MOODY'S
INVESTORS SERVICE

Credit Opinion: N.V. Luchthaven Schiphol

Global Credit Research - 07 Jun 2015

Amsterdam, Netherlands

Ratings

Category	Moody's Rating
Outlook	Stable
Bkd Sr Unsec MTN -Dom Curr	(P)A1
Schiphol Nederland B.V.	
Outlook	Stable
Senior Unsecured -Dom Curr	A1

Contacts

Analyst	Phone
Xavier Lopez Del Rincon/London	44.20.7772.5454
Joanna Fic/London	
Neil Griffiths-Lambeth/London	

Key Indicators

[1]**N.V. Luchthaven Schiphol**

	12/31/2014	12/31/2013	12/31/2012	12/31/2011
(FFO + Cash Interest Expense) / (Cash Interest Expense)	6.1x	5.6x	5.5x	4.4x
FFO / Debt	26.6%	24.5%	24.4%	19.1%
Moody's Debt Service Coverage Ratio	7.4x	6.6x	6.3x	5.2x
RCF / Debt	19.4%	18.9%	19.4%	15.1%

[1] 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.

Opinion

Rating Drivers

- Ownership of Amsterdam Airport Schiphol ("Schiphol Airport"), one of Europe's major airports

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

- Spare capacity but increased capital expenditure will be needed to support growth

- Expected changes to the regulatory framework

- Strong financial profile, which we expect to be somewhat affected by increased capital expenditure over the next few years

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

Corporate Profile

N.V. Luchthaven Schiphol ("Schiphol Group") 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, Schiphol Group has minority investments in a number of overseas airports. The largest of the Dutch airports, Amsterdam Airport Schiphol, is the fourth-largest airport in Europe by passenger numbers. 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"). Schiphol Group has a cross-shareholding and co-operation agreement with ADP.

SUMMARY RATING RATIONALE

The A1 rating reflects (1) Schiphol Group's ownership of Amsterdam Airport Schiphol, the fifth-largest airport in Europe by passenger numbers, and other airports in the Netherlands, (2) its fairly high exposure to transfer traffic, and reliance on AirFrance-KLM, a French Dutch airline group, (3) certain operational constraints that may impede the pace of volume growth in future years, (4) its moderate, albeit increasing capital expenditure programme, (5) the probable introduction of changes to the rate-setting regulatory regime, which should provide more forward-looking visibility to revenues and move closer to a single-till system of economic regulation, and (6) its current financial profile, which we expect to be somewhat affected by increased capital expenditure over the next few years.

The rating also incorporates a two-notch uplift from the fundamental quality of Schiphol Group for 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, as assessed in accordance with Moody's Government-Related Issuers rating methodology, published in October 2014.

DETAILED RATING CONSIDERATIONS

OWNERSHIP OF ONE OF EUROPE'S MAJOR AIRPORTS

Schiphol Group has been designated as the operator of Amsterdam Airport Schiphol (Schiphol Airport) for an indefinite period of time, and owns its airport assets outright in perpetuity. Despite its ownership structure, Schiphol Group is a financially independent commercial enterprise. 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 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 - Schiphol Group owns Rotterdam Airport and has majority ownership of Eindhoven Airport. As a result, 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 service will not be ready before 2016 and Amsterdam-Brussels service have 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.

FAIRLY HIGH EXPOSURE TO TRANSFER TRAFFIC AND RELIANCE ON AIR FRANCE-KLM

Schiphol Airport faces strong competition from surrounding airports. It therefore strongly depends on its transfer passengers in order to maintain its volume and extensive network. However, Schiphol Airport's high exposure to transfer traffic (40.5% of total passenger volume, which is the highest of any European airport rated by Moody's) leaves the airport exposed to the fortunes of its main hub carrier, Air France-KLM, part of the SkyTeam alliance. Together, Air France and KLM flights accounted for nearly 53% of Schiphol Airport's total air transport movements (ATM) in 2014 and will have a material impact on Schiphol Airport's future traffic volumes. Approximately 66% of all ATMs were handled by airlines in the SkyTeam alliance. To date the impact on Schiphol Airport's traffic volumes has been positive. For example, in 2014, traffic at Schiphol Airport increased by 4.6% relative to the previous year, which is a higher growth rate relative to other main European airports. Most of this growth is driven by Air France-KLM and its successful transfer product, resulting in higher average load factors.

Compared with most other airports rated by Moody's, Schiphol Airport has experienced relatively low volatility of passenger traffic since the late 1990s. However, this changed in 2009, when the airport suffered from a 8.1% decline in passenger numbers. Nevertheless, passenger numbers began to recover in 2010, climbing by 3.8% in 2010, 10.8% in 2011, 2.6% in 2012, 3.0% in 2013 and 4.6% in 2014.

SPARE CAPACITY BUT CAPITAL EXPENDITURE WILL BE NEEDED TO SUPPORT GROWTH

The existing runway system of Schiphol Airport has the physical capacity to handle around 600,000 ATMs a year. In 2014, Schiphol Airport's total ATMs amounted to 438,296. However, there are also noise regulations that place a limit on the number of ATMs a year and this may impact growth in the longer term. A new agreement has been reached under the Alders framework to allow 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). The agreement provides room to accommodate additional growth until 2020, after which date new rules will be needed to determine the airport's additional capacity. In addition, Schiphol Group could reallocate up to 70,000 flights from Schiphol Airport to other Dutch airports which would free up additional capacity at Schiphol Airport.

Current terminal capacity is 60 million passengers a year. Following some planned modifications in the upcoming years, Schiphol Group expects this total number of passengers to be reached in 2018. In 2014, the airport handled around 54.9 million passengers, which is still well below its capacity limits.

Although the airport has gained some valuable headroom with the new agreement under the Alders framework, Schiphol Airport is close to its capacity limits on peak days,. Schiphol Group expects that over the next ten years, passenger numbers will increase by 25% and this may lead to additional capacity constraints, which will limit the company's growth prospects and may also make Schiphol Airport less competitive with other major hub airports in Europe and the Gulf states. As traffic volumes approach the estimated terminal capacity the quality of services will deteriorate unless new investment is implemented. The company has developed a masterplan as a modular investment programme, spread over the next five to ten years, aimed at expanding airport capacity, in particular terminal and pier capacity. The main components of the masterplan in the next four years include (1) an investment in central security in the non-Schengen area of the airport; (2) a small new terminal facility; and (3) a new pier. The company expects to invest around EUR1.7 billion in the period 2015-2018.

EXPECTED CHANGES TO THE REGULATORY FRAMEWORK

Following the implementation of a legislative decree in July 2006 (the "Aviation Act"), Schiphol Airport is subject to a `dual till' system of economic regulation. This means that it operates with a regulated return on a defined aviation asset base, also called the regulated asset base. The airport charges are set on an annual basis and total airport charges may not exceed permitted revenue which is the sum of all aviation related cost, including a regulated weighted average cost of capital. The charges are set by Schiphol Airport in accordance with the Dutch economic regulation of airport charges which is part of the Aviation Act. Before the charges are set, there is a formal consultation with airlines whereby projections of costs, traffic volume and capex are explained. In this process, the airport operator takes into consideration all the forward requirements of the users of the airport. Based on this process, the Schiphol Group makes its longer term investment decisions. Possible disputes with its airline customers on the airport charges set, are referred to the relevant Dutch government agency (the Netherlands Competition Authorities).. Under the `dual till' principle, the non-aviation activities (consumers and real estate segments) at Schiphol Airport as well as all other activities of Schiphol Group, including its other Dutch airport interests, are not subject to economic regulation. Since the introduction of the regulation in 2007, Schiphol Group has voluntarily refrained from applying the maximum permitted airport charges in order to further strengthen its competitive position. In practice, Schiphol Group voluntarily accepts a lower return than the maximum allowable return. This arrangement has been termed a hybrid dual-till system, because it allows for voluntary cross-subsidisation from non-aviation activities

Subject to parliamentary approval, the regulatory framework will be changed. Under the adjusted framework, Schiphol Airport will set its charges for three-year periods. The charges will be set in consultation with the airlines, to take place every three years, with the first round of negotiations likely to start in 2016. During such a three-year period, charges can 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. The framework will include an incentive mechanism whereby (1) if actual capex is less than budgeted levels, then the savings are shared on a 50/50 basis between the airport and the airlines, if however actual costs are higher than planned then the excess cost will be completely incurred by Schiphol Airport; (2) on an annual basis, the airport will need to provide insight to the airlines with respect to the evolution of its costs; (3) a mandatory contribution from non-aviation activities will replace the current system of voluntary contributions, and (4) Schiphol Airport will need to benchmark its charges and the quality of its services to a peer group of European and Middle Eastern airports.

STRONG FINANCIAL PROFILE, WHICH WE EXPECT TO BE SOMEWHAT AFFECTED BY INCREASED CAPITAL EXPENDITURES OVER THE NEXT FEW YEARS

Schiphol Group's leverage increased in 2008 to finance the payment of a EUR 500 million special dividend and the net investment of EUR 168 million in ADP shares. Since then, Schiphol Group key credit metrics have improved as debt levels have been kept fairly stable whilst cash generation has grown.

We expect, however, that metrics will be slightly affected in the near term First, and in accordance to the regulatory regime, aeronautical tariffs will need to lowered, as the regulatory claw-back mechanism for higher than expected traffic performance will be triggered. Secondly, and although the Schiphol Group will fund its capital investments mainly with operating cash flows, a portion of its capital investments will be debt financed during peak years. Finally, as some of the investment takes place within the terminal buildings it has the potential to disrupt retail activities and lower commercial revenues.

LIKELIHOOD OF SUPPORT FROM THE GOVERNMENT OF THE NETHERLANDS, SHOULD IT BECOME NECESSARY

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 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 Schiphol Group.

Liquidity Profile

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 EUR 1.8 billion of gross debt reported to be outstanding at the end of March 2015, EUR 143 million are due within the next 12 months. Additionally, the group plans capex of approximately EUR 450 million within a year. 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 EUR 400 million in committed bank facilities that have not yet been drawn as at 30 March 2015, and (2) EUR 183 million in cash and cash equivalents as at 31 December 2014.

Rating Outlook

The stable outlook reflects Moody's expectation that Schiphol Group will continue to evidence moderate but 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.

What Could Change the Rating - Up

A substantial reduction in the debt levels of Schiphol Group would be required before an upgrade in the rating was warranted. This is not considered likely to occur in the foreseeable future. An upgrade in the BCA from a3 to a2 would not of itself likely result in an upgrade of the rating.

What Could Change the Rating - Down

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.

However, a downwards move in the rating of the Government of the Netherlands could result in a downgrade in the ratings.

Other Considerations

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.

Rating Factors

N.V. Luchthaven Schiphol

Privately Managed Airports and Related Issuers Industry Grid [1][2]	**Current FY 12/31/2014**		[3]**Moody's 12-18 Month Forward ViewAs of 5/29/2015**	
Factor 1: Concession and Regulatory Frameworks (15%)	**Measure**	**Score**	**Measure**	**Score**
a) Ability to Increase Tariffs	Baa	Baa	Baa	Baa
b) Nature of Ownership / Control	Aaa	Aaa	Aaa	Aaa
Factor 2: Market Position (15%)				
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
Factor 3: Service Offering (15%)				
a) Passenger Mix	Ba	Ba	Ba	Ba
b) Stability of traffic performance	A	A	A	A
c) Carrier Base	B	B	B	B
Factor 4: Capacity and Capital (5%)				
a) Ability to accommodate expected traffic growth	A	A	A	A
Factor 5: Financial Policy (10%)				
a) Financial Policy	A	A	A	A
Factor 6: Leverage and Coverage (40%)				
a) (FFO + Cash Interest Expense) / (Cash Interest Expense)	6.1x	A	5.5x - 6.2x	A
b) FFO / Debt	26.6%	Aa	22% - 27%	A
c) Moody's Debt Service Coverage Ratio	7.4x	Aa	6.7x - 7.4x	Aa
d) RCF / Debt	19.4%	Aa	16% - 22%	Aa
Rating:				
Indicated Rating from Grid Factors 1-6		A2		A3
Rating Lift	0.0	0.0	0	0.0
a) Indicated Rating from Grid		A2		A3
b) Actual Rating Assigned				A1

Government-Related Issuer	**Factor**
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 12/31/2014; Source: Moody's Financial Metrics [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.

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 http://www.moodys.com for the most updated credit rating action information and rating history.

MOODY'S INVESTORS SERVICE