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Royal Schiphol Group N.V.

Primary Credit Analyst:
Juliana C Gallo, London (44) 20-7176-3612; juliana.gallo@spglobal.com

Secondary Contact:
Beata Sperling-Tyler, London (44) 20-7176-3687; beata.sperling-tyler@spglobal.com

Research Contributor:
Kritika Verma, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

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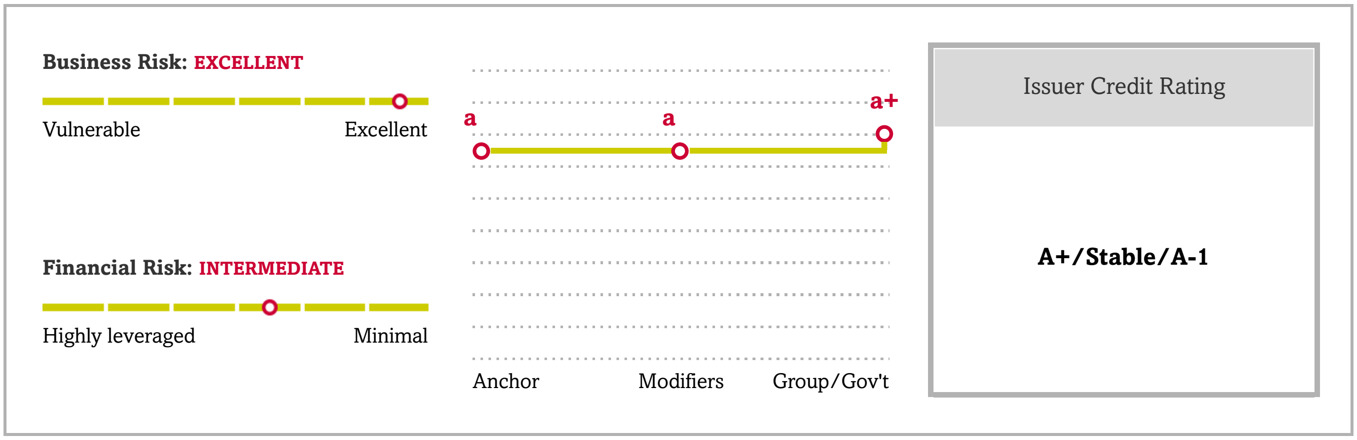
Royal Schiphol Group N.V.



Credit Highlights

Overview

Key Strengths	Key Risks
Strong competitive position as the owner and operator of Amsterdam Airport Schiphol.	Environmental and noise cap of 500,000 runway movements--air transport movements (ATMs)--per year until 2020, which constrains growth and adds pressure to profitability. That said, we understand the government communicated its intention to lift the cap immediately post 2020, but final details on future ATM growth haven't been agreed yet.
Wealthy catchment area and third-largest airport group in Europe by passenger numbers.	Delay in the opening of Lelystad Airport should reduce the airport's ability to alleviate part of the congestion in the medium to long term.
Supportive regulatory framework, allowing Schiphol Group to adjust tariffs every three years in response to cost pressures and investments.	High customer concentration on Schiphol Group's main client, Air France-KLM.
Fairly resilient cash flow protection measures, with weighted average funds from operations (FFO) to debt of about 17%-19%, despite sizable investments.	Substantial share of transfer passengers, equating to 36.6% of total passengers in 2018, which exposes Amsterdam Airport Schiphol to greater competition from other European hubs, such as Heathrow in London and Charles de Gaulle in Paris.
We add one notch of uplift to our rating on Schiphol to reflect the essential infrastructure nature of the group and its importance to The Netherlands.	Sizable capital expenditure (capex) and dividend distributions, constraining any improvement in credit metrics.

Passenger numbers rise but the trend has slowed in the first half of 2019. In the first six months of 2019, Schiphol Group's operating performance is on track to deliver financial results in line with our base-case assumptions for the full year. Passenger traffic growth has certainly slowed, increasing by 1.4% to 34.5 million in the first six months of the year (compared with an average of 6% growth over the past five years), thanks to sluggish economic growth in Europe and airport capacity constraint. This is broadly in line with our forecast for passenger growth of 1.5% for the fiscal year (FY) ending Dec. 31, 2019. This, in combination with an increase in airport charges of 10.7% in April 2019, should result in aviation revenues in the range of €960 million-€1 billion for 2019.

Schiphol Group's future performance will stabilize following mixed results in 2018. We expect the negative impact of additional costs related to congestion on profitability to be partly offset by modest passenger growth and higher tariffs in coming years, leading to EBITDA margins of 39%-42% from 38.5% in 2018. Schiphol Group's 2018 profit margins and credit ratios weakened slightly from 2017's strong levels due to additional expenses the airport was forced to incur in order to improve operational capacity and streamline the substantial increase in passenger flows. Meanwhile, leverage also increased, mainly to fund capex for capacity growth. These additional costs contributed to a drop in the 2018 adjusted EBITDA margin to below 40%, where Schiphol Group had maintained the margin throughout 2008-2017, including during the severe financial crisis when EBITDA margin stood at 40%.

In 2018, Schiphol Group's S&P Global Ratings-adjusted FFO to debt was 19%, down from 21.9% in 2017. We expect the group's adjusted weighted-average FFO to debt to remain at around 17%-19% for the next three years, mainly reflecting sizable capex of €2.4 billion during this period. This should constrain any improvement in the credit metrics.

Some rating headroom remains, however, as we see 13% as the minimum for the 'A+' rating.

Postponement to 2020 of Lelystad Airport's opening will exacerbate congestion at Schiphol. In 2018, the Dutch Minister of Infrastructure and Water Management announced that the opening of Lelystad Airport, which was originally scheduled for April 2018 and then for 2019, would be postponed for at least one more year, to 2020. While the opening of Lelystad Airport will not resolve the Amsterdam airport congestion issue immediately, it is of significant importance to Schiphol Group for the medium to long term, enabling it to route part of its nonmainport traffic to Lelystad, thereby creating and supporting capacity at Amsterdam Airport Schiphol to facilitate mainport traffic.

Outlook: Stable

Our stable outlook reflects our view that Schiphol Group will be able to maintain its position as the primary airport in The Netherlands and demonstrate stable and moderate growth in passenger volumes. Despite a drop in the EBITDA margin in 2018, due to additional congestion costs and tariff reductions, we foresee Schiphol Group restoring its EBITDA margins to 39%-42% over 2019-2020. Furthermore, the stable outlook reflects that on The Netherlands, as the rating on Schiphol Group benefits from uplift thanks to our assessment that the group enjoys a likelihood of extraordinary government support.

Downside scenario

We could take a negative rating action if Schiphol Group's competitive position weakened. Such weakening could be indicated, among others, by more volatile profitability and EBITDA generation than we expect, for example, due to stronger competition from other airport hubs or geopolitical shocks. We could also take a negative rating action if Schiphol Group's credit metrics weaken--specifically, if FFO to debt declines below 13%--due to increased leverage to finance investments and dividends. Finally, a negative rating action could occur if the capex budget increases significantly and dividend payout policy remains unchanged (60%).

Upside scenario

In our view, an upgrade is unlikely at this stage. We believe that Schiphol Group is facing operational challenges with the delayed opening of Lelystad Airport, significant terminal congestion, and a major capex program. All else being equal, we could take a positive action if FFO to debt were to increase above 20% on a sustainable basis.

Our Base-Case Scenario

Assumptions

Our base case assumptions for 2019-2021 are as follows:

- Annual GDP growth in The Netherlands of about 1.7% in 2019 and 1.6% in 2020, as well as growth in eurozone GDP of about 1.8% in 2019 and 1.1% in 2020.
- Annual passenger volume growth for Amsterdam Airport Schiphol of about 1.5% in 2019, which is lower than in previous years, mainly driven by capacity constraints at the airport. For 2020 and 2021, we forecast passenger growth in line with GDP growth in the eurozone and The Netherlands, that is, in the range of 1.4%-1.5%.
- A continued rise in airport charges due to substantial investment projects. Our base case reflects about an average of 7.9% in charges in 2019-2021 and of 10.7% in 2019 at Amsterdam Airport Schiphol.
- A benefit to aviation revenues in 2019 largely from 10.7% growth in airport charges, on top of modest growth in passenger levels. Therefore, we expect aviation revenues to improve significantly by around 10%-12% in 2019, and by at least mid-single-digits in 2020-2021.
- Modest growth in non-aviation revenues over the next two years. Retail should remain under pressure from crowded lounges and limited commercial floor space. Parking revenues should grow modestly as additional space will support demand. On a like-for-like basis, we expect real estate revenues to remain largely unchanged.
- An adjusted EBITDA margin below 40% in FY2019, driven by continued pressure on operating costs due to airport congestion. We expect the EBITDA margin to recover to around 40% in 2020-2021.
- Heavy and partly debt-funded capex of €2.4 billion over the next three years for the expansion and upgrade of the existing airport infrastructure.
- Dividends of 60% of the previous year's net income, which we understand the company would have the flexibility to manage in a stress situation.

Key Metrics

	2018A	2019E	2020E	2021E
EBITDA margin (%)	38.5	39.0-40.0	40.0-42.0	40.0-42.0
FFO/Debt (%)	19.08	17.0-18.0	17.0-19.0	17.0-19.0
Debt/EBITDA (x)	4.10	4.0-5.0	4.0-5.0	4.0-5.0
EBITDA (mil. €)	580.5	610-640	700-750	750-790
Debt (mil. €)	2,381	2,600-2,800	2,900-3,000	3,200-3,500

All data are S&P Global Ratings-adjusted. A--Actual. E--Estimate. FFO--Funds from operations.

- An increase in adjusted debt by an average of €500 million per year over the next three years to support investments.

Based on these assumptions, we arrive at the following credit measures:

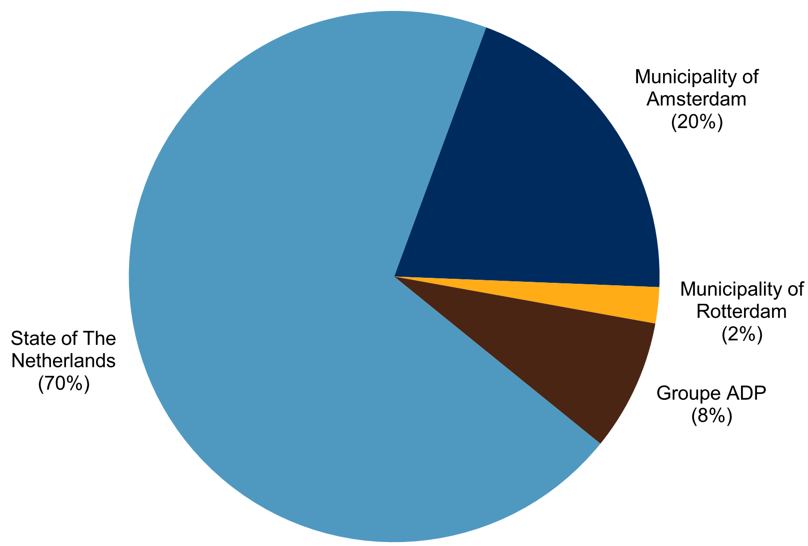
- A weighted-average ratio of adjusted FFO to debt of about 17%-19% in 2019-2021, compared with about 19% in 2018.
- A weighted-average ratio of adjusted debt to EBITDA of 4.0x-4.5x in 2019-2021, compared with about 4.1x in 2018.

Company Description

Schiphol Group owns and operates the largest of the Dutch airports, Amsterdam Airport Schiphol, which is the third-largest airport in Europe by number of passengers and by cargo volumes, and one of Air France-KLM's two major hubs. With 499,444 ATMs and 70.96 million passengers in 2018, Amsterdam Airport Schiphol has a virtual monopoly on air travel originating and ending in The Netherlands, continues to be a major driver of the Dutch economy, and was a dominant player in the Global Airports Hub league in 2018. The group is 70% owned by the state of The Netherlands--a fact that supports the rating--20% by the Municipality of Amsterdam, 2% by the Municipality of Rotterdam, and 8% by Groupe ADP. Schiphol Group has a cross-shareholding and co-operation agreement with Groupe ADP.

Chart 1

Royal Schiphol Group N.V. Ownership Structure As Of Dec. 31, 2018



Source: S&P Global Ratings.

In addition to its operations in Amsterdam, a major capital city in Europe, Schiphol Group also owns and operates Lelystad Airport and Rotterdam Airport, and holds a 51% stake in Eindhoven Airport. Its international operations include an 8% stake in Groupe ADP, a 19.61% stake in Brisbane Airport, and a management contract for Terminal 4 of JFK Airport in New York.

Schiphol Group operates in four main business lines:

- Aviation;
- Consumer products and services (including retail and parking);
- Real estate; and
- Alliances and partnerships.

In 2018, the group generated €1.5 billion of revenues (€1.46 billion in 2017) and reported EBITDA of €635 million (€622 million in 2017). The aviation business provides the most revenues, but the EBITDA contribution is well balanced among the three other main business segments. We do not expect significant changes to the contribution mix in the near term.

Business Risk: Excellent

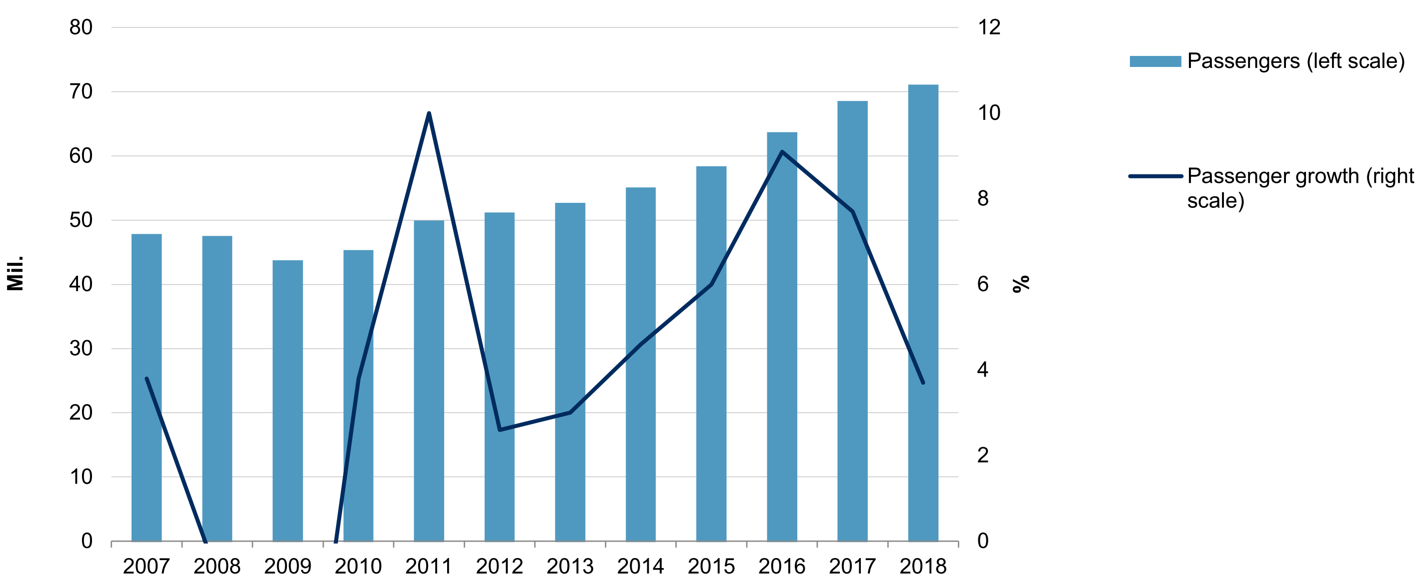
Capacity constraints could challenge Schiphol Group's competitive position

Amsterdam Airport Schiphol is the only major airport in The Netherlands and therefore it provides an essential service to the Dutch economy. With around 71 million passengers in 2018, Amsterdam Airport Schiphol continues to be a dominant player in the Global Airports Hub league and a true multimodal hub. It enjoys a strong market position as the third-largest airport in Europe (11.7% market share in 2018) by number of passengers and amount of cargo transported, with 327 direct destinations. The airport is one of the most important hubs in Europe, with 36.6% transfer passengers in 2018.

Amsterdam Airport Schiphol is supported by a wealthy and large catchment area of 35 million people that live within a two-hour drive from the airport. Over the past five years, Amsterdam Airport Schiphol's number of passengers has grown by at least 6% on average, well ahead of the growth rates of its rated peers--Heathrow (2% average) and Charles De Gaulle (3% average). However, during the last economic downturn in 2009, Amsterdam Airport Schiphol showed the largest volume drop of the abovementioned peers, -8.1%, but this bounced back quickly in 2010.

Chart 2

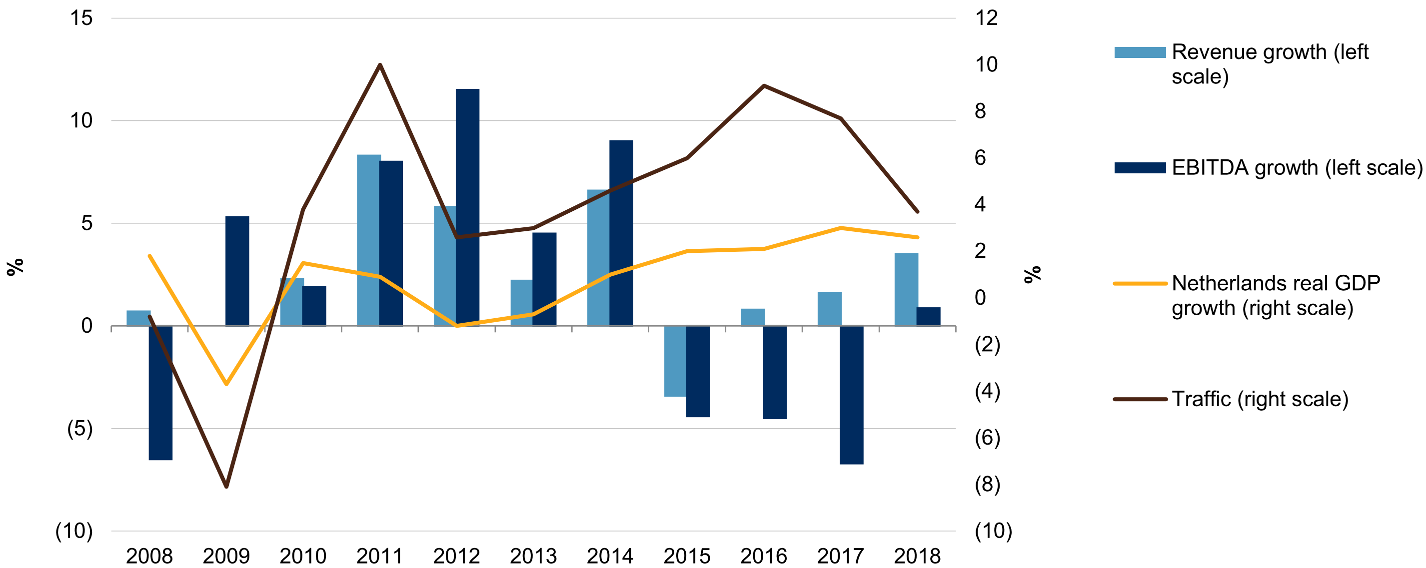
Amsterdam Airport Schiphol Passenger Growth



Source: Anna.aero and company reports.

Chart 3

Netherland's GDP And Amsterdam Airport Schiphol's Traffic, Revenue, And EBITDA Growth



Source: S&P Global Ratings.

As one of the Europe's three main hubs, Amsterdam Airport Schiphol has high exposure to transfer traffic (close to 40% of total traffic). Transfer traffic can be more volatile than origin and destination traffic as it tends to depend on the convenience of connections in terms of the choice, frequency, timetable, and price of flights. That said, transfer traffic has grown as a percentage of total traffic in the main European hubs over the 2009 economic slowdown, thereby showing features of contra-cyclicality.

Amsterdam Airport Schiphol also has the third-largest share of long-haul traffic (around 30% in 2018), just after Heathrow and Charles de Gaulle. Typically, this type of passenger is less sensitive to prices and tends to generate more retail revenues as they spend more time at the airport before traveling.

Schiphol's proportion of long-haul traffic is the same as Heathrow's

The constraining factor for Schiphol Group is its airport capacity, which is limited by a cap of 500,000 ATMs per year. Unless this number is increased, the cap will likely put the brakes on the group's growth. Despite reaching the limit of ATMs in 2018, the number of passengers continued to rise due to the use of larger planes and higher utilization rates. This resulted in congestion and longer queues. This limitation, along with inadequate terminal capacity, is putting pressure on service levels and operational costs. The cap could be lifted after Schiphol Group and the relevant government authorities reach an agreement to lift the cap, which is likely to occur after 2020.

Profitability should bounce back despite higher operating costs

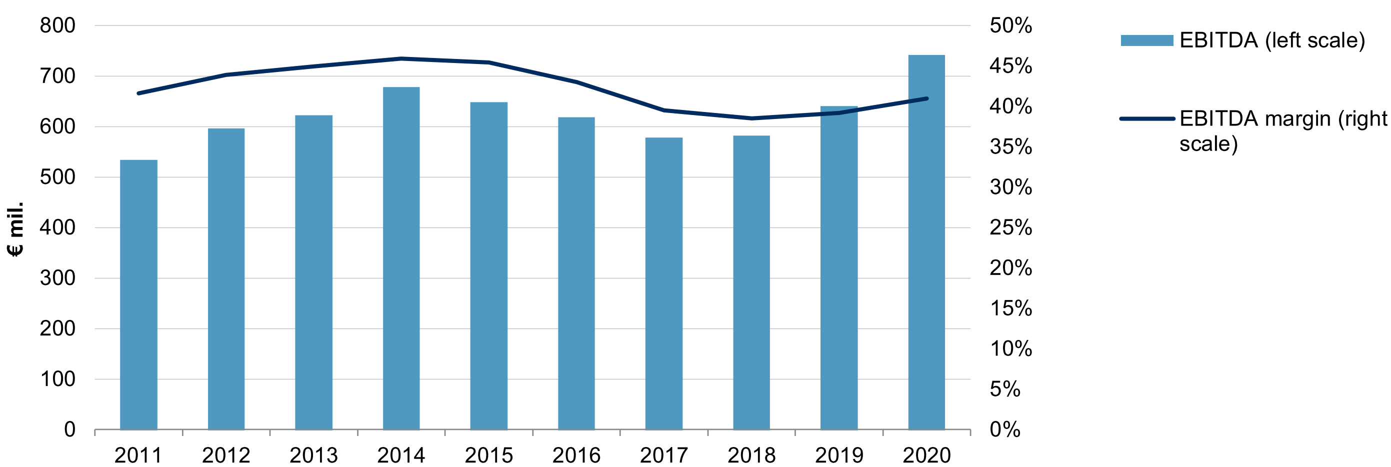
Schiphol Group has been able to sustain its adjusted EBITDA margin above 40% in 2008-2017, including during the severe financial crisis. This highlights the robustness of Schiphol Group's position in the European market and control on its cost structure.

Congestion and the current capacity constraints at the terminals are adding pressure to profitability and raising operational risk, along with an urgency to increase the number of terminals and associated infrastructure capacity. Therefore, Amsterdam Airport Schiphol has started a construction program to build a new pier and terminal, which involves over €3.2 billion in capex over the next four years.

Despite additional costs and investments dedicated to address the capacity constraints, we expect the EBITDA margin to fall into the range of 39%-42% in the coming years. We expect the higher costs to be offset by increased revenues owing to higher tariffs to compensate for the substantial capex to expand airport capacity.

Chart 4

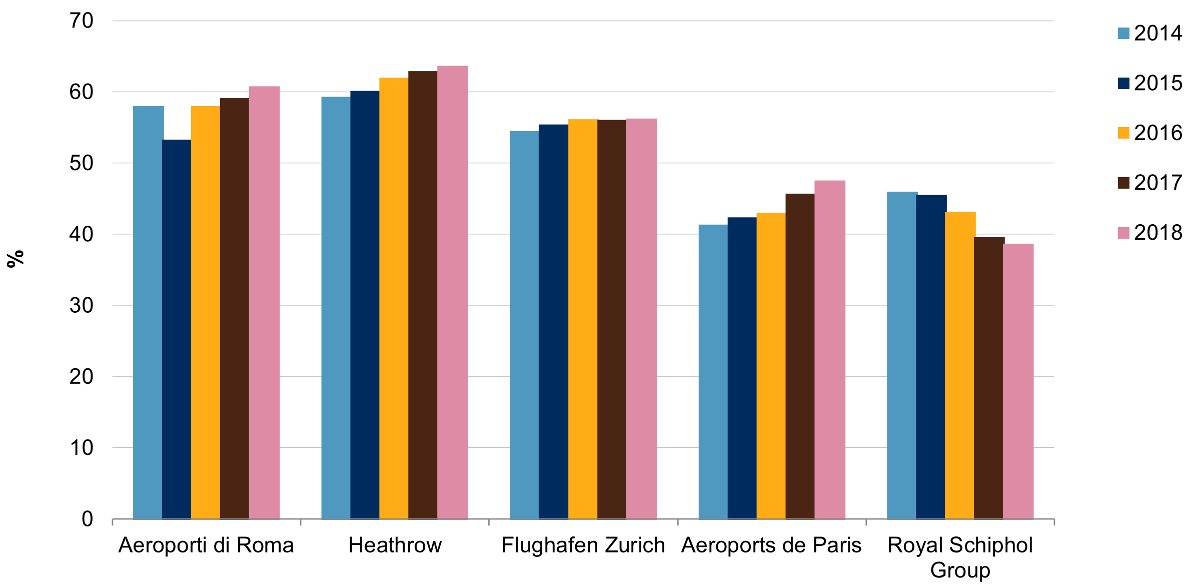
Royal Schiphol Group N.V. EBITDA And EBITDA Margin Performance



Source: S&P Global Ratings.

Chart 5

Royal Schiphol Group N.V. EBITDA Margin Peer Comparison



Source: S&P Global Ratings. Year-end is December.

A supportive regulatory regime protects Schiphol Group from cost pressure

In our view, Schiphol Group operates within a relatively supportive regulatory framework. Amsterdam Airport Schiphol is subject to a dual-till system of economic regulation, which was recently revised, and which still allows the airport to set aeronautical charges that cover all aviation-related costs, including a regulated return on a defined aviation asset base.

The charges are now determined over a three-year period rather than annually, with the change taking effect for the 2019-2021 period. The airport charges will increase by an average of 7.9% for this period, with a 10.7% increase for 2019 approved in April. In addition, there is now mandatory cross-subsidization of aviation activities with non-aviation activities, the level of which will be determined by Schiphol Group's shareholders. This change is very similar to the hybrid-till approach by other rated airports, but with no defined share of non-aviation activities. Even though this could make future tariffs uncertain, we understand that the contribution from the non-aviation activities will be subject to the achievement of a minimum return and market circumstances. Overall, we expect Amsterdam Airport Schiphol to continue to be remunerated for its capex at a level above its cost of capital, supporting a slight increase in profitability from previous years. Most of the regional airports in The Netherlands are unregulated. Eindhoven Airport is now regulated as it passed the threshold of five million passengers. That said, it is a more relaxed form of regulation compared with Amsterdam Airport Schiphol.

High reliance on a single airline

Amsterdam Airport Schiphol is the main hub of KLM, an airline of the Air France-KLM group. Air France-KLM flights accounted for more than half of Amsterdam Airport Schiphol's total ATMs in 2018. In our view, high exposure to a single airline poses a threat or disadvantage to the airport, especially if the airline is not replaceable in the event of stressed scenarios. In the case of a failure of the France-KLM group, we expect that some of Amsterdam Airport Schiphol's traffic, particularly the long-haul transfer traffic, would be lost to other intercontinental hubs in the region.

Peer comparison

Table 1

Royal Schiphol Group N.V.--Peer Comparison			
(Mil. £)	**Royal Schiphol Group N.V.**	**Heathrow Funding Ltd.**	**Aeroports de Paris**
Revenues	1,355.5	2,970.0	4,022.6
EBITDA	521.5	1,885.5	1,908.0
FFO	408.2	1,052.8	1,462.2
Interest expense	79.3	800.7	202.4
Cash interest paid	71.6	762.7	193.4
Cash flow from operations	471.8	1,155.8	1,371.5
Capital expenditures	499.9	789.0	955.8
Free operating cash flow	(28.2)	366.8	415.6
Discretionary cash flow	(163.3)	244.8	50.0
Cash and short-term investments	347.2	711.0	1,846.9
Debt	2,138.9	12,650.8	5,937.6
Equity	3,698.7	(2,636)	5,211.1
S&P adjusted ratios			
EBITDA margin (%)	38.5	63.5	47.4
Return on capital (%)	5.9	11.2	11.1
EBITDA interest coverage (x)	6.6	2.4	9.4
FFO cash interest coverage (x)	6.7	2.4	8.6
Debt/EBITDA (x)	4.1	6.7	3.1
FFO/debt (%)	19.1	8.3	24.6
Cash flow from operations/debt (%)	22.1	9.1	23.1
Free operating cash flow/debt (%)	(1.3)	2.9	7.0
Discretionary cash flow/debt (%)	(7.6)	1.9	0.8

FFO--Funds from operations. Source: S&P Global Ratings.

In Europe, we see Heathrow and ADP as the closest peers to Amsterdam Airport Schiphol.

Outside Europe, Sydney Airport in Australia also enjoys a similar competitive position. That said, we see Heathrow as slightly stronger than ADP and Amsterdam Airport Schiphol for the following reasons:

In terms of passenger numbers, Schiphol (71 million) is smaller than Charles de Gaulle-ADP (72.2 million) and Heathrow (80 million). However, all three are large and important hub airports in Europe and enjoy large catchment areas that cover wealthy markets where there is good propensity to fly.

Heathrow has a higher proportion of long-haul traffic (52%) than ADP (41%) or Schiphol (30%). Long-haul services mean more passenger numbers per slot due to larger planes used, and are associated with higher retail revenues as passengers spend more time at the airport before boarding. Long-haul passengers also tend to be less price sensitive.

Both Schiphol and ADP have high exposure to Air France-KLM, while Heathrow generates a large portion of its revenue from British Airways (BBB/Stable/--).

In terms of profitability, Schiphol Group's EBITDA margin is just below 40%, ADP is just above 45%, while Heathrow has the highest profitability, at about 63.5%.

On the other hand, compared with its peers, Amsterdam Airport Schiphol has the following strengths:

Schiphol faces less competition in its local catchment area than Heathrow, which competes with Gatwick, City, Stansted, and Luton.

Schiphol's airport charges, albeit increasing, are lower than those of both Heathrow and ADP. Heathrow remains one of the most expensive airports worldwide with about €24 per passenger. ADP, under its current economic regulation agreement (2016-2020), has capped its tariffs by the consumer price index plus 1%, resulting in about €17 per passenger. Schiphol experienced a 10.7% increase in tariffs in 2019, which should contribute to stronger revenue per passenger. It increased tariffs by 5.4% in 2018, and cost per passenger was at €11 in this period.

Schiphol Group and ADP both benefit from some business diversification, as they own four and three airports, respectively. Schiphol Group also owns stakes in a few other airports. Heathrow operates only one asset.

Financial Risk: Intermediate

Solid cash flow protection measures despite sizable capex

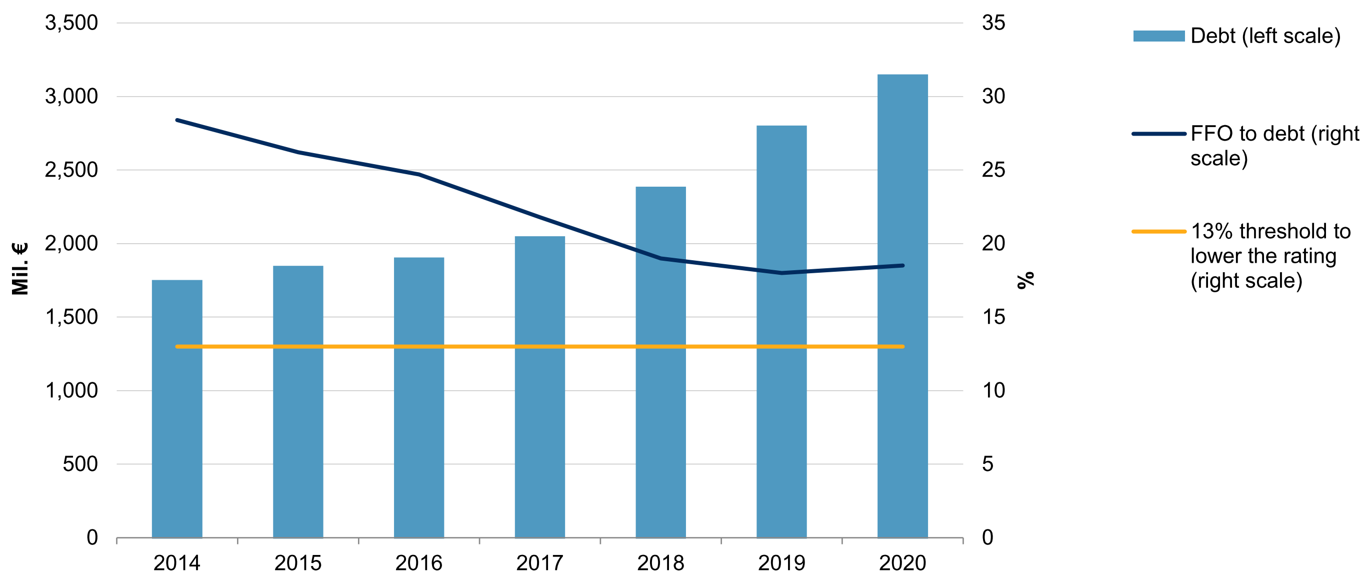
Schiphol Group's financial risk profile mainly reflects our forecast that the group's credit ratios should remain relatively solid despite additional leverage to finance sizable capex.

The group's 2019-2022 investment program is planned to reach €3.2 billion. Its main objective is to increase airport capacity including construction of a new terminal and airport pier, to improve quality of services, security, and accessibility for passengers and airlines.

In our view, the group will require funding to partly finance its capex projects over the next four years, equating to €750 million-€800 million per year. The higher debt should be partly compensated by the increase in airport charges for the same period. Therefore, we expect FFO to debt to be in the range of about 17%-19% in 2019-2022, in comparison with 19% in 2018.

Chart 6

Debt And FFO To Debt



FFO--Funds from operations. Note: All figures are S&P Global Ratings adjusted. Source: S&P Global Ratings.

In our view, the additional leverage on the group's balance sheet should prevent the credit metrics from improving over the next few years. That said, the increase in airport charges should partly compensate for the additional leverage and prevent credit metrics deteriorating further.

Financial summary

Table 2

Royal Schiphol Group N.V. -- Financial Summary

Industry Sector: Infrastructure

	--Fiscal year ended Dec. 31--				
(Mil. €)	**2018**	**2017**	**2016**	**2015**	**2014**
Revenue	1,509.0	1,457.5	1,434.7	1,423.2	1,473.9
EBITDA	580.5	575.5	617.0	646.3	676.3
Funds from operations (FFO)	454.4	445.2	469.0	482.3	495.7
Interest expense	88.3	79.0	81.0	89.9	97.5
Cash interest paid	79.7	75.6	83.0	84.7	122.7
Cash flow from operations	525.2	269.2	439.1	503.8	507.0
Capital expenditure	556.5	441.8	302.9	433.0	390.9
Free operating cash flow (FOCF)	(31.4)	(172.6)	136.1	70.8	116.0
Discretionary cash flow (DCF)	(181.8)	(321.3)	(51.3)	(67.9)	(19.5)
Cash and short-term investments	386.6	170.4	238.7	394.0	183.3

Table 2

Royal Schiphol Group N.V. -- Financial Summary (cont.)					
Industry Sector: Infrastructure					
	--Fiscal year ended Dec. 31--				
(Mil. €)	**2018**	**2017**	**2016**	**2015**	**2014**
Gross available cash	386.6	170.4	238.7	394.0	177.7
Debt	2,381.0	2,042.6	1,899.5	1,842.6	1,745.1
Equity	4,117.4	3,978.2	3,859.6	3,715.7	3,452.7
Adjusted ratios					
EBITDA margin (%)	38.5	39.5	43.0	45.4	45.9
Return on capital (%)	5.9	6.1	7.5	8.5	8.8
EBITDA interest coverage (x)	6.6	7.3	7.6	7.2	6.9
FFO cash interest coverage (x)	6.7	6.9	6.6	6.7	5.0
Debt/EBITDA (x)	4.1	3.5	3.1	2.9	2.6
FFO/debt (%)	19.1	21.8	24.7	26.2	28.4
Cash flow from operations/debt (%)	22.1	13.2	23.1	27.3	29.1
FOCF/debt (%)	(1.3)	(8.4)	7.2	3.8	6.6
DCF/debt (%)	(7.6)	(15.7)	(2.7)	(3.7)	(1.1)

N.M.--Not meaningful.

Liquidity: Strong

We assess Schiphol Group's liquidity as strong, based on our expectation that liquidity sources will cover uses by more than 1.5x for the 12 months to June 30, 2020, and more than 1x for the 12-month period to June 30, 2021. Our estimates of Schiphol Group's principal liquidity sources and uses for the next 12 months are as follows.

Principal Liquidity Sources	Principal Liquidity Uses
• Unrestricted cash and cash equivalents of about €189 million; • Availability under credit lines of €750 million; and • Our projection of FFO of about €550 million-€600 million.	• Debt maturities of €144 million over the next 12 months; • Planned capex of about €700 million-€80 million; and • Expected dividend payments of about €110 million-€130 million.

Debt maturities

As of Dec. 31, 2018:

- 2019: €200.7 million
- 2020-2023: €553.6 million

- Thereafter: €1.812 billion

Covenant Analysis

Schiphol Group's loan agreements with the European Investment Bank (EIB) include an own-funds-to-total-assets covenant calculated as equity as a percentage of the total balance sheet. This ratio is tested annually and must remain higher than 30%.

Environmental, Social, And Governance

We believe that Schiphol Group is more affected than its airport hub peers in Europe by noise pollution. This is because Schiphol Group's growth is constrained by noise regulations that limit the number of ATMs to 500,000 per year, which the airport reached in 2018. This limitation, along with a shortage in terminal capacity, is straining service levels and operational costs. In July 2019, we understand the Dutch government announced that it will lift the ATM cap for Amsterdam Airport Schiphol, but the details still have to be agreed. Until the cap is lifted, it could put pressure on the group's capacity to grow, weakening its competitive position as a hub airport.

The main challenge that Amsterdam Airport Schiphol and other airports face is that the majority of the carbon dioxide (CO_2) emissions are outside their immediate control, because they cannot control the planes used and the resulting fuel requirements. Schiphol Group aims for a reduction of 35% in CO_2 emissions from Dutch civil aviation groups that were originated in The Netherlands by 2030. That said, Schiphol Group has issued €500 million in green bonds to finance investments in commercial real estate, terminal buildings, and energy efficiency, and in clean transportation infrastructure, such as for electric vehicles. Despite additional leverage to fund investments to reduce its carbon footprint, this new debt has resulted in slightly weaker cash flow metrics than we anticipated.

Government Influence

We add one notch of uplift to Schiphol Group's stand-alone credit profile to reflect what we see as a moderate likelihood of timely and sufficient extraordinary support by the Dutch government. Our view of a moderate likelihood of government support is based on our assessment of Schiphol Group's:

- Important role, based on our view on the essential infrastructure nature of the group's main asset, Amsterdam Airport Schiphol, as a key element of The Netherlands' open and export-oriented economy. In our view, there is a clear need for the airport to continue to operate without disruption, as any interruption of its operations could have an important impact on a sector of the economy; and
- Limited link with the Dutch government. In our view, Schiphol Group is managed as a stand-alone entity with limited government interference. Its directors are appointed by a supervisory board that is not controlled by government-linked members. The Dutch government also has a limited track record of supporting entities of this nature.

Issue Ratings - Subordination Risk Analysis

Capital structure

Schiphol Group's capital structure consists primarily of €1.8 billion of senior unsecured notes under its euro medium-term note program, plus unsecured bank loans of €482 million issued by the EIB. The group's total gross debt stands at €2.5 billion as of Dec. 31, 2018.

Analytical conclusions

We rate the unsecured debt issued by Schiphol Group at 'A+', the same as its issuer credit rating, reflecting that priority liabilities in the form of secured loans are significantly less than 50%.

Reconciliation

We adjust EBITDA by excluding the fair value gains on Schiphol Group's real estate portfolio, which is revalued on each reporting date. The fair value gain or loss on real estate assets flows through the profit-and-loss account, but is a noncash income or cost, and therefore should be excluded from EBITDA. We add €50 million of dividends from equity investments to EBITDA. We also add guarantees to third parties of about €35 million, and the fair value of currency swaps of €41 million, to debt.

Table 3

Reconciliation Of Royal Schiphol Group N.V. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)

	--Fiscal year ended Dec. 31, 2018--							
Royal Schiphol Group N.V. reported amounts								
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
	2,622.4	4,068.7	634.8	368.1	84.4	580.5	526.3	560.2
S&P Global Ratings' adjustments								
Cash taxes paid	--	--	--	--	--	- 46.4	--	--
Cash taxes paid: Other	--	--	--	--	--	--	--	--
Cash interest paid	--	--	--	--	--	- 75.7	--	--
Operating leases	1.1	--	2.8	0.3	0.3	- 0.3	2.6	--
Postretirement benefit obligations/deferred compensation	46.4	--	--	--	--	--	--	--
Accessible cash and liquid investments	(364.9)	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	3.7	(3.7)	(3.7)	(3.7)
Dividends received from equity investments	--	--	49.8	--	--	--	--	--
Nonoperating income (expense)	--	--	--	105.8	--	--	--	--

Table 3

Reconciliation Of Royal Schiphol Group N.V. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)								
Noncontrolling interest/minority interest	--	48.7	--	--	--	--	--	--
Debt: Guarantees	35.3	--	--	--	--	--	--	--
Debt: Fair value adjustments	40.6	--	--	--	--	--	--	--
EBITDA: Valuation gains/(losses)	--	--	(107.0)	(107.0)	--	--	--	--
Total adjustments	(241.5)	48.7	(54.3)	(0.9)	3.9	(126.1)	(1.1)	(3.7)
S&P Global Ratings' adjusted amounts								
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
	2,381.0	4,117.4	580.5	367.2	88.3	454.4	525.2	556.5

Ratings Score Snapshot

Issuer Credit Rating

A+/Stable/A-1

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Low
- **Competitive position:** Excellent

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: a

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a

- **Related government rating:** AAA
- **Likelihood of government support:** Moderate (+1 notch from SACP)

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Transportation Infrastructure Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	**a+/a**	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of August 21, 2019)*	
Royal Schiphol Group N.V.	
Issuer Credit Rating	A+/Stable/A-1
Issuer Credit Ratings History	
06-Dec-2013	A+/Stable/A-1
26-Nov-2013	A/Watch Pos/A-1
14-Sep-2009	A/Stable/A-1
Related Entities	
Schiphol Nederland B.V.	
Issuer Credit Rating	A+/Stable/A-1

Ratings Detail (As Of August 21, 2019)*(cont.)	
Senior Unsecured	A+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Additional Contact:
Industrial Ratings Europe; Corporate_Admin_London@spglobal.com