Research Update:

Austrian Road Operator Autobahnen-und Schnellstrassen-Finanzierungs-AG 'AA+/A-1+' Ratings Affirmed; Outlook Stable

Primary Credit Analyst:
Ludwig Heinz, Frankfurt (49) 69-33-999-246; ludwig.heinz@spglobal.com

Secondary Contact:
Stefan Keitel, Frankfurt +49 69 33999 254; stefan.keitel@spglobal.com

Table Of Contents
Overview
Rating Action
Rationale
Outlook
Related Criteria And Research
Ratings List
Research Update:

Austrian Road Operator Autobahnen-und Schnellstrassen-Finanzierungs-AG 'AA+/A-1+'
Ratings Affirmed; Outlook Stable

Overview

• We see an almost certain likelihood of Autobahnen-und Schnellstrassen-Finanzierungs-AG (ASFINAG) receiving timely and sufficient extraordinary support from the Austrian government if needed.
• In our opinion, ASFINAG will retain its monopoly position as Austria's road operation and construction company and continue to benefit from a favorable tariff framework.
• We are therefore affirming our 'AA+/A-1+' ratings on ASFINAG.
• The stable outlook reflects that on Austria as well as our view that there will be no significant changes to the likelihood of government support for ASFINAG from the sovereign.

Rating Action


At the same time, we affirmed our 'AA+' issue ratings on ASFINAG's senior unsecured debt.

Rationale

The ratings on ASFINAG reflect our opinion that there is an almost certain likelihood that the Republic of Austria (AA+/Stable/A-1+) would provide timely and sufficient extraordinary support to ASFINAG in the event of financial distress. In accordance with our criteria for rating government-related entities (GREs), our view of an almost certain likelihood of extraordinary government support is based on our assessment of ASFINAG's:

• Critical role for Austria as its sole agent with a monopoly position as constructor and operator of the Austrian motorway and high-speed road network; and
• Integral link with the government as a wholly owned subsidiary of the government that is subject to a tight legal, planning, and control framework.

In addition, the ratings reflect our assessment of the strong explicit government support provided through timely, unconditional, and irrevocable guarantees for ASFINAG's bond issues. Every year, the Austrian ministry of finance, in cooperation with ASFINAG, sets a maximum amount for refinancing and new issuance for ASFINAG that is explicitly guaranteed by the Austrian government. The respective amount is incorporated in the federal financing law and set conservatively, covering ASFINAG's financing needs very adequately.
We consider that the Austrian government is willing to support ASFINAG, one of its key GREs, in practically all circumstances, and it has sufficient financial resources to do so. We think that the Austrian government generally has a strong propensity to support its GREs.

ASFINAG is responsible for the financing, construction, maintenance, and operation of the entire Austrian network of motorways and high-speed roads. Although the motorway network remains the property of Austria, ASFINAG has been granted the unlimited usufruct (the legal right to use and derive profit or benefit from property that belongs to another, as long as the property is not damaged) over the network. This entitles the company to the revenues generated from the road network, namely through tolls and usage fees, fines issued, and the operation of service areas.

The government's support and control of ASFINAG are significant. The company is incorporated under the ASFINAG Law (AL), which states that the Austrian government is responsible for ensuring that ASFINAG has sufficient funds at all times to protect its liquidity and equity and pursue its agreed activities. The government, as the owner, exercises operational, management, and financial control over ASFINAG, and approves the company's budget.

We do not think that the legal framework for ASFINAG and more broadly, the likelihood of support by the Austrian government, is subject to transition risk.

ASFINAG's €12.0 billion Euro medium-term note (EMTN) program, which is its main source of debt financing, has the benefit of a full, explicit, direct, unconditional, and irrevocable guarantee from the government. The program is usually extended annually (as part of Austria's budget law), including a predetermined drawdown amount.

€1.3 billion of debt is due in October 2017, and we anticipate that ASFINAG will refinance the bulk of this upcoming maturity with issuance under its EMTN program and cover the remainder by drawing on its liquidity buffers. A guarantee amount of €1.6 billion is included in the Federal Financing Law for 2017 and the master guarantee for the EMTN program will be updated before the issuance in the third or fourth quarter.

There is no debt maturing in 2018, giving the company greater flexibility in the modalities of this year's refinancing operations.

Privatization of the company is not on the agenda, and would require a change in the AL. In the first half of 2015, the Austrian government reorganized some of its state holdings and formed a new holding structure. However, ASFINAG's legal structure was not changed after laborious discussions. Suggestions on how to re-group state holdings emerge from time to time in the political realm, but do not indicate any implications for ASFINAG's status as one of Austria's most important GREs. We therefore believe that a change in the company's setup currently seems both unlikely
and unviable. This leads us to foresee a very low probability that ASFINAG's monopoly position would be challenged.

In 2016, the company paid its usual €100 million in dividends to the Austrian government, and plans to continue doing so over the next few years, which fulfills the government's dividend expectations. We regard this as feasible given our forecast of continued profits at ASFINAG. However, we believe the reported results overstate the company's financial strength because the costs of motorway and high-speed road construction are accounted for as nondepreciable assets. We expect the company's cash flow before financing will be negative on average in 2017-2019, given high investments in new construction, refurbishment, and network maintenance. As such, we anticipate that ASFINAG will have to lean on debt to finance some of its investment expenditure in the coming years. We note that ASFINAG's debt issuance is eligible for the quantitative easing program that the European Central Bank implemented in March 2015.

Revenues from tolls increased in all categories last year by a total of 3.2%, compared with the previous year, based on price adjustments and volume increases, indicating slight economic growth. The company bases its toll revenue forecasts for 2017 on moderate price increases in the coming years and modest volume increases of 1% after 2017 for heavy vehicles, the most important toll source. We note that the tariff regulations approved by the ministry of transport since January 2017 are favorable for ASFINAG because they reduce the forecasts' uncertainty, given that environmental incentives are based on the external cost component instead of a discount by emission classes. The economic forecast is based on external projections by the Austrian Institute of Economic Research. Overall, ASFINAG's revenues are highly predictable, owing to moderate but continuous traffic growth over the cycle. ASFINAG posts high EBITDA margins of over 50% but continues to have high and rising debt associated with its infrastructure construction program.

Furthermore, the company is constantly keeping its toll generation systems up to date, for example with the updated electronic toll generation system and the offer to purchase a digital vignette from 2018.

**Outlook**

The stable outlook on ASFINAG reflects that on Austria. Therefore, any rating action on the sovereign would result in a corresponding action on ASFINAG.

The outlook also reflects our assessment that, given ASFINAG's strategic importance to the Austrian government, there will be no significant changes to extraordinary government support for the company, state guarantees, or the legal framework governing its operations. We also believe the company will maintain its monopoly position and that there is no risk of privatization.

We could lower the ratings on ASFINAG if we concluded that the likelihood of support from the Austrian federal government had weakened. A change in laws, privatization plans, or the refusal of future guarantees could trigger such a reassessment of the company's role for and link with the government. However, we view these developments...
Currently as unlikely, given the government's statements regarding keeping the company in its current form and structure.

All else equal, we could raise the long-term rating if Austria's credit quality were to improve.

**Related Criteria And Research**

**Related Criteria**

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

**Related Research**

- Republic of Austria 'AA+/A-1+' Ratings Affirmed; Outlook Stable, March 17, 2017

**Ratings List**

<table>
<thead>
<tr>
<th>Rating</th>
<th>To</th>
<th>From</th>
</tr>
</thead>
<tbody>
<tr>
<td>Autobahnen-und Schnellstrassen-Finanzierungs-AG</td>
<td>Issuer Credit Rating</td>
<td>Foreign and Local Currency</td>
</tr>
<tr>
<td>Senior Unsecured</td>
<td>Local Currency[1]</td>
<td>AA+</td>
</tr>
<tr>
<td>Local Currency</td>
<td>AA+</td>
<td>AA+</td>
</tr>
<tr>
<td>Short-Term Debt</td>
<td>Local Currency[1]</td>
<td>A-1+</td>
</tr>
</tbody>
</table>

[1] Dependent Participant(s): Austria (Republic of)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-
Research Update: Austrian Road Operator Autobahnen-und Schnellstrassen-Finanzierungs-AG 'AA+/A-1+' Ratings Affirmed; Outlook Stable

6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Additional Contact, Sovereigns And International Public Finance:
SovereignEurope; SovereignEurope@spglobal.com