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Royal Schiphol Group N.V.

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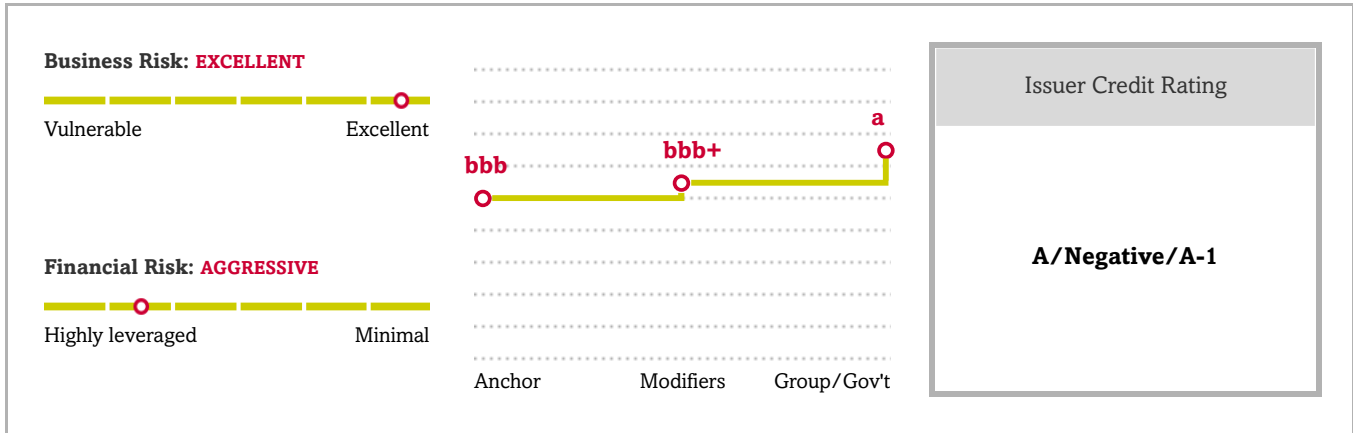
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Related Criteria

Royal Schiphol Group N.V.

(Editor's Note: On Jan. 20, 2022, we updated this report to correct misstatements about the notches of uplift included in the rating due to government support.)



Credit Highlights

Overview

Key Strengths

Supportive regulatory framework, allowing Schiphol Group to adjust tariffs every three years to recuperate lower traffic volumes and investments.

Strong competitive position as the owner and operator of Amsterdam Airport Schiphol, with its wealthy catchment area.

Diversity from real estate segment provides stability to cashflows.

We add two notches of uplift to our rating on Schiphol to reflect the essential infrastructure nature of the group and its importance to The Netherlands.

Key Risks

Capacity constraints and subsequent high capital expenditure (capex) amid a weak operating environment will likely keep leverage elevated over the next two-three years.

Hub airports such as Schiphol are likely to see a slower recovery path, given concentration on long-haul international and business traffic.

High customer concentration on Schiphol Group's main client, Air France-KLM.

Weak passenger traffic due to the COVID-19 pandemic and ongoing capital spending commitments will likely keep leverage elevated at Royal Schiphol Group (Schiphol) over the next two years. We estimate that Schiphol's traffic will remain subdued in 2021 at around 40% of 2019 levels, only a modest improvement from the 30% of 2019 levels achieved in 2020. The emergence of new COVID-19 variants, travel restrictions, and subdued economic conditions continue to persist, dragging on the airport's recovery path. We do not expect a recovery to pre-COVID-19 levels until at least 2024. Given Schiphol's weaker operating environment and a committed capex program of €600 million–€750 million per year, we forecast Schiphol's weighted average leverage over the next three years, as measured by the ratio of funds from operations (FFO) to debt, will be around 8%. This contrasts with the group's leverage of 19% FFO to debt in 2019.

Schiphol's cashflows will also depend on the implementation of its regulatory tariff for 2022-2024, which should compensate for lower traffic as result of the pandemic as well as the company's high past investments. We believe that Schiphol benefits from supportive regulations and is one of the few European airports to benefit from a traffic sharing mechanism. As such, we anticipate that the company should be entitled to compensation for lost revenue due to lower pandemic-related traffic volumes, as well as for its past investments. However, visibility on the tariff reset in the next regulatory period is limited, with uncertainty over the quantum and timing of these settlements. Given airlines' weak

financial position, we believe that settlements could be made with some delay and full recovery could be uncertain.

We expect Schiphol's continued cashflow stability from real estate and sustained cost control will provide some mitigant against a weaker operating environment. Schiphol has significant revenue from real estate that has performed well during the pandemic. We expect occupancy levels to remain high at more than 90%, supported by office space rentals to large multinational companies. Furthermore, despite a typically high fixed-cost base, the company has been able to sustainably reduce cost levels by around 20% versus 2019. We believe this will be sustained even when volumes start to return.

Outlook: Negative

The negative outlook on Schiphol reflects uncertainty over airlines' future capacity and passengers' willingness to travel, combined with weaker economic conditions. These factors drive our assumption of a generally lengthier recovery, which could be further exacerbated by any potential further waves of COVID-19. In our base case, we expect Schiphol's FFO to debt to be more than 8% in 2022.

Downside scenario

We could lower the rating by at least one notch if we expected a further weakening of Schiphol's credit metrics, in particular if Schiphol failed to maintain weighted-average FFO to debt sustainably above 8%. We think this could occur if:

- The economic recovery is slower or more prolonged than we anticipate, or there are long-lasting effects on air travel from the recessionary macroeconomic backdrop; or
- The company does not execute its planned mitigating actions in good time.

All else being equal, a one-notch downgrade of the Netherlands will not change the rating on Schiphol airport.

Upside scenario

We could revise the outlook to stable if traffic starts to recover in a strong and sustainable way, and if the risk of a further spike in infections falls. There could be some rating upside from the potential tariff settlements to compensate for the drop in traffic, although we currently lack visibility on the overall regulatory package for 2022-2024.

Our Base-Case Scenario

Assumptions

Our base-case assumptions for 2021-2023 are as follows:

- Passenger traffic as a proportion of 2019 levels will be about 40% in 2021, 70% in 2022, and about 85% in 2023.
- An increase in airport charges of about 20% with the tariff reset in 2022, due to past investments. We have not considered additional increases in association with the airport's lost revenue as a result of pandemic-related lower passenger traffic.

- EBITDA margins to turn positive in 2022, supported by sustained cost savings and recovery path.
- Annual capex of about €750 million.
- No dividend distributions to shareholders.

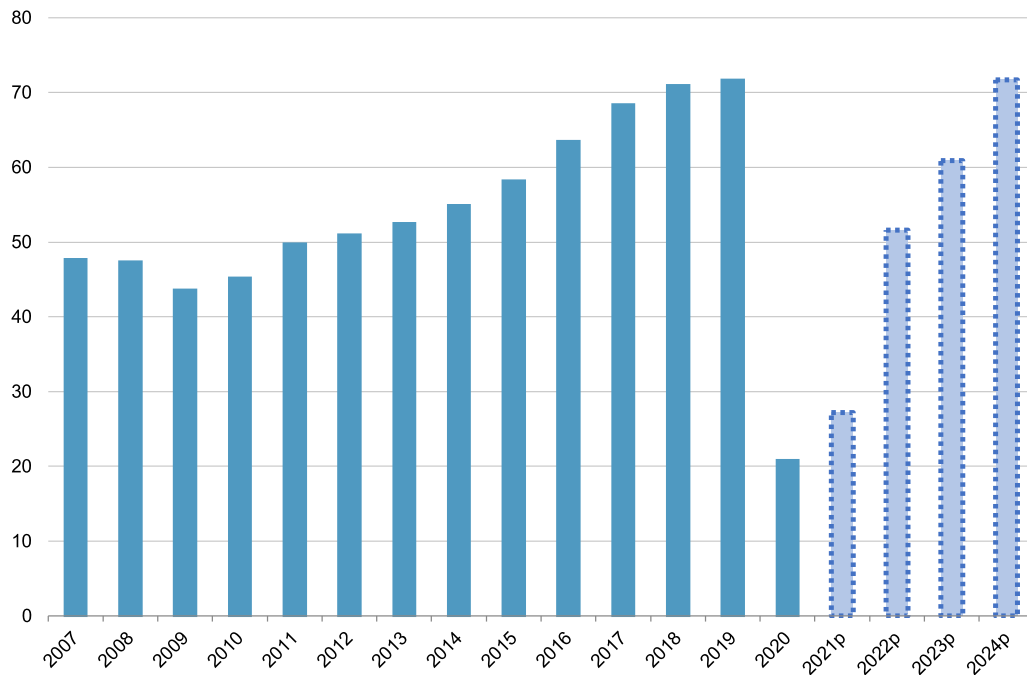
Key metrics

Royal Schiphol Group N.V. -- Key Metrics				
	2020a	2021e	2022e	2023e
Revenue	688.3	415.0-420.0	800.0-820.0	1,490-1,500
EBITDA margin	Negative	Negative	About 40.0	About 45.0
FFO	Negative	Negative	480.0-490.0	680.0-690.0
Debt	3,765.40	About 4,500	4,700-4,900	4,900-5,000
Capital expenditure	690.1	700.0-750.0	700.0-750.0	700.0-750.0
FFO/Debt (%)	Negative	Negative	9.0-10.0	13.0-15.0

All data are S&P Global Ratings-adjusted. a--Actual. e--Estimate. FFO--Funds from operations.

Schiphol's passenger traffic is unlikely to recover to pre-COVID-19 levels before 2024. We expect that traffic will remain subdued in 2021 at around 40% of 2019 levels. The recovery path in 2021 has been slower than anticipated in light of the emergence of new COVID-19 variants, travel restrictions, and weak economic conditions continuing to persist, dragging on the airport's recovery path. We also believe that long-haul international traffic and business travel will take longer to return to the 2019 levels, which will weigh Schiphol's return to normality. Nevertheless, we expect passenger numbers to strengthen over the medium term as the recovery unfolds along with vaccination uptake. As such, we expect traffic could recover to around 70% of 2019 levels in 2022, with full recovery to 2019 levels by 2024.

Chart 1
Amsterdam Airport Schiphol Passenger Recovery Path



p--Projected. Source: S&P Global Ratings' estimates.
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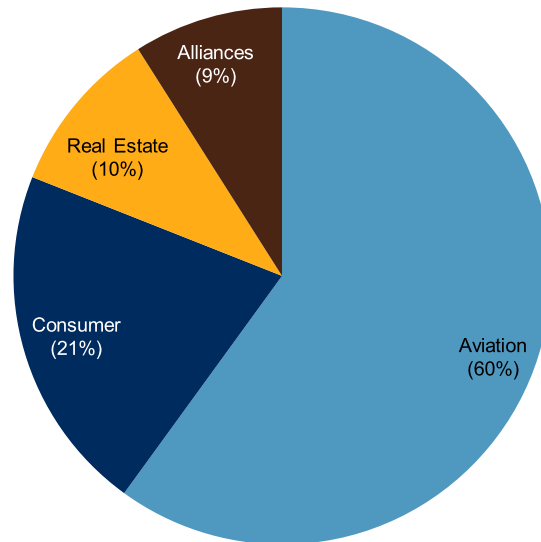
Company Description

Schiphol Group owns and operates the largest of the Dutch airports, Amsterdam Airport Schiphol, which is one of Air France-KLM's two major hubs. Before the pandemic, Amsterdam Airport Schiphol catered for almost 72 million passengers and is the third-largest airport in Europe by number of passengers and by cargo volumes. The 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.

Schiphol operates the following business lines shown in chart 2:

Chart 2

Schiphol Airport's Revenue Per Business Segment*
As Of Dec. 31, 2019

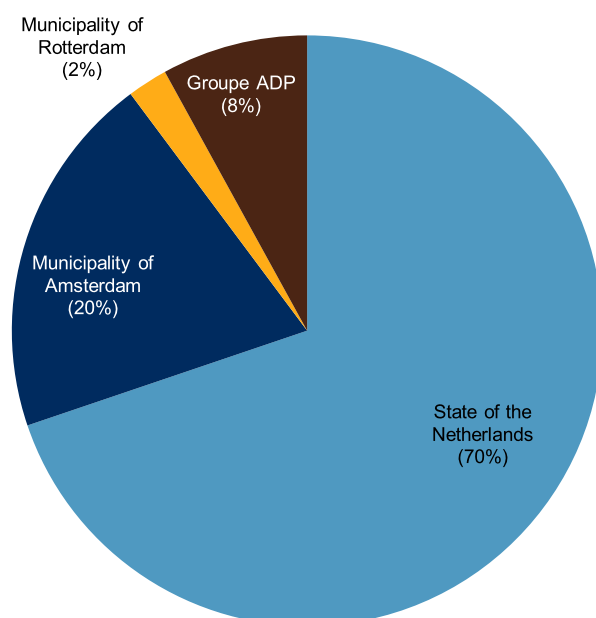


Source: S&P Global Ratings. *2019 numbers are shown here as more representative numbers for Schiphol in absence of the effects from the pandemic.
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The group is 70% owned by the state of The Netherlands--a fact that supports the rating--20% by the Municipality of Amsterdam, 2% by the Municipality of Rotterdam, and 8% by Groupe ADP. Schiphol Group has a cross-shareholding and co-operation agreement with Groupe ADP. However, this agreement will end in November 2021. Following this, an exit mechanism will be triggered to unwind the cross-shareholding, which will take up to 18 months.

Chart 3

Schiphol Airport's Ownership Structure As Of Dec. 31, 2020



Source: S&P Global Ratings.

In addition to its operations in Amsterdam, a major capital city in Europe, Schiphol also owns and operates Lelystad Airport and Rotterdam Airport, and holds a 51% stake in Eindhoven Airport. Its international operations include an 8% stake in Groupe ADP, a 19.61% stake in Brisbane Airport, a 35% stake in Hobart International Airport, and a management contract for Terminal 4 of JFK Airport in New York.

Peer Comparison

Table 1

Royal Schiphol Group N.V.-- Peer Comparison

Industry sector: Infrastructure

	Royal Schiphol Group N.V.	Heathrow Funding Ltd.	Aeroports de Paris
(Mil. €)	--Fiscal year ended Dec. 31, 2020--		
Revenue	688.3	1,311.4	2,137.0
EBITDA	(140.8)	138.4	200.0
Funds from operations (FFO)	(276.3)	(458.7)	(64.0)
Interest expense	91.0	678.6	263.0
Cash interest paid	81.5	671.9	205.0

Table 1

Royal Schiphol Group N.V.-- Peer Comparison (cont.)			
Industry sector: Infrastructure			
	Royal Schiphol Group N.V.	Heathrow Funding Ltd.	Aeroports de Paris
(Mil. €)	--Fiscal year ended Dec. 31, 2020--		
Cash flow from operations	(166.9)	(716.5)	107.0
Capital expenditure	690.1	581.5	837.0
Free operating cash flow (FOCF)	(856.9)	(1,298.0)	(730.0)
Discretionary cash flow (DCF)	(856.9)	(539.1)	(765.0)
Cash and short-term investments	1,223.4	3,924.2	3,463.0
Debt	3,765.4	15,666.0	8,642.0
Equity	3,776.7	(5,309.3)	4,213.0
Adjusted ratios			
EBITDA margin (%)	(20.5)	10.6	9.4
Return on capital (%)	(7.4)	(6.9)	(10.6)
EBITDA interest coverage (x)	(1.5)	0.2	0.8
FFO cash interest coverage (x)	(2.4)	0.3	0.7
Debt/EBITDA (x)	(26.7)	113.2	43.2
FFO/debt (%)	(7.3)	(2.9)	(0.7)
Cash flow from operations/debt (%)	(4.4)	(4.6)	1.2
FOCF/debt (%)	(22.8)	(8.3)	(8.4)
DCF/debt (%)	(22.8)	(3.4)	(8.9)

We consider Heathrow and Aeroports de Paris (ADP) as the closest peers to Amsterdam Airport Schiphol. Like Schiphol, ADP and Heathrow are important European hub airports and benefit from large and wealthy catchment areas with a population that typically has a high propensity to fly. As major hubs, these airports have a high proportion of long-haul and business travel. This has typically supported more passenger numbers per slot due to the larger planes used and has translated to higher retail revenue as passengers spend more time at the airport before boarding.

However, in light of the pandemic, we expect that these characteristics could weigh on the recovery path of hub airports. This is because we expect that business and long-haul international travel are both likely to recover more slowly than domestic or short-haul leisure traffic. In particular, Schiphol has the least amount of domestic traffic among the hubs, and the highest exposure to transit passengers (37% of total passengers as of 2019), which we believe compares negatively with peers.

Table 2

Key Operating Statistics								
	Heathrow Funding Ltd.	Aeroports de Paris	Royal Schiphol Group N.V.	Aeroporti di Roma SpA	Flughafen Zurich AG	Gatwick Funding Ltd.	daa PLC	Avinor AS
Country of location	U.K.	France	Netherlands	Italy	Switzerland	U.K.	Ireland	Norway
Business risk profile	Excellent	Excellent	Excellent	Strong	Strong	Strong	Strong	Strong

Table 2

Key Operating Statistics (cont.)								
	Heathrow Funding Ltd.	Aeroports de Paris	Royal Schiphol Group N.V.	Aeroporti di Roma SpA	Flughafen Zurich AG	Gatwick Funding Ltd.	daa PLC	Avinor AS
Group passengers in 2019 (mil.)	80.9	108*	80.5	49.4	42.2	46.5	35.5	54
Airport	Heathrow	Charles de Gaulle	Amsterdam	Fiumicino	Zurich	Gatwick	Dublin	Oslo
Passengers (mil.)	80.9	76.2	71.7	43.5	31.5	46.5	31.5	28.6
% O&D passengers	70%	89%	64%	75%	71%	100%	93%	75%
% transfer	30%	11%	36%	25%	29%		7%	
% long haul passengers	53%	41%	29%	27%	26%	19%	16%	2%
% business passengers	33%	N.A.	30%	20%	27%	17%	16%	N.A.
Top-3 airlines	British Airways (45%)	Air France (45%)	KLM (50%)	Alitalia (34%)	Swiss (54%)	EasyJet (43%)	Ryanair	Norwegian (38%)
	Virgin (5%)	Easyjet (8%)	Easyjet (8%)	Ryainair (17%)	Edelweiss Air (9%)	British Airways (18%)	Aer Lingus	SAS (38%)
	AA (4%)	Transavia (5%)	Transavia (7%)	Vueling (7%)	EasyJet (3%)	Norwegian (11%)	--	Widerøe (10%)
State support for the flagship airlines	N.A.	€8 bil. approved state aid package for Air France	€2.4 bil. state-backed commercial funding and €1 bil. direct government loans to KLM	€3 bil. package pledged to Alitalia	€1.4 bil. package for Swiss Air Lines	N.A.	N.A.	NOK3 bil. state loan guarantee for Norwegian; SEK3.3 bil. state aid for SAS

N.A.--Not available. NOK--Norwegian krone. SEK--Swedish krona.

All three airports also have a high concentration of around 50% to their respective national carriers. Both Schiphol and ADP have high exposure to Air France-KLM, which for Schiphol has been beneficial given the strong government support from France and the Netherlands towards these national carriers, indirectly supporting Schiphol's cashflows. Heathrow, on the other hand, generates around 45% of its revenue from British Airways (BB/Negative/--), which is not considered a government-related entity, but is wholly owned by International Consolidated Airlines Group (BB/Negative/--).

In light of the pandemic, tariff increases and regulatory support has become even more important for supporting the credit profiles of airports. Schiphol compares positively with other airports in terms of regulatory regime given its tariff-sharing mechanism, but also the fact that its airport charges are lower than both Heathrow and ADP, which provides greater headroom to increase tariffs.

Business Risk: Excellent

Schiphol's earnings profile benefits from its supportive regulatory framework, strong market position, and earnings stability from its real estate segment. However, the company's capacity constraints and subsequent high spending requirements amid a weak operating environment offset these strengths.

Schiphol benefits from a well-established and stable regulatory framework that should act as a buffer against the impact of COVID-19. We believe that Schiphol operates within a supportive regulatory framework and is one of the few European airports to benefit from a traffic-sharing mechanism. As such, we anticipate that the company should be entitled to compensation for lost aviation revenue due to lower-than-expected pandemic-related traffic volumes. With the next regulatory period for 2022-2024, we estimate that this mechanism could support revenues by up to €530 million for the lower traffic volumes in 2020. This should also be followed by further amounts, given the weak traffic volumes in 2021, although amounts related to this period are unclear. We also expect that Schiphol will continue to be remunerated for its capex at a level above its cost of capital, further supporting a case for higher tariffs in 2022, given its high past investments.

However, visibility on the next tariff reset is limited. The weak financial position of airlines casts some doubt over the full recovery of these settlements, which is also likely to be offset to some extent by the cost savings that the airport has already achieved due to lower traffic numbers. We also expect these settlements could come with a delay of up to one year, starting in 2023 rather than 2022, to balance the impact of a higher tariff. Such a delay could help airlines accommodate higher tariffs, amid what is hoped to be a better operating environment to support stronger financial health of airlines. Consequently, given the uncertainty over the total quantum and timing of these settlements, we do not currently factor these into our base case. Hence, we see possible upside to the company's credit metrics if these were to materialize.

Although most of the regional airports in The Netherlands are unregulated, Eindhoven Airport, having now exceeded more than five million passengers a year (in 2019), is now regulated. However, it operates under a more relaxed form of regulation than Amsterdam Airport Schiphol.

Schiphol's strong market position will help support a recovery in operations, although this is likely to be slower than global peers, given the company's hub status and minimal proportion of domestic traffic. As the main airport provider to The Netherlands and third-largest airport in Europe (after London Heathrow and Paris Charles DeGaulle), we believe that Amsterdam Airport Schiphol will continue to maintain its strong market position over the next two-three years. With a market share of around 11.4% by number of passengers in 2019, Amsterdam Airport Schiphol is supported by a wealthy and large catchment area of 35 million people that live within a two-hour drive from the airport. Consequently, with strong evidence of considerable pent-up travel demand, we believe that Schiphol's strong market position will support better passenger volumes and non-aeronautical revenue lines in the longer-term when COVID-19 restrictions are eased and routes open up again.

However, we anticipate primary airport hubs like Schiphol with its minimal domestic traffic, will have a slower recovery path than airports that have a higher concentration to low-cost airlines and leisure carriers, serving short-haul networks and domestic destinations. Domestic traffic and leisure travel is likely to pick-up earlier than business and international long-haul travel, in our view, given ongoing travel restrictions and the pandemic's lasting impact on business practices with working from home and increased use of digital technologies potentially changing business

travel demand. Schiphol's business travelers and long-haul passengers each accounted for about 30% of total passengers in 2019.

Schiphol's real estate segment and improved cost controls provides some stability to earnings amid a weaker operating environment. Schiphol has significant real estate revenue, which have performed well during the pandemic, with occupancy rates having increased to 95% in 2020 from 91% in 2019. We expect office space rentals to large multinational companies will provide relatively stable cashflow streams despite the pandemic, with no material contract cancellations or renegotiations having occurred so far.

Furthermore, in the face of the pandemic, Schiphol has improved its cost management and cash burn levels. Despite a largely fixed cost base, the company has been able to structurally reduce costs by around 20% in 2020 versus 2019, which we expect will be sustained even when volumes start to return. Workforce reductions, cessation of contracts for external and temporary staff, and the consolidation of airport facilities contributed to significant cost savings, which we expect will support cashflows throughout weaker operations because of the pandemic.

However, Schiphol's ongoing capacity constraints and subsequent spending pressures weigh on the company's earnings profile over the next two-three years. Congestion and terminal capacity constraints at Schiphol's terminals have historically put pressure on the company's operating margins. As such, we believe that Schiphol will proceed cautiously in reducing investments, given long-standing requirements to increase terminal and associated infrastructure capacity.

Consequently, despite some scaling down of capex in 2020 as a result of COVID-19 precautions, we expect that the company will spend around €750 million a year to remove capacity bottlenecks and to create sustainably efficiencies. However, as demonstrated in 2020, we note the flexibility in the company's investment levels, which can be deferred by up to 50% depending on the airport's traffic recovery path. We also note that the new Lelystad Airport is now complete and will be able to alleviate congestion by rerouting traffic from Schiphol Airport. However, its opening has been postponed to November 2021 because of the pandemic amid lower traffic volumes.

Driven by regulations to limit noise, Schiphol's airport capacity is limited by a cap of 500,000 air transport movements (ATMs) per year. Before COVID-19, the limit of ATMs was already reached in 2018. Consequently, with increasing passenger numbers as a result of larger planes, higher utilization rates, and inadequate terminal capacity, there was high congestion at the airport and increased operational risks.

High reliance on a single airline. Amsterdam Airport Schiphol is the main hub of KLM, an airline of the Air France-KLM group. Air France-KLM flights accounted for more than half of Amsterdam Airport Schiphol's total ATMs in 2019.

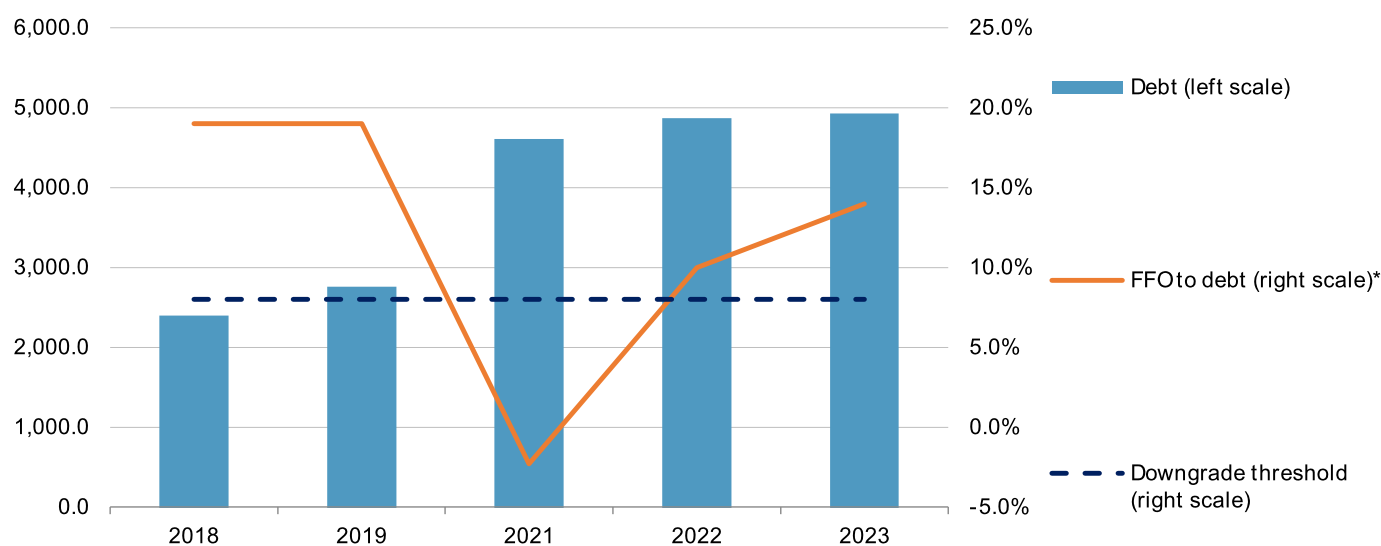
We typically view the high exposure to a single airline as a disadvantage to the airport, especially if the airline is not replaceable. In the event that the Air France-KLM group were to cease operations, we expect that some of Amsterdam Airport Schiphol's traffic, particularly the long-haul transfer traffic, would be lost to other intercontinental hubs in the region. Having said this, as a result of the COVID-19 pandemic, Schiphol has indirectly benefited from state aid packages made available to their flagship airline KLM. We expect continued government support toward Schiphol and KLM, given the national importance of these entities.

Financial Risk: Aggressive

We expect Schiphol's financial leverage will remain elevated over the next 12-24 months. We believe ratios will remain weak also in 2021 before recovering to above 8% of FFO to debt in fiscal 2022. This improvement in leverage, however, will depend on the company's passenger traffic recovery path amid high capex requirements. Cashflows will also rely on the airport's upcoming tariff reset in 2022, which should encompass compensation for lower traffic as a result of the pandemic and the company's high past investments.

Chart 4

Schiphol's Leverage Will Hinge On Its Traffic Recovery And Tariff Reset



FFO--Funds from operations. *S&P Global Ratings' adjustments. Source: S&P Global Ratings.

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We project that Schiphol's annual capex will be €600 million-€750 million over the next three years. In our view, the group's spending at this level will result in higher debt levels over the projection period. Nevertheless, we expect that the higher debt should be partly compensated by the increase in airport charges to compensate for the airport's investments, but also the for lost traffic as a result of COVID-19.

Financial summary

Table 3

Royal Schiphol Group N.V. -- Financial Summary					
Industry sector: Infrastructure					
--Fiscal year ended Dec. 31--					
(Mil. €)	2020	2019	2018	2017	2016
Revenue	688.3	1,614.7	1,509.0	1,457.5	1,434.7
EBITDA	(140.8)	657.8	580.5	575.5	617.0
Funds from operations (FFO)	(276.3)	523.5	454.4	445.2	469.0

Table 3

Royal Schiphol Group N.V. -- Financial Summary (cont.)					
Industry sector: Infrastructure					
--Fiscal year ended Dec. 31--					
(Mil. €)	2020	2019	2018	2017	2016
Interest expense	91.0	82.3	88.3	79.0	81.0
Cash interest paid	81.5	88.2	79.7	75.6	83.0
Cash flow from operations	(166.9)	515.3	525.2	269.2	439.1
Capital expenditure	690.1	803.7	556.5	441.8	302.9
Free operating cash flow (FOCF)	(856.9)	(288.4)	(31.4)	(172.6)	136.1
Discretionary cash flow (DCF)	(856.9)	(406.0)	(181.8)	(321.3)	(51.3)
Cash and short-term investments	1,223.4	155.1	386.6	170.4	238.7
Gross available cash	1,223.4	155.1	386.6	170.4	238.7
Debt	3,765.4	2,748.2	2,381.0	2,042.6	1,899.5
Equity	3,776.7	4,372.0	4,117.4	3,978.2	3,859.6
Adjusted ratios					
EBITDA margin (%)	(20.5)	40.7	38.5	39.5	43.0
Return on capital (%)	(7.4)	6.1	5.9	6.1	7.5
EBITDA interest coverage (x)	(1.5)	8.0	6.6	7.3	7.6
FFO cash interest coverage (x)	(2.4)	6.9	6.7	6.9	6.6
Debt/EBITDA (x)	(26.7)	4.2	4.1	3.5	3.1
FFO/debt (%)	(7.3)	19.0	19.1	21.8	24.7
Cash flow from operations/debt (%)	(4.4)	18.8	22.1	13.2	23.1
FOCF/debt (%)	(22.8)	(10.5)	(1.3)	(8.4)	7.2
DCF/debt (%)	(22.8)	(14.8)	(7.6)	(15.7)	(2.7)

Reconciliation

Table 4

Royal Schiphol Group N.V. -- Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)

--Fiscal year ended Dec. 31, 2020--								
Royal Schiphol Group N.V. reported amounts								
	Debt	Shareholders' equity	EBITDA	Operating income	Interest expense	S&P Global Ratings' adjusted EBITDA	Cash flow from operations	Capital expenditure
Reported	4,848.0	3,726.4	(206.2)	(530.4)	81.3	(140.8)	(157.2)	699.8
S&P Global Ratings' adjustments								
Cash taxes paid	--	--	--	--	--	(53.9)	--	--
Cash interest paid	--	--	--	--	--	(71.8)	--	--
Reported lease liabilities	17.6	--	--	--	--	--	--	--
Postretirement benefit obligations/ deferred compensation	57.7	--	--	--	--	--	--	--

Table 4

Royal Schiphol Group N.V. -- Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)								
Accessible cash and liquid investments	(1,176.1)	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	9.7	(9.7)	(9.7)	(9.7)
Dividends received from equity investments	--	--	0.9	--	--	--	--	--
Nonoperating income (expense)	--	--	--	(100.5)	--	--	--	--
Noncontrolling interest/minority interest	--	50.3	--	--	--	--	--	--
Debt: Guarantees	18.3	--	--	--	--	--	--	--
EBITDA: Valuation gains/(losses)	--	--	64.5	64.5	--	--	--	--
Depreciation and amortization: Impairment charges/(reversals)	--	--	--	23.3	--	--	--	--
Total adjustments	(1,082.6)	50.3	65.4	(12.7)	9.7	(135.4)	(9.7)	(9.7)
S&P Global Ratings' adjusted amounts								
	Debt	Equity	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Capital expenditure
Adjusted	3,765.4	3,776.7	(140.8)	(543.2)	91.0	(276.3)	(166.9)	690.1

Liquidity: Adequate

We assess Schiphol Group's liquidity as adequate, based on our expectation that liquidity sources will cover uses by more than 1.2x for the 12 months to Dec 31, 2021. In our view, management exercises prudent risk management and has a high standing in the credit markets, and its debt documents remain favorable, with limited covenant protections.

Our estimates of Schiphol Group's principal liquidity sources and uses for the next 12 months are as follows.

Principal liquidity sources	Principal liquidity uses
<ul style="list-style-type: none"> Unrestricted cash and cash equivalents of about €753 million; and Undrawn and committed credit facility that mature beyond 12 months of about €760 million. 	<ul style="list-style-type: none"> Debt maturities of about €447 million over the next 12 months; however it should be noted that this includes the €438 million that already matured in April 2021; Estimated negative cash FFO of about €93 million; and Planned capex of about €600 million-€800 million.

Debt Maturities

Table 5

Royal Schiphol Group N.V. -- Debt Maturity Profile

Year	Amount (mil. €)
2021	447
2022	9
2023-2025	592
Thereafter	3,797
Total	4,845

*As of Dec 31, 2020. Data is for the fiscal years ending Dec. 31.

Covenant Analysis

Schiphol Group's loan agreements with the European Investment Bank (EIB) include an own-funds-to-total-assets covenant calculated as equity as a percentage of the total balance sheet. This ratio is tested annually and must remain higher than 30%. As of Dec. 31, 2020, the company was compliant with this covenant, with an own funds-to-total assets ratio of 41%.

Environmental, Social, And Governance

Like many airports in the region, Schiphol has been highly exposed to the social implications of the COVID-19 pandemic, which has dramatically reduced airport traffic volumes and materially impacted the airport's credit profile. The emergence of new COVID-19 variants and travel restrictions persist and weigh on the airport's recovery path. As such, we do not expect a recovery to pre-COVID-19 levels until at least 2024, which will weigh on the airport's cashflow generation.

Social risks are also elevated, given the company's exposure to noise pollution and the subsequent regulatory constraints that has limited airport capacity. This is because Schiphol Group's growth is constrained by noise regulations that limit the number of ATMs to 500,000 per year, which the airport reached in 2018. This limitation, along with a shortage in terminal capacity, has led to congestion and tighter margins. Consequently, we believe that the company faces higher capex requirements than other airports to alleviate its capacity constraints. Amid a weak operating environment due to the pandemic, this weighs even more on the airport's credit profile. Potentially offsetting this, however, are the airport's supportive regulations that allow for potential compensation for lost revenue due to lower pandemic-related traffic volumes, as well as for its past investments.

Government Influence

Schiphol Group's stand-alone credit profile benefits from a two-notch uplift to reflect what we see as a moderately high likelihood of timely and sufficient extraordinary support by the Dutch government. Our view of a moderately high

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, Amsterdam Airport Schiphol, 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
- Strong 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. However, the Dutch government also has a track record of supporting entities of this nature.

Issue Ratings - Subordination Risk Analysis

Capital structure

Schiphol Group's capital structure consists primarily of €3.9 billion of senior unsecured notes under its euro medium-term note program, plus unsecured bank loans of about €954 million. The group's total gross debt amounted to €4.8 billion as of Dec. 31, 2020.

Analytical conclusions

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

Ratings Score Snapshot

Issuer Credit Rating

A/Negative/A-1

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Low
- **Competitive position:** Excellent

Financial risk: Aggressive

- **Cash flow/leverage:** Aggressive

Anchor: bbb

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)

- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Positive (+1 notch)

Stand-alone credit profile : bbb+

- **Related government rating:** AAA
- **Likelihood of government support:** Moderately high (+2 notches from SACP)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Business And Financial Risk Matrix

Business Risk Profile	Financial 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 August 24, 2021)*

Royal Schiphol Group N.V.

Issuer Credit Rating

A/Negative/A-1

Issuer Credit Ratings History

14-Jul-2020

A/Negative/A-1

26-Mar-2020

A+/Watch Neg/A-1

Ratings Detail (As Of August 24, 2021)*(cont.)

06-Dec-2013 A+/Stable/A-1

Related Entities

Schiphol Nederland B.V.

Issuer Credit Rating A/Negative/A-1

Senior Unsecured A

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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