Credit Analysis

Moody's International Public Finance

March 2009

Bundesimmobilien-gesellschaft m.b.H.

Vienna, Austria

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Summary

The Aaa rating and stable outlook of Bundesimmobiliengesellschaft mbH (BIG) reflect the combination of four inputs under the application of Moody's Joint Default Analysis (JDA) methodology:

1. A Baseline Credit Assessment (BCA) of 1 on a scale of 1 to 21 (where 1 represents the lowest risk)
2. The Aaa/stable rating of the Republic of Austria
3. High default dependence
4. High probability of support from the Republic of Austria

The company is 100% owned by the Republic of Austria and is of strategic importance due to the services provided. The business model is heavily based on government-related revenues. Furthermore, the activities cannot be separated from government policy. The strong interest of the state also manifests itself in strong oversight and the ability to nominate senior management; the two members of the board of directors are appointed by the Minister of Economy.

High dependence, as identified under the JDA methodology, reflects the strong link to government departments. BIG's main source of revenues is rental income for buildings rented out to various government departments. Moreover, the state generally determines policy (tasks and obligations) of the entity, while taking financial stability into account.

High support reflects the 100% ownership by the Republic of Austria and the fact that it has no intention to privatise the company in the foreseeable future.

Note: This report focuses on BIG's consolidated accounts.

This Credit Analysis provides an in-depth discussion of credit rating(s) for Bundesimmobiliengesellschaft m.b.H. and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website. Click here to link.

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Business Franchise

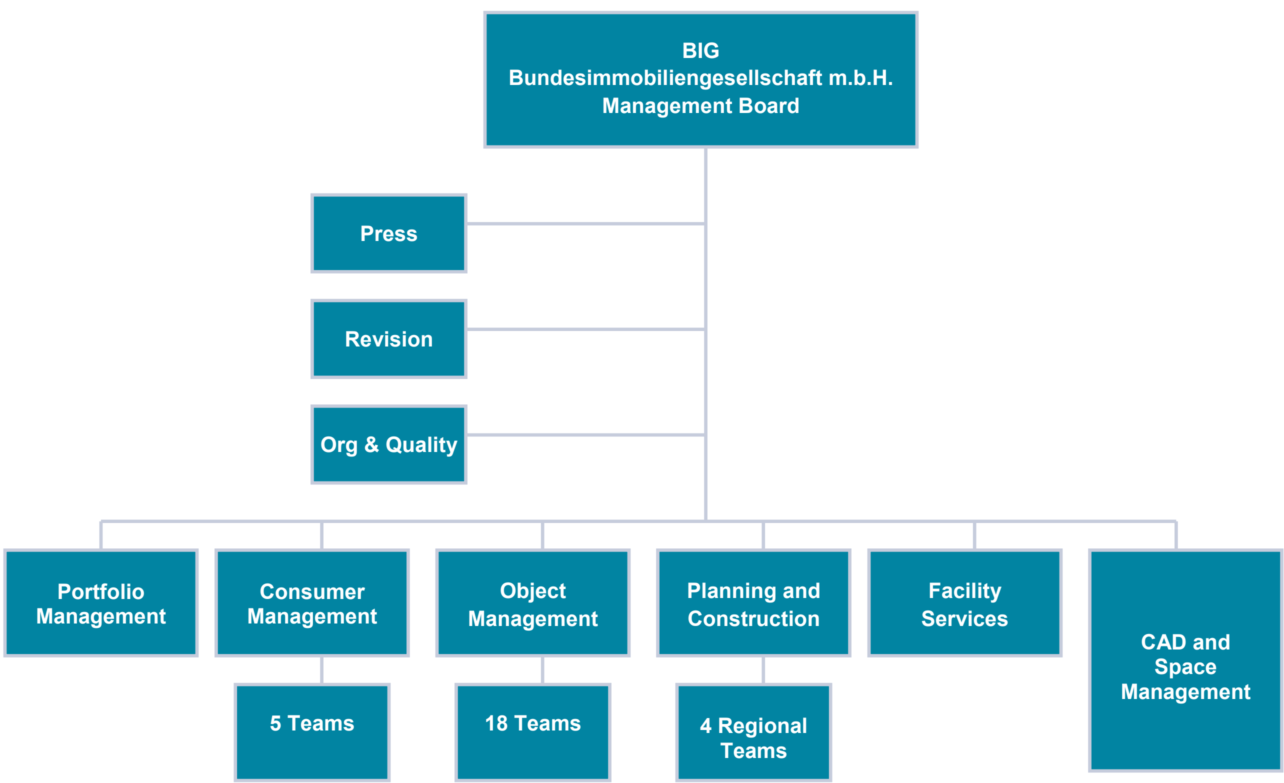
BIG was created by law in 1992 with the objective of centralising property management for Austria's public sector, with a view to improving efficiency and, more specifically, the cost-efficiency of various government departments. The underlying premise was that requiring departments to pay for and account for their usage of buildings would force them to rationalise their use of space and allow surplus stock to be put to alternative use or sold.

Following a revision of the act regulating BIG's activities in 2000, the entity now owns the properties previously leased from the state. The purchase price was set at €2.4 billion, with the transfer completed during 2003. The purchase was financed with debt.

Moody's views €2.4 billion as a fair price for the transferred assets. According to an independent valuation of the properties by the Technische Universität Wien (Technical University of Vienna), the market value was €6.9 billion. The lower transfer value takes into account the specialist nature of the properties – i.e. they possibly have a lower resale value – and future investment needs. Moreover, if BIG sells any of the transferred assets with a positive margin over the purchase price, it has to pay a share of the gain to the state, i.e. a formulaic calculation of the share, taking into account the gain on the disposal. The agreement with the state was revised as of 1 January 2005, allowing BIG to offset some costs prior to paying out around 80% of the gain.

Figure 1:

Organisation Chart



BIG has undertaken several initiatives toward continued rationalisation of its business model and internal procedures, seeking ever-higher efficiency and effectiveness in all its activities. The company took all necessary steps to ensure a successful transition to IFRS for the first time in 2007.

BIG has responsibility for managing the Austrian Republic's real estate, with a portfolio largely dominated by schools and universities (70.5%) and other federal tenants such as prisons, police stations and court houses (27%) at year-end 2008. BIG's activities involve renting out the buildings to the various government entities, carrying out renovations and new investments, and handling sales of redundant buildings and land. BIG's holdings include a small residential property portfolio, mainly comprising the current and former homes of civil servants and other public sector employees (2%). BIG also offers facilities management services if required by the tenants.

BIG consists of a holding company, Bundesimmobiliengesellschaft mbH (BIG), and – following the successful merger by incorporation of its subsidiary BIG Services, or IMB (Immobilienmanagementgesellschaft des Bundes) in 2006 – two main subsidiaries, BIG Finanzdienstleistungen GMBH and BIG Entwicklungs-Und Verwertungs GMBH, which are both 100% owned by BIG and consolidated into its accounts. The group also consolidates an array of companies related to particular buildings and projects.

Around €2.1 billion will be spent in Austrian real estate between 2008 and 2010. Key priorities going forward continue to be the optimisation of key business, i.e. leasing of real estate to the federal Republic's administration and project development with strategic partners.

Financial Fundamentals

2007 results deteriorated from previous two years; the same is expected for 2008

The 2007 operating results, reported in line with the IFRS principles, were slightly down compared to 2006 (at €266.7 million vs. €268.7 million). Pre-tax profit was €114.5 million, down 28.3% compared to 2006, largely due to higher operating expenditures and depreciation. A drop in revenues from financial activities, namely interest proceeds and income from investments and from other securities, loans and advances, as well as minor taxes paid, further contributed to the reduction of financial surplus to €79.4 million in 2007, down by 33.7% compared to 2006. This trend affecting the above-mentioned cost components is reported to have continued in 2008.

Pre-tax profits likely to remain positive, in line with BIG's mission

Expectations going forward are in line with the business plan of the past 10 years, with pre-tax profits expected to remain positive, at around €50 million per year, given the expected higher growth of depreciation and financial expenditure; this is in line with BIG's mission as the entity is not meant to be a profit maximiser. Some savings are expected from lower maintenance and service costs. On the other hand, growth in rental income is expected to be modest at around 3.2% a year over 2009-13, mainly thanks to the proposed second rental adjustment in 2011 under the five-year rent-adjustment mechanism. Other income – including that arising from service contracts and the disposal of properties – is expected to continue to represent around 12% of operating revenues in 2009-13.

Rental Income and Occupancy

Rental income is the mainstay of BIG's income, representing a stable 79% of operating revenues in 2006-07. Of this, 98% comprises rents received from the state – i.e. from various ministries that use the buildings, although the universities now pay BIG directly from their government-allocated annual operating budgets. As such, the universities have become the direct payers, although the funds still stem from the Ministry of Education. Including such indirect payments, the Ministry for Education accounts for the majority (71%) of BIG's rental income in the form of schools and universities, followed by other federal tenants (27%) and other tenants (2%). Rents are paid monthly or quarterly for all properties; all residential tenants pay rent on a monthly basis.

In 2007, BIG sold properties worth €43.3 million, of which €23 million was paid to the Federal Republic as required by the agreement signed with the state.

There are options for giving notice under the rental agreements; the notice period is one year for tenants, covering 70% of the total revenue. However, the tenants are deemed to be relatively stable, since the ministries need the properties as a base from which to provide services such as education. The notice periods for new projects or major renovations benefit from a clause that forbids the tenant from giving notice during the debt amortisation period (usually 20-25 years).

Rental Levels Take Into Account a Reasonable Margin and the Need for Investment

Rents have been fixed on a "market" basis, while taking into account the relatively specialised nature of the properties, and – as of 2003 – indexed to a designated consumer price index with a one-year time lag (currently CPI 1996). Adjustments are only permitted if they are 5% above this index, and the adjustment will then be in full. As such, the potential for rental increases is not considered to be particularly flexible. The first rental adjustment under this ruling was implemented in 2006, driving a corresponding increase in rental revenue following the small declines in 2004 that were a result of the gradual sell-off of non-core rental properties. The next adjustments, due to take place in 2011 and 2016, are expected to be slightly higher than the initial value of €22 million previously forecast.

Increased Operating Costs as Planned

BIG's management successfully kept operating costs at an acceptable level through a focus on cost efficiency until 2006. In 2007 and 2008, higher personnel expenses, expenses related to materials, building and services and depreciation were responsible for the declining operating margins. Such declines were already forecast in the company's business plan. Going forward, personnel expenses are expected to further grow in 2009-13 due to standard salary increases and one-off pension payments. The headcount, 788 in 2008 is expected to increase in 2009 to 825 and slightly diminish afterwards. Cost for materials, building and services are also expected to moderately increase in the period. The key reason for this is the anticipated investment versus initial planning as a part of BIG's required contribution to the stimulus package (deficit spending policy) recently adopted by the Federal Government to sustain the national economy

The other main cost item is interest expense, which is less flexible as it relates to the relatively "inflexible" debt stock accumulated to fund previous asset purchases and future investment needs. Financial expenses (including interest, expenses from financial assets and expenses from associated entities) were slightly up in 2007 compared to 2006, but are reported to have dropped by 20% in 2008 following the company's reduced investment activity and debt repayment. Expectations going forward are for a smaller annual increase until 2013.

Most of BIG's investments are calculated for a period of 25 years, with a strong focus on sustainability, which translates into a strong focus on keeping maintenance costs at low and stable levels, averaging €183 million per year in 2009-2010 . This brings predictability to the financial plan in the long term.

BIG invested €174 million on maintenance in 2008, the majority of which was spent on schools and universities (63%). BIG has also invested nearly €222 million in development projects and construction. At present, over 100 construction projects are being projected or undertaken, amongst which are two office/residential developments in Vienna, namely the Karree St Marx and the Eurogate development. Going forward, BIG expects annual construction investments (both construction projects and works) of more than 700 million in 2009-10.

Debt Set Up to Moderately Growth After 2 Year Break

BIG's stock of debt has grown rapidly since 2000 due to its purchase of properties from the central government; financial debt totalled €3.185 billion at the end of 2007, slightly less than in 2006. Net debt in 2007 (new issuances minus maturities) was negative in 2007 and reportedly also in 2008.

Based on its long-term budgets, BIG's debt is not expected to grow considerably as the bulk of the assets from the state have now been purchased, although some minor purchases and some project investments are planned during the forecast period to 2010. Net debt is expected to grow at a moderate pace, with a total increase of close to €350 million (whereof €800 million in borrowings – 450 repayments) in 2009-10.

By the end of 2008, 78% of the overall exposure was at fixed rates with almost all debt euro-denominated. The maturity profile shows one relevant peak, in 2013, but it is otherwise reasonably stable. Maturing issues tend to be refinanced and are generally well absorbed in the market as a consequence of the closeness of the issuer to the state. BIG has enjoyed the flight to quality phenomenon during the recent liquidity crunch, confirming investors' preference for a solid issuer class. Interest rates and currency exposures are limited through the use of financial derivatives with high-quality counterparties (with ratings ranging from Aaa to Aa).

Overall Adequate Liquidity Profile

BIG's cash flows are predictable, with 98% of the rental income (the mainstay of BIG's income) coming from the state and paid quarterly. Cash outflows, mostly project financing and debt servicing, are also predictable. Mismatches are funded via BIG's €1 billion Euro Commercial Paper Programme (rated P-1). The programme was not used in 2008 given BIG's abundant liquidity. Additionally, BIG can still use short-term drawing rights with banks. No back-up facilities are in place, although the predictable nature of BIG's cash flows and its closeness to the Austrian government are mitigating factors.

High Dependence

The high dependence between BIG and the Federal Republic of Austria is due to the almost total reliance of its revenue structure on rental income from Austrian public institutions.

High Probability of Support from the Federal Republic of Austria

The 100% ownership of BIG by the Republic of Austria provides comfort that the owner will:

- Support the entity in the event of a problem arising.
- Remain the main tenant of BIG, and hence provide revenue/margin stability.
- Determine policy (tasks and obligations) of the entity going forward, while taking financial stability into account.
- Supervise and control the activities of BIG.

The state's ownership could only be reduced below 100% through a change in the law pertaining to BIG. Although this is not impossible, to date the government has not signalled any intention to effect such a change, as BIG is regarded as a vital instrument in the management of the state's properties. BIG's accounts are audited by the Federal Audit Office.

Furthermore, there are no plans to extend the entity's activities to the private sector to a material degree. Although the law permits BIG to carry out commercial property marketing and development, such activities are supposed to be of a subsidiary nature and there are currently no plans to expand commercial activities beyond asset sales of surplus or unused properties and land. In fact, BIG's new management reiterated that activities will remain focused on the state, either in terms of new projects or further state asset purchases. Only a few activities will involve the development of projects for third parties. In this regard, BIG envisages more projects that link state activity/policy with the private sector, like the ICT technology park in Tyrol where the university will share a building with private enterprises.

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Annual Statistics

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	2006	2007
Total Financial Debt (Fair Value IAS 39 - TEUR)	**3,201,248.0**	**3,185,409.8**
Debt due within one year	453,884	492,016
Debt due after one year	2,747,364	2,693,394
Profit and Loss (Consolidated - TEUR)		
Income from rental of investment property	596,853	620,956
Income from services	110,971	114,188
Proceeds from disposal of investment and inventory property	46,814	43,373
Other operating income	588	3,726
Operating Revenues (EUR 000's)	**755,226**	**782,244**
	79.0%	79.4%
Operating expenditures for realization of rental income	-335,705	-365,127
Costs from services	-86,562	-97,254
Operating expenditures for disposal of investment property	-48,309	-31,463
Book Value of sold inventory property	-1,250	-4,512
Other	-14,687	-17,169
Operating Costs	**-486,514**	**-515,525**
Operating Profit	**268,713**	**266,719**
Results from associated companies	**-381**	**-1,047**
Financing income	84,347	48,738
Financing expenses	-192,898	-199,911
Financial Results	**-108,552**	**-151,172**
Pre-tax Profits	**159,780**	**114,500**
Income Tax	-40,084	-35,109
Consolidated Results	**119,696**	**79,391**

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	2006	2007
Balance Sheet (TEUR)		
Assets:		
Investment property rented out	3,436,544	3,660,956
Investment property in the development stage	745,221	458,850
Taqngible assets	10,640	22,855
Intangible assets	8,098	7,146
Shares in associated companies	10,864	12,407
Other financial assets	37,846	39,037
Active deferred taxes	17,773	32,863
Long term assets	**4,266,986**	**4,234,114**
Inventory	13,965	17,959
Receivables for effective profit tax	22,327	8,422
Receivables and other assets	71,244	64,476
Liquid funds	3,871	74,688
Short term Assets	**111,406**	**165,545**
Total assets	**4,378,392**	**4,399,659**
Liabilities:		
Nominal capital	226,000	226,000
Revenue reserves	486,790	566,131
Equity	**712,790**	**792,131**
Financial liabilities	2,747,364	2,693,394
Provisions for personnel	7,961	8,259
Other provisions	5,000	5,000
Investment grants from public funds	42,299	58,609
Trade payables	1,518	2,178
Other liabilities	121,164	76,188
Indirect deferred taxes	0	0
long-term liabilities	**2,925,305**	**2,843,629**
Financial liabilities	453,884	492,016
Provision for effective income tax	0	0
Trade payables	123,464	116,939
Other liabilities	162,950	154,944
Short-term liabilities	**740,297**	**763,899**
	4,378,392	**4,399,659**

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Moody's Related Research

Analysis:

- Austria, November 2008 (112339)

Rating Methodologies:

- The Application of Joint Default Analysis to Government Related Issuers, April 2005 (92432)
- The Application of Joint Default Analysis to Government Related Issuers, April 2005 - German version (92806)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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