ASFiNAG Presentation

OECD Workshop, Vienna, 24th April 2006

Anton Sieber

ASFINAG

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“

„ASFINAG new“

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)

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.

ASFINAG

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

Users

Non - Users

Budget constraints

Construction industry

<u>Legal entity</u>:
a) State authority
b) Concession holder
c) Private owner

Public demand

Capital markets

The "value" of highways

- 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.).

- 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 organisaton
- ☞No cost transparency
- ☞Complex political exertion of influence
- ☞No classic competition

Private service

- ☞Clear competences
- ☞ Private sector organsational structure
- ☞ Cost transparency

Precondition: Price=Tolls, clear regulation of public interests

Project company

Net company

Financial structure of project company

- Financing:
  high project risk ➔ 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

ASFiNAG

The value creation chain: "make or buy" ?

	Construction / Assets	Operation	Tolling (automatic)
Critical size	5 or 50 km	500 km	bigger !

ASFINAG

The value creation chain: “make or buy” ?

	Construction / Assets	Operation	Tolling (automatic)
Potential suppliers	Few or Very few	Many	Very few
Duration characteristic (Depreciation period)	Very long 30 y +	5 – 10 y	10 y

The value creation chain: “make or buy” ?

	Construction / Assets	Operation	Tolling (automatic)
Critical size	5 or 50 km	500 km	bigger !
Potential suppliers	Few or Very few	Many	Very few
Duration characteristic (Depreciation period)	Very long 30 y +	5 – 10 y	10 y
Bank ability / risks	Limited supply (risks, term)	Transparent, easy	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!

ASFINAG

Dr. Anton Sieber

Phone: +43 501 08 – 10410

E-mail: anton.sieber@asfinag.at