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Summary:
Royal Schiphol Group N.V.

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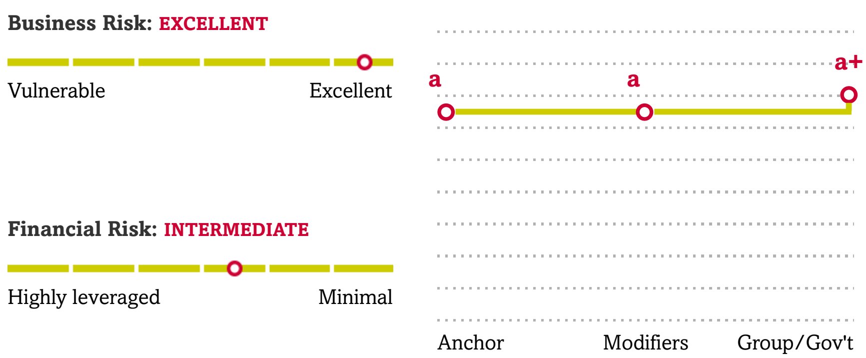

Issuer Credit Rating

A+/Stable/A-1

Rationale

Business Risk: Excellent

- Dominant market position within its wealthy and large catchment area.
- Supportive regulatory framework allowing Schiphol to adjust tariffs annually in response to cost pressures. However, a new framework will set tariffs every three years, starting in 2019, and will include a new mandatory contribution (to be determined by the shareholders of the group) to aviation activities from non-aviation activities, the impact of which is not known yet.
- High customer concentration on its main client, Air France-KLM, as well as a high share of transfer passengers. Transfer traffic represented about 36.9% of total passenger volume in 2017 and exposes Schiphol Airport to greater competition from other European hubs, such as Heathrow and Charles De Gaulle.
- Current environmental and noise cap of 500,000 runway movements (air transport movements [ATMs]) until 2020, increasing congestion and operational risk, which adds pressure to profitability. The number of runway movements will continue due the delay in the opening of Lelystad Airport. This delay will contribute to the increase of terminal congestion at Schiphol and the acceleration of the terminal expansion construction works.

Financial Risk: Intermediate

- Expected weighted average adjusted ratio of funds from operations (FFO) to debt of 17%-20% from 2018, with sizable capital expenditures (capex) and dividend distributions constraining an improvement in credit metrics.
- Despite the lower ratios on the back of investments and higher shareholder returns, S&P Global Ratings thinks Royal Schiphol Group N.V. (Schiphol Group) has sufficient financial capacity to meet its plan without impairing its financial risk profile in the next few years.

Outlook: Stable

Our stable outlook reflects our view that Schiphol Group will be able to maintain its position as the primary airport in its region, and demonstrate stable and moderate growth in passenger volumes. Despite a drop in EBITDA margin in 2017, due additional congestion costs and tariff reductions, we foresee Schiphol Group recovering its previous EBITDA margins to 41%-43% 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 of that the group enjoys a moderate 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-than-expected profitability and EBITDA generation, for example, from stronger competition from other hubs or geopolitical shocks. We could also take a negative rating action if Schiphol Group's credit metrics were to weaken (specifically if FFO to debt declines below 13%) due to increased leverage to finance investments and dividends, if the capex program budget increases significantly, for example, and dividend distributions are maintained at a 60% pay-out ratio.

Upside scenario

In our view, an upgrade is unlikely at this stage. We believe that Schiphol Group is facing a period of volatility while it adjusts its tactical four-year plan to its current operational challenges (delayed opening of Lelystad Airport, significant terminal congestion, and a major capex program). All else being equal, we could potentially take a positive action if FFO to debt were to increase above 20% on a sustainable basis, if the outcome of the regulatory review was better than forecast for example.

Our Base-Case Scenario

Recent Developments

- Traffic for full-year 2017 was 68.4 million, a 7.7% increase over full-year 2016 numbers, followed by a 6.7% growth in the first four months of 2018 because of greater airport transport movements, larger aircrafts, and an increased load factor. Despite this growth, 2018 is expected to deliver traffic volumes below the growth trend experienced in past, as the airport will likely reach its maximum capacity of 500,000 ATMs in 2018. Passenger numbers as of July 31, 2018, show solid passenger growth of 4.6%, due to more ATMs (+0.6%) larger aircraft and increased load factors.
- Despite high growth in traffic numbers, revenues grew by only 1.6% to €1.457 billion owing to a 7.10% drop in tariffs that took effect on April 1, 2017. EBITDA, on the other hand, dropped by around 5.5%, hit by additional operational expenses the airport undertook to streamline the substantially growing passenger flows, which the airport's operational capacity was incapable of handling without additional costs. We foresee this situation continuing for the rest of 2018 before the margins start stabilizing in 2019-2020.
- With the change in the charge and tariff setting regulation, whereby the charges are now determined for a three-year period, starting from 2019-2021 as the first applicable period, Schiphol Group has proposed its tariff

expectations to the airlines. Proposed tariffs are expected to be effective as of April 1, 2019. In addition to the 5.4% tariff increase for 2018, it is expected that the proposed increases for 2019-2021 will be shared with the airlines in September 2018.

- In February 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. The opening of Lelystad Airport is of extreme importance to Schiphol Group as it will be able to route part of its non-mainport traffic to Lelystad, thereby creating the needed capacity at Schiphol Airport to facilitate mainport traffic.
- A new CEO, Dick Benschop, started in May 2018. His previous appointments include Royal Dutch Shell and previously he was the State Secretary for Foreign Affairs. Given his experience in the public domain and his ample experience in the business world, he is well placed and able to address the complex challenges ahead for Schiphol Group and its relationships with its public stakeholders.

Our base-case assumptions incorporate Schiphol Airport's most recent traffic performance, the proposed tariff structure, and our macroeconomic assumptions for Netherlands and Eurozone.

Assumptions

In our base case for Schiphol Group, we assume:

- Annual GDP growth in Netherlands of about 2.8% in 2018 and 2.2% in 2019, as well as growth in Eurozone GDP of about 2.3% in 2018 and 1.9% in 2019.
- Annual passenger volume growth for Schiphol Airport of about 2.5%-2.8% in 2018, which is lower than the 7.7% achieved in 2017. Traffic statistics for the first four months of 2018 already indicate an upward trend for 2018, with passenger numbers exhibiting high-single-digit growth of growth of 4.6% as of July 31, 2018. However, we feel that the higher growth in passenger numbers will be constrained by the capacity issues at the terminal, and therefore expect some congestion for at least the rest of 2018 until Schiphol Group completes its expansion projects.
- We foresee an annual passenger growth of 1.0%-1.5% in 2019 and 2020, in line with European GDP growth and much lower than in the previous years. We expect airport charges to continue rising, due to substantial investment projects, which will drive down passenger growth rates. Furthermore, the airport is reaching full capacity. Our base case reflects about 5% in charges for 2018-2020 period.
- Aviation revenues in 2018 should benefit from a modest growth in passenger levels and largely from the 5.0% growth in airport charges, yet to be finalized and implemented. Therefore, we expect aviation revenues to improve significantly by around 7%-8%.
- We expect modest growth in non-aviation revenues over the next two years. Retail is increasingly hampered by crowded lounges and limited (commercial) floor space. Parking revenue growth on the other hand, will likely reduce owing to construction activities. On a like-for-like basis, we expect real estate revenues to remain largely unchanged. We expect total rental space available to increase by 2% annually. Occupancy rates are expected to be stable.
- We expect the adjusted EBITDA margin to drop below 40% in 2018, driven by operating costs growing faster than revenues, due to the airport congestions. We expect the EBITDA margin to recover to 41%-43% over 2019-2020.
- Increasing capex to an annual average of €600 million-€700 million in 2018-2020 for the expansion and upgrade of existing airport infrastructure.
- Dividends assumed at 55% (the midpoint of the group's policy of 60% of the previous year's net income), which we understand the company would have flexibility to manage in a stress situation.

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

- A weighted average ratio of S&P Global Ratings-adjusted FFO to debt of about 17%-19% in 2018-2020, compared with about 22% in 2017.
- A weighted average ratio of adjusted debt to EBITDA of 4.0x-4.5x in 2018-2020, compared with about 3.6x in 2017.

Key Metrics

	2017A	2018E	2019E	2020E	WA2018E-2020E
EBITDA margin (%)	39.5	39-40	40-41	42-43	N.A.
FFO/Debt (%)	21.9	19-20	17-18	17-18	17.0-18.5
Debt/EBITDA (x)	3.6	4.0-4.5	4.0-4.5	4.0-4.5	4.0-4.5
FFO interest coverage (x)	7.08	6.0-7.0	5.0-6.0	5.0-6.0	5.0-6.0

Note: All data S&P Global Ratings adjusted. A--Actual. E--Estimate. WA--Weighted average. FFO--Funds from operations. N.A.--Not available.

Company Description

Schiphol Group owns and operates the largest of the Dutch airports, Schiphol Airport, 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 497,000 ATMs and 68.4 million passengers in 2017, Schiphol Airport has a virtual monopoly on air travel originating and ending in the Netherlands and continues to be a major driver of the Dutch economy and a dominant player in the Global Airports Hub league in 2017. The group is 70% owned by Netherlands (unsolicited; AAA/Stable/A-1+), 20% by the Municipality of Amsterdam, 2% by the Municipality of Rotterdam, and 8% by Aeroports de Paris (ADP, A+/Stable/--). Schiphol Group has a cross-shareholding and co-operation agreement with ADP.

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 a minority stake of 8% stake in ADP, a 18.7% stake in Brisbane Airport (BBB/Stable/--) 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 (includes e.g. hotel revenues).

In 2017, the group generated €1.5 billion of revenues (€1.4 billion in 2016) and reported EBITDA of €622 million (€658 million in 2016). 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

Excellent competitive position

Schiphol Group enjoys a dominant market position in the Netherlands and a strong market position in Europe, benefitting from a large and wealthy catchment area, despite slightly weaker than a year ago.

Schiphol Airport is the only major airport in The Netherlands and hence it provides an essential service to the Dutch economy. With 68.4 million passengers in 2017, Schiphol Airport continued to be a dominant player in the Global Airports Hub segment and a true multimodal hub. It enjoys a strong market position as the third-largest airport in Europe (11.9% market share in 2017), by number of passenger and cargo transported, with 326 direct destinations, and is one of the most important hubs for the region (36.9% transfer passengers in 2017). Its supported by a wealthy and large catchment area of 35 million people that live within a two-hour drive from the airport. The group's largest client, its home carrier KLM and subsidiary partners, generates half of its total aeronautical movements.

Schiphol Airport's growth is currently constrained by the limit of 500,000 ATMs, which unless expanded, will likely put the brakes on its growth. This limitation, along with inadequate terminal capacity, is already putting pressure on service levels and operational costs. The cap could be lifted after 2020; however, Schiphol Group and the relevant government authorities have yet to reach an agreement to lift the cap.

Schiphol Group has the ability to incentivize 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. This transfer plan is awaiting approval by air traffic control.

Favorable regulatory regime that supports earnings generation and return on investments.

In our view, Schiphol Group operates within a supportive regulatory framework, which allows the group to adjust tariffs in response to cost pressures. Following the implementation of the Aviation Act in July 2006, Schiphol Airport is subject to a dual-till system of economic regulation, which allows the airport to set aeronautical charges that cover all aviation-related costs, including a regulated return on a defined aviation asset base. From July 2017, we understand that charges will be determined over a three-year period rather than annually, with the change taking effect for the 2019-2021 period. Management proposed tariff increases for this period, which are yet to be approved, and application of the new regime is untested. In addition, there is an introduction of a mandatory contribution from non-aviation activities to aviation activities, the level of which will be determined by Schiphol Group's shareholders. We have no indication yet as to what the level of the contribution will be. Overall, we expect the airport to continue to be remunerated on its capex at above its costs of capital, supporting a slight increase of profitability from 2017 levels. Regional airports are unregulated.

Some competition from alternative modes of transport.

Schiphol Group has a virtual monopoly on air travel in the Netherlands. However, given the very good rail network, Schiphol Airport is somewhat exposed to rail competition for certain 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. The London-Amsterdam direct service and Amsterdam-Brussels service started operations in April 2018. These connections will increase the potential catchment area of Schiphol Airport, but may also serve to increase competition on short-haul routes and bring Schiphol Airport into more direct competition with the airports in Paris and Brussels. At this stage, we see the overall impact on passenger volumes as neutral.

High reliance on a single airline, in line with other industry peers.

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 50.5% of Schiphol Airport's total ATMs in 2017, whereas about 63% of all ATMs were handled by airlines in the SkyTeam alliance, many 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. However, high exposure to a single airline poses some threat or disadvantage to the airport, especially if the airline is not replaceable in the event of stressed scenarios.

Also, Schiphol Airport has a relatively high proportion of transfer and transit traffic (36.9% of total passenger volume in 2017) in comparison with other airports.

In the case of a failure of the France-KLM group, we expect some of SchipholAirport's traffic, particularly the long-haul transfer traffic, would be lost to other intercontinental hubs in the region.

Schiphol Group has been able to sustain its adjusted EBITDA margin above the 40% mark in 2008-2017, including the period that saw one of the deepest financial crises. This highlights the robustness of Schiphol's position in the European market and control around its cost structure.

Congestion and current capacity constraints at the terminals are adding pressure to profitability and operational risk, along with an urgency to increase terminals and associated infrastructure capacity. Therefore, the Schiphol Airport has started a construction program to build a new pier and terminal, which includes over €1 billion in capex in its first phase and a tight schedule for delivery over four years.

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

Financial Risk: Intermediate

Schiphol Group's financial risk profile mainly reflects our forecast that the group's credit ratios will weaken slightly from the strong levels experienced in 2017, due to lower passenger growth expected against previous years, as well as the additional costs related to congestion and capex on capacity growth, thereby impacting its operating margins. We expect these negative trends to be partly compensated by higher tariffs.

In our base-case scenario, we assume the group will maintain weighted average adjusted FFO to debt of 17%-19% from 2018, which leaves some headroom for performance to weaken beyond our expectations without affecting credit quality.

The capacity issues at the terminals will continue at least until the new terminal expansion projects are up and running. In light of these additional expansion projects, the group's capex is expected to be in the range of €600 million-€700 million per year.

Liquidity: Strong

We assess Schiphol Group's liquidity as strong, mainly deriving from ample liquidity sources on hand, such as the undrawn long-term revolving credit facility and available cash holdings; its ability to generate solid operating cash flows; and its demonstrated access to debt markets. Our assessment also reflects our projection of its ratio of liquidity sources to uses of more than 1.5x for the 12 months to March 31, 2019, and more than 1x in the 12-month period through March 31, 2020.

Principal Liquidity Sources	Principal Liquidity Uses
We estimate liquidity sources for the 12 months started March 31, 2018, to mainly include: • Unrestricted cash and cash equivalents of about €337 million; • Availability under credit lines of €575 million; and • Projected FFO of about €460 million-€470 million.	We estimate liquidity uses for the 12 months from March 31, 2018, to mainly include: • Debt maturities of €45 million over the next 12 months; • Planned capex of about €700 million-€750 million; and • Expected dividend payments of about €145 million.

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, Schiphol Airport, 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.

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

Issue Ratings--Subordination Risk Analysis

Capital structure

Schiphol Group's capital structure consists primarily of €1.4 billion of senior unsecured notes under its euro medium term note program plus unsecured bank loans of €491 million issued by the EIB. The group's total gross debt stands at €2.1 billion as of Dec. 31, 2017.

Analytical conclusions

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

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-

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