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Summary:
N.V. Luchthaven Schiphol

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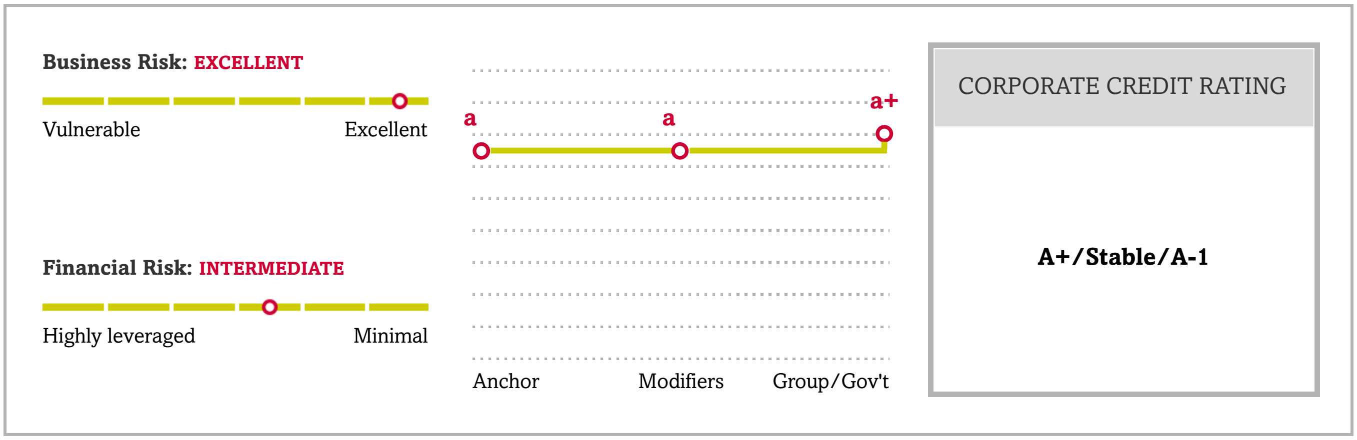

Rationale

Business Risk: Excellent

- A dominant market position within a large and wealthy catchment area.
- Transparent, predictable, and consistent regulatory framework.
- Track record of managing cost base and maintaining adjusted EBITDA margin of at least 40%.
- High exposure to the ailing Air France-KLM airline and share of transfer traffic, which is generally more susceptible to passenger choice and airline performance than origin-and-destination traffic.

Financial Risk: Intermediate

- Generally predictable and solid operating cash flows.
- Our expectation that high infrastructure investments and dividend distributions will continue, which in combination with lower airport charges will weaken credit measures in 2016-2017.
- Expected weighted average adjusted ratio of funds from operations (FFO) to debt of 24%-25% in 2015 and 20%-23% from 2016, which leaves headroom for performance to weaken beyond our expectations without affecting the "intermediate" financial risk profile.

Outlook: Stable

The stable outlook on Dutch airport operator N.V. Luchthaven Schiphol and Schiphol Nederland B.V. (collectively, Schiphol Group) reflects Standard & Poor's Ratings Services' view that the likelihood of timely and sufficient extraordinary support for the group from the Dutch government will remain "moderate" and that the group's stand-alone credit profile (SACP) will remain unchanged at 'a'.

We expect that Schiphol Group will be able to maintain its ratings-commensurate credit measures, including a weighted average ratio of adjusted funds from operations (FFO) to debt of more than 13% over the next two years, despite a proposed further reduction in airport charges next year and continued significant capital expenditure (capex). This we believe is due to predictable cash flow generation on account of its strong market position and headroom within the group's "intermediate" financial risk profile.

The stable outlook also reflects our view that we would need to lower the rating on the Netherlands by one notch before it would affect the rating on Schiphol, which we view us unlikely in the next 12-18 months given that the outlook on the sovereign rating is "positive".

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 than expected profitability/EBITDA generation--for the reasons other than the traffic- or cost base-driven reset in regulated tariffs--which could stem, for example, from stronger competition from other airports.

Upside scenario

In our view, a positive rating action is unlikely at this stage. This is because we anticipate that the Dutch government would ask Schiphol Group to pay it additional dividends if the group's credit metrics reach levels commensurate with a stand-alone credit profile (SACP) of higher than 'a'. We note that, as Schiphol Group's profitability increases, the regulatory framework leads to negative adjustments of tariffs. This will likely prevent the group's financial risk profile from improving to be sustainably consistent with "modest."

Standard & Poor's Base-Case Scenario

Assumptions

- A rebound in The Netherlands' GDP growth to 1.9% in 2015 and 2.2% in 2016 (after 1.0% in 2014), followed by 1.8% growth in 2017. Growth of eurozone GDP by 1.6% this year and a further improvement to 1.8% in 2016 and 1.6% in 2017 (after 0.9% in 2014) (see "Eurozone Economic Outlook: Steady For Now, Despite Slower World Trade," published Sept. 30, 2015). We forecast global growth to be 3.7% in 2016 and 3.9% in 2017 after 3.4% this year (see "Economic Research: Stress-Testing Global Growth," published Sept 30, 2015). We typically see a strong relationship between GDP growth rates and passenger numbers at the airport and their retail spending.
- Annual passenger volume growth for Schiphol Group of about 5% in 2015 (this compares with 5.6% achieved in the period January-September 2015), moderating to more normal levels of 2%-3% in 2016-2017. We incorporate the potential capacity cuts by Schiphol Group's main client Air France-KLM.
- Reduction in airport charges by a proposed 11.6% effective April 2016, after a cut by about 7% in April 2015. These are regulatory resets on the back of stronger-than-expected passenger volume and lower costs.
- Loss of revenue from retail after disposal of a 60% stake in Schiphol Airport Retail to Gebr. Heinemann in April 2015 to be largely offset by higher concession fees from Gebr. Heinemann and dividends from the remaining 40% stake. In general, we expect a rebound in passenger spending in 2016 after the renovation of Amsterdam Schiphol airport's retail areas is completed, combined with better economic conditions.
- Average adjusted EBITDA margin of at least 40% in 2015-2017 underpinned by a demonstrated grip on cost control.
- Annual capital expenditures of €400 million-€500 million. We do not expect Schiphol Group to scale back on its capex plans despite the reduction in tariffs.
- Distribution of dividends at a constant payout ratio of 50% of the previous year's net income.

Key Metrics

	2014a	2015e	2016e
Adjusted EBITDA margin (%)	45-46	40-45	40-45
FFO/debt (%)	29-30	24-25	20-23
FFO cash interest coverage (x)	5-6	5-6	5-6

a--Actual. e--Estimate. FFO--Funds from operations.

Business Risk: Excellent

Our assessment of Schiphol Group's business risk profile as "excellent" reflects the group's dominant market position within its wealthy and large catchment area. Amsterdam Schiphol airport, with 55 million passengers in 2014, is the fifth-largest airport in Europe by passenger volume. We estimate that Schiphol airport has about 35 million people living within a two-hour drive although only close to 17 million people live in The Netherlands, which we consider constitutes the airport's core catchment area. Furthermore, the Netherlands had GDP per capita is among the highest in Europe, which underpins the propensity to fly.

In our view, Schiphol Group operates within transparent, predictable, and consistent regulatory framework, which allows the group to adjust tariffs in response to cost pressures. Furthermore, the group has a track record of managing its cost base in tough economic conditions. We also understand that airport charges at Schiphol airport are on average lower than at most of the larger hub airports, which strengthens its competitiveness.

These factors are partly offset by Schiphol Group's dependence on its main and ailing client, Air France-KLM. However, we believe that the majority of Air France-KLM's operations at Schiphol airport could be replaced in a short period of time should the carrier become insolvent. In our view, Schiphol Group's profitability is average compared with the group's broad transportation infrastructure peer group, with adjusted EBITDA margins that we forecast will remain at 40% or more.

Financial Risk: Intermediate

Our "intermediate" assessment of Schiphol Group's financial risk profile is based on:

- Schiphol Group's ample operating cash flows as a consequence of its dominant market position and high EBITDA-to-operating cash flow conversion rate.
- Our expectation that high infrastructure investments and dividend distributions will continue, which combined with lower airport charges and the resulting EBITDA decline will weaken credit measures in 2016-2017, from the strong levels achieved in 2014-2015.
- Expected weighted average adjusted ratio of funds from operations (FFO) to debt of 24%-25% in 2015 and 20%-23% from 2016, which leaves headroom for performance to weaken beyond our expectations without affecting the "intermediate" financial risk profile.

Liquidity: Strong

Our short-term rating on Schiphol Group is 'A-1'. We consider Schiphol Group's liquidity to be "strong," as defined in our criteria, underpinned by the group's ample liquidity sources on hand (such as the undrawn long-term revolving credit facility and available cash holding), its ability to generate solid operating cash flows, and its demonstrated access to capital markets. These sources compare favorably with liquidity uses, in particular high capex.

Furthermore, our base-case liquidity assessment as of Sept. 30, 2015, reflects the following factors and assumptions:

- We expect the company's liquidity sources will exceed liquidity uses by at least 1.5x in the upcoming 12 months and remain above 1.0x over the subsequent 12-month period.
- Liquidity sources will continue to exceed uses, even if EBITDA were to decline 30%.
- We understand that Schiphol was in compliance with its financial covenant such as ratio of equity to total assets with "significant" headroom as of June 30, 2015.
- The company appears to have well-established, solid relationships with banks and generally high standing in the capital markets as demonstrated by the most recent refinancing of the revolving credit facilities and bond issuance at 2% coupon.
- We believe that the company would be able to absorb high-impact, low-probability events without major refinancing due to its flexibility in capex and our expectation of no shareholder distribution under a stress scenario.

Principal Liquidity Sources	Principal Liquidity Uses
We estimate liquidity sources for the 12 months from Sept. 30, 2015, to mainly include: • Projected cash and cash equivalents of about €100-€120 million. • Full availability under the revolving credit lines of €400 million, of which €100 million matures in 2017 and €300 million in 2020. We do not consider the availability under uncommitted working capital facilities, which was €75 million as of June 30, 2015. • Projected funds from operations of €430-€440 million. • Debt issuance under EMTN program of €300 million completed in October 2015.	We estimate liquidity uses for the 12 months from Sept. 30, 2015, to mainly include: • Debt maturities of about €224 million. • Projected capital expenditure of about €400 million-€500 million.

Other Credit Considerations

No modifiers affect the ratings.

Government Influence

The 'A+' ratings on the Schiphol Group's two main entities reflect the group's SACP, which we assess at 'a', as well as our opinion that there is a "moderate" likelihood that Schiphol Group's majority owner, the Dutch government, would provide timely and sufficient extraordinary support to the group in the event of financial distress.

Under our criteria for government-related entities, our view that there is a "moderate" likelihood of extraordinary government support is based on our assessment of the group's:

- "Important" role for the Dutch government, based on our view of the essential infrastructure nature of the group's

main asset, Schiphol airport; and
- "Limited" link with the Dutch government. The Netherlands (unsolicited ratings AA+/Positive/A-1+) has limited input into Schiphol Group's strategic decisions and no involvement in the group's day-to-day operations.

Ratings Score Snapshot

Corporate 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 (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a

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

Related Criteria And Research

Related Criteria

- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Methodology: Industry Risk, Nov.19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014

- Industrials: Key Credit Factors For The Transportation Infrastructure Industry, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

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-

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