

QANTAS RESPONSE TO MOODY'S DOWNGRADE

SYDNEY, 9 January 2014: Qantas notes today's announcement by Moody's Investor Services that its senior unsecured rating has been downgraded to Ba2, outlook negative, after being placed on review on 5 December 2013.

The downgrade follows Qantas' market update on 5 December, which outlined a projected Underlying Loss Before Tax of \$250 million to \$300 million for the first half of FY14.

As at 31 December 2013 the Qantas Group had strong liquidity, including substantial cash reserves and undrawn committed bank facilities totalling approximately \$3 billion. Over the course of FY13, gross debt was reduced by \$1 billion and the Group's debt maturity profile was extended considerably through a range of transactions, with no significant debt refinancing due until mid-2015.

Qantas is continuing to work through the accelerated, \$2 billion Qantas Transformation cost reduction program and the capital expenditure and structural review announced on 5 December in response to fundamentally changed market conditions.

These measures will allow the Qantas Group to retain strength and flexibility in its financial position.

Qantas Chief Financial Officer Gareth Evans said the downgrade was not unexpected and underlined the importance of taking decisive action to address an extremely difficult operating environment.

"Qantas is a strong business with a track record for disciplined financial management," Mr Evans said. "We will make the necessary decisions now – however tough they might be – to ensure we remain strong and disciplined in the years ahead."

"In addition to cost-cutting, substantial reductions to our planned capital expenditure pipeline will be vital to ensure a return to positive free cash flow in FY15 and beyond.

"The Group has made significant progress over the past two years to reduce costs and increase competitiveness, as part of Qantas' biggest transformation since privatisation.

"However, earnings conditions have deteriorated rapidly in recent months and we now face some of the most challenging circumstances in our history, including an uneven playing field in Australian aviation. We continue to talk to the Australian Government about options for resolving this situation.

"For Qantas passengers, we remain absolutely focused on providing the network and service that has earned record customer satisfaction over the past year."

Qantas will provide an update on the Qantas Transformation program, as well as the capital expenditure and structural review, in February 2014.