ASFiNAG Presentation

OECD Workshop, Vienna, 24th April 2006
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### History and legal basis

| „ASFINAG old“ | 1982: ASFINAG was established in 1982 by virtue of the ASFINAG Authorisation Act. Originally founded as a financing company! |
| „MAASTRICHT“ | 1997: The company was given the contractual competence to plan, build, maintain Austria’s highways and to collect tolls -- but not to set the tolls. “usus fructus” (i.e. a concession) |
| „ASFINAG new“ | 1. The right to collect tolls is ASFINAG’s single source of funding.  
2. ASFINAG is a public limited company 100 per cent owned by the Republic of Austria.  
3. ASFINAG benefits from an unconditional state guarantee on its MTN bond issues. |
Maastricht criteria

- The company has to:
  - provide a service having a market value.
  - 50 per cent. of cost has to be covered by operative income.
  - be founded in a regulated legal style (PLC).
  - have transparent accounting.
  - pay for any state guarantee.
  - be free in its decisions.

- Effect: Company debt does not have to be consolidated with state debt.
Infrastructure Stake-holders

Legal entity:
- a) State authority
- b) Concession holder
- c) Private owner

Budget constraints
Users
Non - Users
Construction industry
Public demand
Capital markets
The “value” of highways

1. Does a profit & loss account see all costs and revenues of a highway?
   - No, there are external effects (pos./neg.)
   - Stake holders have their own accounting (political, environmental, macro-economic, etc.).

2. An investment decision is based on P&L relevant cash flows.
   - This is often in conflict with traffic-policy or the ability of highway users to pay tolls that cover all costs.
   - Infrastructure investment has a strong multiplication effect (↔ “deficit spending”).
Management of Motorway Network

Public service
- Split up competences
- Administrative organisation
- No cost transparency
- Complex political exertion of influence
- No classic competition

Private service
- Clear competences
- Private sector organisational structure
- Cost transparency

Precondition: Price = Tolls, clear regulation of public interests

Project company
Net company
Financial structure of project company

Financing:
- high project risk $\Rightarrow$ poor rating, costly financing

**Advantage:** Single project, simple foundation, prefinancing
Financial structure of net company

- Financing:
  - Life cycle mix by sections (=Assets) ➔ high risk spreading
  - relatively high share on Cash Flow financing, high credit rating
  - Low cost of financing, steadiness of cost structure
The value creation chain: “make or buy”?

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- **Construction / Assets**
  - Critical size: 5 or 50 km
  - Potential suppliers: Few or Very few
  - Duration characteristic: Very long 30 y +
  - Bank ability / risks: Limited supply (risks, term)

- **Operation**
  - Critical size: 500 km
  - Potential suppliers: Many
  - Duration characteristic: 5 – 10 y
  - Bank ability / risks: Transparent, easy

- **Tolling (automatic)**
  - Critical size: bigger !
  - Potential suppliers: Very few
  - Duration characteristic: 10 y
  - Bank ability / risks: Tricky
1st conclusion (on **single highway stretches**)

- For a complete franchise the size is always wrong.
- A single highway segment has an unhealthy risk- and cash flow – profile.
- Efficiency gains are offset by risk-premiums.
- Tolls, that cover cost, repel users.

**Networks offer advantages:**
- Portfolio of highway segments of different age- and risk- profile.
- Diversification of risk obtains cheaper funding.
- Critical sizes offer economies of scale.
2nd conclusion (on networks)

- Infrastructure is often – by nature – a monopoly.
- Therefore you will find:
  - a cap on earnings (EU directive on tolls).
  - a need for maximum transparency to earn public acceptance.
  - a need for a regulator to set or control the tolls.
- Relative stability of demand (= traffic) produces stable cash flows and good ratings: “AAA”
- Highway operators are excellent bond issuers, and need to be for their immense finance volumes.
- Highway shares offer boring “investment stories” (regulator limit on excessive earnings growth)
3rd conclusion (on finance)

- Asset – Liability management approach:
  - Funding needs are huge!
    (EUR 500 mn ++ ) for a small highway stretch (50 km)
    (f.ex: ASFINAG: 2034 km : EUR 9 bn outstanding debt)
  - Assets have extremely long duration (life-time): 30 y ++
  - Debt markets offer too little long term funding.
  - Equity markets look for “quick returns”.
  - Sufficient l.t. funding is only available to sovereigns,
    guaranteed entities, or very stable cash flow stories.

- This liquidity gap always needs some form of state support.
- Consequently the risk is back with the state.
Thank you for your attention!

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