


CREDIT OPINION

22 December 2021

Update

 Rate this Research

RATINGS

Avinor AS

Domicile	Norway
Long Term Rating	A1
Type	LT Issuer Rating - Dom Curr
Outlook	Negative

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Avinor AS

Update to credit analysis

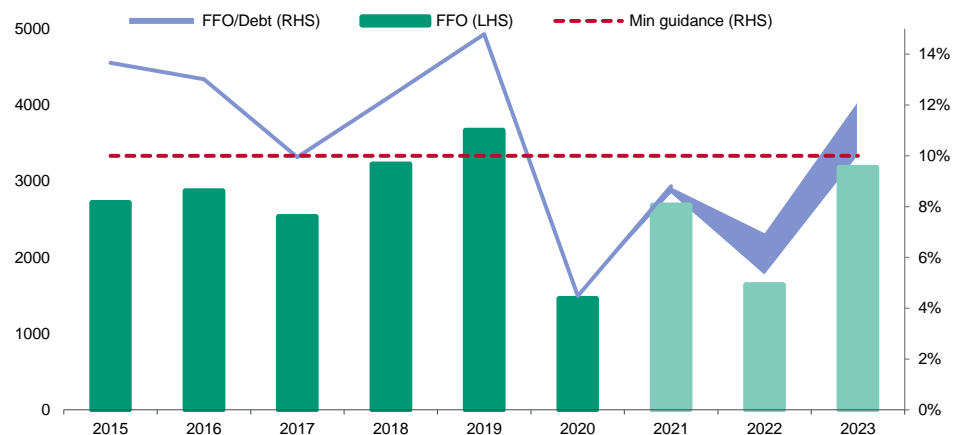
Summary

[Avinor AS](#) (Avinor)'s credit quality takes account of (1) the company's near-monopoly position and modest transmodal competition for medium-long distance travel within Norway; (2) a supportive strategic framework established by the State, highlighting the importance of Avinor's operations to achieve societal objectives; (3) a high share of origin and destination traffic with material share of domestic traffic; (4) the company's exposure to a weak carrier base; (5) high financial leverage; and (6) the 100% ownership by and support from the [Government of Norway](#) (Aaa, stable).

Avinor's credit quality is exposed to the risks associated with the coronavirus outbreak, which has resulted in a severe reduction in passenger traffic, with uncertain recovery prospects. Given traffic declines, Avinor's cash flow has been significantly reduced despite the receipt of government subsidies coupled with a decrease in operating costs and investments. We expect Avinor's credit metrics to gradually improve, driven by traffic recovery coupled with cash flow protective and balance sheet strengthening measures that the company may be able to implement. However, there are significant downside risks linked to the consequences of the coronavirus pandemic in particular in the context of the emergence of the Omicron variant and the recent increase in the number of cases and restrictions to travel.

Exhibit 1

We expect Avinor's credit metrics to gradually improve under our central traffic scenario
Funds from operations (FFO) in NOK million, and FFO/debt



The estimates represent Moody's forward view; not the view of the issuer. There are greater than usual uncertainties around the projections, with a potential for materially different outcomes than currently expected.

Source: Avinor's reports, Moody's Investors Service

Credit strengths

- » Monopolistic position and modest transmodal competition
- » High share of domestic traffic, which has been more resilient and will recover more quickly
- » Supportive strategic framework underpinned by government policy
- » 100% ownership by the Government of Norway and track record of state support

Credit challenges

- » Significant traffic declines due to the coronavirus pandemic and travel restrictions with uncertain pace of traffic recovery
- » Exposure to a weak and highly concentrated carrier base
- » Highly-leveraged financial profile

Rating outlook

The negative outlook reflects the continued downside risks to Avinor'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

Given the negative outlook, upward rating pressure on Avinor's ratings is unlikely in the near term. However, the outlook could be stabilised if (1) traffic recovery looked more certain; (2) it appeared likely that the company would be able to restore its financial profile to the levels commensurate with the current rating; and (3) the company's liquidity was solid.

Factors that could lead to a downgrade

Avinor's ratings could be downgraded if (1) it appeared likely that company's credit metrics will not recover to the levels commensurate with the current ratings over the medium term, namely funds from operations (FFO)/debt of at least 10% and FFO interest cover ratio above 4.0x; (2) there was a risk of covenant breaches without adequate mitigating measures in place; or (3) there were concerns about the company's liquidity.

Key indicators

Exhibit 2

Avinor AS

Historical and projected key credit metrics

	Dec-17	Dec-18	Dec-19	Dec-20	2021 (E)	2022 (E)
(FFO + Interest Expense) / Interest Expense	4.2x	5.0x	5.9x	3.0x	4.5x - 5.0x	3.0x - 5.0x
FFO / Debt	9.5%	12.4%	14.8%	4.5%	8% - 9%	5% - 8%
Debt Service Coverage Ratio	3.6x	5.2x	6.9x	3.0x	4x - 5x	3x - 5x
RCF / Debt	7.4%	11.4%	12.4%	4.5%	8% - 9%	5% - 8%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] Estimates represent Moody's forward view; not the view of the issuer. There are greater than usual uncertainties around the projections, with a potential for materially different outcomes than currently expected.

Source: Moody's Financial Metrics, Moody's estimates

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

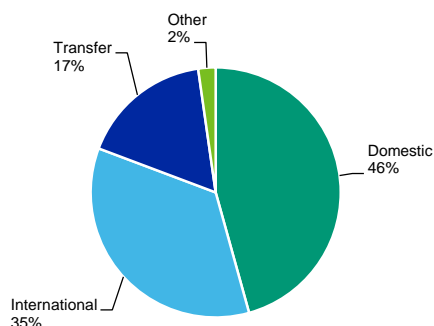
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Profile

Avinor AS owns and operates 44 airports in Norway and is the sole provider of air navigation services to both civilian and military flights within Norwegian airspace. Before the pandemic, the company's airports handled some 96% of Norwegian passenger traffic. Oslo Airport is by far the largest and accounted for over half of total traffic and just over 70% of the country's international traffic in 2019. Other large airports with sizeable share of international traffic are Bergen, Stavanger and Trondheim.

Exhibit 3

Traffic breakdown by type Data for 2019

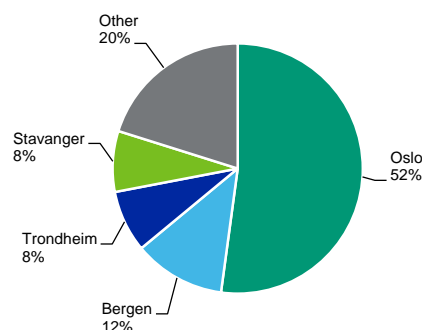


Total passenger traffic of 55 million.

Source: Company's reports, Moody's Investors Service

Exhibit 4

Traffic breakdown by airport Data for 2019



Total passenger traffic of 55 million.

Source: Company's reports, Moody's Investors Service

Avinor is 100% owned by the [Government of Norway](#) (Aaa, stable), but is incorporated as a limited liability company subject to normal laws. It is viewed as an important entity by the state on the basis that it fulfills "national sectoral political" objectives.

Detailed credit considerations

Key infrastructure provider subject to limited competition

Avinor owns 44 airports and controls all key aviation infrastructure in Norway. Prior to the pandemic, the company handled around 99% of domestic air traffic and some 93% of international scheduled flights. In 2019, Avinor's airports handled around 55 million passengers (PAX).

Avinor's airports face limited competition from rail and road. Although the main population centres are linked by road and rail services, the topography of the country and large distances mean that air travel is the most efficient mode of travel. Fast rail connections are limited to the Oslo region and cover relatively short distances. Also, the location of Norway on the periphery of Europe means that air travel is largely required when traveling internationally.

Significant traffic declines due to the coronavirus pandemic and travel restrictions with uncertain pace of traffic recovery

Avinor's credit profile reflects the uncertainties linked to the impact of the coronavirus pandemic and travel restrictions on traffic levels.

Before the coronavirus outbreak, Avinor's traffic had been subject to some volatility but the overall passenger volumes were growing over the last few years. In particular, over the decade to 2019, passenger growth averaged almost 3% per annum across Avinor's network, while its main managed airport, Oslo, reported average growth of around 4% over the same period.

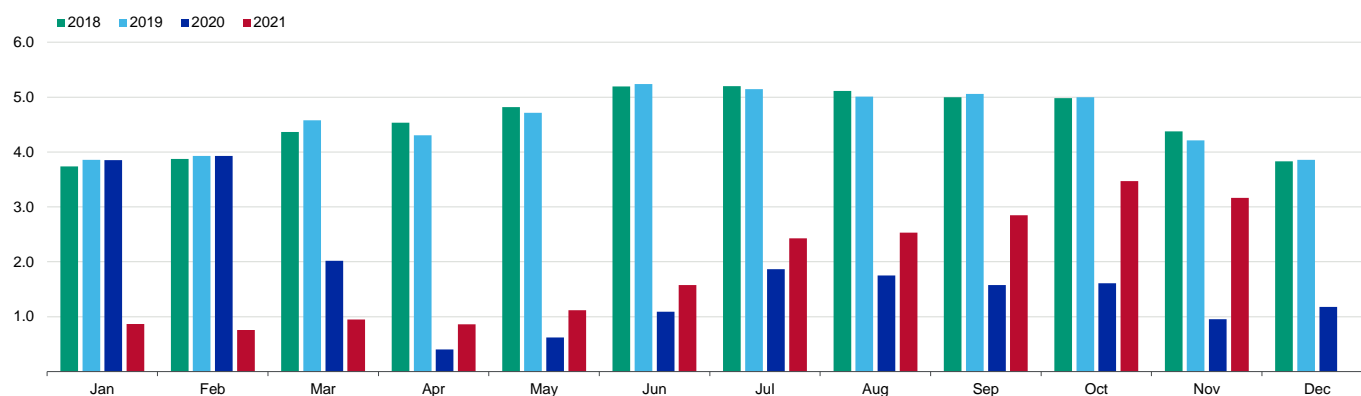
Traffic at Avinor's airports has been severely impacted by the pandemic and the introduction of travel restrictions. Increasing number of cases prompted a number of countries globally to implement international travel bans starting from March 2020. Avinor shut down nine of its airports temporarily, with traffic in April over 90% below the 2019 level. As restrictions were gradually eased from June, traffic started to pick up with airlines commencing or ramping up capacity. Domestic traffic performed significantly better than international traffic. Overall, in 2020 Avinor's traffic declined by 62%.

Air travel has remained restricted this year, although some relaxation of international travel rules and high pent-up demand resulted in a pick up in passenger volumes this summer. Passenger traffic recovery continued into October and November. In the 11 months to November, Avinor's traffic reached 40% of pre-pandemic levels. However, we expect some softening in air travel in December, given the increase in the number of COVID cases and reinstatement of some travel restrictions globally. We estimate that 2021 passenger volumes will be some 58%-60% lower than in 2019.

Exhibit 5

Avinor's traffic has been significantly down on the pre-pandemic levels

Monthly traffic, in million PAX



Data available to November 2021.

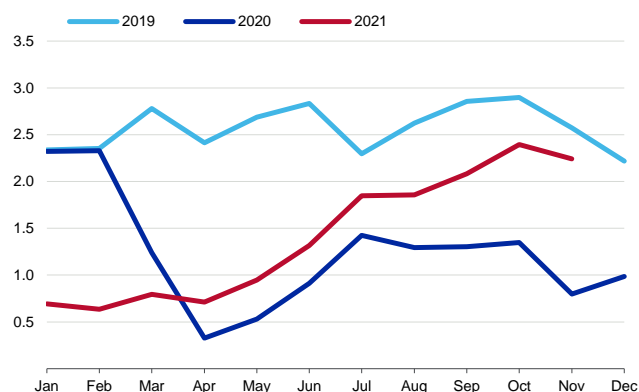
Source: Company's website, Moody's Investors Service

Avinor's traffic performance has been stronger than that of many European airports, which is reflective of its fairly high share of domestic traffic. ([Airports — Europe: Slower traffic recovery will delay deleveraging, putting pressure on covenants](#), June 2021). Over the June-September period, Avinor's domestic passenger volumes were some 33% below the 2019 level. In comparison, international travel was down some 81% in the same period.

Exhibit 6

Avinor's domestic traffic picked up this summer

Passenger volumes, in million PAX

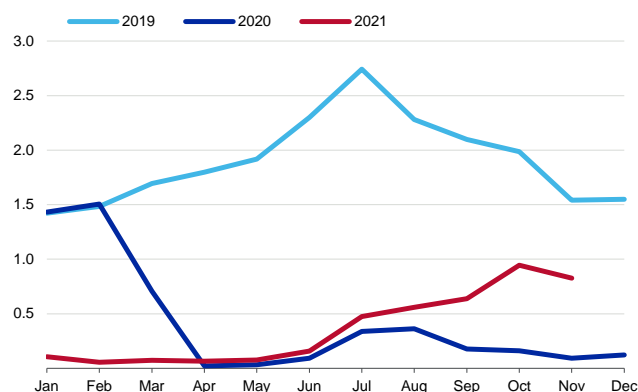


Source: Company's website, Moody's Investors Service

Exhibit 7

International segment's performance has been weak

Passenger volumes, in million PAX

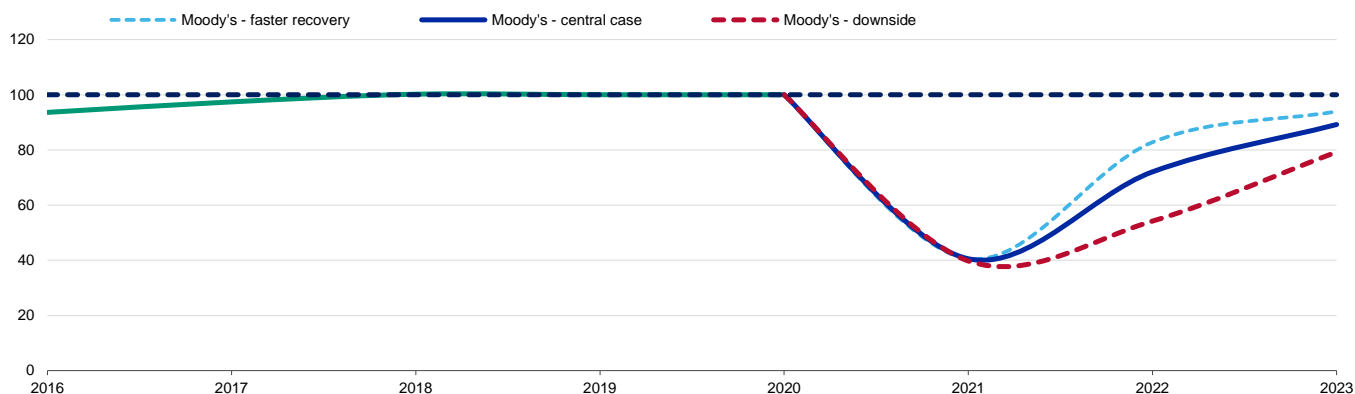


Source: Company's website, Moody's Investors Service

We expect domestic travel to continue to be more resilient and recover faster than international traffic. Under our central scenario, we assume that Avinor's traffic will remain below the pre-coronavirus levels until 2024. (See [Airports — Europe: 2022 Outlook revised to positive in wake of traffic recovery](#), November 2021). There is, however, significant uncertainty around the timing and profile of any recovery, in particular in the context of the emergence of the Omicron variant and the recent increase in the number of cases and restrictions to travel.

Exhibit 8

Traffic will not fully recover before the end of 2024 at the earliest
Passenger volumes for Avinor



Source: Avinor's reports, Moody's estimates

Business travel strongly linked to the performance of the oil and gas sector

Avinor has a relatively high exposure to business travel, which accounted for around 34% of total traffic in 2019, compared with 24% for our rated European airports.

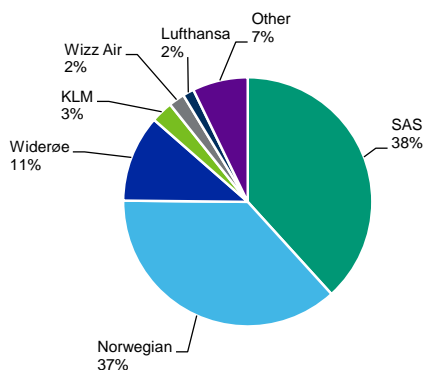
We expect business travel to be held back by changes in working patterns, use of technology and companies' focus on reducing costs and carbon footprint (see [Airlines – Global: Business travel faces higher substitution risk post-COVID, but airlines will adapt](#), March 2021). However, Avinor's business travel segment should be more resilient to these trends, given its strong linkage to the oil and gas sector. Still, the number of trips to and from oil and gas offshore platforms will be driven by the performance of the oil and gas industry, which can be volatile as seen in the past.

Exposure to a very weak carrier base makes traffic recovery prospects more uncertain

The additional uncertainty around traffic recovery stems from Avinor's exposure to airlines, which are themselves under significant stress. In particular, the company's carrier base is highly concentrated. [SAS AB](#) (Caa1, negative) and Norwegian Air Shuttle each captured some 38% of the airports' traffic before the pandemic.

Exhibit 9

Avinor's carrier base is highly concentrated
Total traffic breakdown, in 2019



Source: Avinor, Moody's Investors Service

The share of Norwegian Air in Avinor's traffic has decreased over the last two years but some of the decline is temporary and reflective of the nature of traffic served. Exposure to weak airlines makes recovery in traffic more uncertain despite the fairly high share of origin and destination (O&D) traffic (82% of the total) at Avinor's airports.

Uncertainty around tariff evolution in the context of the government policies

Norway is not a member of the EU, although the government has transposed the EU's Airport Charges Directive into Norwegian law. The directive sets out minimum requirements in terms of transparency, consultation with airlines and nondiscrimination of charges, and mandates the setting up of an independent supervisory authority.

At present, the state has effectively a direct role in setting aeronautical charges, with the regulatory oversight exercised by the Ministry of Transport and Communications (MoTC), which owns 100% of the share capital of Avinor. In practice, charges are set after consultation with the airlines, given the company's and the Ministry's objective to encourage airlines to develop their route strategies in Norway rather than in nearby countries, such as Denmark and Sweden.

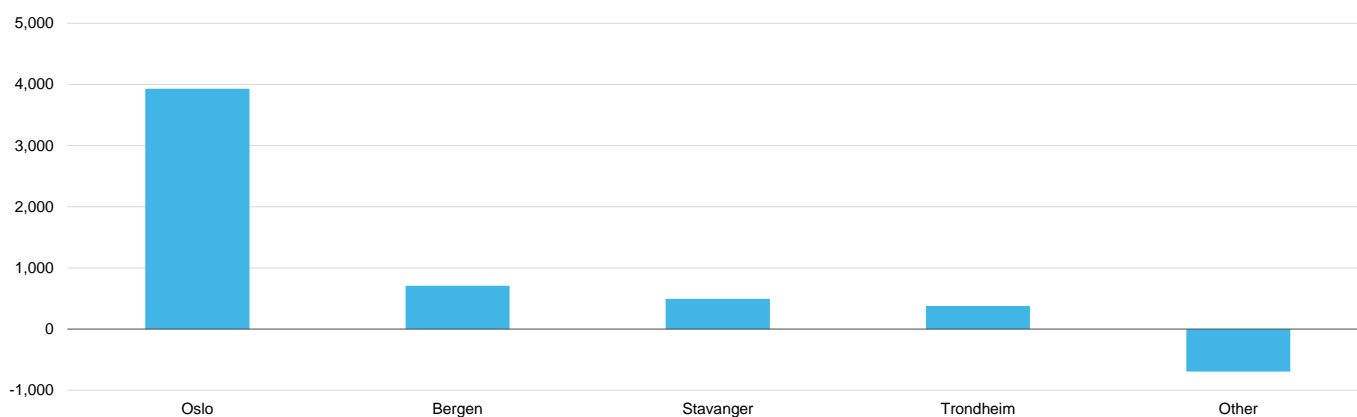
As a general principle, Avinor's tariffs are determined through the use of a price cap formula based on a fair return on a regulated asset base (RAB). Charges are determined to include allowances for operating costs, depreciation, return on the RAB and taxation. From this revenue requirement the non-aeronautical revenue is subtracted to determine the aeronautical revenue requirement (i.e., a "single till" approach), which is divided by anticipated volumes to determine the level of the anticipated unit price. Notwithstanding the above, not all the commercial profit may be used to subsidise airports charges in periods of high investments and in particular where the company's self-imposed minimum equity ratio of 40% could be at risk of being breached.

More generally, as the state requires Avinor to establish a uniform set of aviation charges across its network, this effectively leads to cross-subsidisation of the marginal rural airports by the more commercially viable larger airports, including Oslo, Bergen, Stavanger and Trondheim.

Exhibit 10

Larger airports support loss-making regional airports

Reported EBITDA in NOK million, in 2019



Source: Avinor's reports, Moody's Investors Service

In the context of the coronavirus outbreak, Avinor did not collect aviation charges for around three months until June last year and kept commercial aviation tariffs flat in nominal terms this year. The company's airport charges will remain unchanged in 2022. The current level of charges is below the revenue requirement under the company's price cap model and there remains uncertainty around the evolution of tariffs over the medium term.

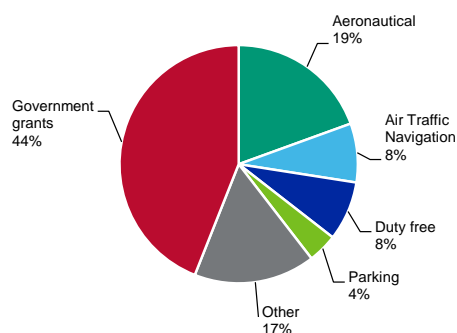
Commercial revenue is largely driven by passenger volumes

Before the pandemic, commercial revenue accounted for some 54% of Avinor's total revenue and was mainly related to duty free (25% of total revenue) and car parks (8%). Other revenue streams included food and beverage, retail, car hire, advertising and other.

Avinor's revenue breakdown in 2020 was, however, different as government grants accounted for 44% of the total. Evolution of aeronautical and commercial revenue varied given different sensitivity to passenger volumes. Commercial yields decreased as majority of traffic was domestic, which impacted, *inter alia*, revenue from duty free. Aeronautical yields were slightly up, reflective of a different traffic profile and load factors in the context of the airline capacity (commercial ATMs fell 37%).

Exhibit 11

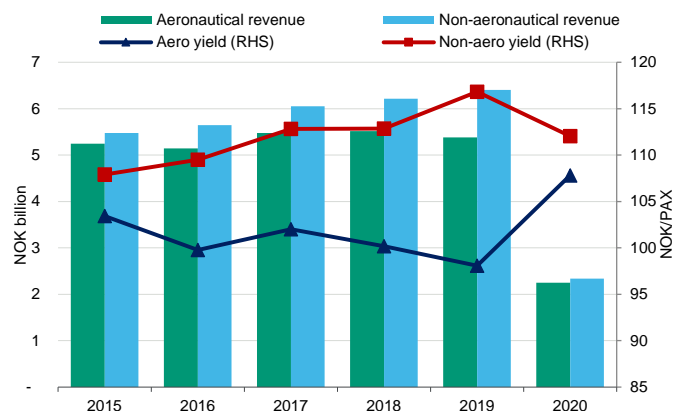
Government grants accounted for a big share of revenue Revenue breakdown, in 2020



Source: Avinor's reports, Moody's Investors Service

Exhibit 12

Yields in 2020 were impacted by lower traffic Evolution of revenue and yields



Source: Avinor's reports, Moody's Investors Service

We expect commercial yields to continue to be impacted by the evolution of traffic mix as international passengers tend to have a higher propensity to spend. However, over the medium term, and subject to traffic recovery, Avinor will benefit from improved yields under its newly re-tendered duty free contract covering main airports from 2023.

Increased focus on operating costs and efficiency of spending

Lower passenger volumes have resulted in some immediate volume-dependent savings for Avinor. However, as the airports' costs are predominantly fixed, the company has sought to undertake additional measures to preserve operating cash flow. Avinor's cost-cutting programme targets a reduction in operating costs of NOK1 billion by 2022, which will be supported by the use of new technology, innovation and cost-cutting measures including employee layoffs.

Avinor had undertaken some major expansion projects before the pandemic. While the company's initial plans assumed a continued high level of investments until 2024, capital spending will be reduced, with some of the investments deferred. Avinor's current plans assume annual capital expenditure of NOK3 billion on average.

Increased focus on spending is supportive of Avinor's credit quality as financial leverage is high despite a receipt of government subsidies. In this regard we note that the company may implement additional measures, such as asset disposals, to limit the impact of a significant fall in earnings on its debt burden.

Track record of support from the Government of Norway

Avinor's credit quality takes account of the company's central role in the provision of air travel in Norway. Given the patterns of population distribution in Norway and certain geographical features, air travel is an essential facilitator of domestic mobility, and the government therefore sees Avinor as strategically important to meet some of its key economic, social and political objectives. While the state aims to ensure the state-owned entities make a fair return on capital employed, this is not the primary objective of Avinor.

The company's strategic objectives are outlined in the Ten-Year Transportation Plan, with specific operational and financial requirements set out in the Avinor Ownership Report. These government policy documents set out the focus for Avinor on quality improvements for, and financial returns from, the airport network and air navigation system in Norway. In this regard the government indicated its plans to separate Avinor's air navigation system and the tower operation activities, to promote competition and reduce costs, and instructed the company to prepare for a potential disposal of the air navigation subsidiary, but the process is currently on hold.

Government support to Avinor before the pandemic was fairly limited. It included a payment holiday on the state loan provided to Avinor's subsidiaries, a relaxation of dividend payments in 2009 and 2010, and the decision to cap dividend payments at NOK500 million annually until 2018, to finance capital investments.

The significant reduction in traffic and earnings has prompted government support since the start of the pandemic. In 2020, Avinor received NOK3.6 billion in operating subsidies and a further NOK3.8 billion this year. The level of support was high in absolute and relative terms, and was tailored to allow Avinor to comfortably meet its minimum equity ratio requirement of 40% included in the company's bylaws.

Exhibit 13

Avinor has received material government subsidies since the start of the pandemic
in NOK million

	2016	2017	2018	2019	2020	9M 2021
Operating revenue	10,788	11,526	11,724	11,785	4,583	3,429
Government grants	-	-	-	-	3,600	3,800
Total income	10,788	11,526	11,724	11,785	8,183	7,229

Source: Avinor's reports, Moody's Investors Service

In this regard we note that in October, Avinor announced that the government had granted it a temporary permission to deviate from the minimum equity ratio requirement, given the impact of COVID-19 on Avinor's earnings and a significant increase in pension liabilities. This permission is in effect until 31 December 2021. At the same time, the government said that no government grants had been budgeted for 2022.

Exhibit 14

Avinor consistently complied with its minimum equity ratio requirement of 40%
Equity ratio as defined in the Articles of Association

	2016	2017	2018	2019	2020	Jun-21	Sep-21
Net debt/equity ratio	44.6%	41.8%	44.0%	45.9%	40.6%	40.2%	40.0%

Source: Avinor's reports, Moody's Investors Service

There is a risk that without government subsidies, Avinor could breach its minimum equity ratio requirement. However, any deviation could be temporary if the company were to undertake additional balance sheet strengthening measures, such as asset disposals.

ESG considerations

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 exposure to travel restrictions and sensitivity to consumer demand and sentiment. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

In October of 2020, the Norwegian aviation industry published a road map towards the 2050 goal of fossil-free aviation. This would mean that from 2050, on flights in and from Norway, fossil fuels will not be used. Avinor's own target for fossil-free operations is 2030.

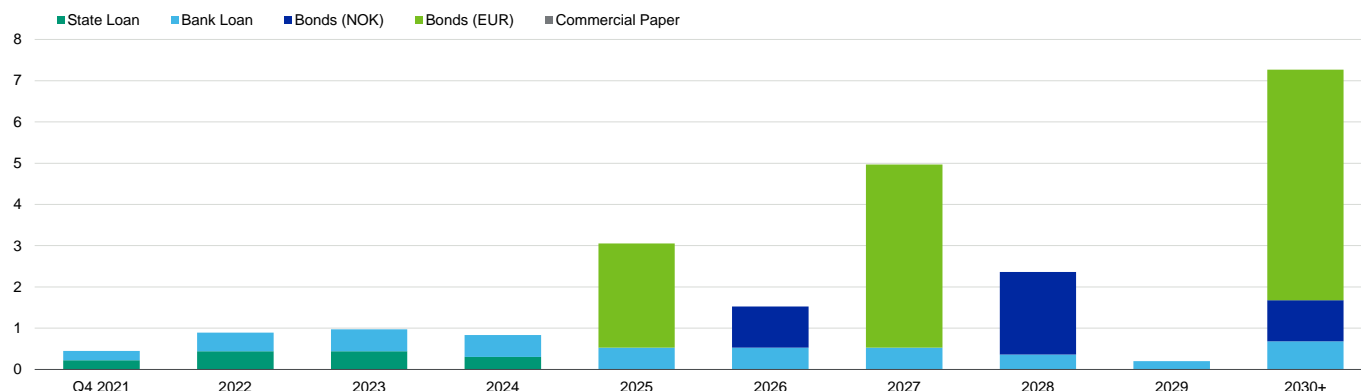
Liquidity

As of end-September 2021, Avinor had cash on balance sheet of around NOK3.5 billion, NOK300 million of available overdraft facility and NOK4 billion availability under credit facilities due in June 2024. The company has fairly modest debt maturities in the near term.

Exhibit 15

Avinor has fairly modest debt maturities until 2024

As of September 2021



Source: Company; Moody's Investors Service

Avinor's borrowings from European Investment Bank, Nordic Investment Bank and the commercial banks, contain a financial covenant defined as an equity ratio of at least 30%. The company maintains good headroom under this covenant and is expected to remain in compliance in 2022.

Rating methodology and scorecard factors

Avinor is rated in accordance with the rating methodology for [Privately Managed Airports and Related Issuers](#), published in September 2017. Given the 100% ownership by the Government of Norway, Avinor is considered a Government-Related Issuer (GRI) under Moody's methodology for [Government-Related Issuers](#), published in February 2020. The high support assumption takes into account Avinor's role as key infrastructure provider in Norway and its role in delivering the government's policy objectives.

Exhibit 16

Rating Factors Grid

Avinor AS

Privately Managed Airports and Related Issuers Industry [1][2]			Current FY 12/31/2020		Moody's Forward View of Dec-2023 As of December 2021 [3]	
Factor 1: Concession and Regulatory Frameworks (15%)	Measure	Score	Measure	Score	Measure	Score
a) Ability to Increase Tariffs	Baa	Baa	Baa	Baa	Baa	Baa
b) Nature of Ownership / Control	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa
Factor 2: Market Position (15%)						
a) Size of Service Area	Aa	Aa	Aa	Aa	Aa	Aa
b) Economic Strength & Diversity of Service Area	Aa	Aa	Aa	Aa	Aa	Aa
c) Competition for Travel	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa
Factor 3: Service Offering (15%)						
a) Passenger Mix	Aa	Aa	Aa	Aa	Aa	Aa
b) Stability of traffic performance	Baa	Baa	Baa	Baa	Baa	Baa
c) Carrier Base	Ba	Ba	Ba	Ba	Ba	Ba
Factor 4: Capacity and Capital (5%)						
a) Ability to accommodate expected traffic growth	Baa	Baa	Baa	Baa	Baa	Baa
Factor 5: Financial Policy (10%)						
a) Financial Policy	A	A	A	A	A	A
Factor 6: Leverage and Coverage (40%)						
a) (FFO + Cash Interest Expense) / (Cash Interest Expense)	3.0x	Baa	5x - 6x	A	5x - 6x	A
b) FFO / Debt	4.5%	B	10% - 12%	Baa	10% - 12%	Baa
c) Moody's Debt Service Coverage Ratio	3.0x	Ba	5x - 6x	A	5x - 6x	A
d) RCF / Debt	4.5%	Ba	10% - 12%	A	10% - 12%	A
Rating:						
Scorecard-Indicated Outcome Before Notch Adjustment		Baa3		A3		A3
Notch Lift	0	0	0	0	0	0
a) Scorecard-Indicated Outcome		Baa3		A3		A3
b) Actual Rating Assigned				A1		A1
Government-Related Issuer	Factor					
a) Baseline Credit Assessment	baa1					
b) Government Local Currency Rating	Aaa, Stable					
c) Default Dependence	Moderate					
d) Support	High					
e) Actual Rating Assigned	A1					

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 31 December 2020. [3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics

Ratings

Exhibit 17

Category	Moody's Rating
AVINOR AS	
Outlook	Negative
Issuer Rating -Dom Curr	A1
Senior Unsecured	A1

Source: Moody's Investors Service

Appendix

Exhibit 18

Peer Comparison table

	Avinor AS A1 Negative			Copenhagen Airports A/S Baa2 Negative			Brussels Airport Company NV/SA Baa1 Negative		
	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-18	FYE Dec-19	FYE Dec-20
(in USD million)									
Revenue	678	612	240	704	652	241	671	693	248
EBITDA	524	517	206	404	359	2	382	375	33
EBITDA margin %	77.3%	84.6%	86.1%	57.4%	55.0%	0.6%	57.0%	54.2%	13.5%
Funds from Operations (FFO)	396	417	155	308	284	(51)	267	269	(17)
Total Debt	3,011	2,820	3,800	1,090	1,231	1,576	1,572	1,656	2,070
(FFO + Interest Expense) / Interest Expense	5.0x	5.9x	3.0x	9.8x	10.3x	-0.8x	5.7x	5.9x	0.7x
FFO / Debt	12.4%	14.8%	4.5%	27.3%	23.1%	-3.5%	16.4%	16.3%	-0.9%
RCF / Debt	11.4%	12.4%	4.5%	10.3%	12.0%	-3.5%	7.5%	12.1%	-0.9%
Debt Service Coverage Ratio	5.2x	6.9x	3.0x	9.0x	9.0x	-0.6x	5.9x	6.9x	0.8x

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.

Source: Moody's Financial Metrics™

Exhibit 19

Avinor AS - Adjusted Debt Breakdown

	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20
(in NOK million)					
As Reported Total Debt	19,957	22,811	21,741	21,295	27,599
Pensions	2,278	3,540	4,067	3,489	4,935
Leases	347	350	269	0	0
Non-Standard Private Adjustments	(504)	(1,216)	0	0	0
Moody's Adjusted Total Debt	22,077	25,486	26,077	24,784	32,534

All figures are calculated using Moody's estimates and adjustments.

Source: Moody's Financial Metrics™

Exhibit 20

Avinor AS - Adjusted FFO Breakdown

	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20
(in NOK million)					
As Reported Funds from Operations (FFO)	3,265	3,575	4,007	3,331	1,695
Pensions	0	8	24	136	96
Leases	45	46	34	0	0
Capitalized Interest	(235)	(48)	(38)	(45)	0
Alignment FFO	220	(102)	(155)	(35)	297
Unusual Items - Cash Flow	0	(415)	0	0	0
Cash Flow Presentation	0	0	0	(627)	(630)
Non-Standard Adjustments	(420)	(528)	(650)	905	0
Moody's Adjusted Funds from Operations (FFO)	2,874	2,536	3,222	3,666	1,458

All figures are calculated using Moody's estimates and adjustments.

Source: Moody's Financial Metrics™

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