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## Summary:

# N.V. Luchthaven Schiphol

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## Table Of Contents

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Likelihood Of Extraordinary Government Support

Rationale

Outlook

Standard & Poor's Base-Case Scenario

Business Risk

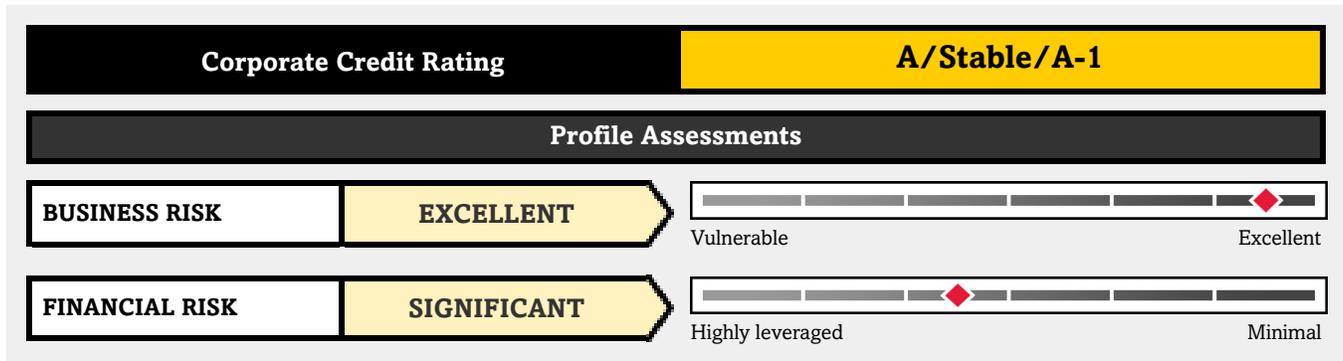
Financial Risk

Liquidity

Related Criteria And Research

**Summary:**

# N.V. Luchthaven Schiphol



## Likelihood Of Extraordinary Government Support

The 'A' ratings on Dutch airport operator N.V. Luchthaven Schiphol and Schiphol Nederland B.V. (collectively, Schiphol Group) are based on the group's stand-alone credit profile (SACP), which we assess at 'a-', as well as our opinion that there is a "moderate" likelihood that the majority owner, the Dutch government, would provide timely and sufficient extraordinary support to Schiphol Group in the event of financial distress.

Under our criteria for government-related entities, our view of a "moderate" likelihood of extraordinary government support is based on our assessment of the group's:

- "Important" role for the Dutch government, based on our view of the essential infrastructure nature of the group's main asset, Amsterdam Airport Schiphol (Schiphol airport); and
- "Limited" link with the Dutch government. The Netherlands (AAA/Negative/A-1+; unsolicited ratings) has limited input into Schiphol Group's strategic decisions and no involvement in the group's day-to-day operations.

## Rationale

Business Risk: Excellent	Financial Risk: Significant
<ul style="list-style-type: none"> <li>• Strong competitive position as a European hub airport.</li> <li>• Supportive regulatory environment.</li> <li>• Successful retail and real estate operations.</li> <li>• Relatively high level of transfer passengers.</li> <li>• The dependence on a dominant customer, Air France-KLM.</li> </ul>	<ul style="list-style-type: none"> <li>• Ratio of funds from operations (FFO) to debt, which we forecast to be between 16% and 20% in 2013.</li> <li>• We believe that the above range is commensurate with a significant financial risk profile due to the predictable nature of Schiphol's cash flows and it is in line with other rated airports.</li> <li>• Manageable debt maturities. Although these are over the next two years, management is proactively managing this.</li> <li>• Strong liquidity.</li> </ul>

### Outlook: Stable

The stable outlook on Schiphol Group reflects our assumptions that the group will maintain adjusted FFO-to-debt of 16%-20% and that the airport will remain one of the two key hubs for Air France-KLM. The stable outlook also reflects that, under our criteria, we would have to lower the sovereign rating by more than two notches before the rating on Schiphol was affected.

#### Downside scenario

We could lower the ratings if Schiphol's adjusted FFO-to-debt drops below 16% for a sustained period. This could happen if a projected 10%-15% reduction in passenger volumes is not offset by either aviation fee increases or postponements to anticipated capex spend. We could also lower the ratings if certain developments affected the group's business risk profile: For example, if there were significant aggressive growth in the group's real estate business or if Air France-KLM decided to no longer use Schiphol as a main hub.

#### Upside scenario

We could upgrade Schiphol Group if it were to demonstrate an improved financial risk profile on, for example, FFO-to-debt increasing to more than 20% on sustainable basis, all else being equal. In our view, this is unlikely in the short term due to the company's increased capital expenditure (capex) plans. With the current capex plans in place, we believe that revenues would need to grow more than 10% for the company to improve adjusted FFO-to-debt to more than 20%.

## Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics			
<ul style="list-style-type: none"> <li>We believe that 2013 will prove difficult for the European aviation industry due to the ongoing tough economic conditions. We expect The Netherlands' GDP to decline by about 0.5% in 2013, after a 0.9% contraction in 2012. We forecast that the U.S. will show more robust growth of 2.3%, while the European Economic and Monetary Union (Eurozone) will contract by 0.5% (see "Economic Research: Entrenched In Recession, Europe Seeks A Balance Between Deleveraging And Growth," published March 26, 2013, on RatingsDirect.</li> <li>In our view, the tough economic environment will lead to modest passenger volume growth (less than 1%) in 2013. We expect the majority of passenger volume growth to come from inbound traffic due to the weak economic conditions in The Netherlands.</li> <li>We anticipate that aviation tariffs will increase by about 1% in 2013 as allowed under Schiphol's regulatory framework.</li> <li>Under our base-case forecast, financial ratios are likely to weaken in 2013 as increasing capex (about €400 million in 2013) will increase leverage offsetting improving profitability.</li> </ul>		<b>2012A</b>	<b>2013E</b>	<b>2014E</b>
	EBITDA Margin	41.3%	40-42%	39-42%
	FFO to debt	23.6%	19-22%	18-22%
	Debt to EBITDA	3.3x	3-4x	3-4x
	A--Actual. E--Estimated.			
	*Fully Standard & Poor's-adjusted leverage and coverage ratios include several adjustments. The most significant is the surplus cash adjustment, which reduces adjusted leverage by about €274 million. Key EBITDA adjustments include adjustments for fair value losses (+€24 million) and gains on disposals (-€11.5 million).			

## Business Risk: Excellent

The "excellent" business risk profile takes into account our opinion of Schiphol's strong competitive position as a European hub airport, supportive regulatory environment, and successful retail and real estate operations. These strengths are partially offset by a relatively high level of transfer passengers (40.5% in the eight months to August 2012), the dependence on dominant customer Air France-KLM, and the potential for unmitigated growth in nonregulated activities that could dilute the group's business risk profile. We see Schiphol's business risks and opportunities as translating into mid-single-digit EBITDA growth with a relatively stable EBITDA margin.

## Financial Risk: Significant

The "significant" financial risk profile mainly reflects our forecast of the group's funds from operations (FFO) to debt of 16%-20% in 2013, supported by its manageable debt maturities. We believe that this range is commensurate with a significant financial risk profile due to the predictable nature of Schiphol's cash flows. It is also in line with other rated airports. In our base-case scenario we expect a significant increase in capex, leading financial ratios to weakening (from 2012 actual numbers) as Schiphol starts significant investment projects in its aviation facilities. In 2013 and 2014

we expect Schiphol to be free cash flow negative.

## Liquidity: Strong

The short-term rating is 'A-1'. We view Schiphol Group's liquidity as "strong" as defined in our criteria. Under our base-case, we anticipate that liquidity sources will cover liquidity uses by about 1.5x in 2013 and more than 1x in 2014.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> <li>• €434.5 million in cash and marketable securities, excluding cash held as collateral from swap counterparty.</li> <li>• €345 million of undrawn committed credit lines, including €170 million under a long-term European Investment Bank facility with a drawdown period finishing in January 2014. The EIB facility has long maturity (2031) hence in our view the facility is available for liquidity purposes. After Dec. 31, 2012 the company signed further credit facilities increasing the availability of undrawn committed credit lines to €570 million.</li> <li>• About €400 million of FFO in 2013.</li> </ul>	<ul style="list-style-type: none"> <li>• €194 million of debt maturities.</li> <li>• About €500 million of capex.</li> <li>• About €109 million of dividends.</li> </ul>

### Debt maturities

Schiphol can absorb high-impact, low-probability events and has well-established relationships with banks.

We continue to monitor Schiphol's progress in refinancing its upcoming debt maturities as the group has €194 million due in 2013. We anticipate that Schiphol will continue to be proactive in managing these debt maturities.

We also note that the maturity of the €350 million EIB loan can be accelerated if the rating on Schiphol group drops below 'BBB' and no suitable guarantor is found.

In addition, the €120 million of notes issued under the group's €1 billion medium-term note program—maturing in 2038—have an early redemption option that would be triggered by a downgrade by either Standard & Poor's or Moody's Corp. to speculative-grade, from investment-grade, or by the withdrawal by both rating agencies of the issue rating on the senior unsecured debt.

We believe that exposure to margin calls on derivative instruments should be limited.

## Related Criteria And Research

- Entrenched In Recession, Europe Seeks A Balance Between Deleveraging And Growth, March 26, 2013
- Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Standard & Poor's Standardizes Liquidity Descriptors For Global Corporates In Criteria Update, July 2, 2010

<b>Business And Financial Risk Matrix</b>						
<b>Business Risk</b>	<b>Financial Risk</b>					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

**Note:** These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.

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