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Research Update:

Schiphol Group Outlook To Neg On Likely 8% Share In Aeroports de Paris; Ratings Affirmed

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Rationale

On Oct. 24, 2008, Standard & Poor's Ratings Services revised to negative from stable the outlook on its corporate credit ratings on Netherlands-based N.V. Luchthaven Schiphol and Schiphol Nederland B.V. (collectively, the Schiphol Group), the latter of which owns and operates Amsterdam Airport Schiphol (Schiphol). The rating action follows the announcement that the Schiphol Group and Aéroports de Paris (ADP; AA-/Stable/--) intend to enter into a long-term industrial cooperation for an initial period of 12 years, supported by an 8% cross-shareholding agreement. In addition, Standard & Poor's affirmed its 'A' long-term corporate credit and senior unsecured debt ratings on the Schiphol Group. At the same time, Standard & Poor's assigned its 'A-1' short-term corporate credit rating to the Schiphol Group.

The outlook revision reflects the group's tight liquidity position following this transaction. The group will need to raise €160 million to fund the difference between the acquisition price of 8% in ADP and the proceeds from ADP's acquisition of 8% in the Schiphol Group. This is an additional requirement on the top of the €36 million in financing for the recently acquired additional 3.1% shareholding in Brisbane Airport and the upcoming maturities under the €750 million euro commercial paper (CP) program and the €1 billion euro medium-term note (EMTN) program, totaling about €500 million by the end of 2008. There is a current cash position of about €244 million, which in the short term will be accruing with approximately €140 million. The outlook revision also reflects our view that this creates a basis for both airport operators to enter into joint airport acquisitions or concessions in the future, thus potentially opening up the way for a more aggressive financial policy.

We consider the synergies and the rationale for the cross shareholding and industrial cooperation to be marginally positive for the Schiphol Group in the medium to long term.

At this stage, we believe the main beneficiaries of this agreement are the French state (obtaining a cash payment well above ADP's current share price) and clients (including Air France-KLM and passengers), which should eventually receive a mix of better service and potentially lower tariff increases. Part of the synergies extracted from the regulated aviation activities may have to be partially returned to the clients at some point.

The ratings on the Schiphol Group are based on its stand-alone credit quality, despite its majority ownership by the State of The Netherlands (AAA/Stable/A-1+) and reflect the group's strong business risk and intermediate financial risk profiles. The group's main asset, Schiphol, maintains a strong competitive position as a European hub airport. The airport operates within a supportive regulatory environment, and its successful retail and real estate operations support its strong operational track record.

These strengths are partially offset by a high level of transfer passengers and the dependence on the dominant customer, Air France-KLM, with which the relationship is likely to be strengthened by the cooperation with ADP. Over the long term, Schiphol's capacity may also be potentially affected by the limits imposed by the environmental constraints related to the number of air traffic movements and noise restrictions. Like most airports, the Schiphol Group is vulnerable to a deterioration in the economic climate, and in particular, high fuel prices. Additionally, the Schiphol Group's competitive position may be adversely affected by the introduction in The Netherlands of the domestic Air Passenger Tax on all departing passengers, which began July 1, 2008.

The management expects that the passenger volumes--which in 2007 increased by 3.8% to 47.8 million passengers--are likely to show no growth in 2008 and 2009. In 2009, this slowdown will be partially compensated by an increase in the airport and security charges to be implemented on Nov. 1, 2008.

Short-term credit factors

The group's liquidity position following the announcement of this transaction, which we expect to be executed in November 2008, is currently tight. We understand that the group, given its ownership and strong business profile, has ample ability to boost its liquidity position by putting in place shortly funding to cover the acquisition of the 8% of ADP's shares as well as to refinance its CP program.

Nevertheless, the Schiphol Group will have to test the willingness of the public debt market to lend about €700 million in the current economic conditions and the price of the debt available.

The Schiphol Group currently has two backup liquidity lines, of €50 million provided by ING Bank N.V. (AA/Stable/A-1+) and €50 million provided by ABN AMRO Bank N.V. (AA-/Developing/A-1+), which the group plans to renew in January and July 2009, respectively. The group has also a €400 million syndicated revolving credit facility backing its euro CP program, which expires in June 2009, but has a 364-day extension option. Given the market volatility, the extension of the facilities may also involve higher pricing.

The increased interest expense and higher leverage will further weaken the financial profile of the group, which plans to issue debt to finance up to €500 million of the second tranche of an extra payment from the retained profits reserve (super dividend) in 2009.

The financing needs in 2008 and 2009 are likely to increase compared with 2007 as a result of increased capital spending and expected higher regular and super dividend payments. We expect free operating cash flow to remain negative in the short to medium term. Material maturities in 2009 include €101.5 million under the euro CP program, €30 million under the EMTN program, and €26 million under the EIB loan.

The documentation for the group's existing bonds carries no rating triggers or change-of-control covenants. However, the €78.5 million outstanding loan from the EIB carries a possible rating trigger. The EIB can request a change of conditions on the outstanding debt if Standard & Poor's rating on the Schiphol Group falls below 'A' or Moody's rating falls below

'A2'. If the revised conditions are not agreed upon, the EIB could ask for early repayment of the loan. The EIB also could ask for early repayment if other loans are repaid or shareholders' equity falls below 30% of total assets.

Also, the €120 million of notes issued under the €1 billion EMTN program due 2038 have an early redemption option that would be triggered by a downgrade by either Standard & Poor's or Moody's from investment grade to speculative grade or by a withdrawal of the long-term senior unsecured debt rating.

Outlook

The negative outlook reflects the weak liquidity position following the transaction with ADP as well as the lack of financial headroom for future debt-financed acquisitions. We would revise the outlook to stable if the group restores its liquidity position and strengthens its financial profile. This may involve a more conservative approach to its dividend, capital expenditure, and acquisition strategies.

In order to maintain the 'A' rating, we expect the group to maintain adjusted funds from operations (FFO) interest coverage above 3.5x and FFO to debt at a minimum of 15%. Also, we expect the Schiphol Group to maintain its strong business profile over the medium term by continuing its strong operational performances in the aviation, real estate, and retail sectors.

A downgrade could follow an erosion of the group's credit profile by further weakening of its liquidity position or by events that undermine passenger volumes that would result in lower-than-expected revenues.

An upgrade is highly unlikely, given the company's expected increase in leverage and the outlook for the airport sector.

Ratings List

Ratings Affirmed; Ratings Assigned; Outlook Action

	To	From
N.V. Luchthaven Schiphol		
Corporate Credit Rating	A/Negative/A-1	A/Stable/--
Senior Unsecured	A	A
Commercial Paper	A-1	A-1
Schiphol Nederland B.V.		
Corporate Credit Rating	A/Negative/A-1	A/Stable/--
Senior Unsecured	A	A
Commercial Paper	A-1	A-1

NB: Not all affected ratings listed.

Additional Contact:

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