

**Credit Opinion: N.V. Luchthaven Schiphol**

Global Credit Research - 19 Dec 2011

Amsterdam, Netherlands

**Ratings**

Category	Moody's Rating
Outlook	Stable
Bkd Sr Unsec MTN -Dom Curr	(P)A1
Bkd Commercial Paper -Dom Curr	P-1
<b>Schiphol Nederland B.V.</b>	
Outlook	Stable
Senior Unsecured -Dom Curr	A1
Bkd Commercial Paper -Dom Curr	P-1

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**Key Indicators**

**N.V. Luchthaven Schiphol[1]**

	6/30/2011(L)	12/31/2010	12/31/2009	12/31/2008	12/31/2007
EBITA Margin	26.8%	25.3%	22.6%	25.6%	28.7%
EBITA / Average Assets	6.0%	5.4%	4.8%	6.1%	7.7%
EBITA Interest Coverage	2.5x	2.2x	2.2x	4.4x	6.5x
FFO Interest Coverage	3.6x	3.3x	3.8x	6.1x	7.4x
FFO / Net Debt	20.7%	20.3%	21.0%	21.3%	37.8%
RCF / Net Debt	17.0%	16.1%	16.6%	-15.6%	28.5%

[1] Standard adjustments in accordance with "Rating Methodology: Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations, Part 1, Part 2 and Part 3". In addition, Moody's adjusts for one time items.

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

**Opinion**

## Company Profile

N.V. Luchthaven Schiphol ("Schiphol Group", rated A1, stable outlook) is a holding company of a 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. The largest of the Dutch airports, Amsterdam Airport Schiphol ("Schiphol"), is the fifth-largest airport in Europe by passenger numbers. Schiphol Group is currently owned 70% by the Kingdom of the Netherlands, 20% by the Municipality of Amsterdam, 2% by the Municipality of Rotterdam, and 8% by Aéroports de Paris ("ADP"). In December 2008, Schiphol Group signed a cross-shareholding and co-operation agreement with ADP, which involved both Schiphol Group and ADP acquiring an 8% interest in each other's share capital.

## Rating Rationale

The A1 rating reflects a view of the fundamental credit quality of Schiphol Group represented by (i) a Baseline Credit Assessment of 7 on a scale of 1 to 21, whereby 1 represents lowest credit risk (equivalent to A3 on Moody's Global Rating Scale), and (ii) a two-notch rating uplift for the likelihood of extraordinary support being provided by the Government of the Kingdom of the Netherlands in the event that this were ever to be required to avoid a default, as assessed in accordance with Moody's rating methodology for Government Related Issuers.

More particularly, Schiphol Group's A1 rating reflects the combination of the following inputs: (a) a Baseline Credit Assessment of 7, (b) the Aaa local currency rating of the Government of the Kingdom of the Netherlands, (c) Moderate Dependence, and (d) Moderate Support.

The Baseline Credit Assessment of 7 reflects: (1) Schiphol Group's ownership of Schiphol (the fifth-largest airport in Europe) and the other Netherlands airports, (2) its relatively high exposure to transfer traffic, and reliance on Air France KLM, (3) its moderate capital expenditure programme, (4) certain operational constraints which may impede the pace of volume growth in future years, and (5) its current financial profile, which is expected to stay broadly constant over the next few years.

## Recent Developments

For the 12 months ending October 2011, Schiphol's passenger volumes increased 10.4% relative to same period of the year before. This percentage increase is markedly higher compared to what we see with the other major European hub airports and is a strong recovery relative to the volume growth numbers of October 2010 (+2.2%) and October 2009 (-8.5%).

On 24 August 2011, Schiphol Group published its results for the six months ending June 2011. Overall revenues rose 10.8% (to EUR604.1 million). Over this same period, passenger numbers also rose 12.7%, and aircraft movements grew 10.4%, a performance stronger compared to elsewhere in Europe. We further note that in the first half of 2010, Schiphol was affected by the volcanic ash cloud that caused the closure of the airspace for a number of days in April and May, and which somewhat affected the growth numbers of H1 2011 relative to those reported in H1 2010. Given the strong recovery of passenger volume growth in 2011 from the 2008-09 global financial crisis and also given the current slowdown in advanced economies, it seems highly unlikely that the strong growth we saw in 2011 will continue in 2012. Therefore Moody's expects a low-single-digit passenger volume growth for 2012.

Schiphol did not raise airport charges in April 2010, in order to assist its airline customers, which followed on from airport charge reductions in 2009. The company did increase airport charges by 0.6% in April 2011; however, no further increases were introduced as at 1 November 2011 following a consultation process conducted in H1 2011 that factored in the positive developments observed in passenger traffic and transport.

Total revenue in the Aviation business rose by 12.1%, in the first six months of 2011, to EUR321.6 million. This increase can largely be explained by the increase in traffic and a moderate rise in airport charges. Revenues in the consumer business area (comprising retail sales, parking charges, concession fees, advertising and management fees) accounted for more than 20% of Schiphol Group's total revenue, and rose by 14.3% in H1 2011. Overall EBITDA in H1 2011 and in 2010 rose 34.1% and 26.1%, respectively. EBITDA rose sharply by almost EUR100 million to EUR483 million in 2010 (2009: EUR383 million), this can largely be explained by a (i) change in a non-cash item, specifically a EUR62 million change in property fair value, and (ii) reduced restructuring cost of EUR22 million.

Furthermore, Schiphol is planning an ambitious 10- to 15-year investment programme with respect to the long-term development of the Mainport. Moody's expects that the size of this long-term investment and the impact on revenues will become more clear in 2012. Since 2002, Schiphol has been making sizeable investment in its fully automated baggage system which mainly benefitted its transfer traffic. Through this investment, the airport will be able to handle up to 70 million pieces of baggage per year and will further improve its ability to handle peak-capacity requirements. An additional investment of about EUR60-80 million is required in 2012, which is less than 10% of the total investment in the system. To a very large extent, these baggage system investments have already been incorporated in the airport charges. Moody's expects total capex for 2011 to be about EUR300 million (a EUR50 million increase compared to 2010).

## Rating Drivers

The six key business and financial factors (detailed below) are assessed in light of the Rating Methodology for Operational Airports outside of the United States (published May 2008). The overall rating methodology grid score maps to an A3 rating, in line with Schiphol Group's current BCA.

### Factor 1 - Governance and Rate Setting

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. 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. At the same time, the airports operated by Schiphol Group, particularly Amsterdam Airport Schiphol, are regulated in a number of areas, including noise and environment, aviation operations, capacity, safety and airport charges.

Following the implementation of a legislative decree in July 2006, Amsterdam Airport Schiphol is subject to a 'dual till' system of economic regulation, and therefore operates with a regulated return on a 'defined aviation asset base', based on an assumed average cost of capital and a proposed capital expenditure plan based on the forward requirements of users of the airport. The charges are set by Amsterdam Airport Schiphol in accordance with the regulatory framework, and possible disputes with its airline customers are referred to the relevant Dutch Government agency (the Netherlands Competition Authorities). This is a new regulatory framework, which was implemented for the first time in setting aviation charges in November 2007. Under the 'dual till' principle, the non-aviation activities (consumers and real estate segments) at Amsterdam Airport Schiphol as well as all other activities of Schiphol Group, including its other Dutch airport interests, are not subject to economic regulation.

### Factor 2 - Market Position

As well as serving Amsterdam - a major trading centre and capital city of an advanced European country - Schiphol Group's ownership of Rotterdam Airport and majority ownership of Eindhoven Airport gives Schiphol Group a virtual monopoly of the international airports in the Netherlands. In addition, Amsterdam Airport Schiphol 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.

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

Amsterdam Airport Schiphol has a virtual monopoly of air travel originating and ending in the Netherlands. However, given the very good rail network in continental north-west Europe, the airport is exposed to rail travel competition for certain European travel destinations. The Dutch Government's high-speed rail plans (to better connect the Netherlands to the high speed rail networks of Belgium and Germany) are advanced, which will increase the potential catchment area of Amsterdam Airport Schiphol, 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.

### Factor 3 - Passenger and Airline Base

Amsterdam Airport Schiphol has a relatively high exposure to transfer traffic (41% of total passengers); in fact the highest of any European airport rated by Moody's, hence leaving it relatively exposed to the fortunes of its main hub carrier. The Air France KLM Alliance accounted for nearly 64% of total passengers (or 28.9 million) in 2010 and which will have a material impact on Amsterdam Airport Schiphol's future traffic volumes. 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, and there remains an understanding between the French and Dutch governments that changes to route networks would be minimised were possible.

Compared to most other airports rated by Moody's, Amsterdam Airport Schiphol had experienced relatively low volatility of passenger traffic since the late 1990s. However, this changed in 2009 with the large annual drop (an 8.1% decline) in passenger numbers. However, passenger growth numbers recovered somewhat in 2010 (up 3.8%) and a stronger recovery is expected for 2011, as October 2011 year-to-date passenger growth was 10.9%. The standard deviation of the year on year passenger number growth rates over the last ten full years (2001 - 2010) is 4.4%, the Schiphol Group therefore scores A for the corresponding sub-factor in the methodology. The standard deviation, which captures the volatility of passenger volume growth rates, is clearly also affected by the large decline in 2009.

Given the cross-shareholding and co-operation agreement with ADP, 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 an economic regulation / charge setting framework 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.

### Factor 4 - Operating Environment & Capital Programme

The existing runway system of Amsterdam Airport 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 2015. While physical capacity is substantial, there are environmental constraints that place a limit on the number of aircraft movements. The major constraint on growth is placed by noise regulations. However, an agreement was reached to allow for approximately 510,000 air traffic movements a year as of 2010. In addition, Schiphol Group could reallocate up to 70,000 flights from Amsterdam Airport Schiphol to other Schiphol Group Dutch airports which would free up additional capacity at Amsterdam Airport Schiphol.

Following the completion of the fifth runway in 2003, Amsterdam Airport Schiphol only needs to undertake modularised expenditure to address growth as it arises. This gives the company significant flexibility in downside traffic scenarios. Planned investments in the coming years include taxiways, aprons and piers, security, fire protection and further upgrading of baggage-handling systems. Amsterdam Airport Schiphol has been investing in baggage systems in order to ensure the handling and flow of 70 million pieces of

baggage per year. The total investment is about EUR800 million, most of which is already invested and included in the airport charges - only about EUR60-80 million is still to be invested.

#### Factor 5 - Stability of Business Model and 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 an 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 significant headroom. A 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. Nevertheless, Schiphol Group paid a one-off special dividend of EUR500 million in 2008 which, together with the net investment in ADP, has increased debt leverage. However, Moody's does not expect similar events to occur in the near future.

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.

#### Factor 6 - Key Credit Metrics

Schiphol Group has been scored on the basis of its financial results for the year ending 31 December 2010. The 2010 credit metric scores are in line with Schiphol Group's current A3 BCA. Credit metrics are not expected to have changed materially since that time.

#### GRI Factors

Our assessment of Moderate Dependence recognises that while the majority of both Schiphol Group and the Kingdom of the Netherlands' revenues are generated domestically, they both have a reasonable level of revenues / income that ultimately derive from economies outside of the Kingdom of the Netherlands. The Moderate Support assessment reflects (i) the 70% direct ownership of the Kingdom of the Netherlands combined with the possibility that, at some point, Schiphol Group may be partly privatised, although this is not expected within the foreseeable future, (ii) the modest possibility that state aid rules may apply to any extraordinary support provided by the Kingdom of the Netherlands (if required), and the likelihood that the Kingdom of the Netherlands would nevertheless proceed with such support, (iii) the high importance of Schiphol to the Dutch economy, and (iv) the history of government bailouts in the Netherlands and the low likelihood that a default by Schiphol Group would cause a negative market perception of the credit quality of the Kingdom of the Netherlands.

#### Liquidity

The current liquidity profile of Schiphol Group is solid.

As at 30 June 2011, Schiphol Group had EUR297.4 million of cash and cash equivalents and EUR136.7 million of borrowings due within 12 months. In addition, Schiphol Group has signed a EUR175 million syndicated 5 year revolving credit facility with 5 banks which remains undrawn, replacing the previous 1 year + 1 year term out facility. As at 30 June 2011, Schiphol Group had a EUR750 million commercial paper programme but did not have any commercial paper outstanding, having taken the decision to end its exposure to short-term debt markets early in 2009.

Schiphol Group'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. In June 2010, Schiphol Group raised a EUR350 million loan facility from the European Investment Bank and in April 2011 a new bond of EUR438 million with a 10-year maturity was issued.

In 2011, the Schiphol Group made a withdrawal of EUR180 million of its EIB facility to cover current financing requirements and for early repayment of a 40-year lease. The proceeds of the EUR438 million bond were used to purchase EUR403 million in existing bonds with debt maturities in 2013 and 2014 through which the Group extended the maturity of its debt.

Schiphol Group only had one significant loan maturity in 2011 of EUR109 million, and this loan will be refinanced by a 4.5 year loan before year-end 2011. The EUR109 million loan represents the Schiphol Group's 60.25% participation in a EUR180 million loan to the AREB C.V. Fund (a 60.25% owned property joint venture). Schiphol Group's current cash balances and standby bank facilities are more than adequate to meet its cash requirements, and Schiphol Group's liquidity is expected to remain good.

In line with other major airport companies, Schiphol Group generates strong operating cash flow throughout the year, albeit with some cyclicalities because the northern hemisphere summer season generates more cash flow than the winter season. Moody's would expect capital expenditure in 2012 to be almost EUR400 million, i.e., about EUR100 million higher than in 2011. Moody's would expect Schiphol Group to generate sufficient cash flow and have sufficient cash balances to cover all cash requirements for at least the next 12 months.

### Rating Outlook

Schiphol Group's credit profile is expected to stay constant. Its framework of economic regulation should provide appropriate charges going forward, although the framework needs to be tested over a few years to confirm its robustness, and capital expenditure is expected to be managed in light of expected future traffic growth. Moody's does not anticipate that there will be a step-change in overseas investment or investment in non-core activities, although the industrial co-operation agreement with ADP provides a framework for this.

### What Could Change the Rating - Up

A ratings upgrade could be warranted if the company were able to revert to a financial profile somewhat in line with that reported prior to 2008 financial statements. Although traffic is recovering from the decline recorded in 2009, given the current economic conditions, Moody's views upward rating pressure as unlikely at this stage.

### What Could Change the Rating - Down

The ratings could be downgraded if the financial profile of Schiphol Group deteriorates to the extent that any of the following ratios falls consistently below the identified levels: (i) cash interest coverage below 3.5 times, (ii) funds from operations (FFO) / Debt below 12.5% or (iii) Moody's debt-service coverage ratio (DSCR) below 3.5x.

Furthermore, a programme of material overseas or non-core investments may dilute the existing business profile to the extent that it has negative rating implications.

## Rating Factors

### N.V. Luchthaven Schiphol

Airports Industry	Aaa	Aa	A	Baa	Ba	B	Caa
<b>Factor 1: Governance and Rate Setting (15%)</b>							
a) Legal Status / Corporate Objectives			X				
b) Rate Setting Methodology				X			

c) Nature of Ownership / Control	X						
<b>Factor 2: Market Position (15%)</b>							
a) Size of Service Area	X						
b) Robustness & Diversity of Service Area	X						
c) Competition for Medium to Long Distance Travel		X					
<b>Factor 3: Passenger &amp; Airline Base (10%)</b>					X		
a) Passenger Mix (O&D / Transfer)					X		
b) Standard Dev of Long Term Average Annual Passenger Growth Rate		X					
c) Carrier Base (Transfer Traffic)				X			
<b>Factor 4: Operating Environment &amp; Capital Programme (10%)</b>							
a) Operational Restrictions				X			
b) Complexity of Airport Capital Expenditure Programme			X				
<b>Factor 5: Stability of Business Model &amp; Financial Structure (10%)</b>							
a) Ability and Willingness to Pursue Opportunistic Corp Activity			X				
b) Ability and Willingness to Increase Leverage				X			
c) Targeted Proportion of Rev outside of Owned Airport Services				X			
<b>Factor 6: Key Credit Metrics (Hist &amp; Projected) (40%) [1]</b>							
a) (FFO + Interest Expense) / (Interest Expense - Non-Cash Int)					3.3x		
b) FFO / Debt				17.0%			
c) Debt Service Coverage Ratio				5.1x			
d) Implied Concession Life Coverage Ratio		19.8%					
<b>Rating:</b>							
Indicated Rating from Grid Factors 1-6			A3				
Rating Lift			0				
a) Indicated Rating from Grid			A3				
b) Actual Rating Assigned			A3				

Government-Related Issuer	Factor
a) Baseline Credit Assessment	7 (A3)
b) Government Local Currency Rating	Aaa
c) Default Dependence	Moderate
d) Support	Moderate

[1] Standard adjustments in accordance with "Rating Methodology: Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations, Part 1, Part 2 and Part 3". In addition, Moody's adjusts for one time items.

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