

RESEARCH

Research Update: Schiphol Outlook To Negative On Parliamentary Approval Of Privatization; 'AA-' Ratings Affirmed

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Credit Rating: AA-/Negative/--

Rationale

On June 29, 2006, Standard & Poor's Ratings Services revised its outlook on N.V. Luchthaven Schiphol and Schiphol Nederland B.V., units of the Schiphol Group, which includes Schiphol International B.V., to negative from stable, reflecting the possibility of the company's privatization. Schiphol Group is also the commercial name for N.V. Luchthaven Schiphol.

At the same time, the 'AA-' long-term corporate credit and senior unsecured debt ratings on the group were affirmed.

On June 27, 2006, the legislation required to privatize the company gained final approval in the Dutch upper house.

Parliamentary approval for the privatization was given in June 2005. Following this, and with significant privatization discussions underway, a key missing step was overcome on June 27, when the Dutch upper house approved economic regulation as part of the Aviation Act which, in turn, is related to the privatization of the airport company. If the government can convince the City of Amsterdam, a minority shareholder but one with a blocking vote, to go ahead, Standard & Poor's expects that the process of privatization will start soon thereafter. We also expect that privatization will lead to a more aggressive capital structure at the group, which in turn will likely result in lower credit ratings.

The ratings 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 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 the airline Air France-KLM.

The ratings give no specific weighting to ownership by the state. A change in ownership structure is not likely to affect the ratings, given that ownership will probably be widespread. We do expect, however, that special dividends will be paid, as mentioned by the Dutch finance minister in discussion notes to parliament. These are likely to be funded with debt, which will cause the group's currently minimal financial risk profile to deteriorate.

The current shareholders include the Netherlands (75.8% of capital), the City of Amsterdam (21.8%), and the City of Rotterdam (2.4%). After a series of discussions it was agreed that a minority interest (up to 49.9%) will be privatized: 25.0%-30.0% will be floated and the remainder will be sold under certain preset conditions, including a lock-up period, to private investors. The timeframe of the disposal is as yet unknown.

Liquidity

Schiphol Group's liquidity is adequate, supported in particular by stable and strong cash flow generation, the group's ability to reduce

capital expenditure, good access to capital markets, and a long-term maturity profile. Financing needs for 2006 comprise about €36 million of maturing debt (including finance lease installments), a payout of €55 million in 2006 (30% of 2005 net consolidated income excluding the unrealized gains and losses in investment property after tax), and forecast negative free operating cash flow (funds from operations plus working capital change minus capital expenditures) of about €50 million.

These financing needs are satisfactorily covered by €262 million of cash and marketable securities, and undrawn committed bank facilities of €200 million at Dec. 31, 2005.

The documentation for Schiphol Group's existing bonds carries no rating triggers or change of control covenants. In contrast, the €150 million outstanding loan from the European Investment Bank (EIB) carries a possible rating trigger: The EIB can enter into a preliminary discussion regarding a change of conditions on the outstanding debt if Standard & Poor's rating on Schiphol Group falls below 'A', or if Moody's rating falls below 'A2'. In the unlikely event that revised conditions are not agreed, the EIB could ask for early repayment of the loan.

Outlook

The negative outlook reflects the increasing likelihood that privatization will occur over the next one to three years, and that consequently the group's financial profile will deteriorate, resulting in lower ratings.

The ratings could be lowered by one or several notches depending on the group's financial risk profile post privatization, but are expected to remain investment grade; we assume, for the moment, a stable business risk profile.

Ratings List

	To	From
N.V. Luchthaven Schiphol		
Corporate credit rating	AA-/Negative/--	AA-/Stable/--
Schiphol Nederland B.V.		
Corporate credit rating	AA-/Negative/--	AA-/Stable/--

NB: This list does not include all ratings affected.

Additional Contact: Infrastructure Finance Ratings Europe;
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