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18 May 2018

Auckland International Airport Limited
4 Leonard Isitt Drive
Auckland

Attention: Phil Neutze/Suzannah Steele

Dear Phil/Suzannah

Financial Risk Profile Assessment

You have asked us to provide our input on the Commerce Commission's ("ComCom") concern around Auckland International Airport Limited's ("AIAL") targeted return of 6.99% (vs. ComCom's mid-point WACC of 6.41%) for its aeronautical activities for PSE3. This is with a particular focus as to how Westpac adjusts its WACC estimates or financial risk assessments for comparable companies in similar situations.

Although we cannot comment specifically as how we adjust our internal credit models for situations such as this due to confidentiality reasons, we can say that there are a number of factors that impact the assessment of credit risk and the cost of debt and, all other things being equal, a business with higher operating leverage than previous, will be viewed as carrying more financial risk. A business carrying more financial risk will face increases in its cost of debt to compensate for taking that additional risk.

It is important to note the above factors would only form part of Westpac's credit assessment and a variety of other factors would be considered when assessing AIAL's medium to long-term credit risk.

Kind regards

A handwritten signature in black ink, appearing to be 'RA', followed by a horizontal line.

Richard Anderson
Director, Relationships