



29 February 2016

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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**qantas.com**

**Rating Action: Moody's upgrades Qantas to Baa3; outlook stable**

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Global Credit Research - 29 Feb 2016

Sydney, February 29, 2016 -- Moody's Investors Service (Moody's) has today upgraded the senior unsecured ratings of Qantas Airways Ltd. to Baa3 from Ba1. As part of the action Moody's has also assigned a senior unsecured issuer rating of Baa3, and has upgraded Qantas' short term ratings to P-3 from NP and program ratings to (P)Baa3/(P)P-3 from (P)Ba1/(P)NP.

As part of the action, Moody's withdrew Qantas' Ba1 corporate family rating.

The outlook on all ratings is stable.

**RATINGS RATIONALE**

"The upgrade of the senior unsecured rating to Baa3 is based on the significant reduction in leverage since FY2015, on the back of lower fuel prices and continued success of its transformation programme as well as a reduction in debt by AUD1 billion from the level in FY2014" says Ian Chitterer a Moody's Vice President - Senior Analyst.

Qantas has reduced its adjusted debt/EBITDA to about 2.5x for the 12 months ending December 2015, and we expect leverage to be at about 2.1-2.3x in FY2016.

Our upgrade also reflects Qantas' commitment to maintain a prudent and conservative financial framework that includes prioritizing return on invested capital (ROIC) and maintaining an optimum capital structure for growth and shareholder returns, whilst targeting investment-grade credit metrics through the cycle.

"The company's updated financial framework and focus on ROIC indicates that Qantas will take the necessary steps to address volatility, periods of sustained weak demand and high fuel prices" adds Chitterer

The substantial fall in fuel prices is expected to reduce Qantas' fuel charge by over AUD1 billion in FY2016 vs FY2014 and supports our expectation for significant overall earnings improvement in fiscal 2016. We expect the EBITDA margin to reach about 22-23% in the next 12-18 months. Based on Moody's forecast prices for Brent and aircraft fuel, along with Qantas' hedging policy, the agency expects Qantas to benefit from historically low fuel prices for the next several years.

Another important driver of earnings improvement is Qantas' considerable progress on its transformation and cost saving initiatives. The company has achieved cost savings of AUD1.36 billion, of its AUD2 billion target to be realized by FY2017, and is on track to achieving AUD450 million of benefits in FY2016. We view continued implementation of this program as critical to improving the competitiveness of Qantas' operations over the long term, while maintaining its premium service levels. As such, we expect Qantas to continue focusing on its transformation agenda post 2017, through operational and fleet-enabled efficiencies.

**WHAT COULD CHANGE THE RATINGS**

Due to the need to establish a track record under the new financial framework, an upgrade is considered unlikely over the next 12-18 months. If Qantas reduces debt over a sustained period, continues to improve profitability and cash flow, and builds a track record under its new financial framework, positive momentum could emerge.

We would consider downgrading the ratings if Qantas is unable to sustain and/or build on recent improvements in the profitability of its international and domestic businesses, and/or adjusted debt/EBITDA increases to about 3.5x on a sustained basis. A material deterioration in liquidity could also weaken the carrier's credit quality and pressure its ratings.

The principal methodology used in these ratings was Global Passenger Airlines published in May 2012. Please see the Ratings Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

Qantas Airways Ltd. is Australia's principal airline. It has three domestic flying brands: Jetstar (the point-to-point Low Cost Carrier), QantasLink (a regional carrier) and Qantas mainline, which predominantly links capital cities.

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**Moody's**  
**INVESTORS SERVICE**

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