European Airports Sector Update

Is It Time To Start Spending Again?

EMEA Infrastructure

December 5, 2024

S&P Global Ratings

This report does not constitute a rating action

Key Takeaways

- We expect the credit quality of European airports to remain sound on the back of the industry's strong business fundamentals and recurring cash flows. However, higher indebtedness still poses a challenge for most airports, especially given the resumption of investments and shareholder returns.
- Ratings upside is possible for airports whose credit metrics are improving on robust traffic, favorable tariff regulations, manageable capex plans-- and, ultimately, accommodating their debt structures to the post-pandemic environment.
- The evolution of the ratings will mainly depend on each airport's financial discipline to cope with peak-capex and higher shareholders compensation in a scenario where the rated sector's debt leverage has increased by 20% in the past few years.
- Europe's initiatives on CO2 emissions could result in restrictions on capacity and lower passenger growth. Most vulnerable are regional airports relying on short-haul flights that can be replaced by rail journeys as mobility transition gains traction.
- Geopolitical tensions in Europe (Russia-Ukraine) and the Middle East could curb leisure traffic to some tourist destinations, and lead to redirected routes to or from Asia-Pacific. At this stage, the overall portfolio impact is limited.

Sector Update

European Airport Trends

2025 - 2026	2027 onward (long-term)
OPPORTUNITY	
Demand growth should be sustained on tourism flows.	Long-haul flights remain more resilient to mobility transition, given no alternatives on long distance.
Supportive tariffs for some assets and good access to capital markets should prevail. (see note)	Cleaner technology developments to reduce greenhouse gas emissions.
UNCERTAINTY	
Economic pressures could come to weigh on consumer spending amid high airfares.	Increasing investments needs to modernize or expand existing infrastructure.
Business travel recovery is still lower than leisure for both long and short-haul flights.	Regulatory frameworks evolution to cope with higher interest rates and passenger demand.
RISK	
Escalation of geopolitical tensions could lead to further inflation, spikes in oil prices, and weakening travel demand.	Mobility transition and decarbonization targets can result in regulatory headwinds, for example reducing short-haul flights (i.e. France) and aircraft movements (i.e. Schiphol).
High interest rates and backlog of investments can delay deleveraging paths.	Environmental factors and budgetary constraints can also hinder investments, especially expansionary projects.

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Key Areas We Monitor On The Competitive Position

Business Travel

- While representing a small part of travellers (10%-15% in 2019), this niche is one of the most profitable.
- Its recovery still lags other segments but has gained momentum in 2024, and we expect this to continue throughout 2025.

Regulatory Updates

- The regulator has recently published initial guidelines for the Heathrow H8 regulatory period.
- Avinor is discussing the rebalance of its single-till framework and further tariff increases.
- Aeroports de Paris (AdP) is still operating outside of its 2021-2025 Economic Regulation Agreement.

Expansion

- Opportunities for M&A in Europe are scarce, so companies are mainly seeking opportunities in emerging markets, generally with higher regulatory and country risk.
- Few cases of European airports operating close to full capacity (Heathrow) that will need to decide on further expansion investments.

Tariffs and Affordability

- Airfares started to plateau in 2024 in Europe.
- Carbon offsetting mechanisms (like EU ETS and CORSIA) may increase airfares in the next few years.
- France is considering significant increases in air taxes.

Preferences and Incentives

- Long-haul flights will remain the most efficient way of traveling.
- Some countries are imposing some restrictions on short-haul flights and/or incentivizing railway, including France, Germany and Austria.
- Regional airports could be more affected than international hubs.

Decarbonization

- Airports have limited scope 1 & 2 emissions. The CO_2 emissions on the air sector are controlled by airlines, so the airports' capacity to act is limited.
- Some airports are creating a bonus system to reward environmentally sustainable airlines.

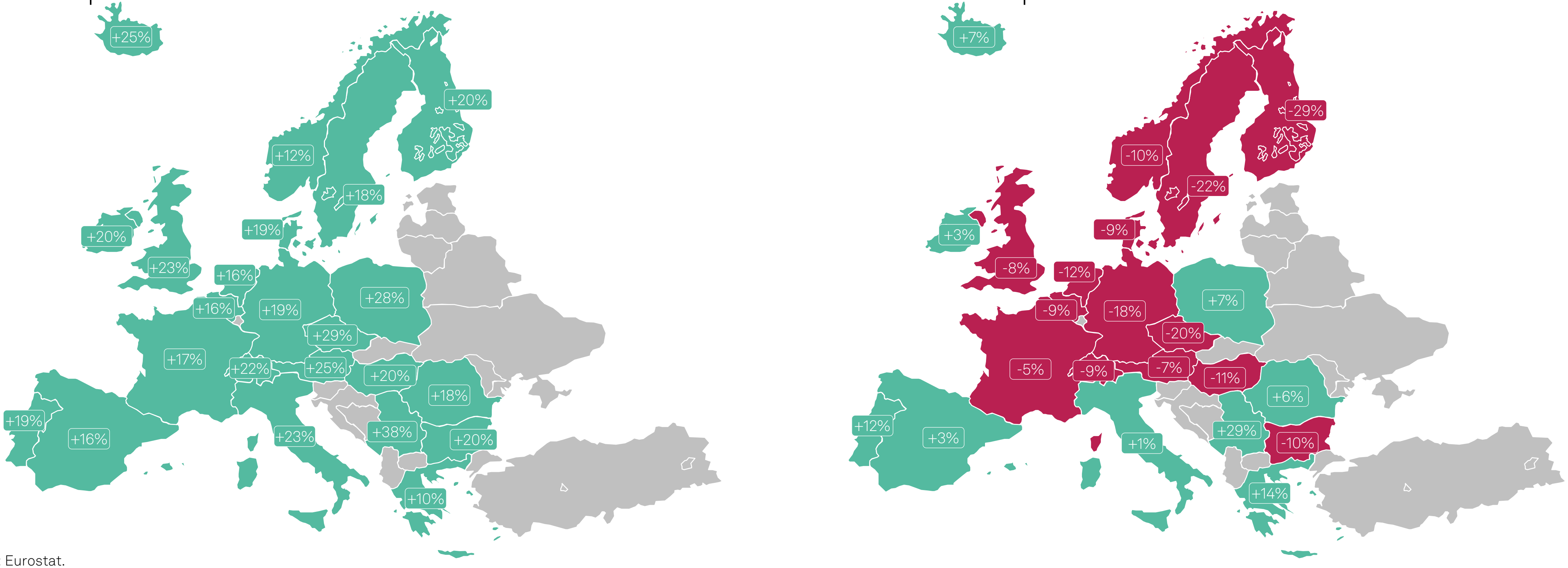
Air Passengers Growth Concentrated On Tourist Destinations

Southern European leisure airports traffic will continue outperforming Northern airport peers while business-focused airports still lag.

Air passenger growth (%)

2023 compared to 2022

2023 compared to 2019



Source: Eurostat.

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Geopolitical Factors Can Impact Passenger Demand

Regional wars in the Middle East and Russia-Ukraine have mixed impacts on airports.

Diverse impact on each airport, depending on location and passengers' origin.

Generally, limited impact on rated airports. For example, TAV had an estimated 3% international passenger loss in September 2024 due to Middle East tensions.

Up to **3.5** hrs extra

Flights to and from Asia-Pacific are taking longer to reach Europe because they cannot fly over Russia.

Geopolitical considerations might push up fuel prices, which in turn could hurt affordability and travel demand.

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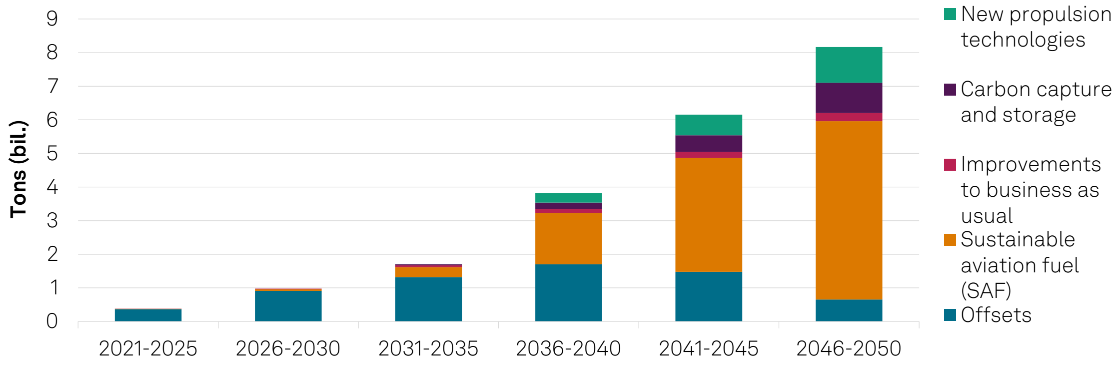
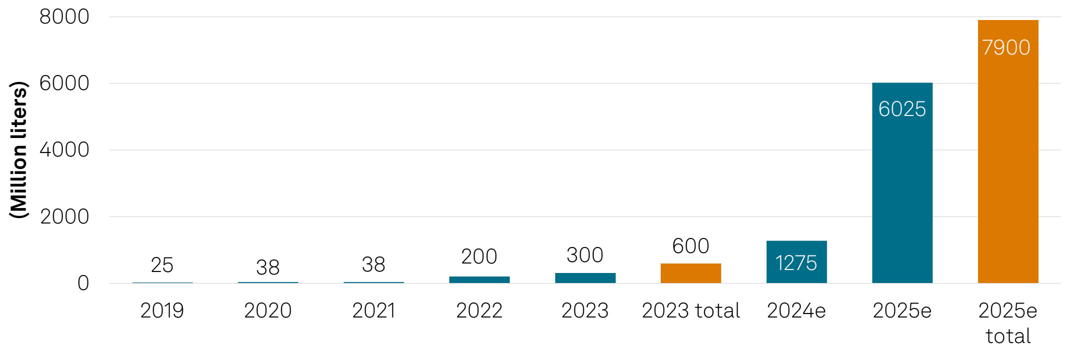
Mobility Transition, Decarbonization Targets Will Pose Longer-Term Risks

A challenging path to achieve net zero



Source: S&P Global Ratings.

SAF production still extremely low



e—Expected.
Source: S&P Global Ratings.

For now, we expect only a modest impact, but...

- Investments to reduce carbon emissions are only 10%-15% of rated European airports' total capex plans.
- The airports' scope 1 and scope 2 CO_2 emissions represent less than 1% of the aviation industry.
- European governments' restrictions on short-haul flights have limited impact on the rated large hub airports at present.
- However, air tax increases in Germany together with mobility transition efforts have taken a toll on air travel demand. France is also considering a significant increase air taxes from 2025.

...Long-term pressures from mobility transition will arise

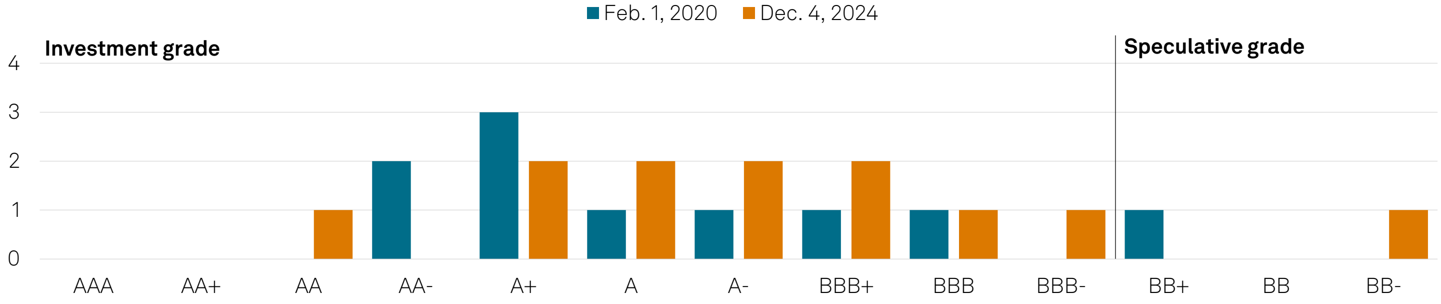
- We might see further moves from European governments on increasing taxes or restricting short-haul flights to curb carbon emissions.
- Mobility transition could indirectly impact passenger numbers via regulatory headwinds or behavioural changes.
- Airports have little control over technical and investment challenges related to the mobility transition.

Ratings And Outlook Distribution

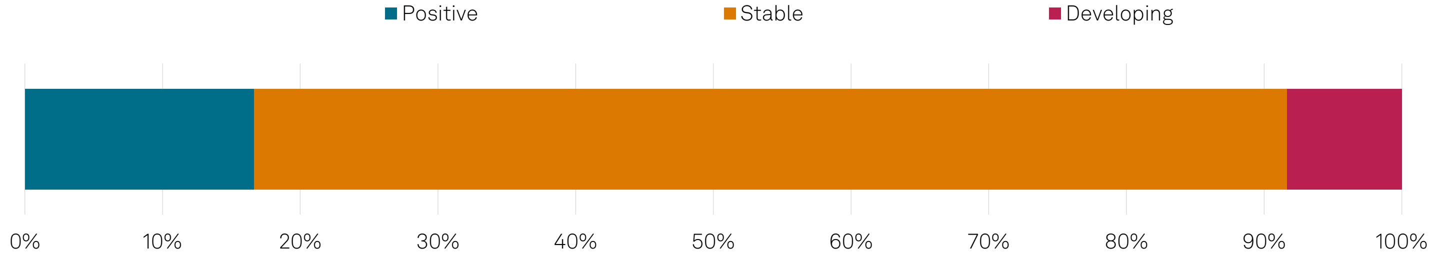
Strong Credit Fundamentals Back Up Our Ratings

- Most of the airports in our portfolio are rated investment grade, although credit qualities have marginally declined over the past few years.
- The majority of airports have stable outlooks, but ratings upside could hinge on stronger financials despite higher absolute levels of debt.

Ratings distribution (no.)



Outlook distribution (%)



Data as of Dec. 4, 2024. Source: S&P Global Ratings.

Recent Rating Actions On European Airports

- Ratings have trended upwards over the past 12 months, with two ratings upgraded by one notch and two outlooks revised to positive from stable.
- The only negative rating action, on Aeroports de Paris, was linked to the downgrade of the unsolicited sovereign ratings on France.

NEW RATINGS:

TAV Airports
BB-/Stable/--
(December 2023)

Heathrow Funding Ltd.
Class A wrapped:
AA/Stable
(December 2023)

-1 notch	Developing outlook	Ratings unchanged	Positive outlook	+1 notch
Aeroports de Paris Downgraded to A-/Stable/-- from A/Negative/-- (June 2024)	**TAV Airports** BB-/Developing/-- from BB-/Stable (November 2024)	**Aeroporti di Roma SpA** BBB/Stable/A-2 **Avinor AS** A/Stable/A-1 **Heathrow Funding Ltd.** Class A: BBB+/Stable Class B: BBB-/Stable **NATS (En Route) PLC** A+/Stable/--	**Flughafen Zurich AG** A+/Positive/-- from A+/Stable/-- (May 2024) **Royal Schiphol Group N.V.** A/Positive/A-1 from A/Stable/A-1 (March 2024)	**Gatwick Funding Ltd.** Upgraded to BBB+/Stable from BBB/Stable (August 2024) **daa PLC** Upgraded to A/Stable/A-1 from A-/Stable/A-2 (July 2024)

Source: S&P Global Ratings.

Ratings Are Solid With A Positive Bias

- Some airports have already returned to 2019 rating levels, such as NATS ('A+'), daa ('A'), and Gatwick ('BBB+'). This is thanks to a combination of factors including but not limited to traffic recovery and financial discipline to strengthen and sustain financial metrics.

	Country	Rating (SACP) Dec. 4, 2024	Rating (SACP) Feb. 1, 2020	Notches up/down since pre-Covid
Flughafen Zurich AG	Switzerland	A+/Positive/-- (a)	AA-/Stable/-- (a+)	-1 (-1)
NATS (En Route) PLC	United Kingdom	A+/Stable/-- (a)	A+/Negative/-- (a)	0 0
Royal Schiphol Group N.V.	Netherlands	A/Positive/A-1 (bbb+)	A+/Stable/A-1 (a)	-1 (-2)
Avinor AS	Norway	A/Stable/A-1 (bbb-)	AA-/Stable/A-1 (bbb+)	-2 (-2)
Aeroports de Paris	France	A-/Stable/-- (a-)	A+/Stable/-- (a+)	-1 (-2)
daa PLC	Ireland	A/Stable/A-1 (a-)	A/Stable/A-1 (a-)	0 0
Heathrow Funding Ltd. - Class A	United Kingdom	BBB+/Stable (bbb)	A-/Negative (bbb+)	-1 (-1)
Heathrow Funding Ltd. - Class B	United Kingdom	BBB-/Stable (bbb-)	BBB/Negative (bbb)	-1 (-1)
Aeroporti di Roma SpA*	Italy	BBB/Stable/A-2 (a)	BB+/Watch Neg/B* (a+)	+2 (-1)
Gatwick Funding Ltd. - Class A	United Kingdom	BBB+/Stable (bbb)	BBB+/Negative (bbb)	0 0
TAV Havalimanlari Holding A.S.	Turkiye	BB-/Developing/-- (b+)	Not rated	N/A

*Aeroporti di Roma had a lower credit quality pre-COVID-19 time than currently. This was essentially related to lower credit quality of its controlling shareholder, Mundys SpA (previously Atlantia), at that time, explaining its higher rating nowadays.
SACP—Stand-alone credit profile. N/A—Not applicable. Source: S&P Global Ratings.

Business Considerations

Airport Companies Operate In Wealthy Catchment Areas And Markets

- Most airports have entrenched market positions that secure solid traffic volume and a high percentage of origin and destination (O&D) passenger traffic.

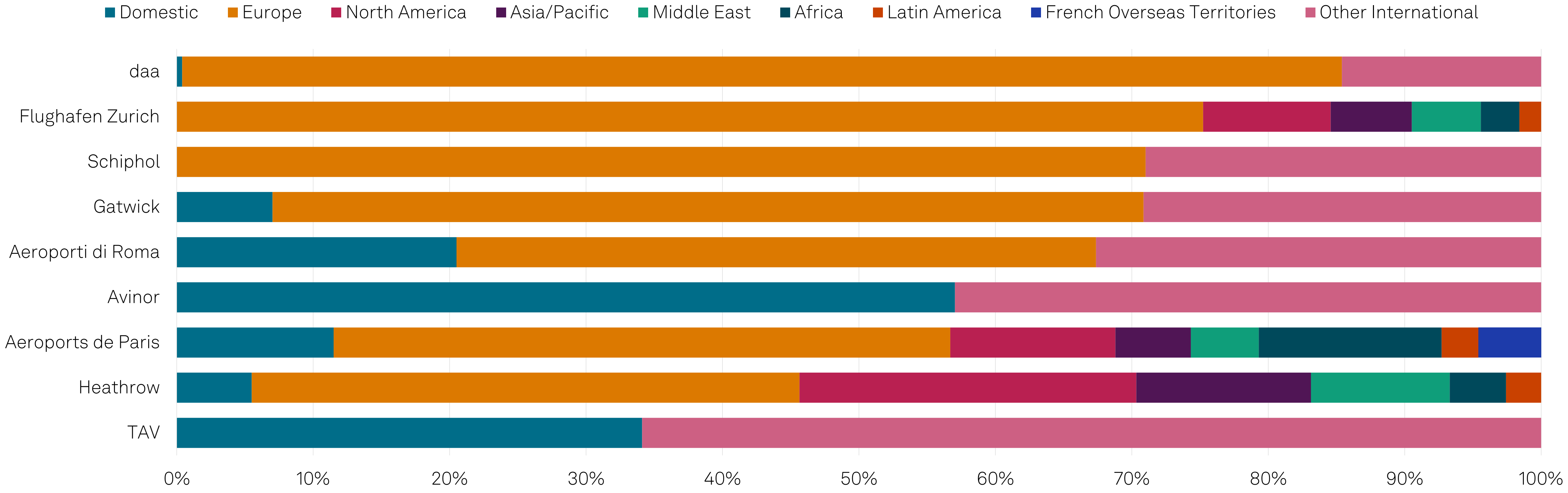
European countries with airport companies located in wealthy areas

*Not rated airports. §Also includes assets in Kazakhstan (under ownership), Georgia, Macedonia and Tunisia (under concessions). There are 3 confidential Ratings. Source: S&P Global Ratings.

Country	Airport company	Notes
Ireland	daa PLC	Two airports in Ireland – Dublin and Cork
United Kingdom	Heathrow Funding Ltd.	Heathrow airport in London, UK
	Gatwick Funding Ltd.Located in Gatwick airport	Gatwick airport in London, UK
	Edinburgh Airport*	Part of Vinci S.A.'s portfolio
	Belfast Airport*	Part of Vinci S.A.'s portfolio
	NATS (En Route) PLC	Air traffic controller for UK
Portugal	ANA Aeroportos de Portugal*	10 airports in Portugal, including Lisbon airport (Part of Vinci S.A.'s portfolio)
France	Aeroports de Paris	Three airports in Paris – Charles de Gaulle, Orly, and Le Bourget – and airports in 10 other countries Charles de Gaulle – international hub (Heathrow and Schiphol as main competitors)
	Aeroports de la Cote d'Azur*	Part of Mundys SpA's portfolio
	12 other airports in France*	Part of Vinci S.A.'s portfolio
Norway	Avinor AS	43 airports in Norway, including Oslo airport
Netherlands	Royal Schiphol Group N.V.	Schiphol airport in Amsterdam and other four airports in the Netherlands, in addition to 2 airports in Australia.
Switzerland	Flughafen Zurich AG	Zurich airport, Switzerland, and international investments in Brazil (4), Chile (2), and India (1)
Hungary	Budapest Airport*	Part of Vinci S.A.'s portfolio
Serbia	Belgrade Airport*	Part of Vinci S.A.'s portfolio
Italy	Aeroporti di Roma	2 airports in Rome, Italy – Fiumicino and Ciampino
Turkiye§	TAV Airports	15 airports, of which 5 in Turkiye, 1 in Kazakhstan, 2 in Georgia, 2 in Tunisia, 2 in North Macedonia, 1 in Latvia, 1 in Croatia, and 1 in Saudi Arabia

Most Airport Groups Have Strong Reliance On Short-Haul Flights

- Charles du Gaulle, Heathrow and Schiphol are hub airports set in wealthy catchment areas with a favorable traffic destination mix that supports traffic resilience.
- Aeroporti di Roma, daa and Gatwick have resilient and significant O&D bases and are exposed to leisure and low-cost airline traffic, whereas TAV and Avinor are important airport network groups with significant exposure to domestic markets.



Other International covers international passengers when airports do not provide a breakdown by regions.
Source: Individual reports of each company or their regulator.

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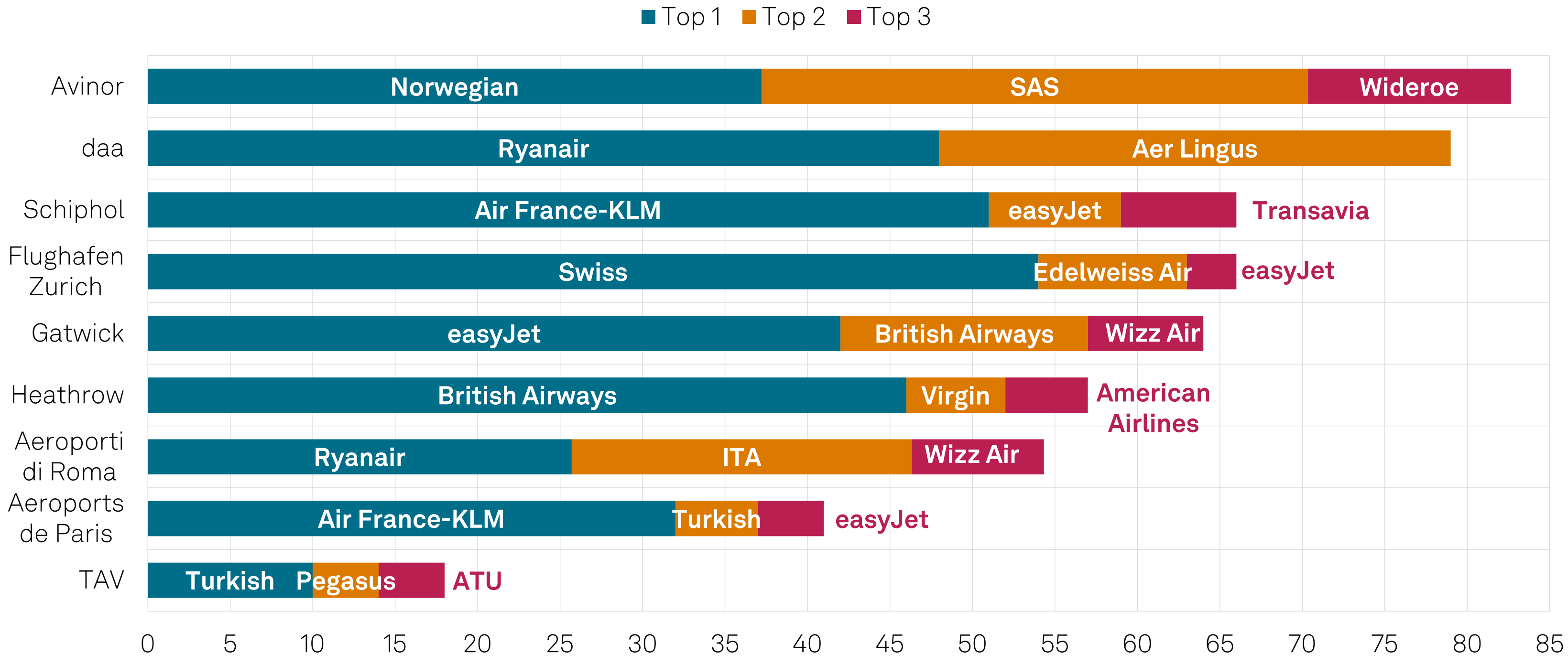
Rated Airports Are Not Sensitive To Carrier Woes

- While we see the lack of counterparty diversification as a potential risk for our ratings, the rated European airports are mostly exposed to resilient and financially healthy airlines and airline groups.
- We also note that rated airports have been generally immune to airline difficulties, being able to quickly replace troubled company.

Three largest carriers operating at each airport group (%)

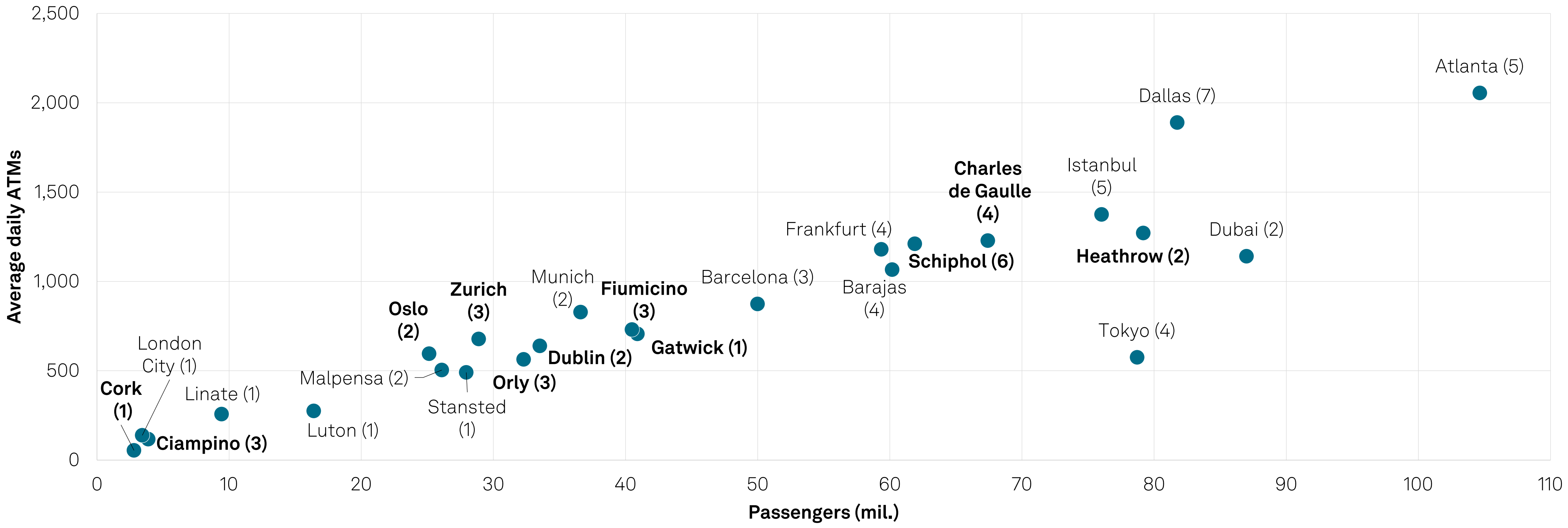


Airline carrier	Rating
Ryanair Holdings PLC	BBB+/Stable/--
easyJet plc	BBB/Positive/--
British Airways Plc	BBB-/Positive/--
International Consolidated Airlines Group S.A.	BBB-/Positive/--
Deutsche Lufthansa AG	BBB-/Stable/A-3
Air France-KLM S.A.	BB+/Stable/--
Türk Hava Yollari Anonim Ortakligi (Turkish Airlines)	BB/Stable/--
American Airlines Group Inc.	B+/Stable/--
Pegasus Hava Tasimaciligi A.S. (Pegasus Airlines)	B+/Stable/--

Ratings as of Dec. 4, 2024. Source: S&P Global Ratings.

Europe Is Home To Some Of The World's Busiest Airports

Airports by number of average daily ATMs and passengers in 2023



Number of runways typically used by each airport during regular operation is shown in brackets. Rated European airports in bold. ATM--Air traffic movements. Source: Individual airports' passenger and ATM numbers.

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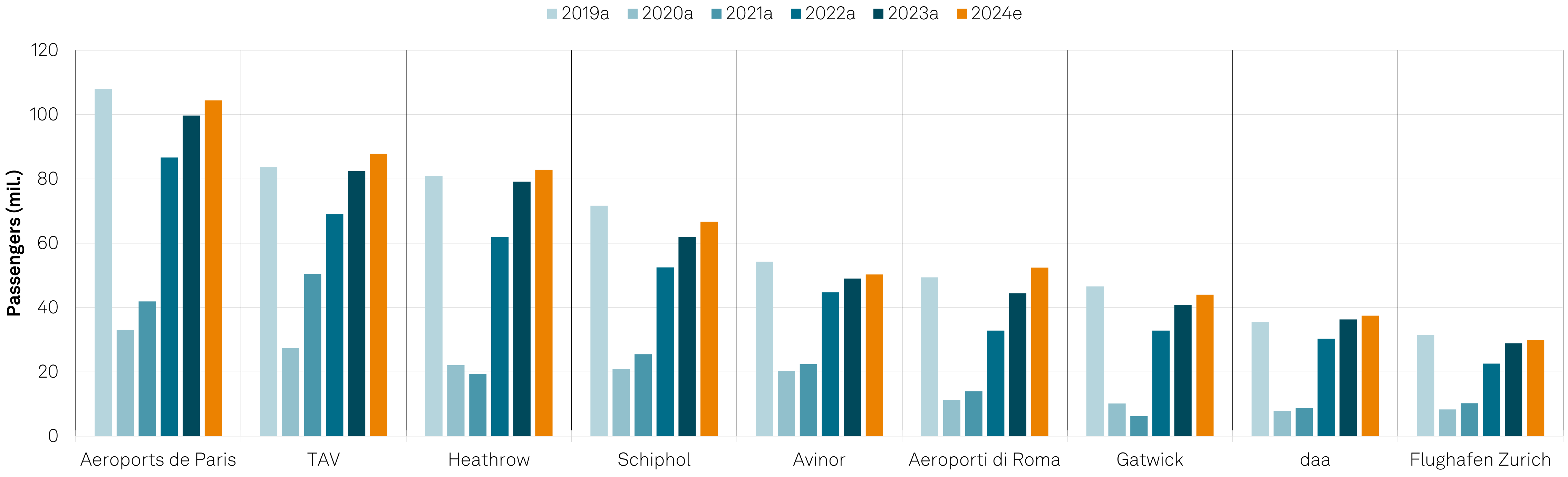
Passenger Numbers Trending Toward A New Normal

- The pandemic hit air traffic hard. Even though we treat this event as one-off, the effects will last over the longer term for some airports' financials and passenger patterns.
- In 2024, most rated airports in Europe will deliver traffic in line with or just below 2019 levels, reflecting airline capacity constraints due to supply chain disruptions, and a slow recovery for business travel.



Source: individual reports of each company or their regulator for reported numbers. a—Actual. e—Estimate. f—Forecast. Forecast figures from S&P Global Ratings.

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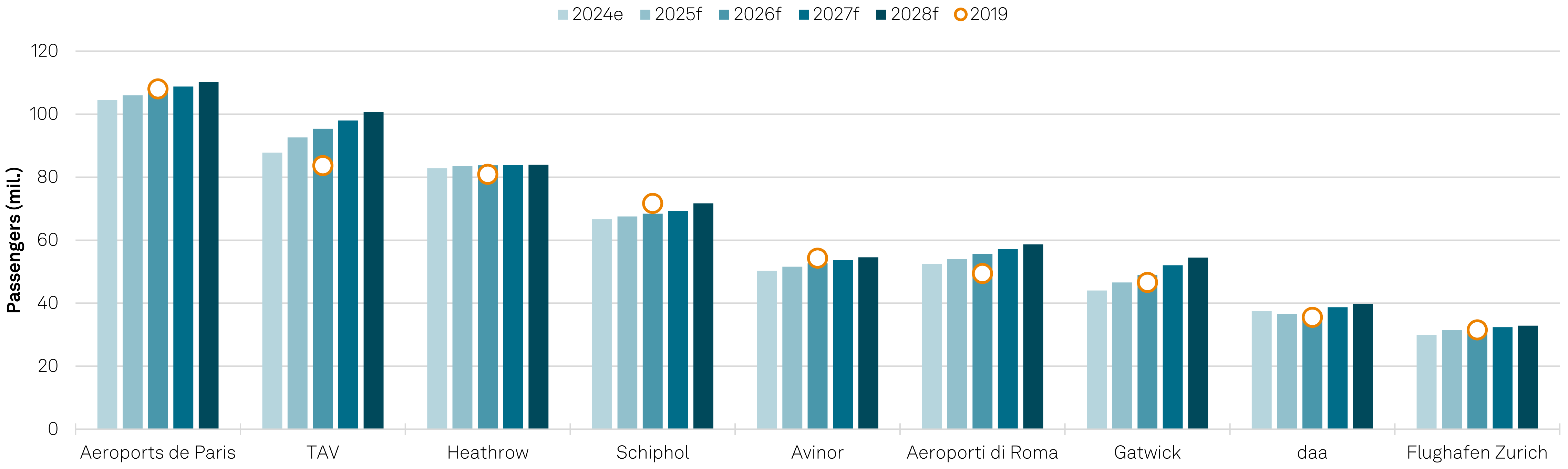
Future Passenger Growth Will Vary Among Airports

- We anticipate passenger numbers will continue to expand over the next years but at a more modest pace.
- Improvement will mainly rely on macroeconomic developments and asset-specific features. Fewer business travellers, airline capacity constraint, flight caps in some airports, and mobility transition with flight bans may slow path growth.
- Large expansion projects (i.e., runaways and terminals) should foster medium to long-term traffic growth. In addition, international expansion could also add growth opportunities, but at the same time elevate country and regulatory risks.

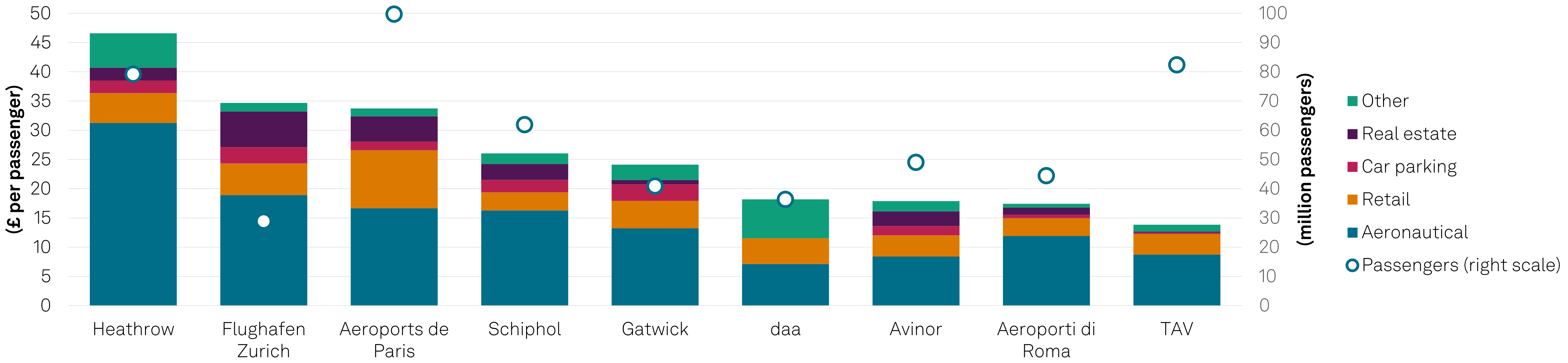


Forecast for daa is as of July 2024. a—Actual. e—Estimate. f—Forecast. Source: S&P Global Ratings.

Non-Aeronautical Revenues Play A Key Role In The Earnings Mix

- Waning consumer confidence will continue weighing on non-aeronautical revenues. Soft consumer sentiment and less business travel may drive spending on non-aeronautical services.
- However, the increased digitalization at airports will leave passengers with more time for non-aeronautic activities at airports.
- In addition, airports and travel retailers are adding more personalization and technology, and hybrid stores combining duty-free and experimental retail (restaurants and entertainment) should foster revenue growth over the medium term.

Revenues per passenger, as of Dec. 31, 2023



Data excludes international business operations for Aeroports de Paris, daa, and Flughafen Zurich.
Other for daa includes nonretail revenue, which encompasses car parking, food and beverage, indirect retail concessions, among others.
Source: Companies' financial statements and traffic statistics.

Regulation Is Favorable For Most European Airports

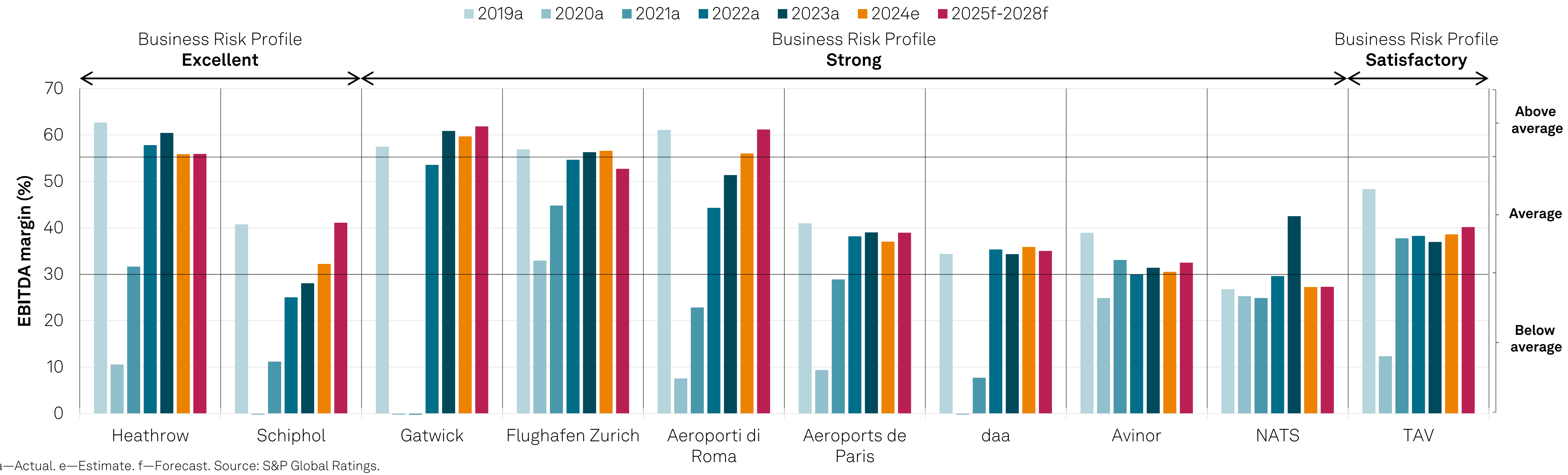
- Despite the recent downward WACC trend, airports are still an attractive asset class with predictable regulation. Some companies have a less certain regulatory outlook for tariffs, but we don't consider this a significant rating differentiator for our portfolio at this point.
- In our view, AdP and Avinor have less transparent and predictable regulatory frameworks versus peers; the first has been operating outside of the economic regulation agreement since 2020, while the second needs to rebalance its single-till framework.

	Aeroporti di Roma	Aeroports de Paris	Avinor	daa	Flughafen Zurich	Gatwick	Heathrow	Schiphol	TAV
Country	Italy	France	Norway	Ireland	Switzerland	U.K.	U.K.	Netherlands	Turkiye*
Asset type	Concession until 2046	Ownership	Ownership	Ownership	License until 2051	Ownership	Ownership	Ownership	Concessions
Regulator	Transport Regulation Authority	Transport Regulatory Authority	Civil Aviation Authority	Irish Aviation Authority	Federal Office of Civil Aviation	Civil Aviation Authority	Civil Aviation Authority	Authority for Consumers and Markets	General Directorate of State Airports Authority
Regime	RAB-based Dual-till	RAB-based Dual-till	Single-till	RAB-based Single-till	Hybrid-till	Contracts and commitments	RAB-based Single-till	RAB-based Dual till	Fixed passenger fee
Tariff adjustment	For each regulatory period, tariffs depend on the update of key parameters (traffic, inflation, WACC, opex, capex etc.)	To be defined	Annual, CPI	Annual with CPI, and with triggers based on the investment plan	Annual, CPI	Cannot surpass RPI, subject to negotiations with airlines	Annual, CPI	Annual, CPI	No
Tariff reset (next)	Every five years (2028)	Every five years (2026)	N/A	Every five years (2027)	Every seven years (2027)	Every four years (2025)	Every five years (2027)	Every three years (2025)	No
Traffic risk-sharing mechanism	For all passenger variation above a specific level; full recovery during next regulatory period	N/A	N/A	N/A	N/A	N/A	For all passenger variation above 10%; full recovery takes 11 years	For all passenger variation above 10%; full recovery during next regulatory period	N/A
WACC	5.83% pre-tax	Under discussion for next period	5.8% pre-tax	4.35% pre-tax	5% post-tax	N/A	4.04% pre-tax 3.18% post-tax	3.21% post-tax	N/A

*The group also includes assets in Kazakhstan (under ownership), Georgia, Macedonia and Tunisia (under concessions). Tariff adjustments can be agreed in case of capex plans. WACC—Weighted average cost of capital. RAB—Regulatory Asset Base. N/A—Not applicable. Source: S&P Global Ratings.

Airports Will Maintain High Profitability

- We expect margins at most rated airports to stabilize slightly below 2019 levels. Salary increases and energy costs are taking a toll, despite tariff increases.
- Additionally, airports that were more exposed to business travel may have to offer incentives to attract low-cost carriers, which could also depress margins, despite a recovery in traffic. Nevertheless, the margin levels will remain very robust.



a—Actual. e—Estimate. f—Forecast. Source: S&P Global Ratings.

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ESG Factors Can Pose Demand Risks For European Airports

- Europe is focusing on decarbonization efforts, with mobility transition representing a top priority for European governments to reach net zero by 2050.
- Many European governments encourage investments in railway networks as an environmentally friendly alternative, with some having introduced special taxes or even direct bans on short-haul flights. Still, the impact on rated airports' traffic have been minimal so far.

Company airport restrictions

Aeroporti di Roma SpA
AIRPORT: Ciampino
RESTRICTIONS:
- Noise: No time restrictions to operate, but has a cap of 65 flights per day
- Flight cap: 65/day

AIRPORT: Fiumicino
RESTRICTIONS: N/A

daa plc
AIRPORT: Dublin
RESTRICTIONS:
- Noise: On the noise restrictions, a final decision has yet to be made on whether to cap the number of night-time flights (see our July 2024 publication). An Bord Pleanála issued a draft decision, and comments can be submitted until Dec 23, 2024
- Passenger cap: Terminal passengers are capped at 32 million per year under existing planning conditions.*

Aeroports de Paris
AIRPORT: Charles de Gaulle
RESTRICTIONS:
- Noise: No departures between 00:00-04:59. No arrivals between 00:30-05:29

AIRPORT: Orly
RESTRICTIONS:
- Noise: Daily curfew from 23:30 to 06:00
- Flight cap: Annual cap of 250,000 ATMs
- Flight ban: Three routes--from Orly airport to Nantes, Bordeaux and Lyon --can be replaced by rail journey up to 2.5 hours

Avinor AS
AIRPORT: N/A
RESTRICTIONS: N/A

Gatwick Funding Ltd.
AIRPORT: Gatwick
RESTRICTIONS:
- Noise: Between 23:30 and 06:00, take-offs and landings are restricted to 14,450 a year

Flughafen Zurich AG
AIRPORT: Zurich
RESTRICTIONS:
- Noise: Daily curfew from 23:30 to 06:00

Heathrow Funding Ltd.
AIRPORT: Heathrow
RESTRICTIONS:
- Noise: Between 23:30 and 06:00,
- take-offs and landings are restricted to 5,800 a year
- Flight cap: Annual cap of 480,000 ATMs

Royal Schiphol Group N.V.
AIRPORT: Schiphol
RESTRICTIONS:
- Noise: No departures between 00:00-06:00. No arrivals between 00:00-05:00
- Flight cap: Annual cap between 475,000-485,000 ATMs

TAV Airports
AIRPORT: N/A
RESTRICTIONS: N/A

*In October 2024, the Irish Aviation Authority (IAA) issued its slot co-ordination decision for summer 2025 which imposes a passenger air traffic movement seat capacity. Some of the airlines are judicially reviewing this decision in the High Court; pending the outcome they requested a hold on this capacity restriction, which was granted on Nov. 4, 2024. In addition, at the end of 2023, daa submitted a new planning application for 40 million passengers per year and still awaits the decision. For further details, please see "Research Update: Airport Operator daa PLC Upgraded To 'A' On Expected Strong Operational And Financial Performance; Outlook Stable," Source: S&P Global Ratings.

Key Rating Components

A Deep Dive Into The Ratings Build-Up For The European Airports

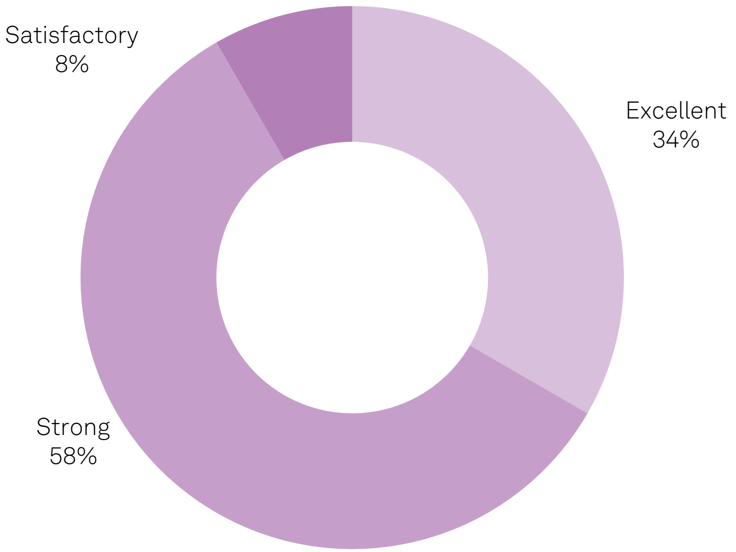
	Heathrow Funding Ltd. (Class A wrapped)	Flughafen Zurich AG	NATS (En Route) PLC	Royal Schiphol Group N.V.	daa PLC	Avinor AS	Aeroports de Paris	Heathrow Funding Ltd. (Class A)	Gatwick Funding Ltd. (Class A)	Aeroporti di Roma	Heathrow Funding Ltd. (Class B)	TAV Airports
Issuer credit rating	--	A+/Positive/--	A+/Stable/--	A/Positive/A-1	A/Stable/A-1	A/Stable/A-1	A-/Stable/--	--	--	BBB/Stable/A-2	--	BB-/Stable/--
Issue rating	**AA/Stable**	**A+**	**A+**	**A**	**A**	**A**	**A-**	**BBB+/Stable**	**BBB+/Stable**	**BBB**	**BBB-/Stable**	**B+**
Business risk	Excellent	Strong	Strong	Excellent	Strong	Strong	Strong	Excellent	Strong	Strong	Excellent	Satisfactory
Country risk	Low	Very Low	Very low	Very Low	Low	Very Low	Intermediate	Low	Low	Intermediate	Low	High
Industry risk	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
Competitive position	Excellent	Strong	Strong	Excellent	Strong	Strong	Strong	Excellent	Strong	Strong	Excellent	Satisfactory
Financial risk	Aggressive	Modest	Modest	Significant	Modest	Significant	Intermediate	Aggressive	Significant	Modest	Highly leveraged	Highly leveraged
Volatility table	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low	Standard
Cash flow/ leverage	Aggressive	Modest	Modest	Significant	Modest	Significant	Intermediate	Aggressive	Significant	Modest	Highly leveraged	Highly leveraged
Anchor	**bbb**	**a**	**a+**	**a-**	**a**	**bbb**	**a-**	**bbb**	**bbb**	**a+**	**bbb-**	**b+**
Modifiers impact	N/A	N/A	Comparable rating analysis (-1)	Comparable rating analysis (-1)	Comparable rating analysis (-1)	Comparable rating analysis (-1)	N/A	N/A	N/A	Comparable rating analysis (-1)	N/A	N/A
Stand-alone credit profile	**bbb**	**a**	**a**	**bbb+**	**a-**	**bbb-**	**a-**	**bbb**	**bbb**	**a**	**bbb-**	**b+**
Entity status within group	N/A	N/A	Core	N/A	N/A	N/A	N/A	N/A	N/A	Highly strategic, insulated (GCP +2)	N/A	Moderately strategic (+1)
Likelihood of government support	N/A	Moderate (+1)	High (+1)	Moderately high (+2)	Moderately high (+1)	Very high (+4)	Moderate (0)	N/A	N/A	N/A	N/A	N/A
Structural features	(+1)	N/A	N/A	N/A	N/A	N/A	N/A	(+1)	(+1)	N/A	N/A	N/A
Full credit guarantee	(+5)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

As of Dec. 4, 2024. We have different rating build-ups for each debt type for Gatwick Funding Ltd. and Heathrow Funding Ltd. Source: S&P Global Ratings.

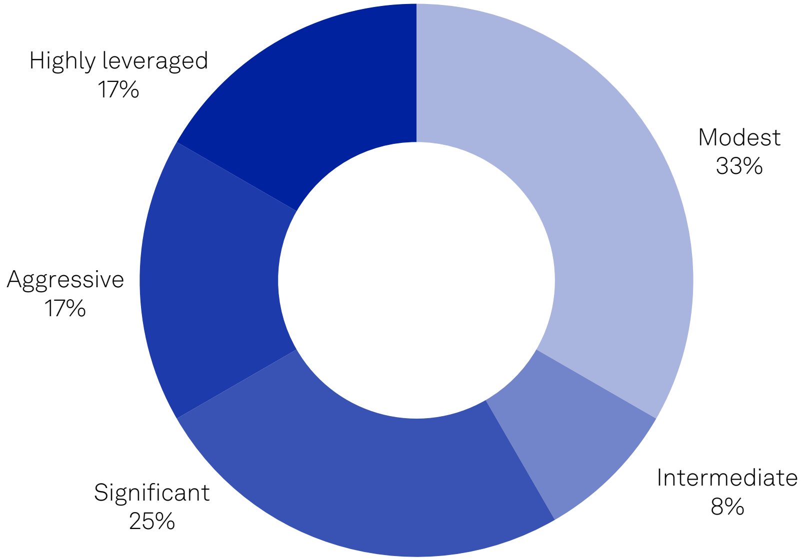
Investment-Grade Ratings Rely More On Business Strengths Of Each Airport

- Strong long-term fundamentals for rated airports will keep business risk profiles favorable. The essential nature of these assets, the quality and resilience of traffic, and relatively stable regulations bring solid earnings and cash flows.
- The capital-intensive nature of the airports generally rely on significant debt financing for the operations. Leverage ratios differentiate rated airports relative to the strength of the business.

Business risk profile distribution



Financial risk profile distribution

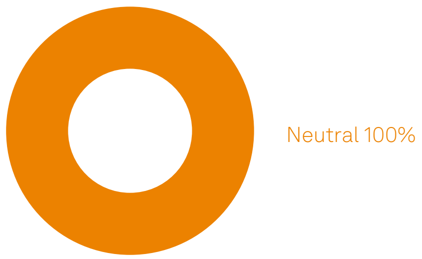


As of Dec .4, 2024. Source: S&P Global Ratings.

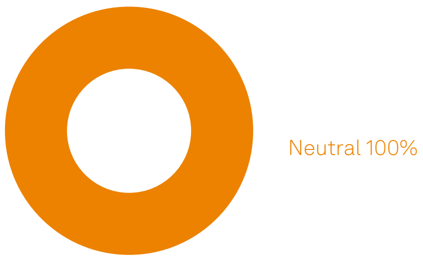
Airports Benefit From Financial Flexibility And Good Governance Standards

- Most ratings modifiers have no impact on the overall credit quality of airports. We note significant financial flexibility and robust liquidity positions offset negative event impacts.
- Comparable rating analysis is the most active modifier, with a negative bias, mostly indicating that metrics are in the weaker spectrum of the financial risk profiles.

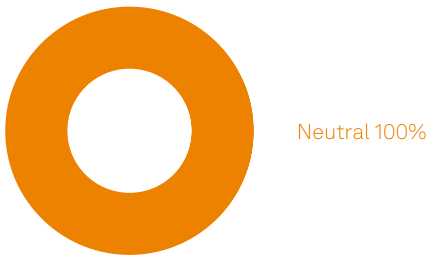
Diversification/portfolio Effect



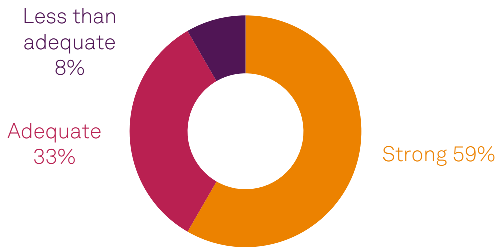
Capital structure



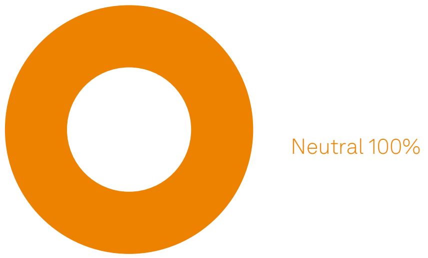
Financial policy



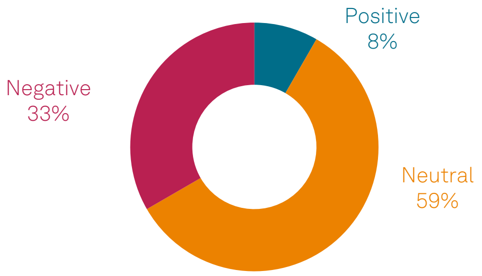
Liquidity



Management and governance



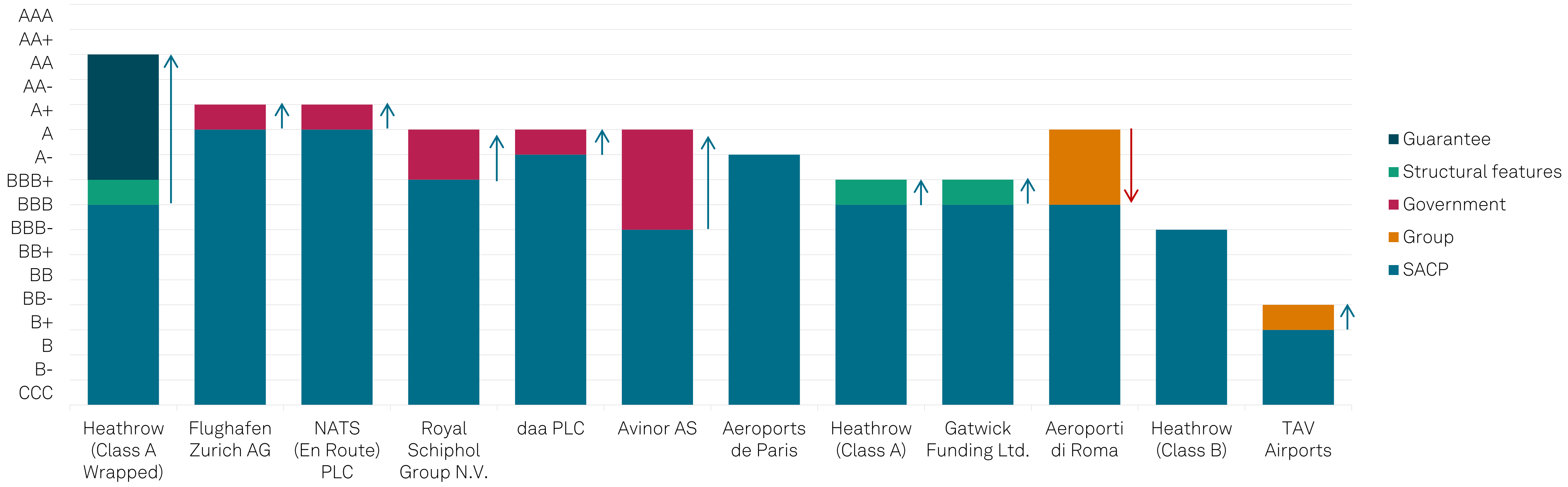
Comparable rating analysis



As of Dec .4, 2024. Source: S&P Global Ratings.

Most Airport Ratings Benefit From A Credit Enhancement

- Airports' stand-alone creditworthiness are generally enhanced by government support, guarantees and protective debt structures.
- For a few airports only, stand-alone credit quality is impaired by lower-rated or riskier controlling shareholders, or sovereign constraints.



As of Dec. 4, 2024. SACP--Stand-alone credit profile. Source: S&P Global Ratings.

Some Airports Benefit From Government Support To The Ratings

- Creditworthiness is enhanced by at least one notch in cases where we think governments would be willing to provide extraordinary support to these assets in the event of distress, given their essentiality and strategic positioning.
- Avinor has the highest likelihood of support, demonstrated by the Norwegian government's equity injections in 2020 and 2021 to mitigate the negative impact from the lower number of passengers on the network's financial performance.

Likelihood of extraordinary government support

IMPORTANCE OF THE GRE'S ROLE TO THE GOVERNMENT (STRONGER ← → WEAKER)

LINK BETWEEN THE GRE AND THE GOVERNMENT (STRONGER ↑ ↓ WEAKER)

	Critical	Very important	Important	Limited importance
Integral	Almost certain	Extremely high	High	Moderately high
Very strong	Extremely high	Very high Avinor AS	High	Moderately high
Strong	High NATS (En Route) PLC	High	Moderately high daa PLC Royal Schiphol Group N.V.	Moderate
Limited	Moderately high	Moderately high	Moderate Aeroports de Paris Flughafen Zurich AG	Low

GRE—Government-related entity. Source: S&P Global Ratings.

Business Risk Profiles Are Generally Stronger Than Financial Risk

Likelihood of extraordinary government support

BUSINESS RISK PROFILE (STRONGER → WEAKER) / FINANCIAL RISK PROFILE (STRONGER → WEAKER)	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent				**Royal Schiphol Group N.V.** A/Positive/A-1 (bbb+)	**Heathrow Funding Ltd. (Class A)** AA/Stable (bbb) BBB+/Stable (bbb)	**Heathrow Funding Ltd. (Class B)** BBB-/Stable (bbb-)
Strong		**Flughafen Zurich AG** A+/Positive/-- (a) **NATS (En Route) PLC** A+/Stable/-- (a) **daa PLC** A/Stable/A-1 (a-) **Aeroporti di Roma** BBB/Stable/A-2 (a)	**Aeroports de Paris** A-/Stable/-- (a-)	**Avinor AS** A/Stable/A-1 (bbb-) **Gatwick Funding Ltd.** BBB+/Stable (bbb)		
Satisfactory						**TAV Airports** BB-/Developing/-- (b+)
Fair						
Weak						
Vulnerable						

SACPs are shown between brackets. Source: S&P Global Ratings.

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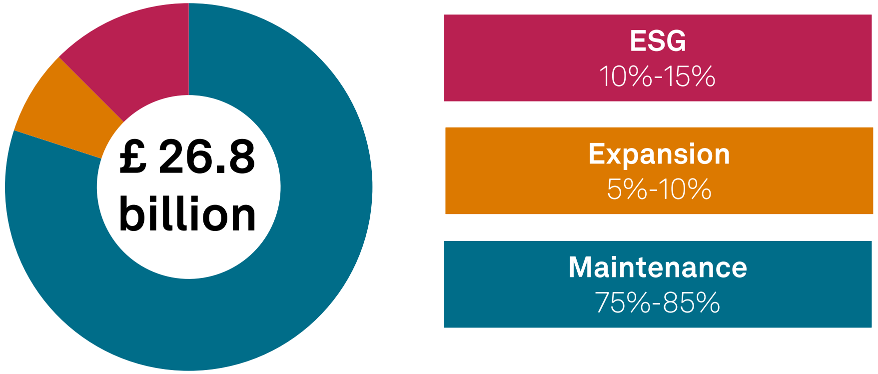
Financial Aspects

Rated Airports Have A Large Pipeline Of Investments To Catch Up On

2024-2028 airports' investment plans



Airports will invest annually more than £5.0 billion

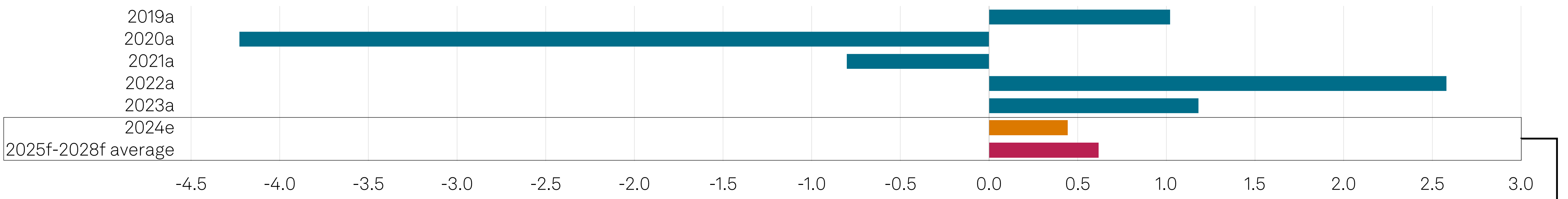
- Catching up on maintenance and service investments are a priority to avoid increased pressure on infrastructure as traffic recovers.
- Expansion investments should face more scrutiny due to environmental and social impacts due to increase in emissions.
- ESG investments will focus on achieving net zero on scope 1 and scope 2 CO_2 emissions by 2050.
- International expansion could add growth opportunities but could also increase the exposure to country and regulatory risks.

Source: S&P Global Ratings.

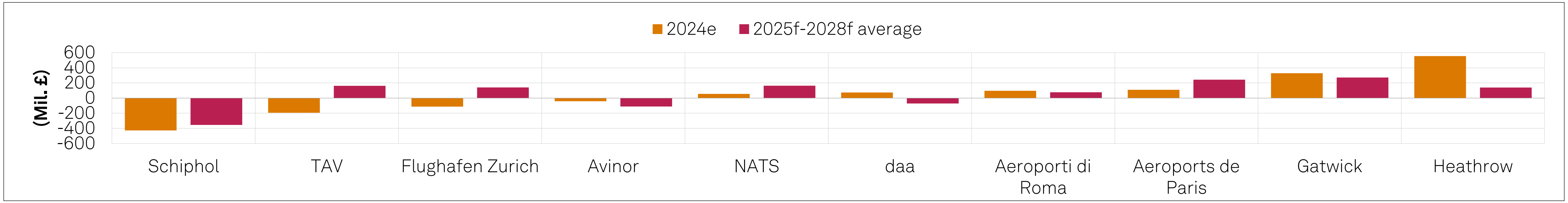
Resuming Investments Should Pressure FOCFs In The Next Years

- As airports resume deferred investments, we expect free operating cash flow (FOCF) to reduce and in some cases, it will turn negative and airports will need to raise new debt to cover their capex.
- Although we expect interest rate cuts in the next few years, the cost of debt will likely remain higher relative to the past 10 years.

Free operating cash flow (FOCF) for rated airports, in £ bil.



FOCF by airport



FOCF--Free operating cash flow. a—Actual. e—Estimate. f—Forecast. Source: S&P Global Ratings.

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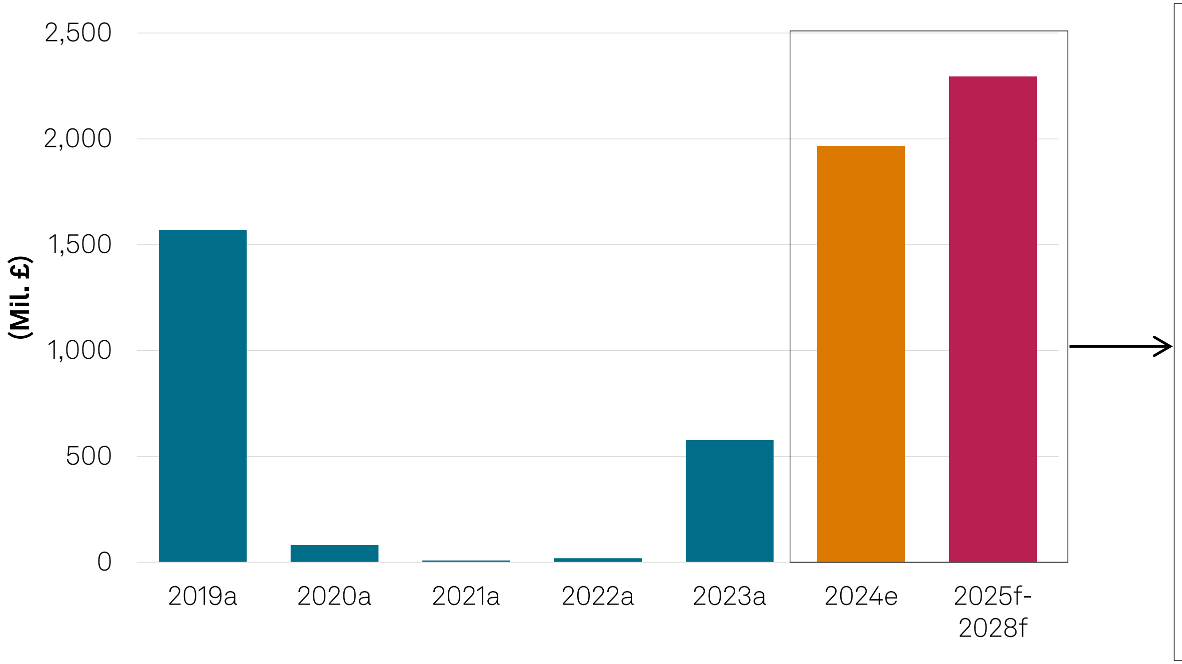
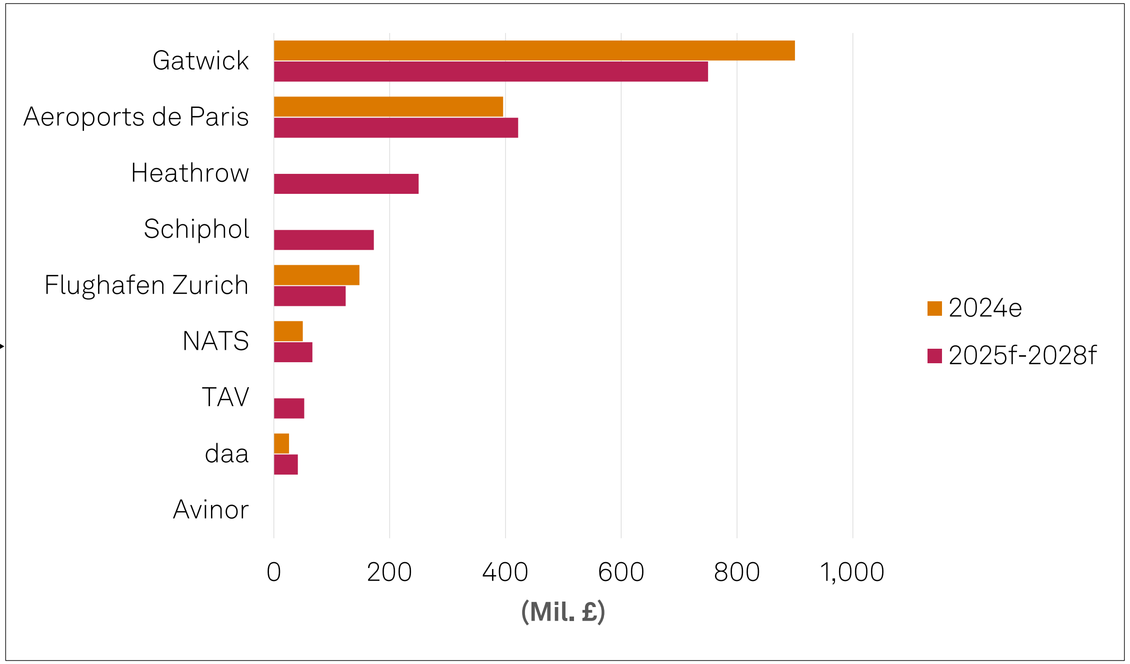
Dividends Will Resume And Increase After Years Of Drain

- As airports return to business as usual, so should cash upstreaming, reducing the ability of the airports to deleverage in the short to medium term.
- The financial policy prudency of each company will be one of the key elements to determine rating trajectories.

Rated airports' annual dividend distributions



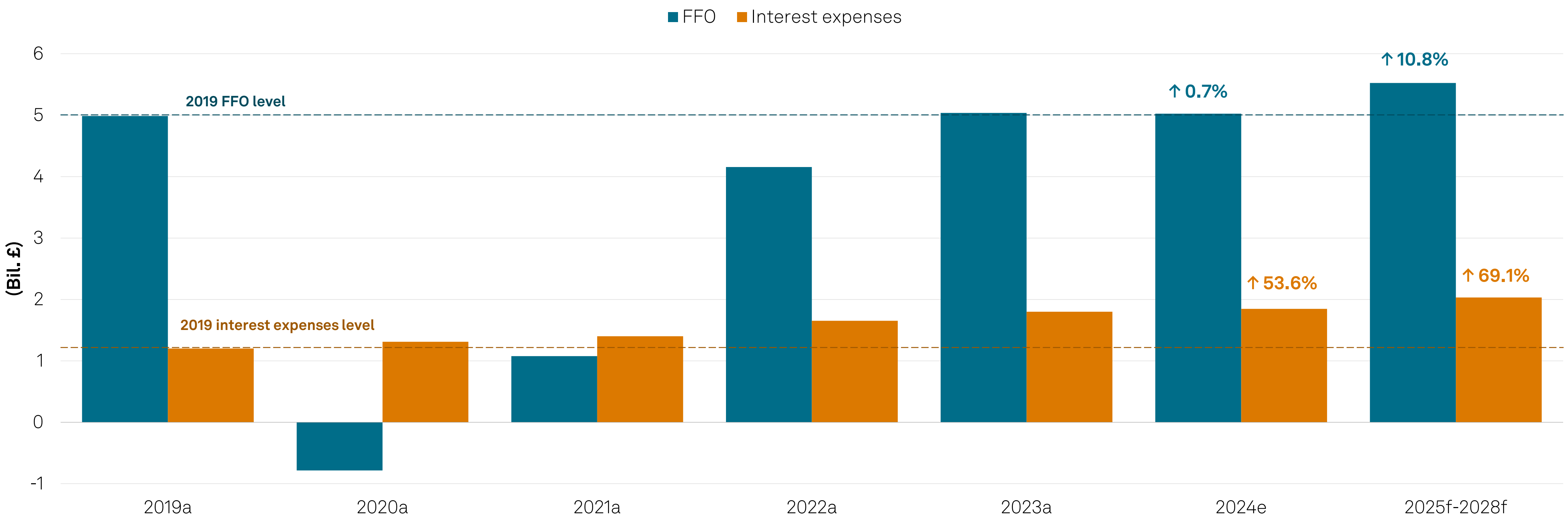
Our expected distributions by airport



2025f-2028f considers the annual average dividend distribution. a—Actual. e—Estimate. f—Forecast. Source: S&P Global Ratings.

Higher Interest Payments Is Shadowing Cash Flows

- Overall, higher interest payments will prevent a further boost to cash flows.
- Trajectories for credit metrics should be more asset-specific going forward.



FFO--Funds from operations. a—Actual. e—Estimate. f—Forecast. Source: S&P Global Ratings

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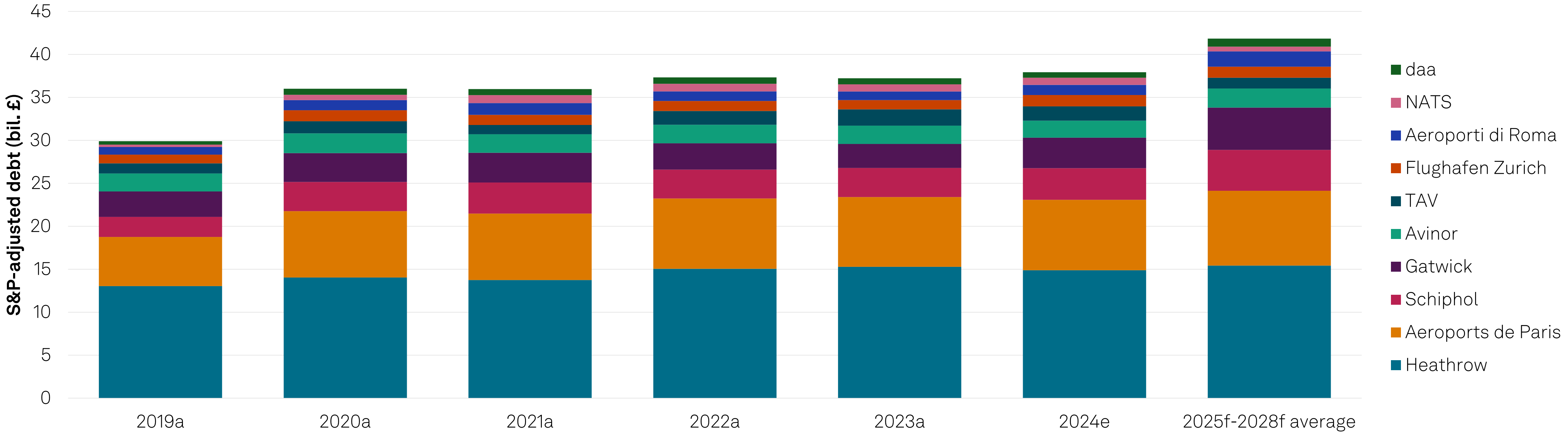
As Investments And Dividends Pick Up, So Will Debt Levels

- Airports' total debt increased by more than 20% since 2019, to £37 billion, to finance cash burn during the pandemic.
- We expect it to surpass £42 billion until 2028, to finance investments and dividends.
- As a result, credit metrics will only slowly improve for European airports.

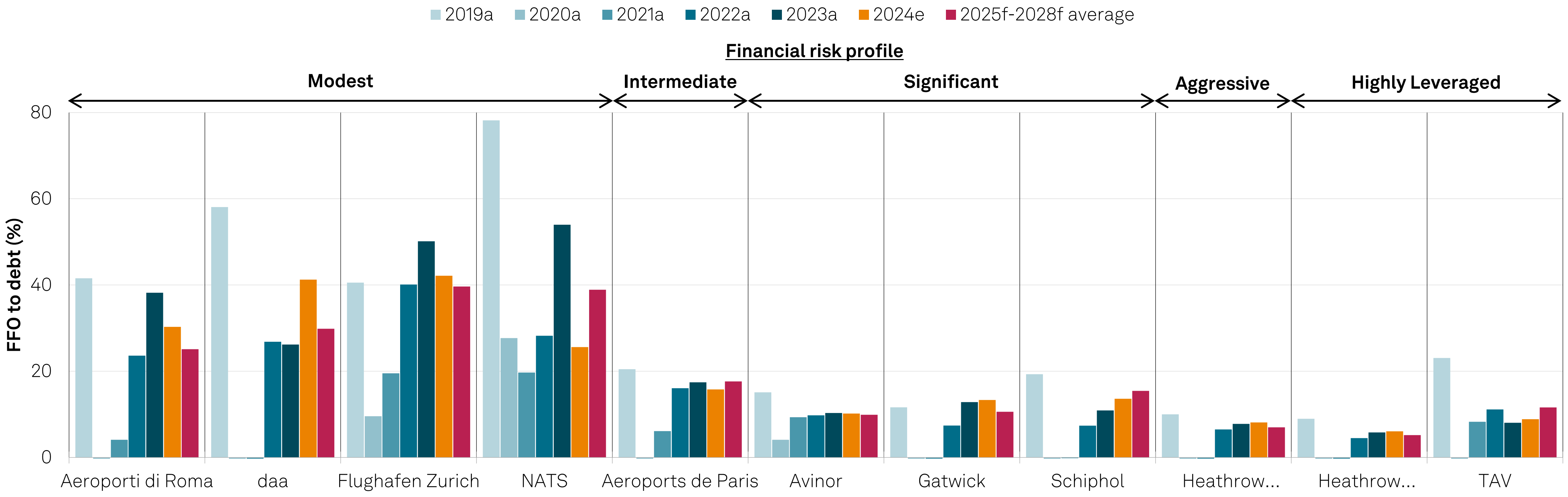
Our adjusted debt by rated airport



a—Actual. e—Estimate. f—Forecast. Source: S&P Global Ratings

Higher Debt And Interest Rates May Slow The Improvement In Credit Metrics

- New debt to finance resuming capex and/or dividend distributions will prevent a material strengthening in credit metrics.
- That said, we see potential ratings upside for airports whose credit metrics are consistently improving thanks to robust traffic, favorable tariff regulations, manageable capex plans--and, ultimately, accommodating their debt structures to the new reality. This has been the case for recent positive actions on Schiphol, Zurich, daa, and Gatwick.



a—Actual. e—Estimate. f—Forecast. Source: S&P Global Ratings

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