

**Rating Action: Moody's affirms Royal Schiphol Group's A1 ratings, outlook remains negative**

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24 Jun 2020

Paris, June 24, 2020 -- Moody's Investors Service, ("Moody's") affirmed the A1 senior unsecured debt ratings of Royal Schiphol Group N.V. and the provisional (P)A1 rating on the EUR4 billion medium-term note (EMTN) programme of Royal Schiphol Group N.V. and Schiphol Nederland B.V. (together, Royal Schiphol Group). The outlook on the ratings remains negative.

A full list of affected ratings is provided towards the end of this press release.

**RATINGS RATIONALE**

The affirmation of Royal Schiphol Group's ratings reflects Moody's expectations that a gradual recovery in passenger traffic together with the company's cost cutting efforts will support a return to credit metrics commensurate with a A1 rating by 2022. The rating affirmation also recognises (i) the essential nature of Royal Schiphol Group's airport infrastructure for future air travel and likely government support should it be needed and (ii) Royal Schiphol Group's adequate liquidity profile with sufficient available resources to cover all funding needs over the next 12-18 months supported by a recent €750 million bond issuance, large committed facilities, and flexibility under the capex program. Nevertheless, the negative outlook reflects the material uncertainties regarding the prospects of a recovery in air passenger traffic and the weakening credit quality of Royal Schiphol Group's carrier base.

The rapid spread of the coronavirus outbreak, severe global economic shock, low oil prices, and asset price volatility are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The airport sector has been one of the sectors most significantly affected by the shock given its sensitivity to consumer demand and sentiment. Moody's regards the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. Today's action takes account of the impact on Royal Schiphol Group of the breadth and severity of the shock, recognising the potential for recovery in the company's credit quality once the coronavirus outbreak and its effects have been contained.

Royal Schiphol Group's traffic has been severely impacted by the introduction of travel restrictions with a very limited number of flights permitted since mid-March this year. With restrictions gradually easing and airlines planning to commence or ramp up capacity during the summer season, Moody's expects flight activity will gradually resume in the second half of 2020 and continue to increase in 2021 although the degree of passenger traffic recovery will vary across European airports depending on the airport location, its airline mix and type of traffic served. Domestic flights will recover earlier, with a slower return for international and long haul flights. In this regards Royal Schiphol Group's traffic recovery could be slower due to a relatively higher proportion of long-haul flights (accounting for around 30% of total flights) compared to European peers.

Operating under a well-developed regulated framework, Royal Schiphol Group will benefit from a revenue compensation mechanism which for any given year settles any difference between actual traffic volume and the planned volume through a revenue allowance to be added to airport charges evenly through a three year period starting with a two year lag. Moody's estimates that this mechanism will represent an increase in revenues between 10% and 15% of total revenues p.a in the period 2022-2025. Notwithstanding this mechanism and the company's on-going efforts to reduce operating and capital expenditures, Moody's expects Royal Schiphol Group's operating performance will show a marked deterioration in 2020 and to a lesser extent in 2021, before normalizing in 2022.

More generally Royal Schiphol Group's current A1 rating continues to reflect (1) the company's strong business profile through its ownership of Amsterdam Airport Schiphol, the third-largest in Europe by passenger numbers, and other airports in the Netherlands, (2) a supportive regulatory framework which provides visibility on airport charges until 2021 and a revenue compensation mechanism, (3) a strong financial profile at the outset of the Coronavirus crisis, (4) a relatively prudent financial policy, and (5) the uplift to the standalone credit profile (Baseline Credit Assessment, or BCA, of a3 - unchanged) reflecting the likelihood of

extraordinary support being provided by the majority owner, the Government of the Netherlands (Aaa stable), in the event that this were ever to be required to avoid a default.

At the same time the A1 rating also reflects (1) significant on-going negative impact from travel restrictions related to the Covid-19 outbreak on the company's operating performance and uncertainties as to the timing and level of passenger recovery, and (2) Royal Schiphol Group's fairly high exposure to transfer traffic and reliance on Air France-KLM, a French Dutch airline group.

#### RATIONALE FOR THE NEGATIVE OUTLOOK

The negative outlook reflects the material uncertainties regarding the prospects of a recovery in air passenger traffic and the weakening credit quality of Royal Schiphol Group's carrier base.

#### LIQUIDITY AND DEBT COVENANTS

Moody's considers Royal Schiphol Group's liquidity profile to be good. The company's primary sources of committed liquidity are (1) cash and equivalents of €609 million as of mid-May 2020, (2) undrawn committed credit facilities of around €800 million maturing in 2021 through 2023 in addition to around €175 million of available credit facilities with the European Investment Bank (EIB), €95 million of available credit facilities with KfW-IPEX Bank and a €60 million revolving credit facility available for Eindhoven Airport. Following the debt repayment of around €100 million in June 2020 the company faces around €450 million in debt maturity in 2021. Moody's expects that the company will be able to meet all debt maturities and other obligations from available resources taking into account the company's steps in reducing operating and capital expenditures. Moody's also assumes that Royal Schiphol Group will maintain unrestricted access to capital markets, noting in that regard that at the beginning of April the company issued a 9- year tenor €750 million bond under its EMTN programme in order to fund future investments and strengthen its liquidity position.

Royal Schiphol Group's debt with the EIB contains a financial covenant based on an own funds/total assets ratios against which the company currently has significant headroom and so is not expected to be in breach for the foreseeable future.

#### FACTORS THAT WOULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given the negative outlook, upward pressure on Royal Schiphol Group's ratings is unlikely in the near term. The outlook on Royal Schiphol Group's ratings could move to stable in the scenario of a sustainable improvement in the operating environment and traffic recovery such that the company's Funds from Operations (FFO)/Debt ratio would be expected to remain solidly in the high-teens in percentage terms.

Conversely, Royal Schiphol Group's ratings could come under downwards pressure if it appeared likely that the FFO / Debt ratio would remain below the mid-teens in percentage terms. This could result from an extension of travel restrictions or the loss of a significant portion of traffic due to airlines failure.

The methodologies used in these ratings were Privately Managed Airports and Related Issuers published in September 2017 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1092224](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1092224), and Government-Related Issuers Methodology published in February 2020 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1186207](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207). Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

Royal Schiphol Group N.V. is a holding company of a group that owns and operates Amsterdam Airport Schiphol, Rotterdam The Hague Airport, Lelystad Airport, and 51% of Eindhoven Airport, which together comprise most of the airport capacity in the Netherlands. In addition, Royal Schiphol Group has minority investments in a number of overseas airports. The largest of the Dutch airports, Amsterdam Schiphol Airport, is the third-largest airport in Europe by passenger numbers. Royal Schiphol Group is currently 70% owned by the Government of Netherlands (Aaa stable), 20% by the Municipality of Amsterdam, 2% by the Municipality of Rotterdam, and 8% by Groupe ADP (ADP). Royal Schiphol Group has a cross-shareholding and an industrial cooperation agreement with ADP.

#### LIST OF AFFECTED RATINGS

Affirmations:

..Issuer: Royal Schiphol Group N.V.

...BACKED Senior Unsecured Medium-Term Note Program, Affirmed (P)A1

...BACKED Senior Unsecured Regular Bond/Debenture, Affirmed A1

..Issuer: Schiphol Nederland B.V.

...BACKED Senior Unsecured Medium-Term Note Program, Affirmed (P)A1

Outlook Actions:

..Issuer: Royal Schiphol Group N.V.

....Outlook, Remains Negative

..Issuer: Schiphol Nederland B.V.

....Outlook, Remains Negative

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1133569](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1133569).

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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