Press release

MOODY’S DOWNGRADES AZZURRA AEROPORTI

Rome, 18 November 2020 - The rating agency Moody's, has today downgraded Azzurra Aeroporti senior secured rating from 'Baa3' to 'Ba1' and confirmed the 'Baa2' issuer rating of Aéroports de la Côte d'Azur. The outlook on the ratings remains negative.

The rating action reflects “the deterioration in passenger demand recovery since the end of the summer period, and Moody's expectation that the severity of the coronavirus outbreak will lead to a slower than previously anticipated traffic recovery”.

The full text of the rating agency's announcement is provided below.

Moody's INVESTORS SERVICE

Rating Action: Moody's downgrades Azzurra's ratings to Ba1; outlook negative

18 Nov 2020

Aéroports de la Côte d'Azur's Baa2 issuer rating affirmed with negative outlook

Madrid, November 18, 2020 -- Moody's Investors Service (Moody's) has today downgraded to Ba1 from Baa3 the senior secured ratings of Azzurra Aeroporti S.p.A. (Azzurra). Concurrently, Moody's has assigned a new Ba1 corporate family rating (CFR) and Ba2-PD probability of default rating to Azzurra. Moody's also affirmed the Baa2 issuer rating of Aéroports de la Côte d'Azur (ACA). The outlook on the ratings remains negative.

RATINGS RATIONALE

Today's rating action reflects a persistently difficult operating environment for Azzurra group, as evidenced by the deterioration in passenger demand recovery since the end of the summer period, and Moody's expectation that the severity of the coronavirus outbreak will lead to a slower than previously anticipated traffic recovery. The rating action also reflects the uncertainty around the evolution of ACA's tariffs in the context of a lower than expected tariff increase approved by the Transport Regulatory Authority (ART) and effective in November this year. The ART approved a 3% increase in tariffs applicable for the next 12 months, and tariff increases thereafter are expected to be moderate. This is particularly notable in the context of the 33% cut in tariffs in 2019. These dynamics will continue to have a significant detrimental impact on Azzurra group's cash flow in the light of subdued traffic volumes. Whilst the company is implementing measures to reduce operating costs and investments, Moody's expects key credit metrics to exhibit a more prolonged weakness, with the consolidated funds from operations (FFO)/debt ratio remaining below the levels commensurate with the previous Baa3 rating over the next three years.

Nevertheless, the affirmation of ACA's Baa2 ratings reflects its stronger underlying financial profile with a limited amount of debt at the ACA level, ACA's closer proximity to the group's cash flows compared to Azzurra, and Moody's expectation that ACA's shareholders will continue to maintain a prudent financial policy and target the strengthening of the business over the long term.

The coronavirus pandemic, the weakened global economic outlook, low oil prices and asset price declines are sustaining a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The airport sector is one of the sectors most significantly affected by the shock given its exposure to travel restrictions and sensitivity to consumer demand and sentiment. Today's action reflects the impact on Azzurra group of the breadth and severity of the shock, and the broad deterioration in credit quality it has triggered. Moody's regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety.

The traffic at Nice airport have been severely impacted by the pandemic and the introduction of travel restrictions. While flight activity resumed for the peak summer season in July and August, recovery in traffic reversed after quarantine requirements and restrictive measures were implemented on an uncoordinated basis across Europe. Given the second wave of the coronavirus pandemic and the latest government decision to reintroduce a national lockdown in France, and similar measures implemented in several European countries, Moody's estimates that the decline in Nice airport traffic will be around 70% this year. While Moody's expects passenger volumes to increase in 2021, the timing and profile of any recovery is highly uncertain because (1) travel restrictions in some form may continue even if the spread of the virus seems contained in some areas; (2) there is evidence of a lack of international coordination over travel restrictions and quarantine measures; and (3) the deteriorating global economic outlook would likely slow the recovery in traffic and consumer spending, even if travel restrictions are eased.

In addition, ACA's regulatory framework has proven to be less predictable and transparent than expected. In June 2020, ACA submitted to the ART a proposal to increase tariffs by 12% on average, for the period 1 November 2020 to 31 October 2021, but such increase was rejected because it was not considered moderate in the context of the current situation. In August, the company revised its initial proposal and obtained a tariff increase of 3% on average, which was deemed moderate by ART but was significantly lower than previously anticipated. The principle of moderation embedded in the regulatory framework is not clearly defined and it is subject to different interpretation depending on the circumstances. With tariff increases in the range of 3%-5%, and absent any other compensatory measures, ACA is unlikely to be able to restore its profitability to levels pre-coronavirus crisis over the next five years.

Overall, The current Ba1 ratings of Azzurra reflect (1) the strong business profile of Nice airport as an important gateway to Côte d'Azur, with limited competition; (2) the high proportion of origin and destination passengers with no meaningful exposure to weak airlines; (3) a significant proportion of leisure traffic and short-haul flights, predominantly domestic and from other European countries; (4) an expectation of a reduction in the group's leverage to the levels commensurate with the current rating over the next three years; and (5) a significant presence of minority shareholders at ACA, which creates cash leakages. The senior secured rating of Azzurra further takes account of the features of the debt documentation, which limit Azzurra's ability to upstream cash to its shareholders subject to leverage tests, providing for some de-linkage from the credit quality of Atlantia S.p.A. (Ba2 developing), a majority shareholder of Azzurra.

The current Baa2 issuer rating of ACA is constrained by the overall credit quality of the Azzurra group, given absence of specific creditor protection features that would fully isolate ACA from the wider group.

A CFR is an opinion on the expected loss associated with the debt obligations of a group of companies assuming that it had one single class of debt and is a single consolidated legal entity. The CFR assigned to Azzurra consolidates the legal and financial obligations of the group and reflects the structural features of Azzurra's debt structure. Azzurra's probability of default rating of Ba2-PD is one notch below the CFR, reflecting a low family-wide loss given default, in line with Moody's standard assumptions for infrastructure and utility companies.

LIQUIDITY AND DEBT COVENANTS

As of the end of September 2020, the group's liquidity was supported by €91 million of cash and €10 million of undrawn credit facilities, which expire in the March 2021, at ACA level; and €9 million of cash at the Azzurra level. In addition, as required under the terms of the new Notes, Azzurra maintains a letter of credit from an investment grade counterparty equal to the next six-month's worth of interest payment. Given that the group does not have any significant debt maturities until 2024, Moody's considers its liquidity position as adequate to cover all cash requirements until at least December 2021.

ACA's debt documentation includes a set of financial covenants. Given the reduction in earnings, Moody's estimates that there is a high probability that the company will breach its leverage financial ratio covenant over the next 18 months. In this regard, ACA has already received approvals to waive its financial covenants until December 2021 from one its lenders and Moody's expects the company to receive final approval from the remaining lenders in the coming weeks.

Azzurra's debt documentation includes a step-down net debt/EBITDA financial covenant with an initial testing date of December 2023, which provides flexibility to the group to improve its financial profile in the short-term. While Moody's does not expect a breach in Azzurra's financial covenant, there is a high probability that the company will trigger lock-up levels until at least 2024.

RATIONALE FOR NEGATIVE OUTLOOK

The negative outlook reflects the continued downside risks to Azzurra and ACA's credit profile linked to the consequences of the coronavirus outbreak and the significant uncertainties around traffic recovery prospects.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given the current negative outlook, upward rating pressure is unlikely in the near future. The outlook of ACA and Azzurra could be stabilised if (1) there is clarity around the pace of traffic recovery; (2) it is likely that the group would be able to maintain a financial profile commensurate with the current rating, namely FFO/debt of at least 8%; (3) and the company's liquidity was solid.

Azzurra's and ACA's ratings could be downgraded if (1) it is likely that the group's credit metrics would not rebound to the levels commensurate with the current rating over the medium term; (2) ACA is not able to obtain yearly tariff increases in order to restore its profitability over the medium term; (3) there was a risk of covenant breaches without adequate mitigating measures in place; or (4) the group's liquidity profile deteriorates.

The principal methodology used in these ratings was Privately Managed Airports and Related Issuers published in September 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?

docid=PBC_1092224. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Azzurra Aeroporti S.p.A. is the holding company of Aéroports de la Côte d'Azur, whose main assets are Nice and Cannes Mandelieu airports operated under a concession expiring on 31 December 2044 and Saint Tropez airport (held freehold). Azzurra is owned by a consortium comprising the Italian infrastructure group Atlantia S.p.A. (52.7%), Aeroporti di Roma S.p.A. (7.8%), EDF Invest (19.4%) and the Principality of Monaco (20.1%).

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.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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

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

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Erica Gauto Flesch
Vice President - Senior Analyst
Infrastructure Finance Group
Moody's Investors Service Espana, S.A.
Calle Principe de Vergara, 131, 6 Planta
Madrid 28002
Spain
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Andrew Blease
Associate Managing Director
Infrastructure Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Espana, S.A.
Calle Principe de Vergara, 131, 6 Planta
Madrid 28002
Spain
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454