

October 8, 2007

OeBB-Infrastruktur Bau AG

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Major Rating Factors

Strengths:

- Strong explicit and implicit government support from the Republic of Austria due to strategic importance
- Sole owner and constructor of virtually the entire Austrian railways network
- Protection from privatization risk through political consensus

Weaknesses:

- Heavy dependence on sovereign support

Sovereign Credit Rating

AAA/Stable/A-1+

Rationale

The ratings on Austria-based rail infrastructure company ÖBB-Infrastruktur Bau AG (ÖBB Bau AG) reflect the strong explicit and implicit government support ensured by its strategic importance to the Republic of Austria (AAA/Stable/A-1+), its sole owner. They also reflect the company's de-facto monopoly position as the owner and constructor of virtually the entire Austrian railway network.

Government support for, and control of, ÖBB Bau AG is significant. The company is incorporated under the Federal Railways Act (Bundesbahnstrukturgesetz; the Law), which states that ÖBB Bau AG has to be fully owned by ÖBB Holding AG, which in turn has to be fully owned by the Republic. The Law clearly defines the government's role in ÖBB Bau AG's operations. Under it, the Austrian government is responsible for ensuring that ÖBB Bau AG has sufficient funds at all times to protect its liquidity and equity, and to pursue its activities as agreed with the government in its framework plan. This can be achieved directly through funding from the Federal Financing Agency, or through the transfer of government funds. The government can also adjust the level of the network fee paid by government-owned and supported ÖBB-Infrastruktur Betriebs AG, which operates and maintains the railway network. In addition, the government, as the owner, exercises operational, management, and financial control over the holding company, and has to approve ÖBB Bau AG's annually extended six-year framework plan.

As the sole owner and constructor of virtually the whole Austrian railway network, ÖBB Bau AG's status is unlikely to be challenged. The government considers ÖBB Bau AG to be its exclusive agent in this area. Moreover, privatization of the company--which would require a change of the Law--is not under consideration and seems unlikely.

ÖBB Bau AG's €10.0 billion EMTN program is its main source of debt financing, and benefits from a full, explicit, direct, unconditional, and irrevocable guarantee from the government. This will be extended annually for a predetermined drawdown amount. No unguaranteed issuance from the program is foreseen.

Outlook

The stable outlook reflects that on Austria (see the research report "Austria (Republic of)," published on Feb. 12, 2007, RatingsDirect). It also reflects Standard & Poor's Ratings Services' expectation that, due to the company's

strategic importance, there will be no changes in government support or the legal framework governing ÖBB Bau AG.

Background And Business Description

ÖBB Bau AG is a government-supported entity responsible for the financing and construction of railway infrastructure in Austria. It owns a network of about 5,800 kilometers, including 280 tunnels, 6,500 bridges, and the supporting infrastructure. The company was created in January 2005 by merging parts of the old Austrian railways company ÖBB with state-owned railways infrastructure financing company SCHIG (Schieneninfrastrukturfinanzierungs-Gesellschaft), and state-owned high-speed railway infrastructure constructor HL-AG (Eisenbahn-Hochleistungsstrecken AG). State-owned railway constructor BEG (Brenner Eisenbahn GmbH) was also given to ÖBB Bau AG as a wholly owned subsidiary. Consequently, ÖBB Bau AG is a key entity within the reorganized Austrian railways group ÖBB-Holding AG, accounting for 76% of consolidated group assets.

ÖBB Bau AG's main source of revenue is the network fee for provision of infrastructure paid to it by its sister company ÖBB-Infrastruktur Betriebs AG. ÖBB Betriebs AG is the designated operator and maintainer of the railway network. ÖBB Bau AG is required by law to make its railway network available to ÖBB Betriebs AG. In turn, ÖBB Bau AG receives a predetermined fixed fee from ÖBB Betriebs AG. ÖBB Betriebs AG then rents the network out to the individual railway operators, such as ÖBB Personenverkehr AG and Rail Cargo Austria, the passenger and cargo transport companies of ÖBB Holding AG, respectively. Other important sources of revenue include income from power generation and trading and non-network-related property and real estate.

Legal Status And Role Of The Government

Government support for, and control of, ÖBB Bau AG is significant. The company is incorporated under the Law, which states that it has to be fully owned by ÖBB Holding AG--which in turn has to be fully owned by the Republic--and clearly defines the government's role in ÖBB Bau AG's operations.

According to article 47 of the Law, the Austrian government, represented by the Ministry of Transportation, Innovation, and Technology and the Ministry of Finance, is responsible for ensuring that ÖBB Bau AG has sufficient funds at all times to protect its liquidity and equity, and to pursue its activities as agreed with the government in its framework plan. This effectively constitutes an operational guarantee for the company. The government can effect this directly through transfers from the budget, in line with article 43(2) of the Law. 2007 will be the first year in which ÖBB Bau AG receives budgetary transfers, in line with an agreement with the government on compensating the company for the positive external effects of its operations. Transfers will initially be small, at €50 million in 2007 and 2008, to grow in line with new construction. ÖBB Bau AG is also eligible to receive liquidity support from the Federal Financing Agency (Österreichische Bundesfinanzierungsagentur), which is authorized and willing to extend short-term financing to the company. Indirectly, the government can influence both ÖBB Bau AG's revenues--by adjusting the level of the network fee paid by government-owned and supported ÖBB Betriebs AG--and its expenditure, as agreed in the framework plan.

The government, as the owner, exercises operational, management, and financial control over the holding company. Both the Ministry of Transport, Innovation, and Technology and the Ministry of Finance have to approve ÖBB Bau AG's annually extended six-year framework investment plan, which needs to be drawn up in line with the

government's national transportation policy plan. Furthermore, ÖBB Bau AG is required to submit to the government an annual rationalization and cost-savings plan and quarterly debt evolution reports.

Government support is also extended through government guarantees for ÖBB Bau AG's debt. The company's €10.0 billion EMTN program is now its main source of debt financing, and benefits from a full, explicit, direct, unconditional, and irrevocable guarantee from the government. The guarantee will be extended annually for a predetermined drawdown amount (€2.0 billion in 2007). No unguaranteed issuance from the program is foreseen. As at June 30, 2007, 95% of ÖBB Bau AG's €7.9 billion of debt benefits from a guarantee from the Republic.

Privatization of ÖBB Bau AG is not on the government's agenda, and would require a change of the Law. Taking into account the company's monopoly position and strategic importance to national transport policy, the political difficulty of railway reform so far, and the company's contractual obligations and rights, privatization seems economically and politically unfeasible. This has not changed following the election of a new government in October 2006.

Operations And Finances

ÖBB Bau AG's business is broadly restricted to planning, constructing, maintaining, and financing almost the entire Austrian railway network and the supporting infrastructure, including energy generation and provision for users of the network. The company's main operational tasks therefore consist of extending the network to satisfy the need for additional domestic and trans-European routes, increasing the cargo and passenger capacity of certain priority routes, and upgrading parts of the network for high-speed capability. This not only includes railway track, but also construction and management of the supporting infrastructure and real estate.

ÖBB Bau AG's infrastructure investment pipeline was tightened under the new government's increased focus on infrastructure investment. As a consequence, it now foresees average infrastructure investment expenditure of €1.9 billion per year over 2007-2012, up from previously €1.7 billion for the 2006-2011 period. Of this amount about 50% is for the construction of new routes, about 25% is maintenance capital expenditure, and about 10% relates to the expansion of existing routes. Almost 50% of total infrastructure investment relates to five ongoing key projects for new routes or route extensions.

Aside from construction and maintenance of the railways, ÖBB Bau AG also operates a number of power plants. It sells the energy to railway operators within and outside the ÖBB group. The management and leasing of noninfrastructure-related real estate and the operation of the ÖBB telecoms infrastructure provide further operational revenue.

Given the legal and contractual provisions that govern ÖBB Bau AG's operations and both expenditure and revenue generation, the company's scope for discretionary policies is limited. The network fee paid by ÖBB Betriebs AG, €463 million in 2007 (up from €423 million in 2006), provides the main source of revenues, accounting for about 24% of expected revenues. The level of the network fee is negotiated annually between both companies, and revenues are expected to grow in line with the network and its depreciation. Both companies are fully government-owned monopolies, however, and so the fee's level reflects a considerable political element. Leasing of real estate and the sale of energy are other important sources of revenue for the company. ÖBB Bau AG's real estate activities do not represent core business areas for the company, and the revenue potential of existing facilities is expected to be exploited but not expanded. Increasing focus is given to the generation and sale of energy, however,

which ÖBB Bau AG considers part of its core business, particularly in the face of rising energy costs and growing demand within the network. This is reflected in planned investments totaling €200 million over the period 2007-2012 for the maintenance and expansion of existing and the construction of new power plants.

ÖBB Bau AG is in its third financial year. The company's net financing needs will remain relatively high over the medium term, expected to be about €1.0 billion-€1.2 billion annually, due to a healthy investment pipeline and modest but growing net losses. Assets totaled €17.7 billion at year-end 2006 (compared with €16.5 billion at year-end 2005). Tangible assets are the largest balance-sheet item, at €14.5 billion (€13.5 billion), including the railway network and real estate. ÖBB Bau AG's total equity amounts to €6.5 billion (€6.7 billion), partially providing a buffer for the expected pressures on the P&L from heavy investment activities over the coming years. Total equity includes €500 million of paid-in capital (€500 million), general provisions and profit brought forward totaling €311 million (€331 million) and €5,697 million (€5,862 million) in capital grants. Capital grants represent amounts received from third parties for approved projects and decline in line with the depreciation of the infrastructure they financed.

ÖBB Bau AG's net income turned negative in 2006, amounting to minus €21 million (after a profit of €36 million in 2005), thanks to accelerating construction, increasing depreciation, and rising interest expenditure. As a result of the company's healthy investment pipeline and the accompanying debt buildup, this trend will continue and ÖBB's net income will further come under pressure from the rising depreciation of assets and growing interest payments, which are expected to outpace revenues, despite the increasing direct budgetary transfers from the government. Nevertheless, Standard & Poor's expects that the Austrian government will not allow ÖBB Bau AG's equity excluding capital grants to decline unchecked, but rather that the government will provide timely balance sheet support to prevent such a situation.

ÖBB Bau AG's debt has been eased by the Republic's assumption of about €6.0 billion of infrastructure-related debt from SCHIG and the old ÖBB as part of the process of restructuring ÖBB and before the establishment of ÖBB Bau AG. ÖBB Bau AG's total debt at June 30, 2007, amounted to €7.9 billion, of which €6.8 billion is bonded debt, €0.5 billion is bank loans, and €0.6 billion loans from EUROFIMA (AAA/Stable/A-1+), a supranational lender for railroad rolling stock. The Republic of Austria guarantees 95% of this debt. This ratio will increase further over the coming years as unguaranteed debt matures and is refinanced through the company's EMTN program. ÖBB Bau AG's debt is 90% fixed rate, and 99% denominated in euros.

Ratings Detail (As Of October 8, 2007)*

OeBB-Infrastruktur Bau AG

Sovereign Credit Rating	AAA/Stable/A-1+
Senior Unsecured	AAA

Sovereign Credit Ratings History

26-Jul-2005	AAA/Stable/A-1+
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*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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