STANDARD & POOR'S

NEWS RELEASE

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Auckland Airport Outlook Revised To Negative On Weakened Credit Metrics; Ratings Affirmed

Rationale

On May 6, 2008, Standard & Poor's Ratings Services affirmed its 'A/A-1' corporate credit ratings on Auckland International Airport Ltd. (AIAL) and revised the outlook to negative. At the same time, the ratings were removed from CreditWatch with negative implications, where they were initially placed on March 14, 2008 pending an assessment of the medium-term business strategy of the company after the shareholders approved the takeover proposal of AIAL by the Canada Pension Plan Investment Board. The proposal was later rejected by the New Zealand government. The negative outlook reflects our expectations of AIAL's potentially weaker financial profile for 2008-2009 and uncertainty on the company's longer-term risk appetite and capital structure, including the desire to have a cornerstone investor.

However, we expect AIAL's financial metrics to strengthen beyond 2009, after reaching a low point in fiscal 2008, as benefits are realized from the substantial capital works currently underway at the airport. Nevertheless, potentially higher leverage on the balance sheet due to the company's increased risk appetite could push out the recovery further, and would place downward pressure on the ratings.

Furthermore, the board's desire to look for a cornerstone shareholder and potential for an aggressive financial profile add uncertainty to the rating stability. This is demonstrated by two unsuccessful takeover offers with aggressive financial structures presented to shareholders in the past 12 months. More clarity is expected on board's position on a cornerstone investor over the coming months. The uncertain strategic direction of management is further heightened by the upcoming departure of CEO Don Huse and CFO Robert Sinclair.

The ratings on AIAL reflect the airport's position as a major international gateway to New Zealand and the country's largest city, Auckland; the robust and resilient passenger demand; and its earnings diversity. These strengths are offset by the company's weakened financial risk profile as a result of major capital expenditure in recent years and a lack of clarity regarding the board's risk appetite and capital structure.

The airport's catchment area of about 30% of the country's population and its offering of the largest range of international services in New Zealand underpin AIAL's strong business profile. The high level of origin and destination traffic and a history of route rationalization by airlines through to AIAL during times of slower economic conditions provide stability to AIAL's passenger demand profile. Furthermore, with few viable and efficient local and international travel alternatives, AIAL's passenger demand is quite resilient. Total passenger travel at AIAL has increased year-after-year since 2000, even in slower economic conditions or during times of industry shock events. Forecasts indicate continued growth, particularly off the back of new routes from international carriers such as Emirates and Singapore Airlines, as well as larger aircraft being introduced on existing routes and Pacific Blue's participation in the domestic air travel market. However, AIAL's growth rate may be tempered by a slowing domestic and global economy and higher fuel costs.

The relatively low operational risk of running AIAL has allowed the airport to focus on the expansion of auxiliary revenue sources such as car park, retail, and property development; thereby reducing the airport's dependence on aeronautical revenue. Once completed, the airport's capital projects are expected to drive non-aeronautical revenue to make up about 52% of total revenue from just below 50% a few years earlier. The earnings diversification helps to reduce downside risk to revenue during times of slower passenger traffic. Revenue sources such as car parking and retail are tied to passenger traffic but not necessarily linearly correlated.

Although still viewed as having a moderate financial profile, AIAL's lower-than-expected earnings growth and higher-than-anticipated debt-funding costs during the execution of the airport's current capital expansion plan have caused a dip in AIAL's credit metrics beyond our expectation. Since the commencement of the projects, AIAL's cash flow credit metrics have slowly deteriorated to about 3x funds from operations (FFO) interest cover and about 13% to 15% FFO to total debt. Under the current strategy to defer a NZ$200 million project by 12 months, credit metrics are expected to fall to just under fiscal 2007 levels in fiscals 2008 and 2009, and improve thereafter as large capital projects near completion and capacity growth and expanded ancillary business, such as increased retail and car park offerings, at the airport lift revenue growth. AIAL's six-year capital-expenditure plan on growth, property, and maintenance exposes the airport to some level of execution risk. A satisfactory track record of executing major capital works on budget and on time and the airport's plans to lock in construction contracts and securing tenants, where applicable, prior to commencement of construction should limit this risk.

The AIAL board's appetite to add a new cornerstone shareholder to the ownership structure along with a willingness to consider financially aggressive capital structures creates a level of uncertainty to the direction of the airport in the near term. The board's support of the Dubai Aerospace Enterprise (DAE; not rated) takeover bid in July 2007, which if approved would have dropped the airport's long-term credit rating to 'BBB-' indicates the board's willingness to adopt an aggressive capital structure if they feel it is in the best financial interest of shareholders. Furthermore, the company's commitment to maintain dividend returns at least at current levels indicates the board's shareholder-focused practices. If another bid for the airport eventuates and is accepted by all necessary parties, we would evaluate the bid's credit quality implications to the airport at that time.

Short-term credit factors

The short-term rating on AIAL is 'A-1', incorporating a strong liquidity position, supported by the company's reliable free operating cash flow. Over recent years, AIAL has improved its debt maturity profile and lessened its reliance on domestic commercial paper (CP) through the issuance of bonds and bank debt. Nonetheless, the company had NZ$195 million outstanding under the CP program and standby bank facility at March 31, 2008. The company maintains a NZ$200 million bank standby facility used to support its CP program and has a policy to maintain a certain level of undrawn funds under a committed bank facility to cover near-term debt.

The short-term rating is also supported by satisfactory financial flexibility, given AIAL's ability to defer part of its capital-expenditure program. AIAL has some flexibility over its shareholder distributions; however, the company is expected to maintain its high dividend policy.

Outlook: Negative

The negative outlook on the AIAL ratings reflect the deterioration in the airport's credit metrics and its dependence on smooth execution of capital expenditure and strong revenue growth to lift the metrics commensurate with the rating in the next two-to-three years. The outlook also reflects an expectation of status quo majority shareholding positions; however, AIAL's willingness to add a new cornerstone shareholder and an unsecured debt profile with relatively unrestrictive financial covenants enhance the airport's appeal to takeover offers. Should a takeover occur, it is likely new ownership would drastically increase the airport's debt position, therefore, creating a transition risk to creditors from the current intermediate financial risk profile to a likely aggressive profile.

In light of the current debt-funded capital expenditure, it is unlikely there will be upward movement on the ratings in the next two-to-three years while capital expenditure and debt are at their peaks. The outlook is not likely to return to stable until the completion of all significant growth capital projects and revenue flow from these, and clarity on management's long-term financial strategy after completion of the works. While less likely, significant delays and cost overruns during the execution of the capital projects in combination with a significant underperformance in passenger traffic would delay a recovery in metrics and likely lead to a downgrade.

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Auckland International Airport Ltd.		
Corporate Credit Rating	A/Negative/A-1	A/Watch Neg/A-1
Senior Unsecured		
Local Currency	A	A/Watch Neg
Commercial Paper		
Local Currency	A-1	A-1/Watch Neg

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation area, select Find a Rating, then Credit Ratings Search.