

# **CEDA**

## **The Federal Government's Infrastructure Agenda: Creating a Legacy**

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23 June 2009

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# S&P Global Coverage

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- Over 140 years of experience from 1860
- 1941: Standard Statistics and Poor's Publishing
- 1966 - division of The McGraw-Hill Companies, Inc
- 6300 employees
- Ratings on over 40,000 issuers
- 1990 Acquired Australian Ratings
- Analyst driven Ratings
- Issuer-Pay model



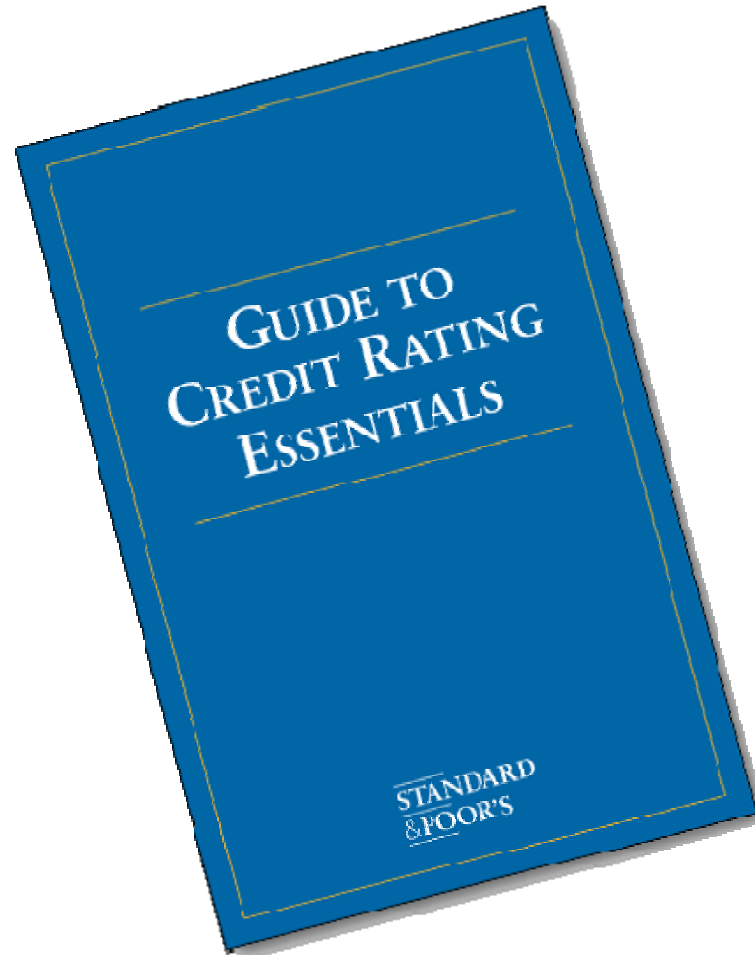
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<http://www2.standardandpoors.com/aboutcreditratings/>

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- **Credit ratings are opinions about relative credit risk**
- **Credit Ratings are Forward Looking**
- **Credit Ratings do not Indicate Investment Merit**
- **Credit Ratings are not Absolute Measures of Default Probability**



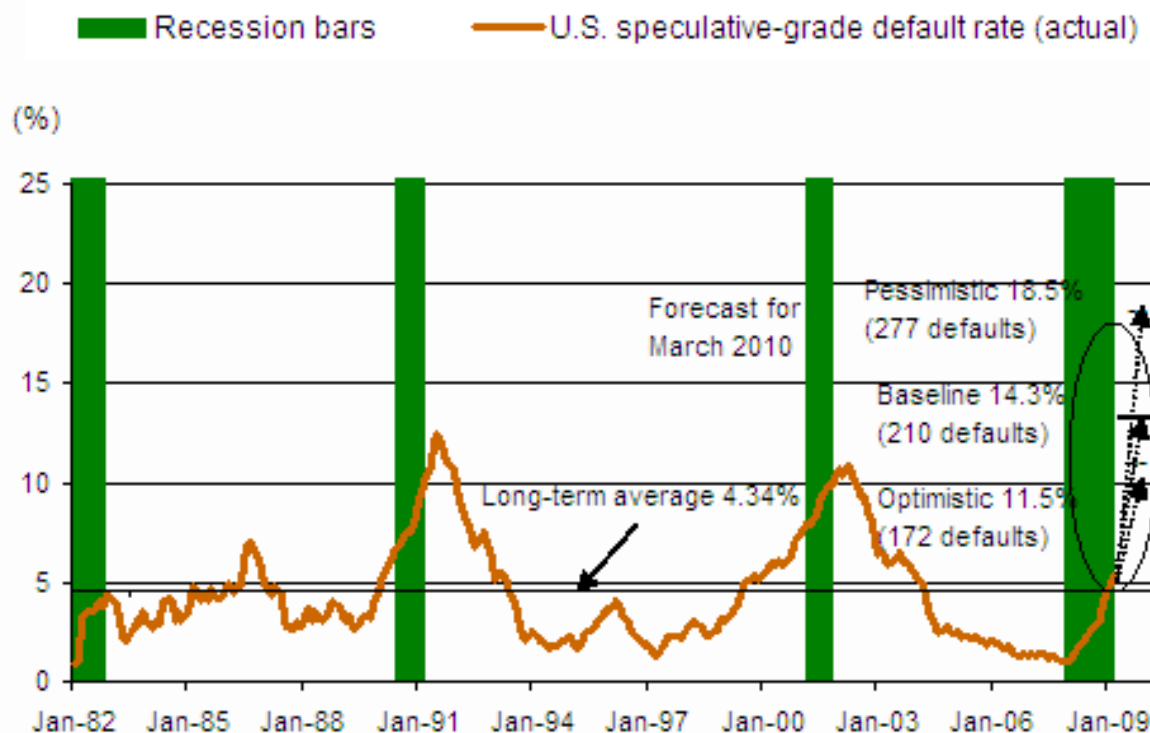
# Understanding Standard & Poor's Rating Definitions

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- **AAA is the highest issuer credit rating assigned by Standard & Poor's.**
- **For an issuer to attain a rating of 'AAA' it must have "extremely strong" capacity to meet its financial commitments under the actual conditions at the time of consideration.**
- **AAA rating is largely a choice.**
- **An issuer or obligation rated 'AAA' should be able to withstand an extreme level of stress and still meet its financial obligations.**
- **Credit Stability As An Important Rating Factor. At AAA this means the Maximum Projected Deterioration Under Moderate Stress Conditions**
  - **One year AA**
  - **Three years BBB**
- **PPP Impact On Government Credit Quality Depends On Risk Transfer And Motivation**

# Debt Markets have cycles

U.S. Corporate Speculative-Grade Default Rate And 12-Month-Forward Forecast



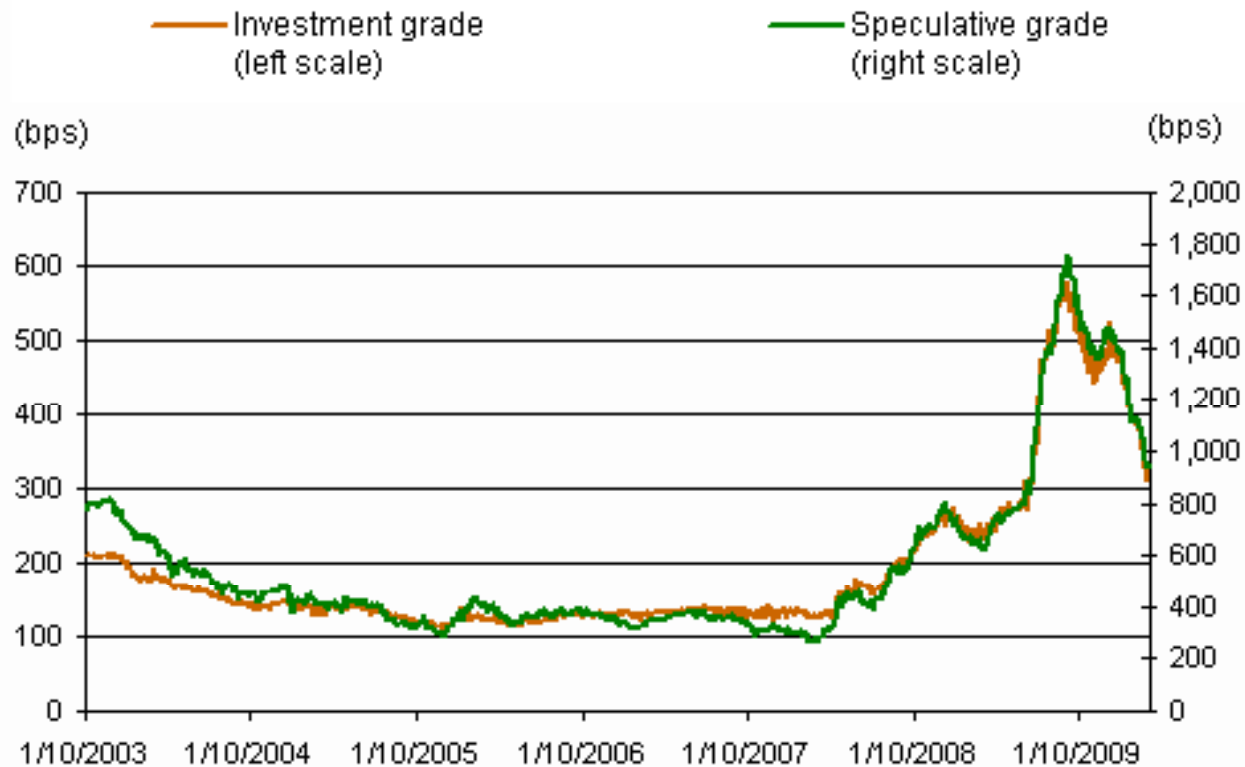
Shaded areas are periods of recession as defined by the National Bureau of Economic Research (NBER). Sources: Standard & Poor's Global Fixed Income Research and Standard & Poor's CreditPro®.

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# Refinance Risk

Standard & Poor's Composite Credit Spreads Since Jan. 10, 2003



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# Choice of Projects

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**Good if it:**

- **Reduces bottlenecks**
- **Promotes future growth**
- **Project Selection based on well developed rationale**
- **Disciplined project management – cost and time control**
- **Capacity to deliver is adequate**
- **Government skills**
- **Approvals can be obtained in a timely manner**

# Financing Issues

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- **Direct borrowing**
- **Sale of assets**
- **Private funding**
  - **Bond Funding**
    - Monoline pricing arbitrage
  - **Bank Funding**
  - **Refinance Risk**
- **Government Supported Private Financing Models**



## **What trends do we expect?**

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- **More conservative Risk and Return profiles by debt and equity**
- **More robust due diligence by investors**
- **Greater transparency**
- **Focus on Operating cash flows**
- **Less Complexity**
- **Less Financial engineering**
- **Lower leverage**
- **Rebalancing of risks**
- **Emphasis on Credit Analysis**

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