

Summary:

N.V. Luchthaven Schiphol

Primary Credit Analyst:

Olli Rouhiainen, London (44) 20-7176-3769; olli_rouhiainen@standardandpoors.com

Secondary Credit Analyst:

Alexandre de Lestrangre, Paris (33) 1-4420-7316; alexandre_delestrange@standardandpoors.com

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Credit Rating: A/Stable/A-1

Rationale

The 'A' ratings on N.V. Luchthaven Schiphol and Schiphol Nederland B.V. (collectively, Schiphol group) are based on the group's stand-alone credit profile (SACP), which Standard & Poor's Ratings Services assesses at 'A-', as well as on our opinion that there is a "moderate" likelihood that the Dutch government would provide timely and sufficient extraordinary support to Schiphol in the event of financial distress.

In accordance with our criteria for government-related entities, our view of a "moderate" likelihood of extraordinary government support is based on our assessment of the group's:

- "Important" role, based on our view on the essential infrastructure nature of the group's main asset, Amsterdam Airport Schiphol, as a key element of The Netherlands' open and service-oriented economy; and
- "Limited" link with the Dutch government. Although the State of The Netherlands (AAA/Stable/A-1+) owns a 70% stake, the group operates on a stand-alone basis and the Dutch government has a limited track record of supporting entities of this nature. We will, however, continue to monitor the link and could change our assessment if positive signs of support were to emerge.

The SACP on Schiphol group reflects our view that Amsterdam Airport Schiphol will maintain a strong competitive position as a key European hub airport. The airport operates within a supportive regulatory environment and its successful retail and real estate operations have historically supported its strong operational track record.

These strengths are partially offset by a relatively high level of transfer passengers (43% in 2009); the dependence on a dominant customer, Air France-KLM (not rated; 63% of passengers in 2009); and the strong negative effect of the economic downturn on passenger numbers over the last year. Over the long term, we believe Schiphol's capacity could also be affected by the environmental constraints related to the number of air traffic movements and noise restrictions.

Key business and profitability developments

In the three months to March 31, 2010, the number of passengers at Schiphol increased by 4.9% versus the same period in 2009, and the number was up 8.4% in March, indicating that passenger volumes are on an upward trend. These strong passenger numbers were driven by substantial growth in the number of origin-destination (O&D) passengers (that is, passengers flying direct between two airports), which was up 9.63% in the three-month period versus the same period in 2009 while the number of transfer passengers has been relatively flat. In 2009, passenger volumes were down 8.1% versus 2008, mainly due to a significant decline in the number of O&D passengers, which was only partially offset by increased transfer traffic.

We believe that growth in passenger numbers will slow in the second half of the year due to tougher comparisons, and we expect traffic at Schiphol to be at the upper end of the -2% to +2% range (see "A Protracted Return to Growth For European Airports," published Feb. 25, 2010, on RatingsDirect).

The group has not reported commercial revenues for 2010 to date, but we anticipate overall consumer revenues to be up in the first three months of the year driven by higher passenger numbers, although spend per passenger is likely to be slightly lower than in 2010 than in 2009.

Like a significant number of other European airports, Schiphol had operational restrictions over five days in April 2010 due to volcanic ash coming from Iceland covering European airspace. We expect Schiphol to have lost about 1% of annual passenger volumes due to the closure. However, we expect that some of this was regained during the first few days of full operations following the closure as airlines have added some extra flights and planes have been full to allow passengers to complete their journeys.

Key cash flow and capital-structure developments

In 2009, Schiphol outperformed our lowered expectations as its adjusted EBITDA grew by 2.4% to €458.5 million after adjusting for one-off items, including restructuring costs (€31.3 million) and fair-value losses on real estate (€40.1 million). The group's funds from operations (FFO) increased by 7.4% to €369.6 million.

The key driver for the good performance was significant cost cutting, through which the group's adjusted EBITDA margin improved to 40.3% from 39.3%. Capital expenditures (capex) were lower, at €216.3 million, due to management reevaluating planned capex in light of the lower passenger numbers and to the completion of certain large projects in 2008. This helped the group to generate increased free operating cash flow.

Therefore, the group's financial ratios were not as significantly impaired as we had anticipated: adjusted FFO to debt was flat at 16.5% (versus 16.4% in 2008) and adjusted debt to EBITDA was 4.9x (4.7x). The debt burden increased as the group improved its liquidity position in 2009 and took on some additional contingent obligations.

According to Schiphol's management, the operational losses that resulted from the closure of the airport amounted to an average of €2 million-€3 million per day, as the airport had to remain open and ready to resume operations during the closure. However, as passenger numbers have been improving so far this year we do not anticipate that the closure by itself will have led to a weakening of the group's financial profile. However, it could have cancelled out some of the improvement we would otherwise have seen.

Liquidity

Schiphol's liquidity, which we consider adequate, is supported by significant cash balances and a good debt maturity profile. On Dec. 31, 2009, the group had €536.2 million in cash and marketable securities. In addition, it had access to €200.0 million of undrawn committed credit lines. These credit lines, however, have relatively short maturities (one year with an extension of one year if drawn).

The above sources of liquidity are significantly higher than the estimated call on cash over the next 12 months. We anticipate that Schiphol group will be cash flow neutral (after capex and dividend payments) in 2010, as we expect some increase in capex on the back of increasing passenger volumes. Schiphol group has €65.9 million of debt maturing in the next 12 months. We believe that exposure to margin calls on derivative instruments should be limited. Further cash calls could come from the European Investment Bank (AAA/Stable/A-1+), which could, if new terms cannot be agreed, ask for an early loan repayment (€48.0 million outstanding on Dec. 31, 2009) if we were to lower the rating on Schiphol group to below 'A'.

In addition, the €120 million of notes issued under the group's €1 billion medium-term note program due 2038 have

an early redemption option that would be triggered by a downgrade by either Standard & Poor's or Moody's, to speculative grade from investment grade, or by the withdrawal by both rating agencies of the long-term senior unsecured debt rating.

Outlook

The stable outlook on Schiphol group reflects our assumptions that the group's adjusted FFO to debt will remain at 15%-18% on a sustainable basis and that the airport will remain the hub for Air France-KLM.

We could lower the ratings or revise the outlook to negative if Schiphol group's financial profile were to weaken to FFO to debt of below 15%; if passenger volumes were to decline further than anticipated; or if other negative developments were to affect the group's business risk profile, for example, significant aggressive growth in the group's real estate business.

We could upgrade Schiphol group or revise the outlook to positive if the group were to demonstrate an improved financial risk profile, for example if FFO to debt were to increase to more than 20% on a sustainable basis with everything else remaining the same.

Additional Contact:

Infrastructure Finance Ratings Europe; InfrastructureEurope@standardandpoors.com

Additional Contact:

Infrastructure Finance Ratings Europe; InfrastructureEurope@standardandpoors.com

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