvement 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, which will be greater in the second half of the financial year is also a contributing factor for the outlook change to stable" Moore adds.

"We expect credit metrics for the financial year ended 30 June 2015 to be in line with expectations for the rating level" says Moore. "We expect the key metric of adjusted Debt to EBITDA to be solidly below 4.7x to 5.0x, a level that supports the stable outlook, Moore adds."

For the first half through December 2014, Qantas has seen substantial earnings improvement at the group level with all operating segments, including the previously large loss making international division reporting positive earnings before interest and tax (EBIT). Qantas achieved a better than expected $374 million in benefits from its transformation program and capacity additions moderated in both the domestic and international markets, leading to improved credit metric expectations for FY15.

On an annualized basis we estimate that adjusted debt-to-EBITDA for the half was around 4.3x. While the second half is typically softer than the first half, the company has been paying down debt and will benefit from a larger impact from lower fuel prices and the depreciation of the Australian dollar relative to the first half. As such we expect adjusted Debt-to-EBITDA for the full year will likely be in the 4.0x to 4.5x range.

"We expect Qantas to continue reducing debt in the second half of FY15" says Moore, adding "A sustained improvement in earnings, combined with our expectation for lower capital expenditures, should allow the company to generate free cash flow in FY15 and meet its target of reducing net debt by around $1.0 billion"

Qantas continues to outperform on its transformation initiatives, with the full year benefit from the program expected to be around $675 million. Continued execution under the program will be critical in further improving the company's cost structure to close the cost gap with its competitors and generate sustainable earnings during periods of weaker operating conditions.

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 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. The ratings are balanced by the fragile conditions in the operating and competitive environment for both international and domestic, the company's still high cost base relative to competitors and still high debt levels.

"The ratings could experience positive momentum 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 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.

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.

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

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