



15 May 2017

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

Dear Sir/Madam

Ratings Agency upgrade – Moody's Investor Service

Attached is an announcement released this morning by Moody's Investor Service, which upgraded Qantas' investment grade credit rating from Baa3 to Baa2 (Stable).

Yours faithfully

A handwritten signature in black ink, appearing to read "Andrew Finch".

Andrew Finch
Company Secretary



Rating Action: Moody's takes rating action on Qantas

Global Credit Research - 15 May 2017

Sydney, May 15, 2017 -- Moody's Investors Service (Moody's) has today upgraded the issuer, senior unsecured debt and backed senior unsecured bank credit facility ratings of Qantas Airways Ltd. to Baa2 from Baa3. As part of the action Moody's has also upgraded Qantas' senior unsecured MTN program ratings to (P)Baa2 from (P)Baa3. The outlook on all ratings is stable.

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RATINGS RATIONALE

"While we expect Qantas' credit metrics to remain fairly stable for the next 12-18 months, the upgrade reflects our greater focus on qualitative factors. This includes the unique traits of the Australian continent and airline market, Qantas Group's strong domestic position, and diversification provided by the loyalty program." says Ian Chitterer a Moody's Vice President - Senior Credit Officer.

"We also factor in the reduction in credit risk through its hedging policy and financial framework. Working in tandem, they help to reduce earnings volatility and increase the predictability of managements response to market conditions" adds Chitterer

The Australian market dynamics are relatively unique, with significant distances between large cities and no viable substitute modes of transport. Qantas and Virgin are the only two competitors in the market, and both have a full service and low-cost airline offering, reducing the probability of a new domestic competitor.

Qantas has a domestic capacity share of 62% and domestic EBIT market share of 86%. With its greater scale, far higher margins and a significantly stronger balance sheet, Qantas is in a very strong competitive position.

The upgrade also reflects the stable earnings generated from the Qantas Loyalty business which is not linked to airline performance. In fiscal 2016, the loyalty program accounted for around 20% of group EBIT. The loyalty segment's EBIT has grown at double digits for the past eight years and is forecast by management to grow at 7-10% for the next five years.

Qantas' fuel-hedging strategy reduces cash-flow volatility and provides the business time to adjust to fuel price spikes. The use of options to hedge enables Qantas to participate in lower fuel prices while protecting the business from unexpected fuel price spikes. Furthermore, the correlation of the Australian dollar to oil prices provides a natural currency hedge of 30%-40% over time, helping to reduce cash-flow volatility.

Qantas' publicly articulated financial framework stands out among corporate and airline peers. The stipulation of maximum net debt levels and forward-looking nature of the framework will trigger pre-emptive actions in the event of sustained fuel-cost increases or operational weakness. Examples include suspension of shareholder distributions, reduction in capex, and if need be, an equity raising. We expect that this will result in debt to EBITDA being maintained below the 3.0x level set for the Baa2 rating.

WHAT COULD CHANGE THE RATINGS

An upgrade is considered unlikely unless Qantas changes its financial framework to target debt to EBITDA of around 2.0x. This is not our expectation.

We would consider downgrading the ratings if Qantas deviates from its financial framework or if debt to EBITDA exceeds 3.0x on a sustained basis.

The principal methodology used in these ratings was Global Passenger Airlines published in May 2012. Please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

Qantas Airways Ltd. is Australia's principal airline with its key brands as Jetstar (low cost carrier) and Qantas

(full service airline)

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