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Research Update:

Austria-Based OeBB-Infrastruktur AG 'AA+/A-1+' Ratings Affirmed; Outlook Stable

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria

Related Research

Ratings List

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Overview

- Austrian rail infrastructure company OeBB-Infrastruktur benefits from an almost certain likelihood of extraordinary support from the Austrian government.
- OeBB-Infrastruktur plays a critical role for the government because of its responsibility for Austria's rail network. It is integrally linked to the government through full ownership, sovereign guarantees for outstanding debt issued under its euro medium-term note program, and through a direct financing framework with the federal financing agency from 2017.
- We are consequently affirming our 'AA+/A-1+' ratings on OeBB-Infrastruktur.
- The stable outlook on OeBB-Infrastruktur reflects that on Austria.

Rating Action

On July 12, 2018, S&P Global Ratings affirmed its 'AA+/A-1+' long- and short-term issuer credit ratings on Austrian rail infrastructure company OeBB-Infrastruktur AG. The outlook is stable.

Rationale

The ratings on OeBB-Infrastruktur 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 the company in the event of financial distress.

In accordance with our criteria for government-related entities (GREs), our view that there is an almost certain likelihood of extraordinary government support for OeBB-Infrastruktur is based on our assessment of OeBB-Infrastruktur's:

- Critical role for the government as the owner, constructor, and operator of most of the Austrian rail network; and
- Integral link with the government, owing to the state's indirect full ownership of OeBB-Infrastruktur, which subjects the company to tight legal, planning, and operational controls, as well as a strong support framework. The company directly finances itself with loans from Austrian

Federal Financing Agency.

OeBB-Infrastruktur made an important shift in its funding last year. As the company's debt is statistically included in general government debt under Eurostat rules, the responsible ministries and the company decided in 2016 that the company should finance itself via loans from the Republic of Austria to benefit from the sovereign's lower interest costs. For the loan provision, OeBB-Infrastruktur concluded a framework agreement with the federal treasury (ÖBFA). OeBB-Infrastruktur has successfully operationalized the cooperation and exchange with the ÖBFA as loan drawings were concluded in 2017. OeBB-Infrastruktur will also rely on the direct financing framework with the sovereign to finance its upcoming significant debt redemptions in 2019-2020.

In the past decade, OeBB-Infrastruktur had used its euro medium-term note (EMTN) program as its main financing tool, and outstanding bonds with a federal government guarantee amount to €14.2 billion. The change in financing approach does not affect the guarantees on the outstanding bonds.

In addition to the unconditional and irrevocable guarantee on the EMTN program, the Austrian government is also responsible for ensuring that OeBB-Infrastruktur maintains sufficient funds at all times to protect its operations, liquidity, and equity under paragraph 47 of the Federal Railway Act. This can be achieved directly through funding from the Federal Financing Agency or through the transfer of government funds. The act also clearly outlines the framework for government transfers, which OeBB-Infrastruktur receives for operations and maintenance as well as for network expansion. These government transfers under section 42 of the act accounted for 57% of the company's revenues in 2017. In addition, the government exercises operational, management, and financial control over the holding company. The company is incorporated under the Federal Railways Act (Bundesbahngesetz), which states that OeBB-Infrastruktur must be fully owned by OeBB-Holding AG (not rated), which in turn must be fully owned by the state. The act clearly defines the government's role in OeBB-Infrastruktur's operations and its operational, management, and financial control over the holding company.

Currently the Austrian government guarantees 71% of all financial debt outstanding, with the remainder mainly consisting of loans from the European Investment Bank (EIB). The framework agreement with the treasury ensures the reliable access to long-term funding for the company. The legal foundations for the provision of funds are created in the annual federal financing law and the law governing multiannual charges to the federal budget, which takes into account rail infrastructure investment plans. In addition to long-term financing, the federal treasury also provides short-term liquidity access to OeBB-Infrastruktur. In our view, the revised funding structure of the company further underpins OeBB-Infrastruktur's integral link with the government of Austria.

The company is enacting the government's railway investment plan, which will lead to a planned peak in financial debt of about €30 billion in 2025-2026, as

agreed with the government.

The Austrian government also approves, through a process of annual extension, OeBB-Infrastruktur's six-year master plan. Under the master plan for 2014-2019, the government has committed to reimbursing 75% of OeBB-Infrastruktur's investment expenses until 2016 by transferring debt service contributions for the next 30 years. From 2017, the share of reimbursements increased to 80%. Furthermore, the government has acknowledged responsibility for 100% of the investment costs of the Brenner base tunnel. The subsidy for each year's investment is to be paid as a 30-year annuity and for the Brenner base tunnel in a 50-year annuity.

These modalities also remain valid under the transfer framework for 2018-2023, which foresees investments of €13.9 billion in Austrian rail infrastructure. The largest investment projects will be the new southern Austrian connection (Koralmbahn), the Brenner base tunnel, and the Semmering base tunnel. The importance of these national and international connections underpins OeBB-Infrastruktur's critical role as an instrument for Austrian public transport and economic policy. Since 2009, OeBB-Infrastruktur has been the sole owner, constructor, and operator of virtually the entire Austrian railway network.

The new government has scaled down the investment plan compared to previous years. While the above-mentioned large-scale projects will proceed, we think that some lower-profile extensions could be postponed and we also understand that the government is requiring OeBB-Infrastruktur to seek efficiency gains as government transfers will be lower under the updated framework.

Privatization of the company would require a change in the railway act. We believe a change in the company's setup and its monopoly position is not likely at present. We note that OeBB-Infrastruktur was not affected by the reorganization of Austrian state holdings in 2015.

Regarding efforts on the EU level to foster the European railway market (the so-called fourth railway package), OeBB-Infrastruktur is adapting to an increasingly complex regulatory framework and increasing competition between railway operators on its network. We also understand that the structure of OeBB-Holding AG, the parent company of OeBB-Infrastruktur AG, would not be significantly affected if it ensures and maintains independence from the railway operator.

We currently do not doubt the Austrian government's willingness to support OeBB-Infrastruktur, as one of its key GREs, in practically all circumstances. In addition, the government has sufficient financial resources to support OeBB-Infrastruktur.

In our view, the company has excellent access to both short- and long-term capital markets even though funding will be provided directly from the government. The EMTN program remains in place, although we do not think there will be issuance under the program in the coming years. All short-term and

long-term debt with the EIB (€4.0 billion as of year-end 2017) is currently not guaranteed by Austria. We note that OeBB-Infrastruktur's debt issuance is eligible for the European Central Bank's quantitative easing program implemented in March 2015.

Outlook

The stable outlook on OeBB-Infrastruktur reflects that on Austria. Given the highly predictable legal support framework, the irrevocable guarantee on most of the company's debt, and the funding framework with the government, we do not expect its role for and link with the government will change over the next two years. We therefore expect our ratings and outlook on OeBB-Infrastruktur will move in line with those on Austria.

Hence, we could lower the ratings if the sovereign's creditworthiness were to deteriorate. We could also lower the ratings on OeBB-Infrastruktur if we believed the supportiveness of the Austrian federal government had weakened, leading to a change in OeBB-Infrastruktur's role for or its link with the government. A change in laws, privatization plans, or the refusal of future funding or guarantees could trigger such a revision. However, we currently view these developments as unlikely, as we understand that the government intends to keep the company in its current shape and setup.

We could raise the rating if Austria's credit quality were to improve and the likelihood of support for OeBB-Infrastruktur remained almost certain.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Austria 'AA+/A-1+' Ratings Affirmed; Outlook Stable, March 16, 2018

Ratings List

Ratings Affirmed

OeBB-Infrastruktur AG

Issuer Credit Rating

Senior Unsecured

AA+/Stable/A-1+

AA+

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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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website 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) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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