Media Release

STANDARD AND POOR'S CREDIT RATING DECISION

SYDNEY, 7 September 2012: Standard and Poor's (S&P) has downgraded Qantas' credit rating from BBB with a negative outlook, to BBB- with a stable outlook, confirming that the airline has retained its investment grade credit rating.

This brings S&P's rating in line with Moody's, which was adjusted in January 2012. It is not expected to have any impact on Qantas' cost of borrowing or access to funds.

Qantas remains one of only two airlines in the world with an investment grade credit rating.

S&P's change to a stable outlook highlights the inflection point now reached by Qantas as its international turnaround strategy is delivered. This includes the proposed partnership with Emirates, a US$433 million improvement in cashflow through Qantas' B787-9 fleet restucture and $300 million in annual cost benefits unlocked through transformation initiatives.

Qantas has significant underlying strengths with its profitable domestic network, including a stable 84 per cent share of the corporate market and a 65 per cent share of the overall domestic market through Qantas and Jetstar.

Qantas has a cash balance of $3.4 billion and was free cash flow positive in the second half of FY12 by $206 million.

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STANDARD & POOR'S RATINGS SERVICES

Press Release

Qantas Airways Ltd. Ratings Lowered To 'BBB-/A-3' On Structural Pressures In International Operations; Outlook Stable

MELBOURNE (Standard & Poor's) Sept. 7, 2012--Standard & Poor's Ratings Services said today that it had lowered its corporate credit rating on Australian airline Qantas Airways Ltd. to 'BBB-/A-3', from 'BBB/A-2'. We also lowered our senior unsecured debt ratings on Qantas to 'BBB-', from 'BBB'. At the same time, we have removed the ratings from CreditWatch with negative implications, where they were placed on June 7, 2012. The outlook is stable.

"The downgrade is driven by our view that Qantas' business risk profile has weakened, because of the structural pressures affecting the airline's international business. These persistent pressures have eroded Qantas' market share and inflicted losses on the airline’s international operations in the past few years," Standard & Poor's credit analyst May Zhong said. “We view Qantas' recently announced partnership with Emirates Airlines to be a positive development. However, material benefits from the partnership may take some time to eventuate due to the magnitude of Qantas' losses over the past few years and the increasing industry risk.”

To arrest the downward earnings trend, Qantas is embarking on a number of initiatives to improve the return on its international operations. These initiatives are positive from a financial perspective, with more than A$300 million of possible annual benefits identified (excluding the potential benefits from the partnership with Emirates). In our view, the Emirates partnership, if it proceeds, could improve Qantas’ profitability and reverse the decline in its market share on its European routes. However, the structural nature of the issue means that it may take some time for the benefits of this partnership to materialize, such that Qantas can restore its weakened market position in its international operations to previous levels. In our opinion, notwithstanding the potential flow-on benefits of the partnership to its Asian routes through better scheduling, it may be more difficult for Qantas to resolve the structural issue affecting these routes. We consider the industry risk to be increasing significantly in the Asian market due to intensifying competition. We note that more and more Asian carriers--who have much lower cost bases--have aggressively stepped up capacity to increase market share.

The outlook is stable, reflecting the strength of the airline’s domestic operations and our expectation that Qantas will maintain its strong liquidity position. In addition, we expect Qantas’ earnings in its international operations to improve, due to the benefits from current and future initiatives of the group.

A downgrade is likely, if:

- The operating environment were to weaken significantly, such that Qantas' adjusted FFO to debt falls to less than 20%; or
- Qantas' unrestricted cash or cash equivalents declined to less than A$2 billion; or
- There is evidence that Qantas’ strong domestic market position is eroded due to any structural change in the Australian market.

We would consider a higher rating if Qantas' international operations were to return to profitability and its adjusted FFO-to debt is sustained at about 30%.

RELATED CRITERIA AND RESEARCH

- Short-Term/Long-Term Ratings Linkage Criteria For Corporate And Sovereign Issuers, May 15, 2012
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

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