

Credit Opinion: N.V. Luchthaven Schiphol

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Amsterdam, Netherlands

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured MTN -Dom Curr	Aa3
Schiphol Nederland B.V.	
Outlook	Stable
Senior Unsecured -Dom Curr	Aa3

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Key Indicators

N.V. Luchthaven Schiphol

	2004	2003	2002	2001
EBIT Margin (before G'will Amort'n) [1]	28.3%	29.3%	29.1%	31.6%
Adj RCF/ Net Adj Debt [2]	35.4%	32.4%	33.9%	28.7%
Adj FFO Interest Coverage [3]	9.1	6.2	7.2	6.2
Adj RCF/Capex + Investments (net of disposals) [4]	1.0	0.8	0.8	0.6
Adjusted Debt / Enplaned Passenger (in currency amount) [5]	EUR 46.9	EUR 51.2	EUR 36.0	EUR 36.2
Total Airport Revenues / Enplaned Passenger (in currency amount)	EUR 40.0	EUR 41.9	EUR 37.1	EUR 34.3

[1] (Revenues - Operating Costs +/- One-time non-recurring items + Goodwill amortisation)/Turnover [2] (Retained Cash Flow post Working Capital + 2/3 Operating Lease Expense)/(Total Debt+ 8*OpLease Expense+Guarantees+Off-balance sheet debt-(Cash+Marketable Securities)) [3] (Funds From Operation post Working Capital + Cash Interest Expense)/Interest Expense [4] Retained Cash Flow post Working Capital/(Capex - Sale of Tangible Fixed Assets + Acquisitions - Divestments) [5] (Total Debt+ 8*OpLease Expense+Guarantees+Off-balance sheet debt-(Cash+Marketable Securities))/(Total passengers*0.5)

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

Opinion

Rating Rationale

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 comprises 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 fourth largest airport in Europe by passenger numbers. Schiphol Group is currently owned 76% by the Kingdom of Netherlands, 22% by the Municipality of Amsterdam and 2% by the Municipality of Rotterdam. However, the Dutch Government is in the process of partially privatising Schiphol Group, intending to sell down to a level that retains the joint Government and municipality interest at 50.1%, and all necessary Government and parliamentary approvals have been obtained for this. The next step is a negotiation between the Dutch Government and the Municipality of Amsterdam, to agree a post-privatisation split of ownership and the terms of the necessary changes to Schiphol Group's Articles of Association, over which the Municipality of Amsterdam has a veto. The Municipality of

Amsterdam is currently opposed to the privatisation. Nevertheless, the sale of up to 49.9% of Schiphol in the near future is considered probable.

Schiphol Group's Aa3 rating reflects the combination of the following inputs, (a) a Baseline Credit Assessment of 5, (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 5 reflects (1) Schiphol Group's ownership of the fourth largest airport in Europe and the other Netherlands airports, (2) its good debt coverage and reasonable financial flexibility, (3) its relatively high exposure to transfer traffic and reliance on Air France KLM, and (4) its moderate capital expenditure programme, which is somewhat counteracted by certain operational constraints which may constrain the pace of volume growth. Schiphol Group's Baseline Credit Assessment is considered well positioned in the 5 category.

The low Dependence recognises that factors other than domestic economic performance have a material impact on Schiphol, 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 is expected to be reduced to and remain at a minimum of 50.1% over the medium term, together with Schiphol's role as a critical component of the Netherlands' international transport network. The Dutch Government was focused on ensuring that Schiphol's position as a major aviation hub was preserved during the negotiations between Air France and KLM which evidences the importance it attaches to Schiphol.

Moody's last rating action was on 23 June 2005 when it affirmed the Aa3 rating following the implementation of its rating methodology for government-related issuers.

Moody's would see major European airports in the A rating category (5 to 7 range for Baseline Credit Assessment) as having credit metrics broadly within the range (i) Adjusted Funds From Operations ("Adj FFO") to Interest of between 3.5 and 7.0 times, and (ii) Adjusted Retained Cash Flow ("Adj RCF") to Net Adjusted Debt of between 10% and 25%. Hence Schiphol's current capital structure and cash flow generation position it towards the top end of this range. However, note that the qualitative judgments with regard to business risk for a given airport company are also important inputs into a rating.

Following constrained traffic conditions caused by the Sep 11 attacks, the Iraq War and SARS, the European airport sector has generally seen growth rates reverting back to long term trend (+4-5% per annum) over the recent past. We would expect Schiphol to see growth rates broadly in line with this trend. The long term industry growth has focused airport managements' attention on upgrading infrastructure and expanding capacity. Schiphol is fortunate in that, given its existing configuration and number of runways, it does not require very substantial levels of capital expenditure to accommodate expected growth. Most airport companies serving major cities in Europe are state owned but where they are not their monopoly characteristics usually require that they be subject to a framework of economic regulation. Following the recent approval by parliament, Schiphol's aviation activities are governed by a framework of economic regulation, a system which was effectively implemented on a shadow basis for the past couple of years.

Schiphol has a virtual monopoly of air traffic to and from the Netherlands, a position supported by Schiphol's excellent inter-modal transport connections. However, the company also has a relatively high exposure to transfer traffic, in fact the highest of any airport group rated by Moody's, hence leaving it relatively exposed to the fortunes of its main hub carrier. The Air France KLM Alliance accounts for approximately 60% of total passengers and so the fortunes of this airline 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.

Following the completion of the fifth runway in 2003, Schiphol has no sizeable large capital expenditure project on the horizon and only needs to undertake modularised expenditure to deal with growth as it arises. This gives the company significant flexibility in downside traffic scenarios. While physical capacity is substantial there are environmental constraints that place a limit on the number of aircraft movements, therefore without relaxation of these requirements, traffic growth will be constrained over the longer term.

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, and while it appears a rationale framework, its long term suitability remains untested.

Schiphol Group has traditionally had a conservative financial structure with a modest amount of debt leverage, and currently pays a moderate dividend to its shareholders. This affords a good degree of financial flexibility and is a material factor in Schiphol Group's 5 baseline credit assessment. However, given that the Dutch Government and the municipalities together will retain control post privatisation, and Schiphol Group's relatively under-levered financial position, it is possible that the Dutch Government may alter Schiphol Group's capital structure prior to a

partial sale in order to increase the effective cash proceeds from the sale while still maintaining a solid credit profile.

Rating Outlook

The stable outlook recognises that Schiphol Group is well positioned within the 5 Baseline Credit Assessment category with a reasonable level of financial headroom for the category. This position is expected to be underpinned by the prospects of reasonable revenue growth over the medium term, a moderate capital expenditure programme which is not expected to result in substantial increases in debt, and an expectation that Schiphol Group will maintain a cautious approach to non core investment. Furthermore, the medium Support factor is not expected to be reduced following a sell down in Government ownership to 50.1%.

What Could Change the Rating - UP

Given that Schiphol Group is positioned towards the top end of the rating range for major airport companies, a material de-leveraging of Schiphol would be required to see an upwards move in the rating. This is not considered likely in the short to medium term given Schiphol's likely financial commitments.

What Could Change the Rating - DOWN

A reduction in FFO Interest Cover materially below 5.5 times or Adjusted RCF to Net Adjusted Debt substantially below 20%, could result in a downwards move in the rating. This would most likely come from a return of capital to shareholders either before or after the privatisation.

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