

CREDIT OPINION

30 May 2017

Update

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RATINGS

Royal Schiphol Group N.V.

Domicile	Amsterdam, Netherlands
Long Term Rating	A1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Royal Schiphol Group N.V.

Update to reflect impact of continued robust traffic growth

Summary Rating Rationale

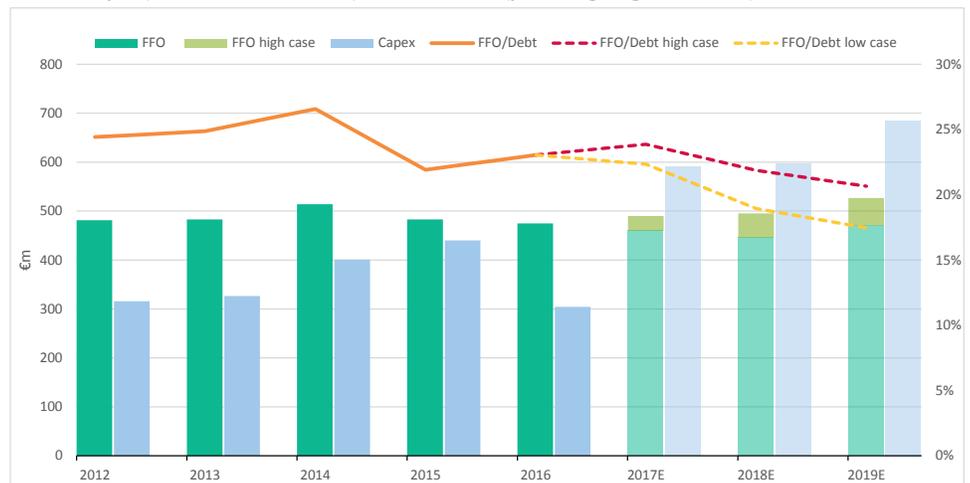
The A1 rating of Royal Schiphol Group N.V. (Royal Schiphol Group) positively reflects (1) Royal Schiphol Group's ownership of Amsterdam Airport Schiphol, the third-largest airport in Europe by passenger numbers, and other airports in the Netherlands, (2) a supportive regulatory framework, (3) a strong financial profile, which we expect to be resilient to the impact of an increase in capital expenditure and (4) a two-notch uplift because of the likelihood of extraordinary support being provided by the Government of the Netherlands in the event that this were ever to be required to avoid a default.

However, the rating also reflects the following challenges: (1) Royal Schiphol Group's fairly high exposure to transfer traffic and reliance on Air France-KLM, a French Dutch airline group, and (2) the need to increase expansionary investment to support passenger growth, whilst complying with noise regulations that limit aircraft operations.

Exhibit 1

Increased capital expenditure is expected to impact leverage, but metrics should continue to be solid

FFO and capex (€million, left hand side) and FFO / Debt (percentage, right hand side)



The 2017, 2018 and 2019 estimates represent Moody's forward view; not the view of the issuer  
Source: Moody's Financial Metrics for historical data

## Credit Strengths

- » Ownership of Amsterdam Airport Schiphol, one of Europe's major airports
- » Supportive regulatory framework
- » Strong financial profile, which we expect to be resilient to an increase in capital expenditure
- » Likelihood of support from the Government of the Netherlands, should it become necessary

## Credit Challenges

- » Fairly high exposure to transfer traffic and reliance on Air France-KLM
- » Capital expenditure will be needed to continue to support growth

## Rating Outlook

The stable outlook reflects Moody's expectation that Royal Schiphol Group will continue to evidence steady traffic growth and will be able to manage its capital expenditure programme and any other investments so that its financial profile remains in line with its current rating. The outlook also reflects the stable outlook on the rating of the Government of the Netherlands.

## Factors that Could Lead to an Upgrade

A substantial reduction in the debt levels of Royal Schiphol Group would be required before an upgrade in the rating was warranted. This is not considered likely to occur in the foreseeable future. The BCA would come under upward pressure if Royal Schiphol Group's FFO / Debt was consistently above 25%. An upgrade in the BCA from a3 to a2 would not of itself likely result in an upgrade of the rating.

## Factors that Could Lead to a Downgrade

The BCA and the rating could come under downward pressure if Royal Schiphol Group's FFO / Debt fell consistently to the mid-teens in percentage terms. The BCA is considered well positioned in the a3 category and a material increase in debt levels or substantial deterioration in market circumstances would be required before a downwards rating move was considered likely. A downwards move in the rating of the Government of the Netherlands could result in a downgrade in the ratings.

## Key Indicators

Exhibit 2

### Royal Schiphol Group N.V.

	12/31/2016	12/31/2015	12/31/2014	12/31/2013
(FFO + Cash Interest Expense) / (Cash Interest Expense)	6.8x	6.7x	6.5x	5.7x
FFO / Debt	23.1%	21.9%	26.6%	24.9%
Moody's Debt Service Coverage Ratio	7.2x	6.3x	7.3x	6.6x
FCF / Debt	13.9%	15.6%	19.6%	19.3%

Note: All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Source: Moody's Financial Metrics

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

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Detailed Rating Considerations

### Ownership of one of Europe's major airports

Royal Schiphol Group has been designated as the operator of Amsterdam Airport Schiphol (Schiphol Airport), the third largest airport in Europe by number of passengers, for an indefinite period of time, and owns its airport assets outright in perpetuity. Despite its ownership structure, Royal Schiphol Group is a financially independent commercial enterprise. Its 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 Royal Schiphol Group, particularly Schiphol Airport, are regulated in a number of areas, including noise and environment, aviation operations, capacity, safety and airport charges.

As well as serving Amsterdam - a major trading centre and capital city of an advanced European country - Royal Schiphol Group owns Rotterdam Airport and has majority ownership of Eindhoven Airport. As a result, Royal Schiphol Group has a virtual monopoly of the international airports in the Netherlands. In addition, Schiphol Airport is the third-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.

Schiphol Airport has a virtual monopoly on 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 competition for certain European travel destinations. The government's high-speed rail plans (to better connect the Netherlands to the high-speed rail networks of Belgium and Germany) are advanced, but have suffered some delays. The London-Amsterdam direct service will not be ready before late 2017 and Amsterdam-Brussels service has experienced severe problems due to a faulty train fleet, which has been taken out of service. Nevertheless, once these high-speed train connections are in place, they will increase the potential catchment area of Schiphol Airport, but may also serve to increase competition on shorthaul routes and bring Schiphol into more direct competition with airports in Paris and Brussels.

### Future evolution of the regulated framework is not expected to affect its supportive nature

Following the implementation of the Aviation Act in July 2006, Schiphol Airport is subject to a 'dual till' system of economic regulation, which allows Schiphol Airport to set aeronautical charges that cover all aviation related costs, including a regulated return on a defined aviation asset base. In accordance with the Aviation Act, charges are set on an annual basis following a formal consultation with airlines during which the airport operator shares its projections of costs, traffic volume and capital expenditure. This process allows Schiphol Airport to take into consideration the forward requirements of the users of the airport and to plan long term investment decisions. Disputes over the level of charges are referred to and settled by the Dutch Competition Authority. Under this framework, Schiphol Airport has been able to set charges that provide for a fair remuneration of invested capital, whilst keeping a good relationship with its customers.

Under the 'dual till' principle, the non-aviation activities (consumer products & services and real estate segments) at Schiphol Airport as well as all other activities of Royal Schiphol Group, including its other Dutch airport interests, are not subject to economic regulation. Since the introduction of the regulation in 2007, Royal Schiphol Group has voluntarily refrained from applying the maximum permitted airport charges in order to further strengthen its competitive position. In practice, Royal Schiphol Group has voluntarily accepted a lower return than the maximum allowable return in the past. This arrangement has been termed a hybrid dual-till system, because it allows for voluntary subsidisation of regulated activities from non-aviation activities.

The regulatory framework is expected to be changed in July 2017, with the 2019 tariffs being the first to be set according to the new framework. Under the adjusted framework, Schiphol Airport will set its charges for three-year periods. Consequently, the consultation with airlines on airport charges will now take place every three years. The main changes under the proposed new framework include (1) an incentive mechanism whereby any savings for certain capital expenditure projects versus budgeted levels will be shared on a 50/50 basis between the airport and the airlines, whereas any overspend will be borne completely by Schiphol Airport; (2) an obligation to provide an annual update to airlines regarding the evolution of costs; (3) a mandatory contribution from non-aviation activities to replace the current system of voluntary contributions, and (4) the requirement to benchmark Schiphol Airport's charges and quality of services to those of a peer group of European and Middle Eastern airports. To counterbalance the risks associated with setting charges for a longer period, charges will be allowed to deviate from agreed levels if (1) unplanned security measures need to be implemented; or (2) actual traffic volume is different from planned volume in any one year, in which case the difference will be reflected in the revenue allowance for the three subsequent years.

### Fairly high exposure to transfer traffic and reliance on Air France-KLM

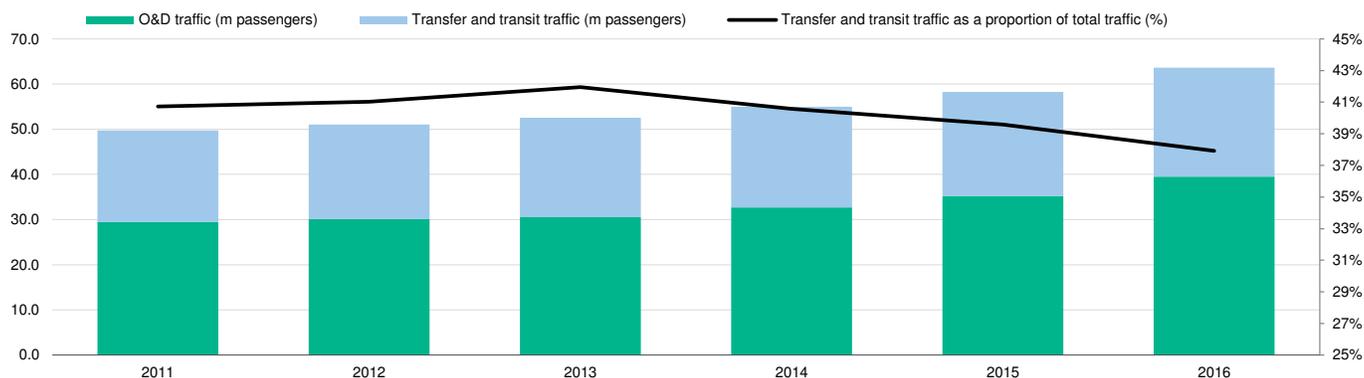
In addition to serving the air travel needs of the Netherlands, Royal Schiphol Group benefits from Schiphol Airport's position as one of Europe's main hubs for intercontinental flights. In fact, Schiphol Airport has the highest proportion of transfer and transit traffic (37.8% of total passenger volume in 2016) of any European airport rated by Moody's. Origin and destination traffic is more resilient than transfer traffic to airline failures, as it is much less reliant on the individual airlines route network. In the event of an airline failure, other airlines tend to pick up this traffic. Transfer and transit traffic, on the other hand, is more likely to be permanently lost if the airline using the airport as a hub ceases operations.

Schiphol Airport is the main hub of KLM, an airline of the Air France-KLM group and integrated in the SkyTeam alliance. Together, Air France and KLM flights accounted for 49.8% of Schiphol Airport's total air transport movements (ATM) in 2016, whilst c. 63% of all ATMs were handled by airlines in the SkyTeam alliance, many of which under code sharing agreements. To date, the impact of the presence of Air France-KLM and its partners has been positive, bringing additional passengers to the airport and helping develop an extensive network of destinations. Schiphol Airport has also experienced relatively low volatility of passenger traffic growth when compared with other airports rated by Moody's. In common with most European airports, the passenger numbers fell in 2009 (-8.1%), but traffic volumes began to recover in 2010 and have since grown faster than at competing hubs in Western Europe. Passenger traffic growth has been particularly robust in recent years: +4.6%, +6% and +9.1% in 2014, 2015 and 2016, with origin and destination traffic growing even faster (+7%, +7.8% and +12.2%) as inbound tourism has been boosted, especially after the reopening of two popular museums that underwent major renovations. Nevertheless, the proportion of transfer traffic at Schiphol Airport remains high and leaves the company exposed to the financial fortunes and business strategy of its main hub carrier, Air France-KLM.

Exhibit 3

#### The proportion of transfer and transit traffic has decreased over the last three years but remains high

Origin and destination and transfer and transit passengers (million, LHS) and transfer and transit passenger as a proportion of total passengers (% , RHS)



Source: Royal Schiphol Group

### Capital expenditure will be needed to continue to support growth

Over the last 10 years, Royal Schiphol Group has targeted its investment efforts to achieve a more efficient use of existing terminal facilities. For example, certain processes, such as the transfer baggage system, have been streamlined and optimised, and there has been a strong focus on improving the quality of service by introducing new concepts and services. The company also recently completed a major reorganisation of its terminal building that moved security checks for non-Schengen flights from individual gates to central facilities.

Although these investments have enhanced the passenger experience, and, in the case of the central security facility, have improved passenger flows within the terminal, they were not primarily designed to increase capacity. After several years of very robust traffic growth, Schiphol Airport handled around 63.6 million passengers in 2016, well in excess of the then estimated maximum terminal capacity of 60 million passengers at current service standards. Although the airport is technically capable of accommodating volumes in excess of this figure, this would be at the expense of service standards and passenger experience, which will come under pressure as passenger volumes grow. Worsening service standards would make the airport less attractive to transfer passengers, which could lead to a shift of demand to other less congested airports.

In 2016, the company decided to build a temporary departure hall to cater for the increased number of origin and destination passengers travelling to / from Schengen destinations. The new temporary facility was opened in early 2017 and added c. 2 million departing passengers to Schiphol Airport's terminal capacity, therefore providing some relief to the capacity constraint at the airport.

Royal Schiphol Group expects, however, that over the next ten years traffic demand will continue to grow, exerting additional pressure on current facilities. To address this challenge, the company has developed a master plan as a modular investment programme, spread over the next ten years aimed at expanding airport capacity, in particular terminal and pier capacity. The main component of the master plan is the development of "Area A", the phased construction of new terminal facilities, including the construction of a new pier by the end of 2019, followed by the phased delivery of a new terminal building by the middle of the next decade. As a result of this programme, annual capital expenditure is expected to increase from the current levels of c. €450 million, to c. €600 million per year.

Schiphol Airport's runway capacity is also expected to face environmental constraints. Although the existing runway system of Schiphol Airport has the physical capacity to handle around 600,000 ATMs a year - well in excess of the total number of ATMs handled in 2016 (478,864) - Schiphol Airport is subject to noise regulations that place a limit on the number of ATMs a year. An agreement reached under the Alders framework allows for a lower total number of operations per year (500,000 ATMs per year, compared with a cap of 510,000 ATMs agreed in 2010), in exchange for a more intensive utilisation of the runways during peak times (the restriction on the concurrent use of 4 runways has been significantly eased). However, the additional headroom provided by this change may not be sufficient to allow traffic to grow unconstrained until 2020, the date at which the current agreement will be renegotiated. To mitigate this risk, Royal Schiphol Group has the ability to incentivise the reallocation of up to 70,000 flights, particularly origin and destination leisure flights, from Schiphol Airport to other Dutch airports, including to Lelystad Airport, which is currently under development and expected to open in 2019. It should be noted that the terminal expansion programme has been designed to fit with the current cap on the number of ATMs.

#### **Strong financial profile, which we expect to be resilient to an increase in capital expenditure**

Royal Schiphol Group's leverage increased in 2008 to finance the payment of a €500 million special dividend and the net investment of €168 million in Aeroports de Paris shares. Since then, Royal Schiphol Group key credit metrics have markedly improved as debt levels have been kept fairly stable whilst cash generation has grown. Some of this improvement in leverage metrics was, however, temporary as it reflected higher than expected traffic growth, which triggered a regulatory claw-back mechanism that was partly responsible for the 6.8%, 11.6% and 7.1% decreases in aeronautical charges applied in 2015, 2016 and 2017.

Although aeronautical charges are expected to start increasing again as Royal Schiphol Group plans to ramp up its investment, leverage is expected to increase, particularly from 2017 onwards, with adjusted FFO / Debt trending to the low twenties or high teens in percentage terms. Management has indicated, however, that it intends to pursue a relatively conservative financial strategy, in the context of the requirement to finance the airport's master plan. For example, the modular approach to the development of "Area A" will allow the company to rephase the programme of works, should it need to better align the increase in indebtedness and the company's cash generation. In addition, we note that the company could sell some non-core assets to part fund the development of the airport infrastructure if necessary.

#### **Likelihood of support from the Government of the Netherlands, should it become necessary**

Royal Schiphol Group's rating incorporates an uplift for potential government support to its standalone credit quality, which we express as a baseline credit assessment (BCA) of a3. The uplift to the BCA, currently 2 notches, reflects (1) the Aaa stable local currency rating of the Government of the Netherlands, (2) our assessment of a moderate likelihood of support for the group from the government, should it become necessary, and (3) our assessment of a moderate default dependence (i.e. degree of exposure to common drivers of credit quality) between the government and the group.

We regard Royal Schiphol Group as being of high importance to the Government and the role of the Netherlands as a major international trading destination and centre of logistics in Europe. We also recognise the Government's direct 70% ownership and economic interest in Royal Schiphol Group.

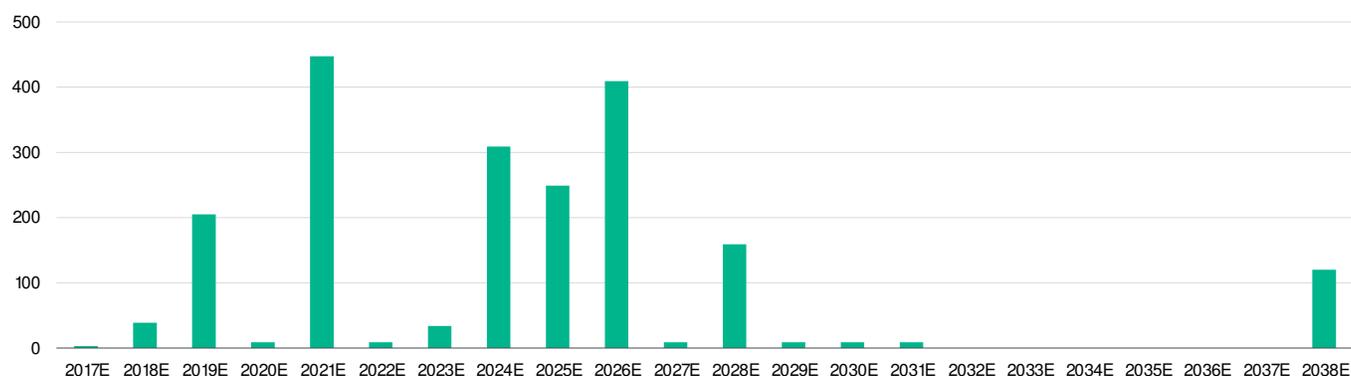
#### **Liquidity Analysis**

Royal Schiphol Group's liquidity position is currently excellent, as the group would be able to meet its liquidity needs over the next 12 months from internal sources or committed external sources of funds. Of the group's €1.99 billion of gross debt (excluding leases

and profit sharing loans) reported to be outstanding at the end of December 2016, €11 million are due within the following 12 months. Additionally, the group plans capital expenditure of approximately €590 million during the same period. The funds the group generates plus its available liquidity are sufficient to cover all cash requirements for at least the next 12 months. The group's primary sources of committed liquidity are (1) a total sum of €400 million in committed bank facilities that have not yet been drawn as at 31 December 2016, (2) €175 in a committed but yet undrawn facility with the EIB related to the development of Area A, and (3) €239 million in cash and cash equivalents as at 31 December 2016.

Exhibit 4

#### Royal Schiphol Group debt maturity profile, excluding leases (€million)



Source: Schiphol Group

#### Profile

Royal Schiphol Group N.V. is a holding company of a group that owns and operates Amsterdam Airport Schiphol, Rotterdam Airport, Lelystad Airport, and 51% of Eindhoven Airport, which together comprise most of the airport capacity in the Netherlands. In addition, Royal Schiphol Group has minority investments in a number of overseas airports. The largest of the Dutch airports, Amsterdam Airport Schiphol, is the fifth-largest airport in Europe by passenger numbers. Royal Schiphol Group is currently 70% owned by the Government of Netherlands (Aaa stable), 20% by the Municipality of Amsterdam, 2% by the Municipality of Rotterdam, and 8% by Aéroports de Paris ("ADP"). Royal Schiphol Group has a cross-shareholding and co-operation agreement with ADP.

## Rating Methodology and Scorecard Factors

Royal Schiphol Group's rating reflects our assessment of the company's business profile and financial performance in line with our [Privately Managed Airports and Related Issuers](#) Rating Methodology, published in December 2014 and Moody's [Government-Related Issuers](#) rating methodology, published in October 2014.

Exhibit 5

### Royal Schiphol Group N.V. - Rating Factors Grid

Privately Managed Airports and Related Issuers Industry Grid [1][2]	Current FY 12/31/2016		Moody's 12-18 Month Forward View As of May 2017 [3]	
	Measure	Score	Measure	Score
<b>Factor 1: Concession and Regulatory Frameworks (15%)</b>				
a) Ability to Increase Tariffs	Baa	Baa	Baa	Baa
b) Nature of Ownership / Control	Aaa	Aaa	Aaa	Aaa
<b>Factor 2: Market Position (15%)</b>				
a) Size of Service Area	Aaa	Aaa	Aaa	Aaa
b) Economic Strength & Diversity of Service Area	Aaa	Aaa	Aaa	Aaa
c) Competition for Travel	Aa	Aa	Aa	Aa
<b>Factor 3: Service Offering (15%)</b>				
a) Passenger Mix	Ba	Ba	Baa	Baa
b) Stability of traffic performance	A	A	A	A
c) Carrier Base	B	B	B	B
<b>Factor 4: Capacity and Capital (5%)</b>				
a) Ability to accommodate expected traffic growth	Baa	Baa	Baa	Baa
<b>Factor 5: Financial Policy (10%)</b>				
a) Financial Policy	A	A	A	A
<b>Factor 6: Leverage and Coverage (40%)</b>				
a) (FFO + Cash Interest Expense) / (Cash Interest Expense)	6.8x	A	6.5x - 7.5x	Aa
b) FFO / Debt	23.1%	A	19% - 23%	A
c) Moody's Debt Service Coverage Ratio	7.2x	Aa	6x - 7x	Aa
d) FCF / Debt	13.9%	A	13% - 17%	A
<b>Rating:</b>				
Indicated Rating from Grid Factors 1-6		A3		A2
<b>Rating Lift</b>	0.0	0.0	0	0.0
a) Indicated Rating from Grid		A3		A2
b) Actual Rating Assigned				a3
<b>Government-Related Issuer</b>	<b>Factor</b>			
a) Baseline Credit Assessment		a3		
b) Government Local Currency Rating		Aaa, Stable		
c) Default Dependence		Moderate		
d) Support		Moderate		
e) Final Rating Outcome		A1, Stable		

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 12/31/2016. [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics™

## Ratings

Exhibit 6

Category	Moody's Rating
<b>ROYAL SCHIPHOL GROUP N.V.</b>	
Outlook	Stable
Bkd Senior Unsecured	A1
<b>SCHIPHOL NEDERLAND B.V.</b>	
Outlook	Stable
Bkd Sr Unsec MTN -Dom Curr	(P)A1

Source: Moody's Investors Service

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