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Research Update:

Dutch Airport Operator Schiphol Group 'AA-' Ratings On Watch Neg On Proposed Super Dividend

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Dutch Airport Operator Schiphol Group 'AA-' Ratings On Watch Neg On Proposed Super Dividend

Rationale

On April 2, 2008, Standard & Poor's Ratings Services placed on CreditWatch with negative implications its long-term 'AA-' corporate credit ratings and senior unsecured debt on Netherlands-based N.V. Luchthaven Schiphol (Schiphol group) and Schiphol Nederland B.V., a unit of the Schiphol group that owns and operates Amsterdam Airport Schiphol (Schiphol).

The CreditWatch placement follows the group's announcement on March 31, 2008, that it will propose during the next annual general meeting of shareholders on April 17, 2008, an extra payment from the retained profits reserve (super dividend) in addition to the regular dividend proposal. The super dividend would be debt financed, thus increasing the group's leverage and interest expenses quite significantly and weakening its financial profile while ramping up capital spending.

The group said it will propose to its shareholders that the dividend comprises two tranches: a first €500 million tranche would be paid in 2008 and a second tranche in 2009 that would amount to a maximum of €500 million.

We expect to lower the ratings to 'A' and revise the outlook to stable if the group's proposal is approved. This would reflect the group's strong business risk profile albeit combined with a moderate financial risk profile as a result of increased debt levels.

The group principally comprises the two rated entities plus Schiphol International B.V. The group's main asset, 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, dependence on airline Air France-KLM, and anticipated higher leverage.

Revenues in 2007 were up a strong 10.6% to €1.15 billion, largely due to passenger volume increases, rises in aeronautical charges, and the strong performance of commercial and property businesses. Unadjusted EBITDA increased by 24.3%, and the EBITDA margin was 52%, including capital gains on property, up from 46% in 2006.

Liquidity

The group's liquidity is adequate, supported in particular by stable and strong cash flow generation, the ability to reduce capital expenditure, good access to debt markets, and a long-term maturity profile. Financing needs in 2008 will increase compared with 2007 as a result of increased capital

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spending and expected higher regular dividend payments. These financing needs are partly covered by €142 million of cash and undrawn committed bank facilities of €200 million at Dec. 31, 2007.

The documentation for the group's existing bonds carries no rating triggers or change of control covenants. In contrast, the €108 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 Moody's Investors Service rating falls below 'A2'. In the unlikely event that revised conditions are not agreed upon, the EIB could ask for early repayment of the loan. The EIB could also ask for early repayment if other loans are repaid or shareholders' equity falls below 30% of total assets.

Ratings List

	To	From
Schiphol Nederland B.V.		
Corporate credit ratings		
	AA-/Watch Neg/--	AA-/Negative/--
Senior unsecured debt		
	AA-/Watch Neg/--	AA--
N.V. Luchthaven Schiphol		
Corporate credit ratings		
	AA-/Watch Neg/--	AA-/Negative/--
Senior unsecured debt		
	AA-/Watch Neg/--	AA--

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