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N.V. Luchthaven Schiphol

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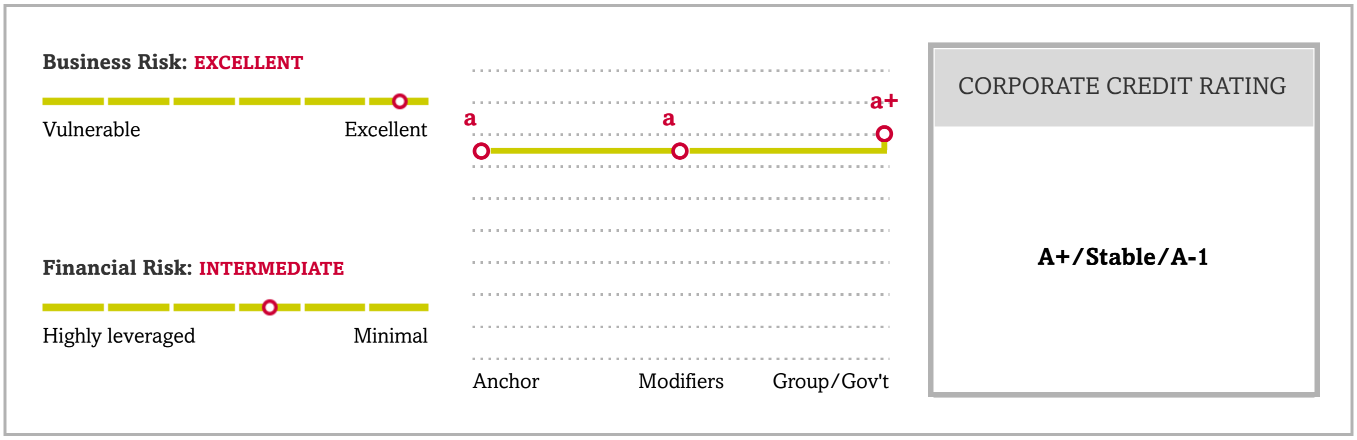

Rationale

Business Risk: Excellent	Financial Risk: Intermediate
• Dominant market position within wealthy and large catchment area. • Supportive regulatory framework. • Track record of managing cost base.	• Expected weighted average adjusted ratio of funds from operations (FFO) to debt of 20%-23% from 2015 onwards, which leaves headroom for performance to weaken beyond our expectations without affecting credit quality. • Key supplementary ratios such as FFO interest coverage remaining in the intermediate category over the 2014-2016 forecast horizon.

Outlook:

The stable outlook on Dutch airport operator N.V. Luchthaven Schiphol and Schiphol Nederland B.V. (collectively, Schiphol Group) reflects our view that the group will be able to maintain adjusted FFO to debt of more than 13% over the next two years, despite a proposed reduction in airport charges and significant capital expenditure (capex). This is due to predictable cash flow generation on account of its strong market position and headroom within the group's "intermediate" financial risk profile.

Downside scenario

We could take a negative rating action if we lower our long-term rating on The Netherlands by one notch or if we revise our outlook on the country to negative, in line with our government-related entities criteria.

We could also take a negative rating action if Schiphol Group's competitive position weakened. Such weakening could be indicated, for example, by more volatile profitability due to strong competition from other airports such that EBITDA fell by more than 5% over a given 12-month period.

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 'a' or higher. 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 consistent with "modest."

Standard & Poor's Base-Case Scenario

Assumptions

- Economic conditions in 2014 are likely to remain weak. We forecast a rise of Dutch GDP by about 0.8% and inflation of about 1% (see "Under Threat Of A Triple Dip, The ECB Takes Action," published Sept. 15, 2014 on RatingsDirect). In 2015 we expect modest improvement in GDP growth rates. In the eurozone, we expect GDP growth of about 1% in 2014 with a slight improvement to 1.5% in 2015 and 1.7% in 2016 (see "A Parting Of The Ways In The Global Economy," published Oct. 1, 2014).
- Passenger volumes have been growing healthily in 2014, helped by increasing demand from domestic and international passengers. Passenger volumes in the first nine months of 2014 were up by 4.3% year on year, driven by growth in demand for direct flights. Accordingly, we forecast passenger volumes increasing by about 4% in 2014 as we see passenger traffic growth potentially slowing somewhat over the remainder of the year, in line with our previous projections. In 2015 we expect more normal levels of growth due to ongoing weakness in European economies and other key markets. Overall we see passenger volumes increasing by 1%-2% in 2015-2016.
- Due to strong passenger volume and its own ability to lower costs the group announced a tariff cut of about 6% for 2015, following a slight tariff increase of 0.4% in 2014. We incorporate this tariff reduction into our base case.
- We have seen weakening retail spending by passengers, with a specific slowdown in retail spending by long-haul travelers, and changing consumer habits amid ongoing renovation of Schiphol airport's retail areas. This, combined with weak economic conditions, leads us to expect retail spending per passenger will fall by 6%-8% in 2014 and remain flattish in 2015 and likely in 2016.
- In our base-case scenario we anticipate a modest decline in the group's financial ratios in 2015 as we expect high capex of about €400 million to continue in 2014 and in 2015.

Key Metrics

	2013A	2014E	2015E
EBITDA margin	44.9%	43%-44%	42%-43%
FFO to debt	26.9%	23%-25%	21%-23%
FFO interest coverage	5.8x	5x-6x	5x-6x

Fully adjusted by Standard & Poor's. Leverage and coverage ratios include several adjustments. In 2013, the most significant was a surplus cash adjustment, which reduced adjusted leverage by about €367 million. Key EBITDA adjustments included dividend received from equity investments (plus €30 million) and valuation gains (minus €2.6 million). FFO--Funds from operations. A--Actual. E--Estimate.

Company Description

Schiphol Group is the operator of Schiphol airport, the main airport in The Netherlands and one of Air France-KLM's two major hubs. In addition, the group owns and operates Lelystad airport and Rotterdam airport, and holds a 51% stake in Eindhoven airport. The group's international operations include an 8% stake in Aeroports de Paris, a 16% stake in Brisbane Airport Corp. Pty. Ltd. in Australia, and a managing contract for Terminal 4 of John F Kennedy Intl. Air Term LLC, NY in the U.S.

Business Risk: Excellent

We continue to view Schiphol Group's business risk profile as "excellent." This reflects the group's dominant market position within its wealthy and large catchment area. We estimate that Schiphol airport has about 35 million people living within a two-hour drive although only 16.8 million people live in The Netherlands, which we consider constitutes the airport's core catchment area. The Netherlands had GDP per capita of about $47,700 in 2013, which was among the highest in Europe. Schiphol airport, with 52.6 million passengers in 2013, is the fourth-largest airport in Europe by passenger volume.

In our view, Schiphol Group operates within a supportive 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.

These factors are partly offset by Schiphol Group's dependence on its main 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 EBITDA margins that we forecast will remain at about 40%.

S&P Base-Case Operating Scenario

- Passenger traffic has been growing healthily in 2014, helped by increasing demand from domestic and international passengers. Passenger volumes in the first nine months of 2014 were up by 4.3% year on year, driven by growth in demand for direct flights. Accordingly, we forecast passenger volumes increasing by about 4% in 2014 as we see passenger volume growth potentially slowing somewhat over the remainder of the year, in line with our previous projections. Most of the growth in passenger volumes in our base-case forecast represents higher yielding customers on direct flights, which helps to improve the profitability of the group.
- In 2015 we expect more normal levels of growth due to the ongoing weakness in European economies and Schiphol Group's other main markets. Overall we see passenger volumes increasing by 1%-2%. In 2015 we forecast very similar rates of growth for both passengers on direct flights and those transiting at Schiphol airport.
- Schiphol Group increased tariffs in April 2014 by 0.4% and has announced a tariff cut of about 6% for 2015 due to strong passenger volume performance and the group's ability to lower costs. The main reason for the large cut in tariffs is higher-than-previously-anticipated passenger volumes combined with an expectation that security costs will be significantly lower from mid-2015 due to the completion of centralized security.
- We expect retail spending per passenger to fall by 6%-8% in 2014 and to remain flattish in 2015. We have seen weakening retail spending by passengers, with a specific slowdown in retail spending by long-haul travelers, and changing consumer habits amid ongoing renovation of Schiphol airport's retail areas. The fall in per passenger spending has been driven by ongoing upgrade work in the Schiphol airport terminal, which has reduced retail space and diminished the consumer experience.

Peer comparison

We consider Aeroports de Paris (A+/Stable/A-1), the operator of the two main Paris airports, to be a close peer of Schiphol Group. Both operate European hub airports for Air France-KLM and have excellent competitive positions. However, Schiphol airport is smaller, with 52.6 million passengers in 2013, compared with Paris-Charles de Gaulle airport's 62.0 million. Both operators have credit metrics that we forecast will remain at the higher end of the "intermediate" category. The group's peers include the operators of other capital city airports such as Aeroporti di Roma, with which Schiphol compares positively in terms of annual passenger volumes, and Heathrow, which is significantly larger.

Table 1

N.V. Luchthaven Schiphol -- Peer Comparison

	N.V. Luchthaven Schiphol	Aeroports de Paris	Aeroporti di Roma SpA
Rating as of Nov. 6, 2014	A+/Stable/A-1	A+/Stable/--	BBB+/Stable/A-2
	--Fiscal year ended Dec. 31, 2013--		
(Mil. €)			
Revenues	1,382.1	2,754.5	689.8
EBITDA	620.4	1,078.1	398.7
Funds from operations (FFO)	479.3	752.5	277.0
Net income from cont. oper.	227.5	304.7	89.6
Cash flow from operations	468.6	721.0	295.3
Capital expenditures	323.5	441.2	125.6

Table 1

N.V. Luchthaven Schiphol -- Peer Comparison (cont.)			
Free operating cash flow	145.1	279.7	169.6
Discretionary cash flow	36.5	74.9	169.6
Cash and short-term investments	122.3	19.8	78.9
Debt	1,780.8	3,411.4	834.5
Equity	3,309.3	3,824.9	949.4
Adjusted ratios			
EBITDA margin (%)	44.9	39.1	57.8
Return on capital (%)	7.6	8.9	18.1
EBITDA interest coverage (x)	5.8	7.4	7.5
FFO cash int. cov. (X)	5.8	4.9	6.1
Debt/EBITDA (x)	2.9	3.2	2.1
FFO/debt (%)	26.9	22.1	33.2
Cash flow from operations/debt (%)	26.3	21.1	35.4
Free operating cash flow/debt (%)	8.1	8.2	20.3
Discretionary cash flow/debt (%)	2.0	2.2	20.3

Financial Risk: Intermediate

S&P Base-Case Cash Flow And Capital Structure Scenario

Schiphol Group's "intermediate" financial risk profile mainly reflects our forecast that the group's credit ratios will weaken slightly from the strong levels experienced in 2013 due to an announced cut in tariffs in 2015 that will lead to a modest EBITDA decline for the year, higher dividends and ongoing high capex. In our base-case scenario, we assume the group will maintain weighted average adjusted FFO to debt of 20%-23% from 2015 onwards, which leaves headroom for performance to weaken beyond our expectations without affecting credit quality.

Financial summary

Table 2

N.V. Luchthaven Schiphol -- Financial Summary			
	--Fiscal year ended Dec. 31--		
	2013	**2012**	**2011**
(Mil. €)			
Revenues	1,382.1	1,352.5	1,278.3
EBITDA	620.4	593.7	532.3
Funds from operations (FFO)	479.3	449.4	384.8
Net income from continuing operations	227.5	198.7	194.5
Cash flow from operations	468.6	360.3	385.8
Capital expenditures	323.5	308.2	259.4
Free operating cash flow	145.1	52.1	126.4
Discretionary cash flow	36.5	(45.5)	50.1

Table 2

N.V. Luchthaven Schiphol -- Financial Summary (cont.)			
Cash and short-term investments	122.3	111.3	103.3
Debt	1,780.8	1,765.4	1,841.6
Equity	3,309.3	3,200.7	3,172.5
Adjusted ratios			
EBITDA margin (%)	44.9	43.9	41.6
Return on capital (%)	7.6	7.5	7.2
EBITDA interest coverage (x)	5.8	5.6	4.9
FFO cash int. cov. (x)	5.8	5.4	4.6
Debt/EBITDA (x)	2.9	3.0	3.5
FFO/debt (%)	26.9	25.5	20.9
Cash flow from operations/debt (%)	26.3	20.4	21.0
Free operating cash flow/debt (%)	8.1	3.0	6.9
Discretionary cash flow/debt (%)	2.0	(2.6)	2.7

Liquidity: Strong

We assess Schiphol Group's liquidity as "strong," reflecting our projection of its ratio of liquidity sources to uses of more than 1.5x for the 12 months to June 30, 2015, and more than 1x in the following 12-month period. As of June 30, 2014, the date of the last publicly available data, Schiphol Group had the following main sources of liquidity:

Principal Liquidity Sources	Principal Liquidity Uses
• Cash and cash equivalents of about €125 million. • Availability under credit lines of €400 million (We do not consider €50 million in bank lines expiring in March 2015). • Projected funds from operations of about €470 million. • Projected working capital inflows of up to €10 million.	• Debt maturities of €50 million over the next 12 months. • Planned capex of about €400 million. • Expected dividend payments of about €140 million.

Debt maturities

As of June 30, 2014

- 2014: €4.5 million
- 2015: €9.2 million
- 2016: €288.2 million
- 2017: €9.2 million
- 2018: €39 million
- Thereafter: €1,431.9 million

Other Modifiers

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+/Stable/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:** 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)

Reconciliation

Table 3

Reconciliation Of N.V. Luchthaven Schiphol Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. €)

	--Fiscal year ended Dec. 31, 2013--							
N.V. Luchthaven Schiphol reported amounts								
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**	**Capital expenditures**
Reported	1,992.0	3,284.0	586.5	320.7	102.0	586.5	467.6	325.6
Standard & Poor's adjustments								
Interest expense (reported)	--	--	--	--	--	(102.0)	--	--
Interest income (reported)	--	--	--	--	--	9.9	--	--
Current tax expense (reported)	--	--	--	--	--	(44.8)	--	--
Operating leases	26.6	--	6.1	1.8	1.8	4.4	4.4	--
Postretirement benefit obligations/deferred compensation	31.5	--	0.9	0.9	0.8	0.5	(1.3)	--
Surplus cash	(366.9)	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	2.1	(2.1)	(2.1)	(2.1)
Dividends received from equity investments	--	--	29.6	--	--	29.6	--	--
Non-operating income (expense)	--	--	--	60.5	--	--	--	--
Non-controlling Interest/Minority interest	--	25.2	--	--	--	--	--	--
Debt - Accrued interest not included in reported debt	59.1	--	--	--	--	--	--	--
Debt - Guarantees	40.2	--	--	--	--	--	--	--
Debt - Fair value adjustments	(1.7)	--	--	--	--	--	--	--
EBITDA - Gain/(Loss) on disposals of PP&E	--	--	(0.2)	(0.2)	--	(0.2)	--	--
EBITDA - Valuation gains/(losses)	--	--	(2.6)	(2.6)	--	(2.6)	--	--
Total adjustments	(211.2)	25.2	33.9	60.4	4.7	(107.2)	1.0	(2.1)

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Table 3

Reconciliation Of N.V. Luchthaven Schiphol Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. €) (cont.)

Standard & Poor's adjusted amounts

	Debt	Equity	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Capital expenditures
Adjusted	1,780.8	3,309.3	620.4	381.1	106.7	479.3	468.6	323.5

Related Criteria And Research

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios and Adjustments, Nov. 19, 2013
- Key Credit Factors For The Transportation Infrastructure Industry, Nov. 19, 2013

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 December 1, 2014)	
N.V. Luchthaven Schiphol	
Corporate Credit Rating	A+/Stable/A-1
Senior Unsecured	A+
Corporate 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
Senior Unsecured	A+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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