

RESEARCH

Summary:**N.V. Luchthaven Schiphol**

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Primary Credit Analyst: Alexandre de Lestrage, Paris (33) 1-4420-7316;
alexandre_delestrange@standardandpoors.com
Secondary Credit Analyst: Jan Willem Plantagie, Frankfurt (49) 69-33-999-132;
jan_plantagie@standardandpoors.com

Credit Rating: AA-/Negative/--

Rationale

The ratings on N.V. Luchthaven Schiphol and Schiphol Nederland B.V. reflect the strong business risk profile and minimal financial risk profile of the Schiphol Group. The group principally comprises the two rated entities, plus Schiphol International B.V. The group's main asset, Amsterdam Airport Schiphol (Schiphol), is a key element of the Netherlands' open economy, with a strong competitive position as a European hub. The airport's strong operational track record and retail and real estate successes 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's passenger volumes are the fourth highest in Europe, increasing 4.3% during 2006 to 46.1 million passengers.

In 2006, the city of Amsterdam (21.8% stake) blocked the privatization of the Schiphol Group. Although the country's new coalition government is now ruling out an IPO, the group's ownership structure may still change as the private placement of a minority stake has not been excluded. Changes to the company's financial situation through special dividends or other proposals cannot be ruled out either.

2006 annual results were strong. Revenues were up 9.4%, to €1,037 million, largely owing to passenger volume increases, rises in aeronautical charges, and the strong performance of the concession and car parking operations. The EBITDA margin was 46% of revenues when including capital gains on property.

Cash flow from operations rose to €362 million, up 18% on 2005, and fully covered capital expenditures of €250 million, 7% down. Schiphol Group's financial profile is one of the strongest among airports rated by Standard & Poor's Ratings Services.

Schiphol's fees for airlines and passengers will not be revised at the next annual review in April 2007, which will strengthen Schiphol's competitive position but limit revenue growth in 2007. Passenger- and aircraft-related charges were increased by 2.0% and security charges were increased by 7.8% in April 2006.

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 debt markets, and a long-term maturity profile. Financing needs in 2007 will increase over 2006 due to higher maturing debt (about €122 million) and dividend payments (€79 million). These financing needs are covered by €299 million of cash, and undrawn committed bank facilities of €200 million, at Dec. 31, 2006.

Free cash flow (funds from operations {FFO} minus capital expenditures) was largely positive (at about €115 million) in 2006, thus enabling debt reduction at year-end 2006.

The documentation for Schiphol Group's existing bonds carries no rating triggers or change of control covenants. In contrast, the €150 million loan outstanding 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 our expectation that there remains a medium-term risk that the company's financial risk profile could weaken, which could result from, among other things, a special dividend. To sustain an 'AA-' rating, the group needs to keep a continued strong business profile, with FFO interest coverage above 6.0x, and FFO to debt close to 30% (6.0x and 26% respectively in 2005; based on preliminary results, the ratios should be close to 8x and 35% in 2006).

Additional Contact: Infrastructure Finance Ratings Europe;
InfrastructureEurope@standardandpoors.com

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