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N.V. Luchthaven Schiphol

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Auxiliary Deck:

Major Rating Factors

Rationale

Outlook

Business Profile

Financial Policy

Rated Peer Comparison

Analyst E-Mail Addresses

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 AA-

Local currency AA-

Corporate credit rating history:

Apr. 10, 2002 AA-

June 2, 1993 AAA

Auxiliary Deck:

Business profile:

Above average.

Financial profile:

Conservative.

Major Rating Factors

Strengths:

- Conservative financial profile;
- Strong financial liquidity, driven by a sound cash-generative business and the ability to reduce capital expenditure;
- Solid aviation, real estate, and retail operations; and
- Supportive regulatory environment.

Weaknesses:

- High level of transfer passengers;
- Dependence on the airline KLM;
- Forecast somewhat weaker financial profile over the next five years; and
- Slower economic growth in the Netherlands.

Rationale

The ratings on N.V. Luchthaven Schiphol and Schiphol Nederland B.V., units of 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 successful retail, real estate, and operational track records also support the ratings.

The ratings incorporate a somewhat weaker financial profile over the next five years, owing to an expected large capital expenditure program that is forecast to result in increasing leverage. This is, however, partially offset by the group's ability to reduce investments substantially in response to lower demand. Environmental constraints, a relatively high level of transfer passengers, and dependence on the airline KLM also weigh on the ratings.

Schiphol, the fourth-largest airport in Europe by passenger volume, handled 39.96 million passengers in 2003, a decrease of 2% on 2002. Most of this decline was on transfer passengers, reflecting a slow economic environment, the war in Iraq and the impact of severe acute respiratory syndrome (SARS). Traffic was also affected by a decline in origin-destination passengers, in particular to popular summer destinations, as people opted to enjoy the hot weather throughout Europe at home. Passenger losses were, however, partially offset by the continued strong growth of "no frills" airlines, which now represent about 9.5% of total passenger numbers.

The merger between Air France and KLM is not expected to have a significant impact on traffic at Schiphol in the short to medium term, given Air France's assurances that it will operate a dual-hub system for the combined group for the next eight years. In the short-to-medium term, this merger is positive for Schiphol because it enhances the credit quality of the major counterparty at Schiphol.

The airport has solid retail, real estate, and operational track records. Its retailing activities are highly successful in terms of spend per passenger, both before and after passport control. In 2003, its strong financial profile was reflected in funds from operations (FFO) interest coverage of 6.2x. Under a base case scenario and assuming average traffic growth of 4%-5% between 2004-2008, this ratio is expected to remain higher than 6.0x over the next five years.

Liquidity.

Liquidity is adequate. The group mainly uses its €1 billion Euro medium-term note (EMTN) program to finance its capital expenditure, of which €344 million was available on Dec. 31, 2003.

The group's maturity profile is long term. Of its consolidated debt outstanding on Dec. 31, 2003, only 32% will mature in 2004-2008. Financial liquidity derives from: stable and strong cash flow generation; a cash position of €271 million and undrawn committed bank facilities of €200 million at year-end 2003; the group's ability to reduce capital expenditure by one-half in the next five years; and its good access to capital markets. Owing to high investment levels over the next four years, sustainable free cash flow generation is expected from 2008.

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 were to go ahead, based on the legal and regulatory framework currently proposed, the ratings on Schiphol Group would be unaffected.

Table 1 N.V. Luchthaven Schiphol Financial Summary				
	--Year ended Dec. 31 --			
(Mil. €)	2003	2002¶	2001	2000
Gross revenues§	860	774	695	637
Net income from continuing operations	191	137	183	162
Funds from operations (FFO)	288	259	280	250
Net cash flow	246	214	257	230
Capital expenditures	318	298	341	289
Total capital	3,135	2,651	2,472	2,075
Adjusted ratios				
Pretax interest coverage (x)	6.5	5.6	6.0	5.9
Total debt/total capital (%)	34.8	29.1	27.7	25.3
FFO interest coverage (x)	6.2	6.6	8.9	8.7
FFO/average total debt (%)	30.9	35.5	46.2	50.5
Net cash flow/capex (%)	77.4	71.7	75.4	79.5
*Due to accounting changes 2003 and 2002 financials are not directly comparable with 2000 and 2001. ¶Adjusted for "own works capitalized". §Restated.				

Business Profile

Business description.

Schiphol Group is the owner and operator of Schiphol, which, in addition to 36.96 million passengers, handled 1.31 million tons of cargo in 2003. The group also owns Lelystad Airport, which is being developed as a business airport in the Netherlands. It also owns 51% of Eindhoven Airport, which handled 427,792 passengers in 2003, and owns and operates Rotterdam Airport, the Netherlands' second-largest airport, with 616,823 passengers in 2003. 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. Schiphol Group's total revenues in fiscal 2003 were €860 million, excluding capitalization of "own works" and unrealized capital gain, of which traffic-related revenues (airport fees and concessions) contributed 68% of the total. Schiphol's high percentage of transfer passengers, who made up 41% of the total in 2003, is mainly a result of the strategy of its main carrier, KLM, which uses Schiphol as its hub, and the diversity of destinations served by the airport.

Competitive position.

Schiphol's competitive position is strong. Its domestic market share is dominant, and in Europe it is the fourth largest in terms of passengers. The airport has a solid hub position that largely depends on KLM's strategy and the success of that strategy.

The airport's position as one of the main European hubs is supported by its:

- Presence in The Netherlands, which has an open, competitive, highly industrialized, and well-diversified export-oriented economy;
- Good geographical location;
- Provision of facilities under one roof; and
- Adequate capacity to grow.

Although Schiphol has continued to grow, it does face some challenges to maintain its competitive position. Domestically, Schiphol is affected by the slow economic climate in The Netherlands. In addition, a key area for business and residents, the Randstad, faces transport problems owing to traffic jams and deteriorating rail transport. In 2003, despite some improvement in transport links to the airport, the number of passengers using

either public or shared transport decreased slightly to 42.6% from 43.8% in 2002.

Schiphol faces strong competition for transfer traffic from the other main European hubs: the Parisian airports owned by Aeroports de Paris (ADP; AAA/Negative/--), the London airports owned by BAA PLC (A+/Stable/A-1+), FraPort, the operator of Frankfurt Airport, and, to some extent, Brussels Airport. In 2003, Schiphol's market share among the top 10 European airports declined to 9.3% from 9.7% in 2002, due to the slow economic climate, the warm summer, and the improved performance of Brussels Airport, which has started to recoup some of the transfer traffic loss resulting from the bankruptcy of Sabena airline in 2001. The opening of the fifth runway in 2003, however, gives Schiphol a competitive advantage in relation to London Heathrow and Frankfurt, because it significantly enhances its capacity.

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.

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 3.2% compound average growth rate (CAGR).

In 2003, passenger traffic declined by 1.9%. Most of this decline was among transfer passengers, reflecting a slow economic environment, the war in Iraq and SARS. To a lesser extent, traffic was also affected by a decline in origin-destination passengers, in particular to popular summer destinations, as people opted to enjoy the hot weather throughout Europe at home. The most affected routes were those to and from the Far and Middle East. European traffic declined slightly.

Passenger losses were, however, partially offset by the continued strong growth of "no frills" airlines, which now represent about 9.5% of total passenger numbers, up from 7.3% in 2002. Schiphol benefits more than most major European airports from this traffic because in other countries the "no frills" carriers tend to base their operations at satellite airports rather than the major ones. In the first quarter of 2004, passenger traffic grew at a strong 4.6%, mostly driven by a rebound in transatlantic traffic and the positive impact of the extra leap-year day in February.

Air transport movements (ATMs) have increased at a lower rate than passenger growth in the past five years, at about 0.8% CAGR, as a result of increased load factors and the use of larger planes. In 2003, ATMs decreased by 2.1%. The maximum takeoff weight (MTOW), however, on which takeoff and landing fees are based, has increased in the past three years. This is positive from a noise and environmental perspective, and also reflects better use of the airport's infrastructure.

Cargo traffic increased by 5.3% in 2003, following a strong performance in 2002. This was a record amount and represented a higher market share. The strong growth was due to a strong increase in full-freight flights.

Traffic developments at European airports are significantly affected by the strategies and alliances of the airlines. National carriers continue to develop the hub function of their home base within international airline alliances to offer a wider choice of destinations.

The merger between KLM and Air France is not expected to have a significant impact on levels of aeronautical activity at Schiphol over the short to medium term, given the assurances given by Air France to the Dutch State. Air France has provided assurances to the government that the airlines will retain their respective home bases, operating licenses, Air Transport Certificates, and traffic rights, and that it will operate a dual-hub system for the combined airline group for the next eight years. Over the short term, this merger could be positive for Schiphol because it gives KLM access to a stronger alliance, the Skyteam, and enhances the credit quality of the major counterparty at Schiphol.

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

Over the next five years, absent further exogenous events that would erode passenger confidence, Schiphol Group's management forecasts passenger traffic growth of 4%-5%.

Revenue stability.

Revenue quality is closely linked to the stability of the passenger base. With a 41% share of transfer traffic and high dependence on a single airline, 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.

In 2003, KLM represented about 47.6% of total passengers at the airport, 77.5% of transfer and 26.8% of origin-destination traffic. Although this situation is typical of hub airports, the collapse of KLM would have a significant impact on transfer passengers, which accounted for 20.3% of total revenues in 2003. When the traffic and revenues of Air France are combined with those of KLM, Schiphol's exposure to one single party increases to 77.7% of transfer and 28.7% of origin-destination traffic. Nevertheless, the merger of KLM with the financially stronger Air France has decreased the likelihood of a bankruptcy scenario.

Schiphol Group has a well-diversified revenue base. Slightly less than one-half of its revenues come from aeronautical charges.

Aeronautical income stems from airport charges such as terminal navigation, aircraft parking, passengers, and landing. Aeronautical revenues will continue to increase owing to inflation adjustment of tariffs, passenger growth, and some limited tariff increases. Aeronautical revenues will continue to underpin the group's revenues. In 2003, aeronautical revenues represented 54% of net turnover.

Schiphol's aeronautical charges per passenger are average compared with those of other European airports. Overall, Standard & Poor's Ratings Services expects aeronautical charges for airports with significant capital expenditure programs to increase. Schiphol will be no exception.

Nonaeronautical income is well balanced and represents about 46% of total revenues. It includes retail concessions, real-estate sales and lease and rents income, utilities, and other activities.

Under concession contracts, Schiphol receives a base rent and a percentage of retail revenues. The long-term nature of the concession contracts and limited downside resulting from the fixed minimum payments provide stability to commercial revenues. Parking, which represents 7% of total revenues, is run directly by Schiphol management. This activity has grown substantially in the past few years and is a very profitable source of revenues, given its

minimal fixed costs base.

Real-estate leasing and rents generate a stable source of revenues, due to the long term of contracts and high occupancy rates. In 2003, contracts lapsing within 12 months represented only 5.6% of the total, and the occupancy rate was 90%. Sales of properties to the ACRE fund have generated a strong stream of revenues in the past two years, but this source of revenues is more volatile.

Regulation.

Schiphol is governed by a system of legislation and regulations that have been evolving in anticipation of the completion of the fifth runway.

A new Aviation Act came into force in February 2003, when the new fifth runway at the airport became operational. The new act defines the limits for the use of Schiphol in terms of noise, runway use and routing, third-party risk, and the emission of substances to limit local odor and air pollution.

Under the new legislation, the environmental rules related to runway use and the use of take-off and landing routes have been tightened and expanded. A total volume of noise for all air traffic combined has been added to the standards for noise, replacing the cap of 44 million passengers under the old legislation.

Following the start of operations on the fifth runway in February 2003, input errors were discovered in the computer model that forms the basis for the allowable noise levels at the enforcement points. Failure to correct the computer model inputs and amend the Act would result in breaches of the enforcement points by mid 2004. The formal procedure for amending the Act has begun with the support from the House of Representatives and the Cabinet. Schiphol's management is confident the Act will be amended in the first half of 2004.

Under separate legislation, Schiphol Group has also been required to take over operational activities for preventive security from April 1, 2003, although the Dutch government will ultimately remain responsible for airport security.

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. When the input errors are corrected and the Act is amended, quieter aircraft, adequate airport management, and the operation of the new runway are expected to offset the negative impact of the new strict environmental standards. In addition, the financial effects of potential penalties owing to a breach of noise limits are not expected to weaken the group's financial profile.

The recent agreement by the Ministry of Transport, Ministry of Finance, and the airlines on the proposed adoption of a dual-till framework, where there is a separation of aeronautical revenues from commercial revenues, is positive for the ratings. It provides greater visibility regarding future airport charge levels and could enhance profitability. Under this agreement, Schiphol is allowed a return on aviation assets after taxation of up to 5.7%, which is higher than historical levels. This agreement has still to be brought before parliament, but this is expected in May 2004.

Operations.

Schiphol Group's operations are strong. Capacity is adequate, operating metrics are improving, and the retail activities are benchmarked globally.

The fifth runway improves Schiphol's operations because it increases capacity, reduces noise hindrance, and gives the airport flexibility to manage

its investment program according to demand dynamics. When the Aviation Act is amended, the capacity of the five-runway system will be about 500,000 ATMs per year. This number could be increased to up to 600,000 ATMs per year, or about 60 million passengers, through 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 before 2012, however. In order to provide capacity beyond 2012, an environmental study will be carried out in 2005-2006.

In 2003, several other projects necessary for the achievement of full capacity of the five-runway system were postponed because the airport adjusted its capital expenditure program to lower demand prospects. Investments related to quality, safety, access, and security were carried out as planned. For the years 2004-2008, planned investment in the aviation area is about €1.3 billion. Capacity related projects will continue to be evaluated on the basis of actual traffic developments.

Punctuality and aircraft noise further improved in 2003. Arrivals and departures with less than 15 minutes' delay represented 81.7% and 73.7% of their respective totals in 2003, up from 80.4% and 69.1% in 2001. This was mainly due to good weather conditions.

Commercial activities are the most profitable at Schiphol, posting a high return on assets of 25.7% in 2003. The airport operator does not conduct its retail activities directly, but operates them under concession agreements. Schiphol promotes its brand of "See Buy Fly" rather than the high-street brands used in BAA's strategy. This fits Schiphol Group's successful AirportCity formula, a concept that provides a wide range of shopping opportunities and other services for visitors, passengers, and workers at or around the airport. Office buildings in the Schiphol area are very popular and have a high occupancy rate. About 57,000 people are employed on site at Schiphol and, together with passengers, they form the main retail target. In 2003, Schiphol was named the "best shopping center among European airports" by the International Association of Travel Agents.

Schiphol lags behind Heathrow and Gatwick in terms of spend per passenger. The opening of the newly renovated and expanded Lounge 1 in spring 2004, however, will increase retail space to 4,400 square meters from 1,200 square meters. Retail spending per passenger would be likely, therefore, to increase.

Schiphol has substantial opportunities to increase its real-estate portfolio, and Standard & Poor's expects revenues from this activity to increase substantially in the future, in particular due to the realization of capital gains from the sale of 50% of real-estate assets to the ACRE Fund, a property fund created in 2002, in which Schiphol maintains a 50% interest. Between 2002 and 2003, Schiphol Real Estate (SRE) transferred €153 million to the ACRE fund, generating about €77 million in revenues. This fund is expected to grow to €360 million in the next two-to-three years.

In 2003, Malpensa Real Estate B.V., 60% owned by SRE, acquired a 70% stake in the Italian company Avioport SpA. The project involves the acquisition of land and the development of office and warehouse space near Malpensa airport in Italy. Financing for the project is nonrecourse to Schiphol. Investments by SRE are made from internal cash flow.

Schiphol Group's main international investments are in the Terminal 4 international arrivals building at John F. Kennedy Airport and a 50-year concession to operate Brisbane Airport. Pantares, the alliance between Schiphol Group and FraPort, has a concession to operate the Logistics Center in Hong Kong. Construction was completed in March 2003. The same concept will be applied in Singapore. In 2004, Schiphol entered into a joint venture with Arlanda Airport for the development and operation of commercial activities in Arlanda's north Terminal for 15 years.

Table 2 Schiphol Airport Operating Statistics				
	--Year ended Dec. 31 --			
	2003	2002	2001	2000
Total passenger traffic (excluding transit; Mil.)	39.8	40.6	39.3	39.3
Annual growth (% per year)	(1.9)	3.3	0.1	7.8
European share of total (%)	70	69	68	67
Intercontinental share of total (%)	30	31	32	33
Transfer share of total (%)	41	42	41	42
Total freight traffic (000s tons)	1,306	1,240	1,183	1,223
Annual growth (% per year)	5.3	4.8	(3.2)	3.6
Air transport movements (000s)	393	401	416	415
Annual growth (% per year)	(2.1)	(3.6)	0.4	5.4
Average full-time employees (FTE)	2,231	2,134	2,038	1,864
Average passengers per FTE	17,843	19,089	19,288	21,068

Table 3 N.V. Luchthaven Schiphol Revenue Distribution*				
	--Year ended December 31 --			
(%)	2003	2002	2001	2000
Aviation fees	54	49	48	49
Retail concessions/catering	13	15	17	18
Property and related income	12	13	14	13
Utility services	2	2	2	2
Parking revenues	7	8	8	8
Other operating revenue	11	12	11	10

*Excludes "own works capitalized".

Financial Policy

Schiphol Group has prudently managed its investment plan to reflect the adverse operating environment and medium-term demand prospects. 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.

Schiphol's control and audit departments are working on combining diverse control and risk management structures within the company into one company-wide framework based on the Tabaksblad Code, the new Dutch corporate governance code. This should have a positive effect on risk management and is a positive factor for the rating.

The group reports its accounts under Netherlands GAAP, but has been adopting relevant provisions of the International Financial Reporting Standards (IFRS) in anticipation of the European Commission's requirement that IFRS be adopted by Jan. 1, 2005.

Accounting changes during the year were related to the treatment of dividends payable and investment properties. This new treatment of properties follows Dutch GAAP's guideline 213, but is in full compliance with IFRS 40. This guideline divides property into investment, operational, and under construction. Investment property is carried at fair value, with gains and losses reflected in the income statement. Property for use by the company is now valued at cost. Before the adoption of this standard, operating properties were carried at fair value and only "realized" gains and losses were recognized in the income statement. These changes had an impact on profitability metrics, but they were not significant. Unrealized gains of investment property, now recognized in the profit and loss accounts, however, gave rise to higher deferred tax liability.

The Schiphol Group's future dividend payout is forecast to be about 30%. Dividend payment in 2003 was €42 million.

Debt-financed acquisitions are limited to nonrecourse activities, such as with the John F. Kennedy and Brisbane airports. In the Hong Kong Tradesport there is a limited recourse of 11.25 million Hong Kong dollars (\$1.44 million). In the Arlanda Retail Management joint venture, the exposure is €2 million. Transaction exposures are all hedged. Hedging of translation exposures is, however, limited to debt amounts, while foreign participation is not hedged. Interest-rate risk is hedged by plain vanilla swaps. At the end of 2003, the market value of the group's swap contract amounted to negative €54.3 million.

The company has adequate insurance policies. Nevertheless, terrorism insurance is provided by the Dutch State.

Profitability and cash flow protection.

Historically, Schiphol Group has demonstrated stability of earnings and cash flow. Passenger numbers, tariff changes, and nonaeronautical activities are the main drivers of revenue growth.

In 2003, profitability improvements were largely driven by the sale of investment property to the ACRE fund and of utilities activities, increases in parking fees and rental income, efficiency gains on security activities, and the positive impact of accounting changes on earnings, rather than the underlying performance of Schiphol's core aviation and commercial activities. Total revenues increased by 11% to €860 million, excluding capitalization of "own works" and unrealized gains in value of investment property, led by a 22.3% increase in aeronautical revenues. Standard & Poor's offsets the exclusion of "own works capitalized" 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. Unrealized gains in the value of investment property are recognized below operating income.

Higher aeronautical revenues were driven by an 18.7% rise in the security charge with the transfer of preventive security duties to Schiphol from the government and an increase in airport charges from April 2003. These events more than offset a decrease of 1.9% and 2.1% in passenger volume and ATMs, respectively. Revenues from concessions decreased by 3%, due to lower passenger volumes and a decline in the spending per departing international passenger. Car parking revenues continue to post strong results, with a 5% increase in 2003. This resulted from increases in charges for long-term parking and in the average length of stay in the short-term car parks. Despite the downturn in the property market, rents and leases rose by 3.4% as a result of an increase in revenues from leasing space in the terminal and indexation of rents.

EBITDA was €380 million in 2003, an improvement of 16% over restated 2002 figures. An important contributor to this improvement was the efficiency gain on security activities. The EBITDA margin improvement to 44.2% on the basis of these efficiency gains, however, does not seem to be sustainable, because lower security costs should lead to no increase or a decrease in the passenger security charge in subsequent years. In 2004, the passenger security charge will remain unchanged. Revenues are expected to increase, mainly as a result of passenger growth, tariffs, and indexed rentals increases.

Bottom-line profitability was boosted by unrealized capital gains of €83 million that more than offset increased interest and tax expenses. This unrealized capital was mainly due to: the revaluation of investment property, including a more precise calculation of the residual value of long leases; the recalculation of discounted costs for landscaping and infrastructure; an upward revaluation of formerly contaminated land; and capital gains with the completion of new

buildings, whose value was brought to fair value from cost. Pretax interest coverage increased to 6.5x in 2003 from 5.6x in 2002, despite higher interest. Similarly, strong earnings more than offset a larger asset base in 2003, bringing the return on average permanent capital (total debt plus shareholder equity) to 12% from an historical average of 10%.

The adoption of a dual-till system and a regulated higher return on aviation assets than historical levels are likely to improve profitability measures further.

In 2003, FFO increased to €288 million from €259 million in 2002, reflecting increased aviation revenues. Despite an improvement in FFO, cash flow protection measures deteriorated somewhat, owing to higher debt and debt service. FFO to debt and to interest was 30.9% and 6.2x, respectively, the lowest level for the past five years. These measures, however, continue to be the strongest among Standard & Poor's rated airports and in line with the rating category.

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 significant headroom to reduce capital expenditure, and so any decline in cash flow would be accompanied by a capital expenditure reduction of up to 50% from current plans. This measure would result in a positive short- to medium-term impact on Schiphol Group's financial profile. It would result in the earlier generation of free cash flow, which otherwise would be expected only from 2008. In the long term, however, it could hurt the airport's competitive position.

Table 4 N.V. Luchthaven Schiphol Profitability*				
	--Year ended Dec. 31 --			
Income statement (Mil. €)	2003	2002¶	2001	2000
Gross revenues*	860	774	695	637
Operating expenses (excluding DD&A)	479	444	385	350
Depreciation and Amortization	131	106	103	104
EBITDA§	380	330	309	287
Interest incurred	53	44	36	33
Net interest incurred	43	39	32	30
Net income	191	137	183	144
Earnings protection				
Pretax interest coverage (x)	6.5	5.6	6.0	5.9
Net pretax interest coverage (x)	7.8	6.1	6.6	6.2
EBITDA interest coverage (x)	7.2	7.5	8.7	8.8
Total debt/EBITDA (%)	2.9	2.3	2.2	1.8
Return on average equity (%)	9.8	7.5	11.0	9.8
Total operating expenditure/revenues (%)	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. ¶Adjusted for "own works capitalized". §Restated.				

Table 5 N.V. Luchthaven Schiphol Cash Flow*				
	--Year ended Dec. 31 --			
Cash flow (Mil. €)	2003	2002¶	2001	2000
Net income	191	137	183	144
Depreciation	131	106	103	104
Funds from operations (FFO)	288	259	280	250
Common dividends	42	45	23	20
Net cash flow (NCF)	246	214	257	230

Net capital expenditures (capex)	318	298	341	289
Discretionary cash flow	(63)	(50)	(155)	(58)
Cash flow adequacy				
Capex/average total capital (%)	11.0	11.6	15.0	14.8
NCF/capex (%)	77.4	71.7	75.4	79.5
NCF/capex and net acquisitions (%)	74.9	71.7	76.2	79.5
FFO/average total debt (%)	30.9	35.5	46.2	50.5
FFO/average net debt (%)	37.1	38.5	52.1	58.6
Adjusted FFO/average net debt (%)	37.1	38.5	52.1	58.6
FFO interest coverage (x)	6.2	6.6	8.9	8.7
FFO net interest coverage (%)	7.3	7.2	9.9	9.2
*Due to accounting changes 2003 and 2002 cash flow protection measures are not directly comparable with 2000 and 2001. †Restated.				

Capital structure and financial flexibility.

Schiphol Group is expected to maintain adequate capitalization. Under the current investment plan, of €2 billion for the next five years, debt is expected to peak in 2007 because internal funds and cash are expected to be insufficient to cover capital expenditure.

Total debt increased to €1.1 billion at year-end 2003, as a result of the issuance of €300 million under the group's EMTN program and the drawdown of a €150 million facility with the European Investment Bank (foreign currency AAA/Stable/A-1+) in 2003. This brought total debt per passenger and the capitalization ratio to €27 and 35%, respectively, up from €19 and 29% in restated 2002 figures. These are, however, still the lowest levels in the peer group, including BAA and ADP.

Schiphol Group's short-term net financing needs are substantial, and include investments of about €430 million and €67 million of debt maturing in 2004. Those needs, however, could easily be covered with internally generated funds and cash balances.

Liquidity is adequate. The group mainly uses its €1 billion EMTN program, of which €344 million was available on Dec. 31, 2003, to finance its capital expenditure. The group's maturity profile is long term. Of its consolidated debt outstanding on Dec. 31, 2003, only 32% will mature between 2004 and 2008. Financial liquidity derives from: stable and strong cash flow generation; a cash position of €271 million and undrawn committed bank facilities of €200 million at year-end 2003; the group's ability to reduce capital expenditure by one-half in the next five years; and its good access to capital markets.

Table 6 N.V. Luchthaven Schiphol Capital Structure*				
	--Year ended Dec. 31 --			
Balance sheet (Mil. €)	2003	2002†	2001	2000
Cash and equivalents	271	38	75	61
Net plant	2,960	2,655	2,545	2,208
Total assets	3,469	2,938	2,845	2,471
Short-term debt	67	257	292	142
Long-term debt	1,024	516	394	382
Common equity	2,044	1,878	1,786	1,551
Total capitalization	3,135	2,651	2,472	2,075
Balance sheet ratios (%)				
Short term debt/total capital	2	10	12	7
Long term debt/capital	33	19	16	18

Common equity/total capital	65	71	72	75
Total debt/total capitalization	35	29	28	25
Net debt/total capital	26	28	25	22

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

Rated Peer Comparison

Table 7 Schiphol Group Rated Peer Comparison			
	Schiphol Group	BAA PLC	Copenhagen Airports A/S
Rating	AA-/Stable/--	A+/Stable/A-1+	A/Stable/--
Country	Netherlands	U.K.	Denmark
Airports operated	Amsterdam	Heathrow, Gatwick, Stansted, Edinburgh, Glasgow, Aberdeen, and Southampton	Copenhagen
Year ending	December 31, 2003	March 31, 2003	December 31, 2003
Business profile	Above average	Well above average	Above average
Financial profile	Conservative	Moderate	Moderate
Base year	2002	2002	2002
Operating statistics			
Market	Netherlands	U.K.	Copenhagen
Population	16.0 million	60.0 million	1.7 million
Total passengers 2003 (000s)	40,200	127,684	17,200
Revenue distribution			
Aeronautical (%)	54	35	51
Retail, concessions, and parking (%)	20	43	30
Property (%)	15	15	8
Others (%)	11	8	11
Aeronautical revenue/passenger (%)	12	8	9
Nonaeronautical revenues per passenger (€)	10	14	8
Operating revenues/passenger (€)	21	22	17
Operating revenues/employee (€)	385	235	221
EBITDA/passenger (€)	9	10	10
Operating costs/passenger (€)	12	12	7
Debt/passenger (€)	27	34	31
Employees (€)	2,231	11,905	1,352
Regulatory regime	Light hand	Single till	Light handed
Financial metrics			
Financial policy	Conservative	Moderate	Moderate
Profitability			
Gross revenues	860	2,801	298
Average revenue growth in five years (Mil. €)	8	N.M.	4

Operating costs (%)	480	1,543	126
Net income from continuing operations (Mil. €)	191	529	56
EBITDA margin (Mil. €)	44	45	58
Pretax earnings interest cover (base; %)	6.5	3.6	3.9
Cash flow protection			
Fund flow from operations (FFO; base; Mil. €)	288	923	130
Capital expenditure (Mil. €)	318	1,022	31
Interest incurred (including capitalized interest; Mil. €)	53	300	29
FFO interest cover (base; Mil. €)	6.2	4.0	4.6
FFO/average total debt (base; x)	30.9	22.5	23.9
Net cash flow/capital expenditure (base; Mil. €)	77.4	62.5	420.7
Capital structure			
Total assets (Mil. €)	3,469	13,040	1,144
Total debt (Mil. €)	1,092	4,369	525
Net debt (Mil. €)	821	2,726	457
Total debt/total capital (%)	35	40	57
Net debt/total capital (base; %)	26	25	50
Capital expenditure-to-average total capital (base; %)	11	9	3
N.M.--Not meaningful.			

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