

Analysis

Moody's Global Infrastructure Finance

November 2009

N.V. Luchthaven Schiphol

Netherlands

Corporate Profile

Holding company for the majority of the Netherlands' airports including Amsterdam Airport Schiphol

N.V. Luchthaven Schiphol ("Schiphol Group") – currently rated A1, stable – is a holding company of the group that owns and operates Amsterdam Airport, Rotterdam Airport, Lelystad Airport, and 51% of Eindhoven Airport, which together comprise most of the airport capacity in the Netherlands. In addition, Schiphol Group has minority investments in a number of overseas airports.

Schiphol Group is 69.8% owned by the Kingdom of the Netherlands, 20.0% by the Municipality of Amsterdam, 8.0% by Aéroports de Paris S.A. and 2.2% by the Municipality of Rotterdam. The Dutch Government had Schiphol Group earmarked for privatisation for a number of years. It had implemented all the necessary legislation to make this effective, and was progressing to sell down to a level that would retain the joint Government and municipality interest at 50.1%. However, in October 2007 the Dutch Government formally abandoned the privatisation plans, announcing that it would not sell any shares it holds in Schiphol Group.

The largest asset of Schiphol Group is Amsterdam Airport Schiphol ("Schiphol"), the fifth-largest airport in Europe by passenger numbers (PAX), the third-largest by cargo volumes, and the sole airport serving the City of Amsterdam (located about 15 km south-west of the centre of Amsterdam). Schiphol is effectively servicing the whole of the Netherlands and arguably the border regions of northern Belgium and western Germany. Furthermore, Amsterdam Airport is a major hub airport serving the Air France – KLM Alliance.

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Analyst Contacts:

London **44.20.7772.5454**

Andrew Blease

Senior Vice President

Neil Griffiths-Lambeth

Vice President – Senior Credit Officer

Sergey Konyshv

Associate Analyst

Monica Merli

Team Managing Director



Moody's Investors Service

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Figure 1

Operational Highlights (as Reported)						
FYE December (€ millions)	Revenue			Operating Profit 2008	Operating Margin 2008	
	2007	2008	% Change			
Segment						
Aviation	650	640	-1.6%	51	8.0%	
Consumers	301	302	0.4%	138	45.8%	
Real Estate	124	135	8.7%	93		
Alliances & Participations	71	77	8.7%	12	15.6%	
Total	1,146	1,154	0.7%	294	25.5%	

6 months period (€ millions)	Revenue			Operating Profit 06/2009	Operating Margin 06/2009	
	06/2008	06/2009	% Change			
Segment						
Aviation	300	323	7.7%	13	4.0%	
Consumers	147	125	-14.9%	39	31.1%	
Real Estate	66	67	2.7%	10		
Alliances & Participations	38	39	2.9%	2	3.9%	
Total	550	554	0.7%	63	11.4%	

	2007	2008	% Change	06/2008	06/2009	% Change
Passenger movements, millions						
Amsterdam Airport	47.8	47.4	-0.8%	22.8	20.3	-11.3%
Rotterdam Airport	1.1	1.0	-6.9%	0.5	0.5	-8.7%
Eindhoven Airport	1.5	1.6	5.6%	0.8	0.7	-6.0%
Schiphol Group	50.4	50.0	-0.7%	24.1	21.5	-11.0%
Number of air transport movements, ths	465.7	458.1	-1.6%	226.8	206.0	-9.2%
Cargo, thousand tonnes	1,610.3	1,567.7	-2.6%	803.9	589.1	-26.7%
Real estate						
Size of property portfolio, thousand m2	495.5	526.2	6.2%	488.5	542.3	11.0%
Occupancy (including buildings 70/72)	88.1%	91.4%	3.3%	92.7%	91.3%	-1.4%
Value of investment property*, € millions	888	961	8.2%			

* This represents market value of the property. The carrying value of investment property as at year-end 2008 amounted to €988.3 million (€911.4 million in 2007).

Source: Annual Reports

The Aviation segment represents services and facilities to airlines, passengers and handling agents provided solely at Amsterdam Airport. Schiphol's revenues had been on an upward trend from 2001 till 2007, supported by higher passenger numbers and increasing aviation charges, particularly charges to cover increased security costs. However, in 2008 the aviation segment revenues decreased due to the decline in traffic and tariffs reduction as of 1 November 2007. The positive revenue dynamics in the 6 months to June 2009 reflected tariff increase in November 2008 as compared to the negative impact of the traffic decrease.

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The activities of the Consumers segment include the operation of retail outlets and car parks, the granting of concessions for airport shopping and restaurant facilities, and the advertising at Schiphol. The segment also includes activities outside the Netherlands. As a result of the decrease in passenger numbers and a decline in consumer confidence the segment revenues saw a significant decline in the 6 months to June 2009.

Real estate revenues reflect both rental income (relatively stable) and property sales. 90% of the property portfolio is at Amsterdam Airport. 2007 was a successful year for the segment's bottom line which was affected by the €112 million revaluation gains. Real estate revenues increased in 2008 mostly due to the growth in the rental income which reflected addition of new properties and higher occupancy rate. Despite the revenue increase, the operating profit of the segment declined from EUR171 million in 2007 to EUR93 million in 2008 as a result of a significant drop in fair value of existing property.

Other airports and investments, included in the Alliances & Participation segment, generated 6.7% of revenues and 4.1% of operating profits for Schiphol Group in 2008.

Management Strategy

Although owned by national and municipal entities, Schiphol Group is run as an independent commercial company...

Management is appointed by a Supervisory Board, which comprises eight members. The composition of the Supervisory Board is based on a profile intended to ensure that members operate independently and objectively vis-à-vis one another and the management of Schiphol Group, and intends to provide a good mix of expertise and experience. On 1 December 2008, following the approval of the industrial cooperation agreement with Aéroports de Paris, the Extraordinary General Meeting of Shareholders of Schiphol Group approved the expansion of the Supervisory Board from seven to eight members to include the CEO of Aéroports de Paris.

Schiphol Group is run by a small team of senior management (none of which are Supervisory Board members), which until February 2008 comprised a Chief Executive Officer, Chief Financial Officer and Chief Operations Officer. Starting from 1 January 2009, Gerlach Cerfontaine – the former CEO – was succeeded by Mr Jos Nijhuis, who had been Chairman of the Board of PricewaterhouseCoopers since 2002. The current CFO has been in his current position since the late 1990s and was recruited into this position at that time to provide the necessary skills to focus Schiphol Group commercially and take it through the then expected partial privatisation process. The Chief Operations Officer, Mr Ad Rutten, joined Schiphol on 1 September 2005. Mr Rutten is a long standing aviation executive (ex-KLM). The senior management team was expanded in 2008 with the appointment of Mr Maarten de Groof as Chief Commercial Officer of Schiphol Group. He is responsible for the Consumers and Real Estate business areas.

... which focuses on integral development of aviation and non-aviation business areas...

Schiphol Group predominantly focuses on three activities: (i) developing the aviation infrastructure at Amsterdam Airport to accommodate growth and improve efficiencies to ensure that growth does not constrain operations; (ii) further development of its Consumers business to maximise income from passengers using the Amsterdam Airport; and (iii) further development of Schiphol Group's existing property interests and exploiting its very substantial land ownership in the Amsterdam Airport area. The three activities together form what Schiphol Group calls the "AirportCity" concept. To a modest extent, Schiphol Group has interests in overseas airport expansion and property-related interests, all pertaining to airport sites. Substantial acquisitions of airport assets are not anticipated, although it is likely that Schiphol Group will pursue modest investment in overseas airports over the medium term, and will attempt to apply the AirportCity concept overseas on a selective basis.

The key challenges facing management include the maximisation of operational efficiencies at Amsterdam Airport, given its role as one of Europe's largest hub airports, and ensuring that growth can be accommodated within the environmental parameters that apply to Schiphol. This is particularly important to ensure that Schiphol is not poorly positioned with regard to any future competition for the Air France – KLM transfer traffic. However, this should not require levels of capital expenditure higher than that seen in the recent past.

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Management may also be able to further exploit the potential for low cost carrier point to point traffic to and from the Netherlands. Given Schiphol Group's ownership and control of most of the Netherlands' international airports¹ (although it has only held 51% of Eindhoven Airport² since 1998) there should be opportunities to manage the wider network to optimise use of the airport system, subject to local environmental and planning regulations.

...while maintaining conservative financial policy

Schiphol Group has a track record of maintaining a conservative financial structure with a modest amount of debt leverage and paying a moderate dividend to its shareholders. The current financial profile of the company is in line with its track record, which affords it a good degree of financial flexibility.

However, the debt of Schiphol Group significantly increased in 2008 due to financing the payment of a special dividend. On 17 April 2008, the Annual General Meeting of Shareholders of Schiphol Group approved the proposal to pay a one-off dividend (the "special dividend") in 2008-2009. The dividend was to be paid in two stages:

- €500 million – to be paid in the third quarter of 2008
- up to €500 million – to be paid in 2009

The first payment of €500 million was made in October 2008. Subsequently Schiphol announced that they would not be paying the second tranche of the special dividend.

Moody's does not expect that special dividends will be a permanent feature of Schiphol Group's financial arrangements, and this appears to be a one-off reconfiguration of the capital structure. Following the payment of special dividends, Moody's expects the conservative financial policy to be maintained.

Schiphol Group is focusing on the EMTN market as a primary source of funding. In November-December 2008 Schiphol Group placed EUR800 million under its EMTN programme. In October 2009, Schiphol Group issued a further EUR200 million of medium term notes. At the same time the company has made a decision not to use its EUR750 million Euro-Commercial Paper (ECP) programme as a source of funding in the near future. The funding strategy is in line with the conservative financial policy and aimed to minimise the refinancing and liquidity risks.

Cooperation with Aéroports de Paris

On 1 December 2008 Schiphol Group and Aéroports de Paris S.A. ("ADP") acquired 8% of each other's share capital and signed an industrial cooperation agreement (the "Agreement"). The total acquisition cost of the stake in ADP is EUR538 million. Schiphol Group issued 14,892 class B shares to ADP which acquired them at EUR370 million. ADP was also granted a put option on its Schiphol Group shares. The option compensates for the lack of liquidity of the shares. The put price will depend on the exit price of ADP shares purchased by Schiphol Group. The transferability of the class B shares is limited as they can only be transferred to the issuer or public corporations established in the Netherlands.

The cooperation agreement was signed for an initial period of 12 years. The management structures of Schiphol Group and ADP have been changed so that the Supervisory Board of Schiphol Group includes the CEO of ADP and the Board of Directors of ADP includes the CEO and CFO of Schiphol Group.

As a result of cooperation, Schiphol Group and ADP combined expect to achieve synergies of around EUR71 million per year by 2013 (of which EUR 16 million for Schiphol Group) and reduce capital expenditure by EUR18 million per year from 2013 (of which EUR 4 million for Schiphol Group).

Moody's believes that the key industrial logic for the Agreement appears to be to offer a better service to Air France - KLM, by encouraging Amsterdam Airport Schiphol and the Paris Airport system to manage and coordinate operations with the aim of permitting an enhanced operational performance of the Air France - KLM route network. This should be useful to Schiphol in that it encourages the airline to continue to see Amsterdam Airport Schiphol as an important base for transfer passenger activities.

¹ This does not include Maastricht Aachen Airport, Twente Airport in Enschede or Eelde Airport in Groningen which each have less than 0.5 million PAX.

² The remaining 49% is held by the local municipality and province.

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There are potential downside risks associated with the Agreement and cross shareholding, although on balance it is not considered that they are likely to materialise in the foreseeable future. Apart from the net investment cost to Schiphol Group, which is not considered large in relation to Schiphol Group's balance sheet, and which should yield an appropriate return (purchase price equivalent EBITDA multiple of 10.5x), there is a potential danger that Air France KLM could become an even more dominant customer in the future. Both ADP and Schiphol Group are subject to frameworks of economic regulation / charge setting which should mitigate this. However, as we have seen elsewhere in Europe, airlines with political clout and / or strong market positions can make life more challenging for airports.

The Agreement appears to suggest the likelihood of more overseas investment in other SkyTeam airports. However, Moody's understands that this is not management's current intention, and therefore this is not considered likely in the near term. Consequently, on balance, the Agreement and cross shareholding are considered neutral for the rating.

Recent Developments

Passenger Volumes Have Been Affected by the Air Passenger Tax

In the nine months to September 2009 the number of passenger movements at Schiphol decreased by 9.2% as compared to the same period of 2008. A significant contributor to the traffic decline was the introduction by the Dutch Government in July 2008 of an Air Passenger Tax levied on passengers departing from Dutch airports. Passengers paid €11.25 for destinations within the EU and within 2500 km. For destinations further away than 2500 km, passengers paid €45. Schiphol Group estimated the total burden for passengers and airlines due to the tariff increase at around €350 million per year. Schiphol noted the loss of its market share to the airports in Germany and Belgium as a result of the introduction of the Air Passenger Tax.

This tax was set to nil in July 2009 (and may be abolished completely in 2010), and it is noticeable that year on year traffic performance from July to September 2009 was materially better than in the previous months. Moody's would expect this improvement to continue for the remainder of 2009, so that the traffic decline for 2009 should be within the range Moody's expects for major European airports (between -5% and -10%).

Encouragingly, Schiphol's transfer traffic has held up better than origin and destination traffic in 2009 (-6.4% transfer traffic decline compared to -11.4% decline in origin and destination traffic); evidence that the Air France KLM route network continues to provide an underpinning to Schiphol's revenue. It also reflects the fact that the low cost carriers were hit disproportionately by the Air Passenger Tax.

In response to lower revenues, Schiphol introduced a cost cutting plan involving reduced staff numbers and curtailed its capital expenditure plans. These factors will go some way to reducing the negative effects of lower revenues. Nevertheless, Moody's would expect Schiphol to exhibit weak credit metrics for its current rating category for 2009, but this would be expected to improve in the next couple of years.

Rating Drivers

According to Moody's definition, Schiphol Group is a Government-Related Issuer. As such, its final rating is determined by an assessment of its standalone credit quality (expressed as a Baseline Credit Assessment; BCA), and factors pertaining to the likelihood of extraordinary support being provided by its main shareholder, the Government of the Kingdom of the Netherlands (Aaa, stable outlook) if this were ever required (through the assignment of a Support factor and a Dependence factor).

BCA of 7 (equivalent to A3) reflects the standalone credit profile of Schiphol Group

In May 2008, Moody's published a Rating Methodology for Operational Airports outside of the United States, which provides guidance on Moody's analytical approach and maps key rating factors used in determining the ratings for that industry. For Schiphol Group, the Rating Methodology suggests an A3 rating, the same as the current BCA.

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Figure 2

Rating Methodology Grid Mapping for Schiphol Group							
Operational Airports outside of the United States	Aaa	Aa	A	Baa	Ba	B	Caa
Governance and Rate Setting (15%)							
Legal Status / Corporate Objectives			X				
Rate Setting Methodology				X			
Nature of Ownership/Control	X						
Market Position (15%)							
Size of Service Area	X						
Robustness & Diversity of Service Area	X						
Competition for Medium to Long Distance Travel			X				
Passenger & Airline Base (10%)							
Passenger Mix (O&D / Transfer)					X		
Standard Deviation of Long-Term Average Annual Passenger Growth Rate		X					
Carrier Base (Transfer Traffic)				X			
Operating Environment & Capital Programme (10%)							
Operational Restrictions				X			
Complexity of Airport Capital Expenditure Programme			X				
Stability of Business Model and Financial Structure (10%)							
Ability & Willingness to Pursue Opportunistic Corporate Activity (M&A, Disposals, Investments)			X				
Ability & Willingness to Increase Leverage				X			
Targeted Proportion of Revenues outside of Owned Direct Airport Services				X			
Key Credit Metrics (40%)							
Cash Interest Coverage			X				
FFO / Debt			X				
Moody's Debt Service Coverage Ratio (DSCR)				X			
Moody's Concession Life Coverage Ratio (CLCR)			X				
Rating							
Indicated Rating from Grid Factors			A3				
Additional Rating Uplift for Creditor Protection			-				
a) Indicated Rating from Methodology			A3				
b) Actual BCA Assigned			A3				

The BCA of 7 reflects: (i) Schiphol Group's ownership of the fifth-largest airport in Europe and other Netherlands airports; (ii) its debt profile following the payment of special dividends; (iii) its relatively high exposure to transfer traffic and reliance on Air France - KLM; (iv) its moderate capital expenditure programme; and (v) certain operational constraints which may impede the pace of volume growth in future years.

In the following paragraphs we discuss in more detail how Schiphol Group scores for the main rating factors under the methodology grid.

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(1) Governance and Rate Setting

Schiphol is subject to a degree of regulatory oversight

Despite its ownership structure, Schiphol Group is a financially independent commercial enterprise. Its legal status does not place any particular legal restrictions on what it can do and hence does not provide any particular protections from bankruptcy. However, the airports operated by Schiphol Group, in particular Amsterdam Airport Schiphol, are regulated in a number of areas, including noise and environment, aviation operations, capacity, safety and airport charges.

A recently implemented dual till system of economic regulation

Following the implementation of a legislative decree in July 2006, Schiphol is subject to a dual till system of economic regulation, with aviation charges being set to give a return to the assets of Amsterdam Airport that are identified as being used for aviation purposes only (i.e. excluding assets that generate commercial revenues such as retail sales). Under the system, charges are set by Amsterdam Airport Schiphol based on an allocation methodology which is approved and ultimately applied by the Dutch competition authority (Nederlandse Mededingingsautoriteit or "NMa"). The maximum permitted return may not exceed the weighted average cost of capital for aviation activities which is calculated using the CAPM (Capital Asset Pricing Model). Accordingly, the tariffs that Schiphol Group is able to charge at Amsterdam Airport Schiphol are limited.

New charges can take effect from 1 April and/or 1 November. Security charges may be changed more frequently if government instructions force Schiphol to take additional security measures. Once the charges are proposed, airline customers can respond and any dispute is referred to the Dutch competition authority which will determine whether or not the charges were set according to the allocation methodology. Any differences in the assumed traffic levels, revenues, costs or investments in a given year resulting in an under-recovery (return < WACC) may be recouped through higher tariffs in the subsequent year while an over-recovery (return > WACC) must be returned to the airlines through lower tariffs in the subsequent year.

In 2008 the charges were adjusted once, on 1 November. The charges increase allowed to compensate for the negative effect on revenue of the decline in the traffic in the first half of 2009. As of 1 April 2009 the charges were reduced on average by 9.3%. Various parties disputed the April 2009 fees and, as a result of the NMa's decision, charges were further reduced. On average, tariffs declined by 10% as of 1 April. Schiphol decided not to adjust its charges either on 1 November 2009 or on 1 April 2010.

Under the dual till principle, the non-aviation activities (consumers and real estate segments) at Schiphol as well as all other activities of Schiphol Group, including its other Dutch airport interests, are not subject to economic regulation. Moody's would expect the framework to provide a fair and appropriate level of charges, although it remains to be seen how well this works over an extended period of time.

Ownership of airport assets provides long-term capital flexibility

Schiphol Group has been designated as the operator of Amsterdam Airport Schiphol for an indefinite period of time and owns its airport assets outright in perpetuity. The license may be revoked by the Ministry of Transport in a limited number of circumstances: (i) mismanagement such that the continuity of Amsterdam Airport Schiphol would be endangered; or (ii) national planning policy no longer envisages an airport at the present location of Amsterdam Schiphol Airport. Schiphol Group would be entitled to compensation for certain damages if its permit was revoked because of a change in national planning policy.

(2) Market Position

Characteristics of the service area support good revenue generating prospects

Amsterdam Airport Schiphol is located in the most populous region of the Netherlands, the Randstad, which includes Amsterdam, Rotterdam, The Hague and Utrecht, with a population of approximately five million. There is a direct train service to major domestic cities as well as several international destinations. The airport is also positioned at the crossroads of major North-South and East-West motorways. By train or car, the airport is approximately 15 minutes from Amsterdam and 45 minutes from Rotterdam. The catchment area

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(within a two-hour drive of the airport) covers most of the rest of the Netherlands, and arguably parts of Belgium and Germany as well and reaches 34 million people. Amsterdam Airport's excellent transport connections should ensure this position is maintained. Schiphol Group's ownership of Rotterdam Airport and majority ownership of Eindhoven Airport gives Schiphol a virtual monopoly of the international airports in the Netherlands.

The Netherlands is an advanced European country with an open, robust and diversified economy. Its financial position should enable the economy to weather economic downturns reasonably well. This is evidenced by the Aaa long-term credit rating of the Government of the Netherlands which has been stable since the rating was assigned.

Combination of a commanding position in the Dutch air travel market and exposure to transmodal competition

Schiphol has a virtual monopoly of air travel originating and ending in the Netherlands. In addition, Amsterdam Airport is the third-largest airport by cargo volumes in Europe, a position underpinned by the Netherlands' role as a major distribution centre for non-European companies in the EU. However, given the very good rail network in continental north-west Europe, the airport is exposed to rail travel for certain European travel destinations. The Dutch Government's plans to better connect the Netherlands to the high-speed rail networks of Belgium and Germany are advanced, which will increase Schiphol's potential catchment area, but may also serve to increase competition on short-haul routes and bring Amsterdam Airport Schiphol into more direct competition with airports in Paris and Brussels.

(3) Passenger & Airline Base

The traffic statistics for the past three full years are as follows.

Figure 3

Passenger Traffic (Amsterdam Airport Schiphol)					
million	2006	2007	2008	% Change 2008/2007	Share 2008
Total passenger movements	46.1	47.8	47.4	-0.8%	
Air France - KLM and partners	28.4	29.5	30.2	2.7%	63%
Low-cost carriers	5.4	6.0	5.1	-15.0%	11%
Other airlines	12.2	12.3	12.1	-2.1%	26%
Origin and destination traffic	26.9	28.0	27.0	-3.4%	57%
Transfer traffic	19.1	19.7	20.4	3.0%	43%

Source: Annual Reports

High exposure to transfer traffic

In 2008, 43% of total passengers of Schiphol represented transfer traffic. This figure has been fairly constant over the past few years and is the highest of any European airport rated by Moody's. While the transfer traffic makes it possible to achieve significantly higher passenger volumes than the natural passenger flow, it makes the airport exposed to the relevant airline's business strategy and survival. As evidenced by the above figures transfer traffic held up well less affected by higher aviation tax than the low cost sector.

Relatively stable dynamics in passenger traffic growth

Compared with most other airports rated by Moody's, Schiphol has experienced relatively low volatility of passenger traffic since the late 1990s. The standard deviation of average annual passenger growth rate for the last 10 years has been 3.6%³. Since 1992, with the exception of 2001, 2003 and 2008, the Schiphol's annual passenger growth rate has consistently been above 3%.

³ Based on total passenger movements of the Amsterdam, Rotterdam and Eindhoven airports

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Significant exposure to the Air France - KLM Alliance but there are no signs of a negative impact

Schiphol Group scores Baa for the Carrier base factor based on the high share of Air France – KLM in transfer traffic and the credit quality of the airline. The Air France – KLM Alliance accounted for around 63% of Amsterdam Airport's total passengers in 2008 and so its fortunes will have a material impact on Schiphol's future traffic volumes.

This risk is mitigated to some extent by guarantees provided by Air France and KLM to the Dutch Government at the time of the merger in 2004 that they would retain their respective home bases and maintain a multi-hub system around Amsterdam Airport Schiphol and Paris-Charles de Gaulle Airport in Paris for a period of eight years. Although there are inevitable uncertainties over the shape of the Air France – KLM route network over the medium term, to date the impact on Schiphol's traffic volumes has been positive.

There are potential downside risks associated with the industrial cooperation agreement between Schiphol Group and ADP. In particular, there is a potential danger that Air France - KLM could become an even more dominant customer of Schiphol in the future. Both ADP and Schiphol are subject to frameworks of economic regulation / charge setting which should mitigate this. However, as we have seen elsewhere in Europe, airlines with political clout and / or strong market positions can make life more challenging for airports.

(4) Operating Environment & Capital Program

Substantial physical capacity at Amsterdam Airport but material operational constraints exist

The existing runway system of Schiphol has the capacity to handle around 600,000 air transport movements a year, and the existing terminal space is sufficient for over 60 million passengers a year, which is expected to satisfy the demand for air traffic until at least 2020. While physical capacity is substantial, there are operational constraints that place a limit on the number of aircraft movements.

In common with many major European airports, Amsterdam Airport needs to operate within constraining environmental parameters, although such parameters are considered tight. This is partly due to Amsterdam Airport's location on the outskirts of the City of Amsterdam and with built-up residential areas all around the airport (this part of the Netherlands has one of the highest population densities in Europe), and partly due to the political consensus in the Netherlands that favours tight environmental regulation of potentially polluting activities. Noise pollution is a particular issue with local residents which feeds through to local political pressure.

Regulations limit the total annual noise caused by Amsterdam Airport Schiphol operations as well as the noise at each individual "enforcement point". The noise limits were based on a scenario developed in 2001 for the expected runway usage in the period 2005-2010. The development of the aviation sector has not been in line with projections which resulted in "unused" noise capacity at some enforcement points at the expense of limit breaches at others.

In December 2006, the "Alders Platform" was established, a consultative body responsible for determining the limits placed by environmental considerations on Schiphol's growth in the short (to 2010) and medium (2018/2020) term. The participants in the consultative process are the government, the aviation industry, the province, the local municipalities and local residents' organisations.

In the short term, the existing agreement allows for a growth of Amsterdam Airport Schiphol to approximately 480,000 air transport movements per year. This limit permits a 13% increase in the current number of transport movements. The outcome of the Alders Platform consultations for the medium term is to allow Schiphol to grow to 580,000 air transport movements a year in 2020. Of this number, 70,000 air transport movements are to be accommodated at regional airports. The recommendations of the Alders Platform have been approved by the government and by the Lower House. In April 2009 the government submitted to the Lower House the Aviation Policy Document which will indicate how the additional 70,000 air transport movements will be distributed.

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No single large capital expenditure project on the horizon, but ongoing modularised expenditure will be required to deal with growth

No single major piece of infrastructure is scheduled to be required at Amsterdam Airport in the medium term. Nevertheless, in order to accommodate future growth, additions to terminal capacity, aviation systems and terminal access, infrastructure upgrades will be required. These items can be modularised and implemented or delayed depending on growth at Amsterdam Airport, which gives the company significant flexibility in downside traffic scenarios. Planned investments in the coming years include taxiways, aprons and piers, security and fire protection systems enhancement and further upgrading of baggage handling systems. Schiphol is intending to invest in the baggage system about €550 million in addition to the amount which had been invested by the end of 2008. The investments are required to ensure the handling and flow of 70 million bags per year.

In 2008, capital expenditure amounted to €354 million⁴ (including investments in aviation fixed assets of €216 million), in line with the expenditure in 2007. The most important projects were the upgrading of the baggage and security systems and real estate developments. Capital expenditure is expected to be approximately €285 million for 2009, with about half of this amount to be invested in aviation facilities at Amsterdam Airport.

Moody's would expect management to manage the capital expenditure programme in the light of changing traffic dynamics – and this flexibility is afforded by the modularised nature of the capital expenditure programme.

(5) Stability of Business Model and Financial Structure

Lack of legal/contractual restrictions is balanced by the track record of conservative financial structure

Schiphol Group's debt covenants do not place any significant limits on its investment activity or business outside airport services. Although the European Investment Bank loan facility conditions include a requirement to comply with Equity/Total Assets ratio of 30%, currently this covenant does not limit the ability of management to materially increase leverage due to the existence of a significant leeway. The lack of legal/contractual restrictions is balanced by the track record of Schiphol Group, which has traditionally had a conservative financial structure with a modest amount of debt leverage, and paid a moderate dividend to its shareholders. Following the payment of special dividends, Moody's would expect this policy to be maintained.

The co-operation agreement with ADP appears to suggest the likelihood of more overseas investment in other SkyTeam airports. However, Moody's understands that this is not management's current intention, and therefore this is not considered likely in the near term.

(6) Key Credit Metrics

Moody's uses four credit metrics that measure both the absolute capacity of Schiphol Group to service its debt, and the size of its debt burden relative to those of its peers. The Cash Interest Coverage ratio focuses on the ability to service debt prior to repayment. It makes a distinction between current and accruing interest and is affected by the use of non-conventional financing structures which may provide financial flexibility in meeting interest payments. The other three ratios measure leverage and aim to capture how easily Schiphol Group can repay its debt. The Debt Service Coverage Ratio and Concession Life Cover Ratio are forward-looking metrics which take into account the fact that the issuer may have an asset with a limited economic life such as a concession or lease of fixed duration. FFO/Debt is a standard "point in time" ratio which can be used for wider comparisons with companies from other industries.

Figure 4 presents a summary of the financial performance for the past two reporting years as well as the inputs used to calculate the four credit metrics incorporated into the Moody's Rating Methodology for Operational Airports outside of the United States.

⁴ It represents the amount of investment in property, plant and equipment and intangible assets as adjusted by Moody's. The amount excludes acquisitions.

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Figure 4

Financial Performance and Credit Metrics (as Adjusted by Moody's)

€ million	2007	2008
Income Statement		
Turnover	1,146	1,154
EBITDA	492	456
EBITDA Margin	42.9%	39.7%
EBIT	313	282
Interest Expense	50	67
Net Income	203	166
Unusual & Non-Recurring Items	113	21
Net Income after Unusual & Non-Recurring Items	316	187
Cash Flow Inputs		
FFO (Pre-Interest)	408	383
Net Interest	-37	-52
Working Capital	-53	94
Cash flow from operations	318	425
Dividends	-79	-593
Retained Cash Flow	291	-263
Capex	-354	-354
Free Cash flow	-116	-522
Debt Inputs		
Short-Term Debt	87	333
Long-Term Debt	821	1,646
Total Financial Debt	907	1,979
Cash & Marketable Securities	142	398
Net Financial Debt	766	1,580
Adjustments:		
Operating leases	48	35
Pensions	32	28
Hedging derivatives	15	-36
Adjusted Debt	1,001	2,006
Adjusted Net Debt	859	1,608
Other Inputs		
Remaining Concession Life, years [1]	100	100
Discount Rate [2]	4.6%	5.0%
Key Financial Metrics		
Cash Interest Coverage	8.4x	5.9x
FFO / Debt	37.0%	16.5%
Moody's Debt Service Coverage Ratio	9.1x	3.9x
Moody's Concession Life Coverage Ratio	11.0%	25.4%

Source: Annual Reports, Moody's Financial Metrics

[1] Schiphol holds its assets in perpetuity

[2] Notional cost of intermediate maturity debt in euros

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Unusual & Non-Recurring Items include one-off income from tax settlement and fair value gains on the property portfolio.

Evolving debt profile

Based on 2007 financial statements Schiphol Group had the lowest amount of debt leverage of any European Airport rated by Moody's, and hence had the most conservative capital structure. However, the leverage has increased significantly as the additional funding was required to finance the payment of the EUR 500 million special dividend and net investment of EUR 168 million in ADP shares⁵.

Most of the debt of Schiphol Group is unsecured, with the majority of it procured under a €2 billion medium-term note programme (EMTN) on a bullet repayment basis. In 2008 the size of the programme was increased from EUR 1 billion. Maturities are spread between 2009 and 2038. Most of debt is raised through Schiphol's main operating company, Schiphol Nederland B.V. ("SNBV"), which holds the assets of Amsterdam Airport. In accordance with Dutch Law, Schiphol has filed what is known as a 403 declaration, whereby Schiphol becomes liable for the obligations of SNBV. It has made similar filings with regard to other Schiphol group companies including Schiphol Real Estate BV ("SRE"). These declarations may subsequently be reversed, although obligations taken on during the life of the declaration remain primary obligations of Schiphol. However, the medium term notes issued by SNBV are formally guaranteed by Schiphol.

As of 31 December 2008 €198.5 million of the loans was contracted in Japanese yen (JPY25 billion) and fully hedged. €221.4 million of the loans has been contracted at floating interest rates. In line with financial risk management policy, interest rate swaps, interest rate caps and currency swaps have been contracted on the loans to hedge the risks inherent in exposure to movements in interest rates and exchange rates.

In June 2008 Schiphol Group launched the €750 million Euro Commercial Paper Programme that provides for commercial paper issuance by N.V. Luchthaven Schiphol and Schiphol Nederland B.V. Commercial paper issued by one of these companies is guaranteed by the other and vice versa. The Euro Commercial Paper Programme is supported primarily by a €200 million syndicated bank loan facility. Moody's assigned a Prime-1 rating to the programme.

Given Schiphol's moderate capital expenditure programme it is not expected to be making any large debt issues in the near future.

Limited off balance sheet commitments

The Schiphol Group has very modest operating lease commitments and modest off-balance-sheet financial commitments.

Schiphol employees benefit from a defined benefit pension which is contributed to by Schiphol and the employees. The fund is managed by Algemeen Burgerlijk Pensioenfonds ("ABP") which manages the pension fund for Dutch civil servants, many Dutch state owned companies, and members of the Dutch education sector (e.g. teachers). Due to the nature of the fund, Schiphol Group reports that ABP are unable to isolate the Schiphol and Schiphol employees' specific actuarial exposures from non-Schiphol contributors and beneficiaries of the fund. Hence, Schiphol's exposure to possible shortfalls cannot be determined. Consequently the scheme is accounted for as a defined contribution plan.

In aggregate, and on the basis of required measures, ABP has an actuarial deficit, although corrective action is being taken to rectify this. In particular, both employer and employee contribution rates have been increased and employee benefits reduced. Given the wide ranging nature of the ABP fund, discussions regarding contribution rates and beneficiary benefits are negotiated and agreed by all the contributors to the fund.

Existing Rating Triggers

In July 2008 Schiphol Group placed a JPY20 billion notes issue under its Euro medium-term note programme. Holders of the notes have the right to demand the redemption of the notes at their principal amount in the following cases:

⁵ Net funding requirement which is the difference between EUR 538 million of ADP shares acquisition costs and EUR 370 million of proceeds from Schiphol's shares sale to ADP

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- any long-term senior unsecured debt rating from Moody's or S&P is downgraded to a non-investment grade rating
- the long-term senior unsecured debt of SNBV or Schiphol ceases to carry a credit rating and no rating is assigned within 90 days of the cessation.

The €150m loan from the European Investment Bank ("EIB") has a rating trigger. EIB can enter into a preliminary discussion regarding a change of conditions on the outstanding debt if Schiphol's rating falls below A (S&P) or A2 (Moody's). In the event that revised conditions are not agreed, EIB could ask for early repayment of the loan.

In addition, Schiphol is a party to a number of ISDA Master Swap Agreements that require that any outstanding swap contracts would be terminated if Schiphol ceased to be rated or its credit rating fell below BBB- (S&P) or Baa3 (Moody's).

Government support provides a two-notch uplift for the ratings

The A1 rating of Schiphol Group reflects the combination of the following inputs.

Figure 5

Key Variables of Joint Default Analysis for Schiphol	
Government-Related Issuer Rating Inputs	
a) Baseline Credit Assessment	7 (A3 equivalent)
b) Government Local Currency Rating	Aaa
c) Default Dependence	Low
d) Support	Medium

The low Dependence recognises that factors other than domestic economic performance have a material impact on Schiphol Group, e.g. propensity for international travellers to visit the Netherlands, the propensity for passengers to spend at the airports, and the success of airlines in attracting transfer traffic to Amsterdam Airport.

The medium Support reflects the ownership by the Dutch Government and Amsterdam and Rotterdam Municipalities, which may at some point be reduced as part of a privatisation process, but will very likely remain at a minimum of 50.1% over the long term, together with Schiphol's role as a critical component of the Netherlands' international transport network.

Other Rating Considerations

Liquidity sufficient to cover expected funding requirements over the next 12 months

Schiphol Group currently has strong liquidity. The company had €338.2 million of cash and cash equivalents as of 30 June 2009. In addition, Schiphol Group has a EUR200 million syndicated 364 day bank facility with term out option which remains undrawn. Following the November 2008 issue of 5-year EUR 700 million Bonds, subsequently increased by EUR 100 million, Schiphol Group was able to replace most of the short term indebtedness with medium term debt. As at 30 June 2009, Schiphol Group did not have any commercial paper outstanding. Schiphol's large cash balances reflect its current policy of accessing debt markets to ensure adequate funding to meet all cash requirements well in advance of requirements. Since June 2009, Schiphol Group has issued a further EUR200 million of medium term notes. Debt maturities for 2010 are approximately EUR62m so are not material in relation to Schiphol's current large cash balances.

With moderate capital expenditure obligations (which have some degree of deferability) and modest debt repayments in the near term, we expect Schiphol Group to have sufficient cash flow, cash on hand and committed facilities to meet all operating and capital expenditure obligations during the next 12 months.

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Moody's also notes that a rating of Schiphol Group from one credit rating agency is now at the level at which it would be required to post collateral to support the €150 million European Investment Bank Loan (now only EUR48m outstanding) if its rating was downgraded further.

Rating Positioning & Peer Comparison

The following table presents the key financial metrics of the European operational airports rated by Moody's.

Figure 6

Peer Comparison							
Company	Rating / BCA	Date	Revenues, USD th	Interest Coverage	FFO / Debt	DSCR	CLCR
Aeroporti di Roma S.p.A.	Baa3	12/31/2008	834,109	2.1x	6.4%	1.9x	53.2%
ANA - Aeroportos de Portugal, S.A.	A2 / A3	12/31/2008	569,774	4.0x	15.8%	4.2x	23.9%
N.V. Luchthaven Schiphol	A1 / A3	12/31/2008	1,696,970	5.9x	16.5%	3.9x	25.4%

Source: Annual Reports, Moody's Financial Metrics

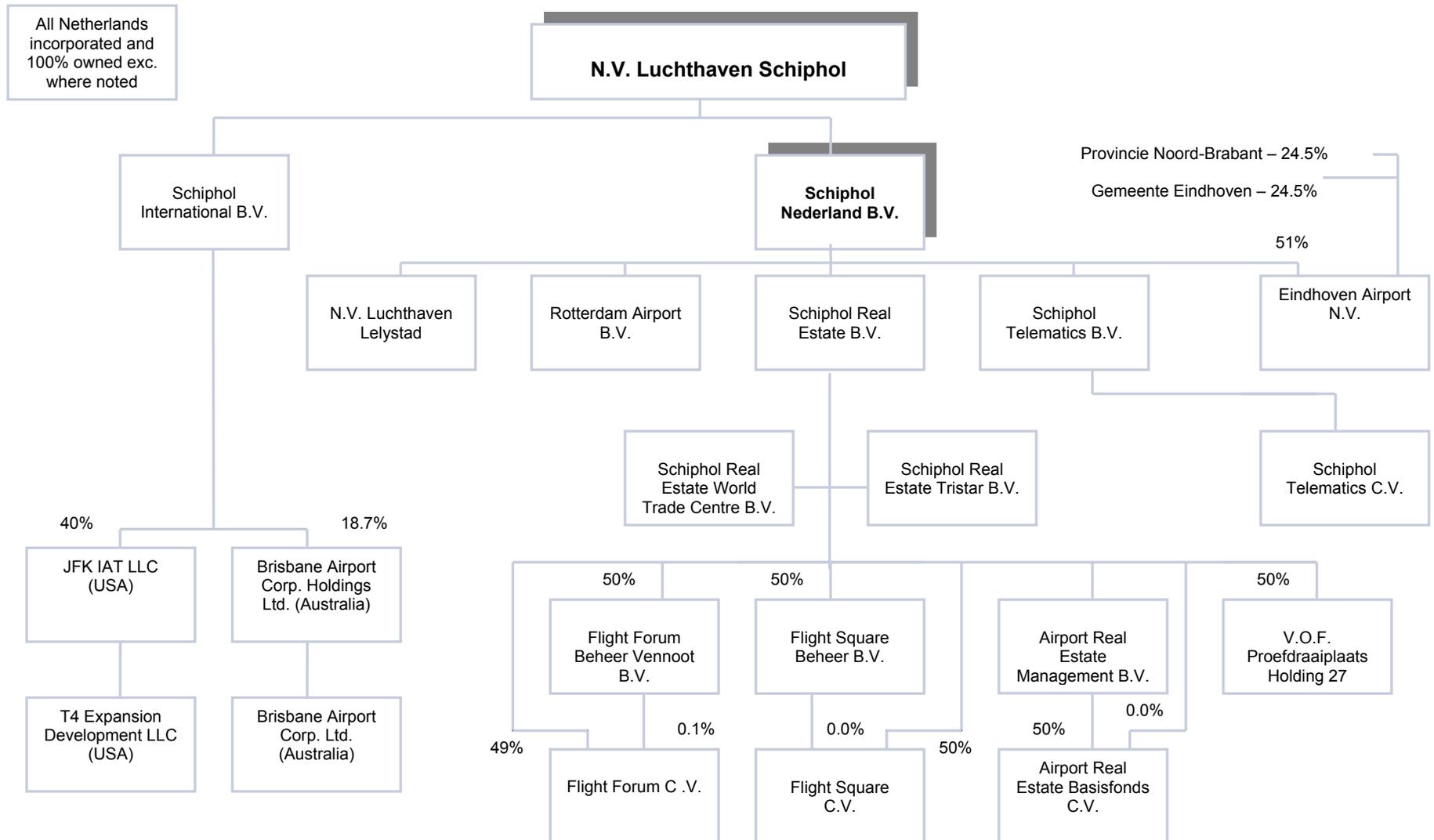
In 2008 the credit profile of Schiphol Group deteriorated as a result of the payment of the special dividend. The impact was compounded by the economic recession and introduction of the Air Passenger Tax. The current key credit metrics of Schiphol Group are in line with the ones of its closest (in terms of the rating category) peer, ANA - Aeroportos de Portugal, S.A.

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Appendix 1

N.V. Luchthaven Schiphol - Group Structure Chart

Abridged - Not a complete overview of Schiphol Group subsidiaries and participations



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Appendix 2

Amsterdam Airport Schiphol

Source = Schiphol Group publications

1. Comparison with other major European Airports – 2008

	Passenger Movements (million)	Rank (Passenger Movements)	ATM* (000s)	Cargo Tonnes (000s)	Rank (Cargo Tonnes)
London Heathrow	66.9	1	473	1,401	4
Paris Ch. De Gaulle	60.7	2	551	2,039	1
Frankfurt	53.2	3	480	2,021	2
Madrid	50.8	4	470	329	10
Amsterdam	47.4	5	428	1,568	3
Rome Fiumicino	35.1	6	341		>10
Munich	34.4	7	408		>10
London Gatwick	34.2	8			>10
Barcelona	30.2	9	321		>10
Paris Orly	26.2	10			>10

* Air Transport Movements, i.e. take-offs and landings

2. Growth Trends in Passengers at Amsterdam Airport

Year	Total PAX (million)	Change	Notes
1995	25.355	7.6%	
1996	27.795	9.6%	
1997	31.570	13.6%	
1998	34.420	9.0%	
1999	36.772	6.8%	
2000	39.067	6.2%	
2001	39.531	1.2%	*1
2002	40.736	3.0%	*1
2003	39.960	-1.9%	*2
2004	42.541	6.5%	
2005	44.163	3.8%	
2006	46.066	4.3%	
2007	47.795	3.8%	
2008	47.430	-0.8%	
1995-2008 (CAGR)		5.1%	

Notes: 1. Drop in traffic post 11 September

2. Gulf War

3. Passenger Split - 2008

Scheduled	91.9%	O&D	57.0%
Charter	8.1%	Transfer	43.0%

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4. Passenger Movements per Destination - 2008

Rank	Region	Passenger Movements (000s)	% of Total	Change from 2007
1	European Union	26,453	55.8%	-3.3%
2	North America	5,885	12.4%	5.1%
3	Rest of Europe	5,296	11.2%	2.1%
4	Asia	4,046	8.5%	0.7%
5	Africa	2,556	5.4%	2.2%
6	Latin America	2,042	4.3%	1.0%
7	Middle East	1,152	2.4%	4.1%
TOTAL		47,430	100%	-0.8%

Moody's Related Research

Rating Methodology:

- Operational Airports outside of the United States, May 2008 (108552)
- The Application of Joint Default Analysis to Government Related Issuers, April 2005 (92432)

Industry Outlook:

- European Infrastructure, June 2009 (118058)
- Update: Global Infrastructure Holds Up Despite Profound Market Disruptions, October 2008 (112002)

Analysis:

- Aeroporti di Roma, October 2008 (111855)
- ANA – Aeroportos de Portugal, S.A., November 2008 (112983)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

N.V. Luchthaven Schiphol

Report Number: 121132

Author

Andrew Blease
Sergey Konyshev

Production Specialist

Kerstin Thoma

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