STANDARD & POOR'S

CORPORATE RATINGS

N.V. Luchthaven Schiphol

Primary Credit Analyst

Maria Lemos
CFA
London
(44) 20-7176-3749
maria_lemos@
standardandpoors.com

Secondary Credit Analyst

Alexandre de Lestrange
Paris
(33) 1-4420-7316
alexandre_delestrange@
standardandpoors.com

ISSUER CREDIT RATINGS

N.V. Luchthaven Schiphol	
Corporate Credit Rating	AA-/Stable/—

Schiphol Nederland B.V.	
Corporate Credit Rating	AA-/Stable/—

AFFIRMED RATINGS

N.V. Luchthaven Schiphol	
Sr unsecd debt	AA-

Schiphol Nederland B.V.	
Sr unsecd debt	
Local currency	AA-

Corporate credit rating history:

Apr. 10, 2002	AA-
June 2, 1993	AAA

Major Rating Factors

Strengths:

- Conservative financial profile.
- Solid aviation, real estate, and retail operations.
- Supportive regulatory environment.

Weaknesses:

- High level of transfer passengers.
- A relatively high dependence on the airline KLM and related airlines, and long-term uncertainty regarding the effects of the Air France-KLM merger on transfer traffic.

Rationale

The ratings on N.V. Luchthaven Schiphol and Schiphol Nederland B.V., units of the Schiphol Group (Schiphol Group is also the commercial name for N.V. Luchthaven Schiphol), which includes Schiphol International B.V., reflect Schiphol Group's above-average business profile and very strong financial profile. The group's main asset, Amsterdam Airport Schiphol (Schiphol), is a key element in The Netherlands' open economy, and has a strong competitive position as a European hub airport. The airport's

RatingsDirect
Publication Date
May 31, 2005

successful retail, real estate, and operational track records also support the ratings. Partially offsetting these strengths are environmental constraints, a relatively high level of transfer passengers, and dependence on the airline KLM.

Schiphol, the fourth-largest airport in Europe by passenger volume, handled 42.5 million passengers in 2004, an increase of 6.5% on 2003, on the back of double-digit growth of intercontinental passengers, and to a lesser extent of European traffic. Management expects a volume increase of 4.5%-5.0% in 2005. To support this forecast growth, Schiphol is planning to invest more than €400 million ($501 million) in 2005, of which more than one-half will be invested in aviation facilities at Schiphol.

The airport has solid retail, real estate, and operational track records. In addition, its financial profile is the strongest among airports rated by Standard & Poor's Ratings Services. In 2004, funds from operations (FFO) to interest increased to 9.9x from 6.2x in the previous year, while FFO to debt was 33.1%, up from 30.9%. Ratio improvement and free cash flow of €45 million were above expectations, but these largely reflected timing difference in tax payments.

Liquidity

Liquidity is adequate. The group's maturity profile is long term. Of its consolidated debt outstanding on Dec. 31, 2004, only 30% will mature in 2005-2008. Financial liquidity derives from:

- Stable and strong cash flow generation;
- A cash position of €228 million and undrawn committed bank facilities of €200 million at March 31, 2005;
- The group's ability to reduce capital expenditure; and
- Good access to capital markets.

Outlook

The stable outlook assumes that the group will maintain strong business and financial profiles, with interest coverage above 4.0x and flexibility to defer capital expenditure. A rating upgrade is highly unlikely, but a rating downgrade could follow an erosion of the group's credit profile by events that could undermine passenger volumes, a significant weakening of its main carrier KLM, now merged with Air France, or a change in the airline's strategy of using Schiphol as its main hub. If privatization, which is under consideration by the government, were to go ahead under the legal and regulatory framework proposed, the ratings on Schiphol Group would be unaffected.

Table 1

Schiphol Group Financial Summary*

	—Year ended Dec. 31—				
(Mil. €)	**2004**	**2003**	**2002¶**	**2001**	**2000**
Gross revenues§	887	860	774	695	637
Net income from continuing operations	158	191	137	183	162
Funds from operations (FFO)	355	288	259	280	250
Net cash flow	314	246	214	257	230
Capital expenditure	275	318	298	341	289
Total capital	3,215	3,135	2,651	2,472	2,075
Adjusted ratios					

Table 1

Schiphol Group Financial Summary* (cont.'d)

	—Year ended Dec. 31—				
(Mil. €)	**2004**	**2003**	**2002¶**	**2001**	**2000**
Pretax interest coverage (x)	6.7	6.5	5.6	6.0	5.9
Total debt/total capital (%)	32.8	34.8	29.1	27.7	25.3
FFO interest coverage (x)	9.9	6.2	6.6	8.9	8.7
FFO/average total debt (%)	33.1	30.9	35.5	46.2	50.5
Net cash flow/capex (%)	114.3	77.4	71.7	75.4	79.5

*Due to accounting changes 2003 and 2002 financials are not directly comparable with 2000 and 2001. ¶Restated. §Adjusted for own works capitalized.

Business Description

Schiphol Group is the owner and operator of Schiphol, which, in addition to 42.4 million passengers, handled 1.42 million tons of cargo in 2004. The group also owns Lelystad Airport, Rotterdam Airport, and 51% of Eindhoven Airport.

Schiphol Group also operates and participates in various foreign airports, such as Brisbane Airport Corp. Ltd. (BBB-/Stable/—) in Australia and Terminal 4 of John F. Kennedy Airport in the U.S.

Competitive position

Schiphol's competitive position is strong. Its domestic market share is dominant, and in Europe it is the fourth-largest airport in terms of passengers. The airport has a solid hub position that largely depends on KLM's strategy and the success of that strategy. This in turn is determined by the airport's ability to provide a high-quality business and an operating environment that supports high levels of transfer traffic.

Schiphol faces strong competition for transfer traffic from the other main European hubs, mainly the Parisian airports owned by Aeroports de Paris (ADP; AA/Negative/—), the London airports owned by BAA PLC (A+/Stable/A-1+), and FraPort, the operator of Frankfurt Airport. In 2004, Schiphol's market share among the top 10 European airports was stable at 9.3%. Nevertheless, Schiphol faces more stringent environmental restrictions than its peers. The environmental capacity of the five-runway system is limited to levels similar to those of the previous four-runway system. This has therefore reduced Schiphol's competitive advantage regarding airport technical capacity initially created with the opening of fifth runway in 2003. In addition, Schiphol is affected by the declining competitive position of the Randstad as a business center.

Competition from other, smaller airports that host "no-frills" carriers such as RyanAir could take some origin-destination traffic away from Schiphol. Moreover, airports across the German border, such as Duesseldorf, Cologne, and Moenchengladbach are all heavily promoting "no-frills" traffic, which could attract people from the east and south of the Netherlands. The control of Eindhoven, Rotterdam, and Lelystad, however, provides the Schiphol Group with opportunities to develop low-cost traffic further through secondary airports.

Aeronautical activity

Aeronautical activity at Schiphol has demonstrated sustainable growth over the past 30 years. This supports Schiphol's business profile. Historically, passenger traffic growth has been supported by worldwide economic growth and affected by KLM's strategy and external shocks. Between 1971 and 2003, only the years following the second oil crisis in 1980, the recession in 1983, and 2003 showed traffic decreases. In the past five years, passenger traffic at Schiphol grew at a 3.1% compound average growth rate.

Passenger traffic recovered in 2004 following the effects of SARS, the Iraq War and the economic slowdown that depressed traffic in 2003. Total traffic grew by a strong 6.5%, led by a 7.9% increase in traffic carried by Air France-KLM and the associated SkyTeam airline alliance. Exposure to this airline has increased, and it accounted for 50% of total passengers in 2004. Although this situation is typical for hub airports, Schiphol's high exposure to Air France-KLM is a rating concern. Nevertheless, the merger of KLM with the financially stronger Air France should be positive in the medium term because it decreases the likelihood of KLM's bankruptcy. In addition, Air France has assured the Dutch government that it will operate a dual-hub system for the combined airline group until 2011.

Over the long term, however, Schiphol's position could be vulnerable because Air France is the stronger entity in the merger. Reduced route duplication and potential alterations to the two airports' long-term regional focus could change their traffic profiles considerably. Schiphol, which has a large number of transfer passengers, could be particularly affected.

Revenue stability

Passenger numbers, tariff changes, and nonaeronautical activities are the main drivers of revenue generation and growth.

Schiphol Group has a well-diversified revenue base. Slightly less than one-half of its revenues come from aeronautical charges. Due to a 42% share of transfer traffic and high dependence on a single airline, however, Schiphol is likely to be more susceptible to revenue fluctuations than an origin-destination airport with an established passenger base. This is a negative factor for the rating.

Schiphol's aeronautical charges per passenger are higher than average compared with those of other European airports. Overall, Standard & Poor's expects aeronautical charges for airports with significant capital expenditure programs to increase, with passengers paying a growing proportion of these. Schiphol will be no exception. The rate of increase is expected to be lower than in the past, however, due to higher scrutiny from airlines and regulators, and increasing competitive pressure.

Nonaeronautical income is well balanced and represents about 43% of total revenues. It includes retail concessions, real-estate sales and lease and rents income, utilities, and other activities.

*Excludes own works capitalized.

Regulation

Schiphol is governed by the Aviation Act, which came into force in February 2003 when the new fifth runway at the airport became operational. The Act tightens and expands the previous legislative regime and defines limits on noise, runway use and routing, third-party risk, and the emission of substances to limit local odor and air pollution.

Under separate legislation, Schiphol Group is required to conduct operational activities for preventive security, although the Dutch government will ultimately remain responsible for airport security.

The government directive proposing the adoption of a dual-till framework is positive for the ratings. It provides greater visibility regarding future airport charges and could enhance profitability. This directive has still to be brought before parliament. Once parliament has ratified the decision it will be put before the First Chamber. If approved there, it will come into effect.

Although airport regulation continues to evolve in The Netherlands, partly in expectation of privatization, Standard & Poor's does not expect the regulatory regime to become a negative rating factor because Schiphol will continue to be a key support for The Netherlands' economic growth.

Operations

Schiphol Group's operations are strong. Capacity is adequate, profitability is high, and the retail activities are benchmarked globally.

Schiphol's current environmental capacity is adequate for the next two years. Optimization of the current environmental limits in order to realize the calculated capacity of 508,000 air traffic movements (ATMs) including general aviation is expected within the next 12 months. This capacity is expected to be sufficient until 2009. Capacity could be increased to up to 600,000 ATMs per year, or about 60 million passengers, however, through improvement of the current system of environmental constraints and technological developments such as the use of quieter aircraft, new take-off and landing methods, and changes in the aircraft mix. Such passenger traffic is not expected to be achieved until after 2012, however.

Delays to the investment program and lower tender prices resulted in capital expenditure 30% lower than budgeted. For the years 2005-2009, planned investment is about €1.6 billion, 70% of which will be in aviation.

Operating margins before depreciation improved in 2004 to 45.3% from 44.2% in 2003, but this was largely due to the increased contribution of security charges revenues, rather than efficiency gains on the underlying core aviation and commercial activities. In addition, these margins are still relatively low compared with peers such as Copenhagen Airports A/S (A/Stable/—), which has a similar cost profile.

Commercial operations, which represent more than one-third of group EBITDA, are the most profitable at Schiphol, given the low asset base and unregulated operations. In 2004, return on assets after tax was 15.4%.

The EBITDA contribution from aviation activities has increased since the group took over security duties from the government. Given the large asset base and regulated returns, aviation yielded a lower return on assets of 3.6% in 2004.

Schiphol has continued to realize capital gains as it transfers properties to the ACRE Fund, a property fund created in 2002, in which Schiphol maintains a 50% interest. Between 2002 and March 2005, Schiphol Real Estate transferred €217 million to the ACRE fund, generating about €109 million in revenues. This fund is expected to grow to €360 million in the next two years.

Table 2

Schiphol Airport Operating Statistics

	—Year ended Dec. 31—				
	2004	**2003**	**2002**	**2001**	**2000**
Total passenger traffic (millions; excluding transit)	42.4	39.8	40.6	39.3	39.3
Annual growth (% per annum)	6.5	(1.9)	3.3	0.1	7.8
European share of total (%)	68.0	70.0	68.9	67.8	67.0
Intercontinental share of total (%)	32.0	30.0	30.8	31.6	33.0
Transfer share of total (%)	42.0	41.0	41.7	40.5	42.0
Total freight traffic (000s tons)	1,421.0	1,306.2	1,239.9	1,183.2	1,222.6
Annual growth (% per year)	8.8	5.3	4.8	(3.2)	3.6
Air transport movements (000s)	403.0	393.0	401.4	416.5	414.9
Annual growth (% per year)	2.5	(2.1)	(3.6)	0.4	5.4
Average full-time employees	2,216.0	2,231.0	2,134.0	2,038.0	1,864.0
Average number of passengers per full-time employee	19,145.0	17,843.4	19,089.0	19,288.2	21,067.9

Financial Policy

Schiphol Group's financial policy is prudent. The company has set financial targets that include leverage of 25%-50%, EBIT interest coverage of 4x or higher and up to 25% of floating-rate debt.

The Schiphol Group's future dividend payout is forecast to be about 30%. Dividend payment in 2004 was €41 million.

Debt-financed acquisitions are limited to nonrecourse activities, such as with the John F. Kennedy and Brisbane airports. Transaction exposures are all hedged. Hedging of translation exposures is, however, limited to debt amounts, while foreign participation is not hedged. Interest-rate and currency risks are hedged by plain vanilla swaps. At the end of 2004, the market value of the group's swap contract amounted to negative €60.6 million.

The company has adequate insurance policies. Nevertheless, in relation to terrorism insurance the Dutch State provides a guarantee for cover unavailable in the commercial markets.

Accounting

The year to December 2004 was the last for which Schiphol will publish consolidated accounts under Netherlands GAAP. From Jan. 1, 2005, consolidated accounts will be prepared in accordance with International Financial Reporting Standards (IFRS), with the 2004 comparative accounts restated. Standard & Poor's does not expect the impact of this transition to be significant because in the past two years the group has adopted accounting treatments under Dutch GAAP that are consistent with IFRS.

Application of IFRS to the 2004 financial statements is estimated to reduce shareholders' equity by €25 million (primarily attributable to IAS 16 and IAS 19) and an increase of about €2.1 million in earnings after tax, also largely the result of applying IAS 16 and IAS 19. Schiphol Group has opted to not apply IFRS 32 and 39 in the restatement of 2004 accounts, and so the application of these standards from Jan. 1, 2005, will result in an estimated further reduction of €19 million in shareholders' equity.

Changes in accounting policies in 2004 were limited to the capitalization of work hours for developing automated applications and software licenses in intangible fixed assets. This change is consistent with IFRS.

Standard & Poor's excludes the capitalization of "own works" from revenues and offsets this entry with the deduction of capitalized interest and capitalized staff hours from interest expense and operating costs, respectively. This double entry effectively has a zero net effect on earnings. Capitalized interest is, however, reflected in interest coverage ratios. In addition, unrealized gains in the value of investment property are excluded from revenue income and recognized below operating income.

Schiphol's pension scheme is part of a multiemployer plan. Historically, the group has recognized its pension liabilities under defined contribution accounting and will continue to do so under IFRS. There is no information and disclosure available on this plan, and so Standard & Poor's does not adjust Schiphol's debt figures to incorporate the aftertax present value of its net pension funding status. Nevertheless, the group is exposed to defined-pension liability risk. Commitments under operating leases are immaterial.

Cash flow adequacy

Schiphol's strong and stable cash-generative business is a credit strength. In 2004, FFO of €355 million was 23.3% higher than in 2003, primarily reflecting the absence of tax payments in the year due to the delay in the provisional corporation tax assessment in 2004. Adjusted for the absence of these payments, FFO increased by 4.4%, reflecting passenger traffic growth and airport charges. Strong cash flow generation and the correction of interest reported in a lease contract brought debt interest coverage to the strongest level for five years. In 2004, FFO to interest increased to 9.9x from 6.2x in the previous year, while FFO to debt was 33.1%, up from 30.9%.

Free cash flow was positive for the third consecutive year, but it primarily reflected lower than budgeted capital expenditure and taxes. Free cash flow is expected to turn negative in the next few years as the group accelerates its €1.6 billion capital expenditure program for 2005-2009.

Standard & Poor's has run sensitivities incorporating declines of up to 20% in FFO. This reflects a downside scenario assuming a severe loss in passengers from the group's main carrier, KLM. Schiphol Group still has headroom to reduce capital expenditure, and so any decline in cash flow would be accompanied by a significant reduction in capital expenditure.

Table 3

Schiphol Group Profitability*

	—Year ended Dec. 31—				
Income statement (mil. €)	**2004**	**2003**	**2002¶**	**2001**	**2000**
Gross revenues§	887	860	774	695	637
Operating expenses (excluding DD&A)	485	479	444	385	350
Depreciation and Amortization	153	131	106	103	104

Table 3

Schiphol Group Profitability* (cont.'d)

	—Year ended Dec. 31—				
Income statement (mil. €)	**2004**	**2003**	**2002¶**	**2001**	**2000**
EBITDA§	402	380	330	309	287
Interest incurred	41	53	44	36	33
Net interest incurred	32	43	39	32	30
Net income	158	191	137	183	144
Earnings protection					
Pretax interest coverage (x)	6.7	6.5	5.6	6.0	5.9
Net pretax interest coverage (x)	8.3	7.8	6.1	6.6	6.2
EBITDA interest coverage (x)	9.9	7.2	7.5	8.7	8.8
Total debt/EBITDA (%)	2.6	2.9	2.3	2.2	1.8
Return on average equity (%)	7.5	9.8	7.5	11.0	9.8
Total operating expenditure/revenues (%)	53.3	54.9	55.8	57.4	55.5

*Due to accounting changes, 2003 and 2002 profitability measures are not directly comparable with 2000 and 2001. ¶Restated. §Adjusted for own works capitalized.

Table 4

Schiphol Group Cash Flow*

	—Year ended Dec. 31—				
Cash flow (mil. €)	**2004**	**2003**	**2002¶**	**2001**	**2000**
Net income	158	191	137	183	144
Depreciation	153	131	106	103	104
Funds from operations (FFO)	355	288	259	280	250
Common dividends	41	42	45	23	20
Net cash flow (NCF)	314	246	214	257	230
Net capital expenditures (capex)	275	318	298	341	289
Discretionary cash flow	7	(63)	(50)	(155)	(58)
Cash flow adequacy					
Capex/average total capital (%)	8.7	11.0	11.6	15.0	14.8
NCF/capex (%)	114.3	77.4	71.7	75.4	79.5
NCF/capex and net acquisitions (%)	113.9	74.9	71.7	76.2	79.5
FFO/average total debt (%)	33.1	30.9	35.5	46.2	50.5
FFO/average net debt (%)	43.7	37.1	38.5	52.1	58.6
FFO interest coverage (x)	9.9	6.2	6.6	8.9	8.7
FFO net interest coverage (%)	12.4	7.3	7.2	9.9	9.2

*Due to accounting changes 2003 and 2002 cash flow protection measures measures are not directly comparable with 2000 and 2001. ¶Restated.

Capital structure and financial flexibility

Schiphol Group is expected to maintain adequate capitalization. An improvement in the capitalization ratio to 32.8% from 34.8% primarily reflects the appropriation of profits and a small debt reduction in 2004.

Total debt decreased to €1.06 billion at year-end 2004 as the strong cash position funded capital expenditure and dividend payments. Strong passenger growth was behind a good reduction in debt per passenger to €25, down from €27 in 2003. These continue to be the lowest levels in the peer group, including BAA and ADP.

The current investment plan for the next five years is forecast to be financed largely by internal funds and cash. There is, however, likely to be some "opportunistic" capital expenditure on real estate, participations, and alliances which, although difficult by nature to quantify in terms of amount or timing, may require additional debt funding.

Table 5

Schiphol Group Capital Structure*

	—Year ended Dec. 31—				
Balance sheet (mil. €)	**2004**	**2003**	**2002¶**	**2001**	**2000**
Cash and equivalents	250	271	38	75	61
Net plant	3,088	2,960	2,655	2,545	2,208
Total assets	3,590	3,469	2,938	2,845	2,471
Short-term debt	96	67	257	292	142
Long-term debt	960	1,024	516	394	382
Common equity	2,159	2,044	1,878	1,786	1,551
Total capitalization	3,215	3,135	2,651	2,472	2,075
Balance sheet ratios (%)					
Short term debt/total capital	3.0	2.1	9.7	11.8	6.9
Long term debt/capital	29.9	32.7	19.5	15.9	18.4
Common equity/total capital	67.2	65.2	70.9	72.3	74.7
Total debt/total capitalization	32.8	34.8	29.1	27.7	25.3
Net debt/total capital	25.0	26.2	27.7	24.7	22.3

*Due to accounting Changes 2003 and 2002 capital structure measures are not directly comparable with 2000 and 2001. ¶Restated.

Rated Peer Comparison

Table 6

Schiphol Group Rated Peer Comparison

	Schiphol Group (including N.V. Luchthaven Schiphol and Schiphol Nederland B.V.)	Aeroports de Paris	BAA PLC
Country	Netherlands	France	U.K.
Airports operated	Amsterdam	Charles de Gaulle and Orly	Heathrow, Gatwick, Standsted, Edinburgh, Glasgow, Aberdeen, and Southampton
Year ending	December 2004	December 2004	March 2004
Rating	AA-/Stable/—	AA/Negative/—	A+/Stable/A-1+
Business risk profile	Strong	Excellent	Excellent
Financial risk profile	Minimal	Modest	Modest
Operating statistics			
Market	Netherlands	France	U.K.
Population	16 million	60 million	60 million
Total passengers 2004 (000s)	44,331	75,013	133,357
Revenue distribution (%)			
Aeronautical	54	55	37
Retail, concessions, and Parking	20	26	41
Property	15	9	15
Others	11	10	7
Aeronautical revenue/passenger (€)	11	11	8
Nonaeronautical revenue per passenger (€)	9	13	13
Operating revenues /employee (€)	398	222	216
EBITDA/passenger (€)	9	7.5	9
Debt/passenger (€)	24	31	39
Employees	2,231	8,203	13,232
Financial metrics			
Financial policy	Conservative	Moderate	Moderate
Profitability			
Gross revenues (mil. €)	887	1,820	2,855
Average revenue growth in five years (%)	8	7	0
Net income from continuing operations (mil. €)	158	156	542
EBITDA margin (%)	45	31	44
Cash flow protection			
Funds from operations (FFO) base (mil. €)	355	385	962
Capital expenditure (mil. €)	275	552	1,835

Table 6

Schiphol Group Rated Peer Comparison (cont.'d)

	Schiphol Group (including N.V. Luchthaven Schiphol and Schiphol Nederland B.V.)	Aeroports de Paris	BAA PLC
Interest incurred (including capitalized interest; mil €)	41	145	303
FFO interest cover (base; x)	9.9	3.7	4.1
FFO/average total debt (base; %)	33.1	15.7	19.7
Net cash flow/capital expenditure (base; %)	114.3	67.5	36.2
Capital structure (mil. €)			
Total assets	3,590	5,132	14,880
Total debt	1,055	2,507	5,202
Net debt	805	2,333	3,937
Total debt/total capital (%)	33	62	42
Net debt/total capital (base; %)	25	60	32
Amortization profile	Staggered	Staggered	Staggered

Group E-Mail Address

InfrastructureEurope@standardandpoors.com

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