MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns A1 rating to Avinor AS; stable outlook

04 Jul 2013

London, 04 July 2013 -- Moody's Investors Service has today assigned an A1 issuer rating to Avinor AS, a company that owns and operates a network of airports in Norway and is the sole provider of air navigation services within Norwegian airspace. The rating has a stable outlook. This is the first time that Moody's has assigned a rating to Avinor AS.

RATINGS RATIONALE

The A1 rating reflects: (i) the strong business profile of Avinor, on account of its near monopoly position and modest trans-model competition for medium-long distance travel within Norway; (ii) a supportive strategic framework established by the State which reflects the importance of Avinor's operations to achieve societal objectives; (iii) relatively robust traffic growth underpinned by strong passenger volume increases recorded by the Oslo Airport and Large Airports divisions, which is expected to continue albeit at somewhat lower levels.

However, the rating is constrained by (i) the significant capital expenditure programme which entails investment of approximately NOK20 billion during the period 2013-2017; and (ii) an expected move to relatively high leverage with FFO/Gross Debt trending towards 12% by 2016-17.

The rating incorporates a two-notch uplift for the likelihood of extraordinary support being provided by Avinor's owner, the Government of the Kingdom of Norway (Aaa stable), in the event that this were ever to be required to avoid a default. This reflects the strategic importance of Avinor's assets and the recent examples of extraordinary State support including a payment holiday on the State loan provided to Avinor, subsidies and a relaxation of dividend payments in 2009 and 2010 (although we note that Avinor does not receive direct, ongoing State subsidies in contrast to certain other State-owned companies). Avinor's fundamental credit quality is expressed as a baseline credit assessment of a3.

Avinor benefits from a near monopoly position in Norway, accounting for over 90% of Norwegian passenger traffic in 2012. Given the topography of Norway, air travel is by far the most efficient mode of travel for medium and long distance travel. Avinor is regarded by the State as performing an important societal role and the State sets out key objectives for Avinor in the Ten Year National Transportation Plan and Ownership Report. One of those objectives is for Avinor to continue to operate as a consolidated national network of airports, with larger airports such as Oslo effectively cross-subsidising smaller rural airports. The rate-setting regime is relatively informal when compared to more formal price review and determination processes in other European jurisdictions but nevertheless allows for charges to be set at levels that allow Avinor to perform its societal objectives, while still earning a reasonable return on assets.

Avinor intends to pursue an extensive capital programme during the period to 2023 with approximately NOK20 billion planned for the period 2013-17. The terminal 2 extension at Oslo airport is by far the most significant and challenging of the individual projects within Avinor's capital program, although Moody's understand that progress to date is according to plan. Other elements of the capital programme, whilst important to upgrade capacity in the other more significant airports in the network, could be deferred by management if future passenger growth underperforms expectations.

Avinor benefits from a sound liquidity position as a result of positive operating cashflows and an undrawn NOK4 billion revolving credit facility.

The current indebtedness at Avinor AS (equivalent to approximately 55% of the Avinor Group indebtedness) is in part, serviced by cash flow up-streamed from Oslo Lufthavn AS and Avinor AS's other subsidiaries (which essentially are special purpose vehicles containing hotel and car parking activities). In theory this results in Avinor AS indebtedness being structurally subordinated to indebtedness at the subsidiaries' level. However, we did not lower the rating of Avinor to take account of this potential structural subordination because over 75% of the subsidiary indebtedness is provided by the State, the ultimate owner of Avinor. We consider it unlikely that the State, as lender, would seek to benefit from its structural position to the detriment of lenders at the Avinor AS level.

The stable outlook assigned to the rating reflects the near monopoly position of Avinor, the strategic importance of its airport and air navigation operations to Norway, and a traffic growth trend that continues to be at the upper end of the range for European airports.

WHAT COULD CHANGE THE RATING UP/DOWN

Upward rating pressure could develop if (i) material projects within the capital investment programme are successfully completed, particularly at Oslo Airport; and (ii) Avinor's Cash Interest Coverage Ratio was consistently higher than 5.0x and FFO / Debt was trending towards 20%.

The rating could come under downward pressure if (i) the capital investment programme were to experience significant delay and/or cost overruns; or (ii) Avinor's Cash Interest Coverage Ratio fell below 4.0x and FFO / Debt ratio declined to below the low teens in percentage terms. Furthermore, any downwards move in the Kingdom of Norway's credit rating could put downward pressure on Avinor's rating.

PRINCIPAL METHODOLOGIES

The methodologies used in this rating were Operational Airports outside of the United States published in May 2008, and Government-Related Issuers: Methodology Update published in July 2010. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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John Sidney Carey
Vice President - Senior Analyst
Infrastructure Finance Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Andrew Blease
Senior Vice President

Infrastructure Finance Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

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