Moody's Investors Service

Credit Opinion: N.V. Luchthaven Schiphol

N.V. Luchthaven Schiphol

Amsterdam, Netherlands

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured MTN -Dom Curr	A1
Bkd Commercial Paper -Dom Curr	P-1
Schiphol Nederland B.V.	
Outlook	Stable
Senior Unsecured -Dom Curr	A1
Bkd Commercial Paper -Dom Curr	P-1

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Key Indicators

N.V. Luchthaven Schiphol

	Dec-2007	Dec-2006	Dec-2005	Dec-2004
EBITA margin	**28.7%**	**29.3%**	**33.3%**	**31.3%**
EBITA / Average Assets	**7.7%**	**7.6%**	**8.6%**	**n/a**
EBITA Interest Coverage	**6.5**	**5.9**	**6.0**	**5.1**
FFO Interest Coverage	**8.4**	**7.1**	**7.0**	**6.4**
FFO / Net Debt	**43.1%**	**42.5%**	**36.1%**	**32.2%**
RCF / Net Debt	**33.9%**	**35.1%**	**30.8%**	**27.6%**

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") 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 owned currently 76% by the Kingdom of the Netherlands, 22% by the Municipality of Amsterdam and 2% by the Municipality of Rotterdam, but these ownership percentages will fall pro rata following the consummation of the announced sale of 8% of Schiphol Group to Aéroports de Paris ("ADP").

The Dutch Government had earmarked Schiphol Group for privatisation for a number of years, had implemented all the necessary legislation to make this effective, and was progressing to sell down to a level that was to retain the joint Government and municipality interest at 50.1%. Following a change of Government in late 2006, the privatisation has been postponed and is not likely to progress in the near term. However, in October 2008 Schiphol Group announced a cross shareholding agreement with ADP whereby both Schiphol Group and ADP will purchase an 8% ownership in each other.

Rating Rationale

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), 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).

Schiphol's A1 rating reflects the combination of the following inputs: (a) a Baseline Credit Assessment of 7 (equivalent to A3 on Moody's Global Rating Scale), (b) the Aaa local currency rating of the Government of the Kingdom of the Netherlands, (c) low Dependence, and (d) medium Support.

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

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 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.

Moody's last rating action for Schiphol Group was on 14 May 2008 when the senior unsecured debt rating of N.V. Luchthaven Schiphol and its subsidiary Schiphol Nederland B.V. were downgraded to A1 from Aa3. The downgrade reflects the higher debt burden that Schiphol Group is expected to carry following its decision to pay a special dividend of EUR500 million in 2008 together with an amount of up to EUR500 million in 2009. While the 2009 special dividend amount is not yet confirmed, the A1 rating accommodates an amount of up to GBP500 million. Moody's does not expect that special dividends will be a permanent feature of the financial arrangements of Schiphol Group, and this appears to be a one-off reconfiguration of the capital structure.

Recent Developments

In October 2008 ADP and Schiphol Group agreed to purchase 8% of each other's share capital as a move to cement the signing of an industrial cooperation agreement (the "Agreement") that was announced at the same time. Both share purchase transactions will take place simultaneously and will result in a net funding requirement for Schiphol Group of EUR160m (representing the larger investment being made by SChiphol Group in ADP compared to ADP's investment in Schiphol Group).

Moody's believes that the key industrial logic for the industrial cooperation agreement from Schiphol Group's perspective 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 co-ordinate operations with the aim of permitting an enhanced operational performance of the Air France KLM route network.

There are potential downside risks associated with the agreement and cross shareholding, although on balance it is not considered that they are likely to materalise 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 airports than has been management's previously stated position. There is a danger that Schiphol will be pulled towards much greater investment in overseas operations, perhaps in order to create cross shareholdings with new or existing Sky Team Alliance dominated airports. However, Moody's understands that it is not Schiphol's management's stated intentions, 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.

Key Rating Drivers

The key business and financial factors are assessed in the light of the Rating Methodology for Operational Airports outside of the U.S.

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 which 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, in particular 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, 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 Schiphol in accordance with the regulatory framework and possible disputes with its airline customers are referred to the relevant Dutch Government agency (Competition Authorities). This is a new regulatory framework, which was implemented for the first time in setting aviation charges in 2008, and resulted in a reduction in aviation charges. 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.

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 a virtual monopoly of the international airports in the Netherlands. In addition, Amsterdam Airport is the 3rd 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 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.

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 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.

Factor 3 - Passenger and Airline Base

Schiphol has a relatively high exposure to transfer traffic, 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 62% of total passengers in 2007 and so will have a material impact on 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 Schiphols' traffic volumes has been positive.

Compared to 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 3.4%. Since 1992, with the exception of 2001 and 2003, the annual growth rate has been consistently above 3%. In 2008 Schiphol expects little or no increase in passenger numbers due to the Dutch Government's introduction of an Air Passenger Tax effective from 1 July 2008.

Factor 4 - Operating Environment & Capital Programme

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 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 has been reached to allow for approximately 510,000 air traffic movements a year by 2010. In addition, Schiphol Group could reallocate up to 70,000 fights from Schiphol to other Shiphol group Dutch airports which would free up additional capacity at Schiphol.

Following the completion of the fifth runway in 2003, Schiphol only needs to undertake modularised expenditure to deal with 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. Schiphol is intending to invest about EUR440 million in baggage systems by 2015 so as to ensure the handling and flow of 70 million bags per year.

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 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. 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.

Factor 6 - Key Credit Metrics

Given Schiphol Group's operating performance, increasing cash flow generation and low indebtedness, credit metrics have been consistently solid. Credit metrics based on 2007 financial statements evidence a cash interest cover of 9.1x, FFO / Debt of 37%, a Debt Service Coverage of 9.2x and a Concession Life Coverage of 10.8%.

However, the leverage is expected to significantly increase as a result of the special dividends payout, and the ratings speak to the expected credit profile post the second part of the special dividend in 2009. As at 31 December 2007, the Schiphol Group had approximately EUR900 million of debt and lease liabilities; hence the special dividends have the propensity to double the current debt levels.

Liquidity

The current liquidity profile of Schiphol is constrained, although this is expected to be rectified shortly. Following the payment of the first tranche of the special dividend (EUR500 million) in September / October 2008, Schiphol has a significant balance of short term indebtedness through active use of its EUR750 million Euro Commercial Paper Programme.

The current financial quarter will see material demands on liquidity to meet maturing debt obligations, the net purchase price of the ADP investment, and ongoing capital expenditure. Schiphol's finances are supported by a syndicated 364 day bank facility with current availability of EUR350 million and two bilateral EUR50 million committed credit facilities from Dutch banks with final maturity dates in the next few months. These committed facilities and the available cash on hand would not be sufficient to meet all payment obligations. Therefore, absent new medium term debt issuance Schiphol would be dependent on uncommitted sources of funds.

However, Schiphol is expected to issue a significant amount of medium term debt in the near term which will refinance the existing short term debt maturities and meet other cash commitments. It is imperative that they do this in order to put finances on a stable footing.

Once new medium term debt has been issued, Moody's expects that Schiphol Group will have an appropriate liquidity profile. With moderate capital expenditure commitments (which have some degree of deferability) and modest debt repayments, Schiphol Group would be expected to have sufficient cash flow, cash on hand and committed facilities to meet all operating and capital expenditure obligations during the following 12 months (excluding payment of the second tranche of the special dividend in 2009), provided that its committed bank facilities are renewed. The second tranche of the special dividend will likely be financed with new debt assuming that such payment is made, and such decision will not be taken by management until 2009.

Given the larger borrowing requirement going forward, it is important that Schiphol Group maintains an adequate liquidity profile (defined as comfort that the company could withstand a period of inability to access markets for up to one year using committed facilities and cash and cash equivalents), and failure to do so for an extended period of time could result in a downwards move in the rating.

Moody's 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 EUR150 million European Investment Bank Loan if its rating were to be downgraded further.

Rating Outlook

Provided that air travel does not fall precipitously over the coming few years, Schiphol Group's credit profile would be expected to stay constant. Its framework of economic regulation should provide appropriate charges going forward, albeit that the framework needs to be tested over a few years to confirm its robustness, and capital expenditure is expected to be managed in the 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, albeit that the industrial cooperation agreement with ADP provides a framework for this.

The stable outlook incorporates an expected weakening in Schiphol Group's debt metrics over the 2008/9 period as the special dividend in an amount of up to EUR1 billion announced in March 2008 is paid in two installments. Nevertheless, Schiphol Group has made clear that the full payment of the anticipated 2009 special dividend is dependent on maintaining a credit profile broadly consistent with the expectations implied by the March 2008 special dividend announcement. Consequently, if Schiphol Group's financial profile deteriorates due to adverse circumstances, Moody's would anticipate that the second tranche of the special dividend would be reduced to accommodate this.

What Could Change the Rating - Up

A ratings upgrade could be warranted if the company would be able to maintain the 2007 financial profile following the payment of special dividends. Taking into account that the special dividends have the propensity to double the current debt of Schiphol Group, Moody's views upward rating pressure as remote 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 fall consistently below the identified levels (i) Cash Interest Coverage below 3.5 times, (ii) FFO / Debt below 12.5% or (iii) Moody's DSCR below 3.5x.

Furthermore, a programme of material overseas or non core investment may dilute the existing business profile to the extent that it has a downwards impact on the rating.

Rating Factors

N.V. Luchthaven Schiphol

Industry: Operational Airports outside of the United States	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**	**Caa**
Factor 1: Governance and Rate Setting (15%)							
a) Legal Status / Corporate Objectives			X				
b) Rate Setting Methodology				X			
c) Nature of Ownership / Control	X						
Factor 2: Market Position (15%)							
a) Size of Service Area	X						
b) Robustness and Diversity of Service Area	X						
c) Competition for Medium to Long Distance Travel		X					
Factor 3: Passenger and Airline Base (10%)							
a) Passenger Mix (O&D / Transfer)					X		
b) Standard Dev. for Long Term Aver. Annual Passenger Growth Rate			X				
c) Carrier Base (Transfer Traffic)				X			
Factor 4: Operating Environment and Capital Programme (10%)							
a) Operational Restrictions				X			
b) Complexity of Airport Capital Expenditure Programme			X				
Factor 5: Stability of Business Model & Financial Structure (10%)							
a) Ability and Willingness to Pursue Opportunistic Corp. Activity			X				
b) Ability and Willingness to Increase Leverage				X			
c) Targeted Prop. of Revenues Outside Owned Direct Airport Serv.				X			
Factor 6: Key Credit Metrics (40%)							
a) Cash Interest Coverage	X						
b) FFO / Debt		X					
c) Moody's Debt Service Coveraqe Ratio	X						
d) Moody's Concession Life Coverage Ratio		X					
Rating:							
Indicated Rating from Grid Factors			A1				
Additional Rating Uplift for Creditor Protection			-				
a) Indicated Rating from Methodology			A1				
b) Actual Rating Assigned			A3				

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