11 February 2015

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

Dear Sir/Madam

Announcement from Standard and Poors

Please see attached announcement from Standard and Poors.

Yours faithfully

Andrew Finch
Company Secretary

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qantas.com

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Research Update:

Qantas Airways Outlook Revised To Stable On Improved Operating Environment; 'BB+' Ratings Affirmed

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of aggressive competition. Despite Qantas conceding some market share, we expect the airline to retain its dominant position within the Australian market. However, we assess underlying demand conditions to remain weak, weighing on Qantas' yield and load.

We expect the recent steep decline in oil prices to enable Qantas to recover its credit metrics at a much faster pace than our previous base-case expectations. We view Qantas to have competently managed its fuel price risk and currency exposure. Although the airline may not immediately experience the full benefit of lower prices, we expect Qantas' risk management framework to continue to be effective in absorbing some short-term price volatility whilst also allowing participation in favorable price movements. Over time, we believe that Qantas will capture a more lasting benefit of lower oil prices through its domestic operations, where it faces less price competition compared with its international operations.

The relationship between Qantas' profitability and the Australian-U.S. dollar exchange rate is complex. Nevertheless, we assess recent movement in the value of the Australian dollar to be of net benefit to the airline. We expect Qantas' international operations to be the main beneficiary of a lower exchange rate via the division's increased competitiveness. However, we continue to view Qantas' international operations as facing significant challenges, notwithstanding the more-favorable exchange rate and lower fuel price.

Qantas is midway through a transformation program aimed at addressing the airline's legacy and underlying structural issues. In our opinion, this is imperative given unpredictable industry conditions and that we do not forecast a demand-led recovery. We view the initial results to be favorable: improved unit cost differential between Qantas and its major competitors provides evidence of progress. However, we are mindful of the size and complexity of the restructuring task that remains ahead. Moreover, the task must be achieved without impairing Qantas' ability to attract a yield premium. This includes customer satisfaction, particularly among business travelers, safety, route network, and on-time performance. In addition, Qantas' transformation program relies heavily on improved labor cost, productivity, and flexibility. We note that Qantas operates within a complex industrial relationship framework.

We continue to view Qantas as having a successful dual-brand strategy covering full-service and low-cost segments. In addition, we believe that stable cash flows generated by Qantas' frequent flyer business will continue to partially offset the more-volatile cash flows generated from its traditional airline operations.

Qantas has strong financial flexibility and a good track record of responding to earnings pressure through managing costs and deferring capital expenditure. At June 30, 2014, the weighted average age of Qantas' fleet was 7.7 years, providing the airline with meaningful scope with which to manage its capital expenditure schedule. We anticipate that Qantas' improved financial metrics will provide it with increased flexibility to modestly accelerate its fleet

Ratings Score Snapshot

Corporate Credit Rating: BB+/Stable
Business risk: Fair
- Country risk: Low
- Industry risk: High
- Competitive position: Satisfactory

Financial risk: Significant
- Cash flow/Leverage: Significant

Anchor: bb
Modifiers
- Diversification/portfolio effect: Neutral
- Capital structure: Neutral
- Liquidity: Strong
- Financial policy: Neutral
- Management and governance: Satisfactory
- Comparable rating analysis: Positive

Stand-alone credit profile: bb+

Recovery Analysis

The long-term issue rating on Qantas Airways Ltd.'s senior unsecured debt is 'BB+', in line with the corporate credit rating. The recovery rating of is '3', indicating our expectation of meaningful (50%-70%) recovery for creditors in the event of a payment default. Supporting the issue and recovery ratings is our valuation of Qantas Airways as a going concern in a hypothetical default scenario. The ratings reflect our view of the airline's leading domestic market position, the enduring value of the Qantas brand, and our assessment that the business would retain more value as a reorganized operating entity than in liquidation.

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Transportation Cyclical Industry, Feb. 12, 2014
- Group Rating Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012