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Summary:
N.V. Luchthaven Schiphol

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Summary:

N.V. Luchthaven Schiphol

Credit Rating:	AA-/Negative/--

Rationale

The ratings on N.V. Luchthaven Schiphol and Schiphol Nederland B.V. reflect the Schiphol Group's strong business risk and minimal financial risk profiles. 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, 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's passenger volumes are the fifth highest in Europe after increasing 3.7% during 2007 to 47.8 million passengers on the back of the strong performance of intercontinental routes, and, to a lesser extent, improving European traffic. Management expects little to no volume increase in 2008 in passengers and air transport movement because of the Dutch government's introduction, on July 1, 2008, of a flight ecotax at Schiphol. The airport, along with the Board of Airline Representatives in the Netherlands, will launch an appeal against the introduction of the tax. Cargo traffic, on the other hand, will to continue to increase by approximately 4% in 2008 (after rising 5.5% in 2007 to 1.6 million tons).

In October 2007, the government abandoned its attempt to partially privatize the Schiphol Group through a private placement, after rejecting an IPO earlier in 2007. Changes to the company's financial situation through special dividends or other proposals cannot, however, be ruled out.

Schiphol Group plans investment of over €550 million in 2008, considerably more than in 2007. The majority will go toward funding upgrades and expansion of basic facilities at Schiphol.

The Dutch government has approved further increases in Schiphol's air transport movements to a total of 480,000 by 2010, up from 436,000 in 2007, leaving room for continued revenue and traffic growth.

First-half 2007 revenues were up a strong 11.4%, to €541 million, largely owing to passenger volume increases, rises in aeronautical charges, and the strong performance of consumers' businesses. Unadjusted EBITDA increased by 19.8%, and the EBITDA margin was 49% including capital gains on property. Schiphol Group's financial profile is one of the strongest among airports that Standard & Poor's Ratings Services rates.

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 its long-term maturity profile. Financing needs in 2008 will increase over 2007 due to negative free operating cash flow and expected higher dividend payments. These financing needs are partly covered by €103 million of cash, and undrawn committed bank facilities of €200 million, at June 30, 2007.

The documentation for Schiphol 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 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 the group will remain fully publicly owned given the Dutch finance ministry's October 2007 decision against partial privatization. The outlook also takes into account that the company's financial risk profile could weaken in the short to medium term, possibly resulting from, among other things, a special dividend. An upgrade is highly unlikely, but a downgrade could follow an erosion of the group's credit profile by events that undermine passenger volumes, a significant weakening of its main carrier KLM, or a change in the airline's strategy of using Schiphol as its main hub.

To sustain an 'AA-' rating, the group needs to maintain a strong business profile, with funds from operations (FFO) interest coverage above 6.0x, and FFO to debt close to 30% (about 7.0x and 29%, respectively, at June 30, 2007).

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