

Analysis

Moody's International Public Finance

March 2008

Bundesimmobiliengesellschaft m.b.H.

Vienna, Austria

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 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; all three 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.

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This 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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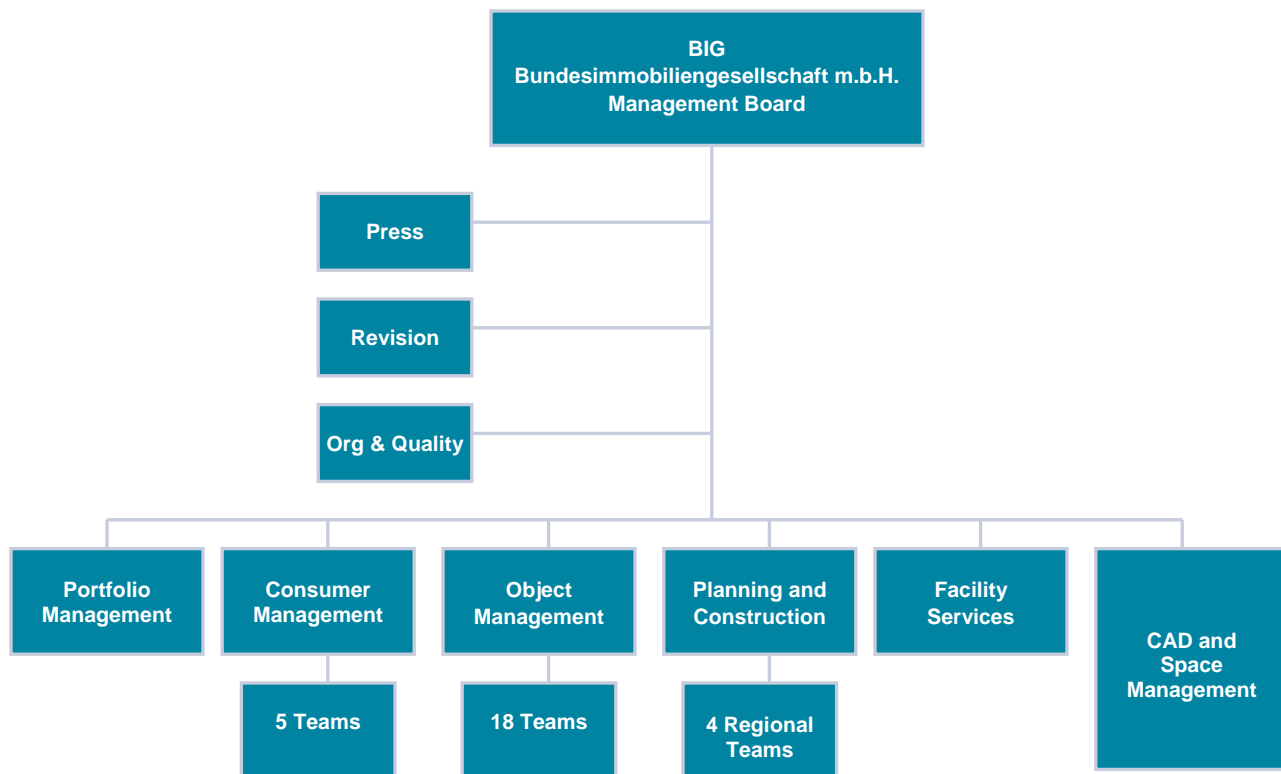
Business Franchise

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 obliging departments to pay 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 off.

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 being 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: Organization Chart



BIG has undertaken several initiatives toward continued rationalisation of its business model and its internal procedures, seeking for ever-higher efficiency and effectiveness in all its activities. It is noteworthy that BIG's adoption of IFRS for the first time in 2007 is expected to be smooth as the company has already taken all necessary steps to ensure successful transition.

BIG has responsibility for managing the Austrian Republic's real estate, with a portfolio largely dominated by schools and universities (71%) and other federal tenants such as prisons, police stations and court houses (27%) at year-end 2006. BIG's activities involve renting out the buildings to the various government entities,

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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.

More than €XX 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

2006 results slightly deteriorated compared to previous two years, in line with planned strategy ...

The 2006 operating results were slightly down compared to 2005 (at €222.7 million vs. €233.4 million). Pre-tax profit was €86.9 million, down 15.7% compared to 2005 and 4.7% vs. 2004, largely due to other operating expenditures (€65 million vs €24 million the year before). Slightly lower 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 generating a financial surplus of €50.3 million in 2006, down by 11.7% compared to 2005 but still higher than 2004.

...And are likely to remain positive, in line with BIG's mission

Total consolidated pre-tax results for 2007 are reported to be close to 2005 levels, mainly thanks to higher turnover and the lower level of one-off items. Expectations going forward are in line with business plan of the past 10 years, with pre-tax profits expected to remain positive, albeit lower on average than in 2006, 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. On the one hand, some savings are expected from lower maintenance and service costs. On the other hand, growth in rental income is expected to be modest at 2.65% a year over the period 2008-2013, 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 13% of total operating revenues in the considered period.

RENTAL INCOME AND OCCUPANCY

Rental income is the mainstay of BIG's income, representing nearly 83% of total operating revenues (excluding capital gains) in 2006. 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, whereas residential tenants pay rent on a monthly basis.

In 2006, BIG sold properties worth nearly €47 million, of which €27 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

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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 which 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 initial value of €22 million previously forecast.

COST KEPT UNDER CONTROL

BIG's management has successfully kept operating costs at an acceptable level through a focus on cost efficiency, with expenses related to materials, building and services declining by close to 9% since 2003. Overall we expect this prudent cost management to continue, with some one-off exceptions such as personnel items expected to grow by 13% in 2008 before growing in line with inflation in subsequent years. The headcount of 807 in 2007 is expected to remain stable in the next three-year period.

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 down 2.7% in 2006 compared with 2005, but are reported to have risen to 14.2% in 2007 following company's recent investment activity. Expectations going forward are for a slighter increase on a yearly basis till 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 for the considered period (around €118 million per year). This brings predictability to the financial plan in the long term.

BIG invested around €132 million on maintenance in 2006, the majority of which was spent on schools and universities (66%). BIG has also invested nearly €239.4 million in development projects and construction. At present, over 56 construction projects are being 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 €300-350 million in the medium term.

MODERATE PACE OF DEBT GROWTH EXPECTED

BIG's stock of debt has grown rapidly since 2000 due to its purchase of properties from the central government; financial debt totalled €3.3 billion at the end of 2007, slightly lower than in 2006. Net debt in 2007 (new issuances minus maturities) was negative in 2007.

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. Debt is expected to grow at a moderate pace of 1.9% a year, reaching €3.5 billion by year-end 2010.

The maturity profile shows two peaks, in 2007 and in 2013, but 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. Interest rates and currency exposures are limited through the use of financial derivatives with high-quality counterparties (with ratings ranging from Aaa to A2). By the end of 2007, 79% of the overall exposure was at fixed rates with almost all debt euro-denominated.

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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 being 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 average amount outstanding in 2007 was around €15.6 million vs. €66 million the year before. 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 Bundesimmobiliengesellschaft. 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 in 2005 that activities will remain focused on the state, either in terms of new projects or further state asset purchases. Only a small amount will be 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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Year	2001	2002	2003	2004	2005	2006
Total Debt	2,418,149	3,237,960	3,679,596	3,652,976	3,559,434	3,530,926
Debt due within one year	404,602	481,683	405,855	566,003	301,112	668,252
Debt due after one year	2,013,547	2,756,277	3,273,741	3,086,973	3,258,321	2,862,673
Profit and Loss						
Turnover	674,468	691,573	676,825	687,807	692,719	715,306
Asset Sales	0	0	0	0	0	0
Liquidation of Reserves	0	0	0	0	0	0
Other	7,881	6,088	50,656	22,502	34,517	28,380
Operating Revenues (EUR 000's)	682,349	697,661	727,481	710,309	727,236	743,685
Materials, Building and Services	211,698	281,442	286,766	259,684	242,553	246,173
Personnel	12,294	13,366	16,241	20,099	21,152	22,863
Depreciation	118,871	150,100	164,715	178,086	205,077	186,437
Other	80,311	17,888	20,551	20,265	25,045	65,500
Operating Costs	423,174	462,797	488,273	478,134	493,827	520,973
Operating Profit	259,175	234,865	239,208	232,175	233,409	222,712
Securities Income	354	366	44	50	46	30
Interest Receivable	2,605	5,654	11,553	2,979	5,895	4,531
Other Income	0	0	0	0	9,412	3,720
Interest Expenses	119,955	135,510	146,692	144,189	144,901	143,067
Other Expenses	0	0	0	0	3,229	1,014
Depreciation	1	1	0	0	0	0
Extraordinary Charges	11,142	0	0	0	0	0
Extraordinary Income	0	1,116	0	0	0	0
Pre-tax Profits	131,035	106,491	104,113	91,016	100,633	86,913
Income Tax	47,833	45,970	45,514	44,703	43,627	36,565
Profit for the year (Before Allocations To and From Reserves)	83,202	60,521	58,599	46,313	57,006	50,348

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Year	2001	2002	2003	2004	2005	2006
Balance Sheet						
Intangible Fixed Assets	312,563	248,284	17,715	16,751	9,257	8,089
Tangible Fixed Assets	2,500,303	3,360,484	3,996,698	4,001,829	4,022,956	4,087,496
Financial Assets	4,727	5,723	11,527	24,082	29,851	14,755
Fixed Assets	2,817,593	3,614,492	4,025,940	4,042,661	4,062,064	4,110,341
Stock	47,491	14,643	11,629	5,932	4,577	13,965
Debtors	76,118	95,959	95,309	92,455	78,841	102,539
Securities	0	0	0	0	0	0
Cash	40	3,675	18	79	28,578	3,871
Accruals and Deferrals	4,221	5,713	12,411	10,250	9,137	7,882
Current Assets	127,870	119,990	119,367	108,716	121,133	128,257
Total Assets	2,945,462	3,734,482	4,145,307	4,151,377	4,183,197	4,238,598
Short-Term Debt	404,602	481,683	405,855	566,003	301,112	668,252
Equity	355,798	323,161	322,017	395,418	447,476	483,930
Untaxed Reserves	73,177	66,334	63,747	9,126	9,065	8,960
Provisions	67,842	73,582	47,781	59,910	119,653	156,581
Creditors	2,013,547	2,756,277	3,273,740	3,086,973	3,258,321	2,862,673
Accruals and Deferrals	21,011	23,103	19,250	16,185	16,676	15,777
Other	9,485	10,342	12,916	17,761	30,893	42,424
Total Liabilities	2,540,860	3,734,482	4,145,307	4,151,377	4,183,197	4,238,598
Ratios and Analysis						
Operating Margin (op. Surplus / turnover) (%)	38.43%	33.96%	35.34%	33.76%	33.69%	31.14%
Interest Cover (Operating Surplus / Interest Payable) (x)	2.16	1.73	1.63	1.61	1.61	1.56
Operating Surplus / Total Debt (%)	10.72%	7.25%	6.50%	6.36%	6.56%	6.31%
Total Assets / LT Debt (x)	1.22	1.15	1.13	1.14	1.18	1.20
Gearing (Debt / Equity) (x)	6.80	10.02	11.43	9.24	7.95	7.30
EBITDA	381,004	390,986	415,520	413,291	453,839	417,431
EBITDA / Turnover (%)	56.49%	56.54%	61.39%	60.09%	65.52%	58.36%
EBITDA/Interest Expenses (x)	3.18	2.89	2.83	2.87	3.13	2.92

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Moody's Related Research

Analysis:

- Austria, July 2007 (104122)

Banking Statistical Supplement:

- Austria, November 2007 (106088)

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)

Special Comment:

- The Incorporation of Joint-Default Analysis into Moody's Corporate, Financial and Government Rating Methodologies, February 2005 (91617)

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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