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Research Update:

'A' Rating Affirmed On Schiphol Group Senior Unsecured €800 Million Notes Under EMTN Program

Primary Credit Analyst:
Beata Sperling-Tyler, London (44) 20-7176-3687;beata_sperling-tyler@standardandpoors.com

Secondary Credit Analysts:
Alexandre de Lestrange, Paris (33) 1-4420-7316;alexandre_delestrange@standardandpoors.com
Lidia Polakovic, London (44) 20-7176-3985;lidia_polakovic@standardandpoors.com

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Rationale

On Dec. 10, 2008, Standard & Poor's Ratings Services affirmed its 'A' rating on the €800 million notes, increased from €700 million, issued by Schiphol Nederland B.V. and guaranteed by N.V. Luchthaven Schiphol (both A/Negative/A-1; collectively, Schiphol Group) under the group's €2 billion euro medium-term note (EMTN) program.

The Schiphol Group will use the proceeds of this issuance for general corporate purposes in 2009. The entire €800 million notes carry a fixed-rate coupon of 6.625% and mature Jan. 23, 2014. The notes have a put option to be redeemed at their principal amount together with any accrued interest in the event that the State of The Netherlands (AAA/Stable/A-1+) ceases to own directly or indirectly more than 50% of the total issued share capital of the Schiphol Group. However, the risk of privatization is remote in our view because the government decided not to list the Schiphol Group in the stock exchange and ruled out a private placement.

The ratings on the Schiphol Group are based on its stand-alone credit quality, despite its 69.7% ownership by the State of The Netherlands, and reflect the group's strong business risk and intermediate 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 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 entering into a long-term industrial cooperation with Aéroports de Paris (ADP; AA-/Stable/--), supported by an 8% cross-shareholding agreement. 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. Additionally, in the short term, 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--will show no growth in 2008 and no growth or a slight decrease in 2009. Since July 2008, the passenger numbers have started decreasing. For the calendar year to Oct. 30, 2008, they were still 0.1% higher than for the comparable period last year (compared with a 2.0% growth in the first half of 2008). Nevertheless, 2009 earnings should benefit from an increase in the airport and security charges that were implemented on Nov. 1, 2008.

Short-term credit factors

The group's liquidity position has improved after the two issuances of €800 million in total under the EMTN program but still remains weak. The cash and available committed lines at Nov. 30, 2008, fully cover the expected negative free cash flow position and debt maturities coming due until about June 2009. The absence of committed long-term lines is also a weakness. We expect the group to take measures to further boost its liquidity in the short term.

The group has now financed the recently paid €500 million super dividend and the €160 million difference between the acquisition price of 8% in ADP and the proceeds from ADP's acquisition of 8% in the Schiphol Group via new shares. Importantly, a substantial part of the approximately €600 million previously outstanding short-term borrowings under the €750 million euro commercial paper (ECP) program was refinanced on a long-term basis.

At the end of November 2008 and before consideration of the €100 million new tap, the group needed to finance about €150 million until September 2009 based on expected operating cash flow, capital expenditures, normal dividend payments, and debt maturities. Positively, the bulk of it will consist of the capital expenditure program, which possibly can be deferred. However, we expect free operating cash flow to remain negative until 2013, thus exposing the group's dependence on ongoing access to debt funding.

After settling the debt maturities due in December 2008, the group's cash position at Dec. 31, 2008, will be €300 million-€350 million, including the €100 million tap.

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

The documentation for the group's existing bonds carries no rating triggers, although the €108 million outstanding loan from the European Investment Bank (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 on, 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 due 2038 issued under the EMTN program 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 group's dependence on the ongoing access to debt funding to maintain liquidity and the lack of financial headroom for future debt-financed acquisitions. We would revise the outlook to stable if the group restores its long-term 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 a 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

	Affirmed
Schiphol Nederland B.V.	
Senior unsecured notes*	A

*Guaranteed by N.V. Luchthaven Schiphol.

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

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