

Summary: N.V. Luchthaven Schiphol

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Credit Rating:
AA-/Stable/--

Rationale

The ratings on N.V. Luchthaven Schiphol and Schiphol Nederland B.V., units of the Schiphol Group (Schiphol Group is also the commercial name for N.V. Luchthaven Schiphol), which includes Schiphol International B.V., reflect Schiphol Group's strong business risk profile and minimal financial risk profile. The group's main asset, Amsterdam Airport Schiphol (Schiphol), is a key element of The Netherlands' open economy, and maintains a strong competitive position as a European hub airport. The airport's strong operational track record, and its success in retail and real estate also support the ratings. These strengths are partially offset by environmental constraints, a relatively high level of transfer passengers, and dependence on airline Air France-KLM.

Schiphol, which is the fourth-largest airport in Europe by passenger volume, handled 42.5 million passengers in 2004--an increase of 6.5% on 2003--on the back of double-digit growth in intercontinental passenger numbers, and, to a lesser extent, improving European traffic. In the first 10 months of 2005, passenger growth slowed to 3.9%. This was lower than had been forecast, reflecting a slower-than-expected economic recovery and adverse weather in March.

In addition Schiphol's financial profile is the strongest among airports rated by Standard & Poor's Ratings Services. In 2004, funds from operations (FFO) to interest increased to 9.9x, from 6.2x the previous year, while FFO to debt was 33.1%, up from 30.9%. Ratio improvement and free cash flow of €45 million exceeded our expectations, although these largely reflected timing difference in tax payments.

Financial results, published for the first time under IFRS, were strong in first-half 2005. Revenues were €442.8 million--a 7% improvement on the same period in 2004, largely owing to an increase in passenger volumes, higher airport charges, and the strong performance of car parking operations at Schiphol. Although income from concessions was up by 4.8%, the average spend per international departing passenger was down. EBITDA growth was also weaker at 5.1%, largely due to a sharp increase in the cost of security.

The privatization of Schiphol has progressed in 2005. On June 30, 2005, the Netherlands' Lower House accepted a proposal from its Cabinet to sell a minority stake in the airport. There has, to date, been no decision on the format of the sale, although a final decision and Senate approval could occur before year-end, 2005.

Liquidity

Schiphol Group's liquidity is adequate, and it has a long-term maturity profile. Of its consolidated debt outstanding on June 30 2005, only 17% will mature in the next three years. Financial liquidity derives from:

- Stable and strong cash flow generation;
- A cash position of €101.5 million, and undrawn committed bank facilities of €200 million, at June 30, 2005;
- The group's ability to reduce capital expenditure; and
- Good access to capital markets.

Outlook

The stable outlook reflects our expectation that the group will maintain strong business and financial profiles, with FFO interest coverage above 6.0x, and flexibility to defer capital expenditure. A rating upgrade is highly unlikely, but a rating downgrade could follow an erosion of the group's credit profile by events that could undermine passenger volumes, a significant weakening of its main carrier KLM (now merged with Air France), or a change in the airline's strategy of using Schiphol as its main hub. In addition, if privatization were to result in a change of the group's capital structure toward a more aggressive financial profile, the ratings could be lowered.

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