

Company Focus

2 October 2008 | 84 pages

Atlantia (ATL.MI)

 Initiation of coverage

Strike When the Moment Is Right

- In a European leading motorway with a long concession** — Atlantia controls c.61% (+3,400 km) of the Italian toll motorway network or 17% of the European one, with its main concession expiring in 2038. The Group generated revenues of €3.3bn in FY07A (+4.2% YoY) and €1.7bn in H108A (+7.8% YoY).
- New transparent and fair remuneration** — In June 08, Atlantia signed a new tariff system that: i) links remuneration to real inflation and ii) recognises a specific (and fair) extra return on the 2002 capex plan as well as on new investments, providing superior visibility on future cash flows. Moreover, a clear set of rights and rules has been agreed upon by ANAS and Atlantia.
- But Atlantia (-40% YTD) has underperformed market and peers** — The weakness is due to: i) traffic slowdown, in terms of both actual and expected figures (FY08E -0.5%, FY09E 0%); ii) oil price rally; iii) interest rate spike; iv) overhang risk: both Abertis (c.6.7%) and Unicredito (c.3.3%) could sell shares.
- Oversold? Judge for yourself** — We think Atlantia's price makes little sense from a fundamental point of view: to justify the current price, we would have to assume zero traffic growth until the end of the concession AND i) either tariffs growing at only 70% of CPI or ii) a fixed 7.7% WACC (versus 6.75% in our base case).
- Conservative DCF valuation due to market conditions** — Our DCF delivers a valuation of €23.0, using a very conservative 6.75% average WACC to reflect the current situation in debt and equity markets alike. We then apply a 10% discount to reflect: i) negative sector momentum; ii) weak traffic outlook; iii) significant overhang risk; iv) increasing interest rate spreads; and v) country risk. Our multiple analysis supports our valuation.
- Initiating with Buy rating, €20.6 TP, but timing is key** — We think the stock is deeply undervalued, but we fail to see a probable short-term catalyst, since traffic and GDP evolution are unlikely to surprise on the upside in the near future. Investors, therefore, should time their entry into the stock carefully.

Buy/Medium Risk	1M
Price (02 Oct 08)	€15.47
Target price	€20.60
Expected share price return	33.2%
Expected dividend yield	4.8%
Expected total return	37.9%
Market Cap	€8,844M
	US\$12,401M

Price Performance (RIC: ATL.MI, BB: ATL IM)



Atlantia (EUR)

Year to 31 Dec	2006A	2007A	2008E	2009E	2010E
Sales (€M)	3,141.2	3,271.6	3,439.8	3,527.4	3,656.2
Net Income (€M)	665.3	679.8	738.5	760.6	794.8
Diluted EPS (€)	1.16	1.19	1.29	1.33	1.39
Diluted EPS (Old) (€)	1.16	1.19	1.29	1.33	1.39
PE (x)	13.3	13.0	12.0	11.6	11.1
EV/EBITDA (x)	9.6	9.3	9.4	9.3	9.2
DPS (€)	0.57	0.67	0.74	0.81	0.89
Net Div Yield (%)	3.7	4.3	4.8	5.2	5.8

See Appendix A-1 for Analyst Certification and important disclosures.

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Fiscal year end 31-Dec	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	13.3	13.0	12.0	11.6	11.1
EV/EBITDA adjusted (x)	9.6	9.3	9.4	9.3	9.2
P/BV (x)	2.5	2.4	2.2	2.1	2.0
Dividend yield (%)	3.7	4.3	4.8	5.2	5.8
Per Share Data (€)					
EPS adjusted	1.16	1.19	1.29	1.33	1.39
EPS reported	1.16	0.67	1.29	1.33	1.39
BVPS	6.25	6.35	6.91	7.43	7.93
DPS	0.57	0.67	0.74	0.81	0.89
Profit & Loss (€M)					
Net sales	3,141	3,272	3,440	3,527	3,656
Operating expenses	-1,478	-1,549	-1,711	-1,742	-1,790
EBIT	1,664	1,723	1,728	1,786	1,866
Net interest expense	-445	-442	-443	-464	-487
Non-operating/exceptionals	-53	-84	-79	-80	-81
Pre-tax profit	1,165	1,197	1,206	1,242	1,298
Tax	-493	-820	-446	-460	-480
Extraord./Min.Int./Pref.div.	-7	3	-21	-22	-23
Reported net income	665	381	739	761	795
Adjusted earnings	665	680	739	761	795
Adjusted EBITDA	1,989	2,068	2,088	2,160	2,253
Growth Rates (%)					
Sales	6.2	4.1	5.1	2.5	3.6
EBIT adjusted	2.1	2.3	0.3	3.4	4.6
EBITDA adjusted	4.9	4.0	1.0	3.4	4.3
EPS adjusted	-2.4	2.2	8.6	3.0	4.5
Cash Flow (€M)					
Operating cash flow	1,190	1,274	1,187	1,340	1,421
Depreciation/amortization	325	346	360	374	387
Net working capital	110	-11	123	11	0
Investing cash flow	-1,225	-1,258	-1,302	-1,332	-1,429
Capital expenditure	-1,225	-1,192	-1,296	-1,326	-1,423
Acquisitions/disposals	0	-66	-6	-6	-6
Financing cash flow	-110	-116	363	85	-123
Borrowings	8	196	666	591	486
Dividends paid	-327	-383	-421	-463	-509
Change in cash	-144	-100	248	93	-131
Balance Sheet (€M)					
Total assets	16,490	16,950	18,155	19,123	19,964
Cash & cash equivalent	919	819	1,067	1,160	1,029
Accounts receivable	773	756	795	815	845
Net fixed assets	7,710	8,556	9,559	10,496	11,515
Total liabilities	12,627	12,939	13,817	14,479	15,025
Accounts payable	629	684	765	782	801
Total Debt	9,865	10,061	10,727	11,318	11,804
Shareholders' funds	3,863	4,010	4,338	4,644	4,939
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	63.3	63.2	60.7	61.2	61.6
ROE adjusted	19.8	18.9	19.5	18.6	18.1
ROIC adjusted	8.2	5.9	8.2	8.1	8.0
Net debt to equity	231.6	230.4	222.7	218.7	218.2
Total debt to capital	71.9	71.5	71.2	70.9	70.5

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Executive Summary

Atlantia is the largest motorway management company in Italy, controlling c.61% (+3,400 km) of the Italian toll motorway network or 17% of the European toll motorway network. The Group generated revenues of €3.3bn in FY07A (+4.2% YoY) and €1.7bn in H108A (+7.8% YoY). Other revenue is generated by engineering and construction, TLC tower management, and services. The Group also operates in Poland, the US and South America and is planning to continue its international expansion.

In June 08, ANAS (Azienda Nazionale Autonoma delle Strade Statali, the national authority for state-owned roads) and Atlantia agreed a renewed €19bn capex plan and a new (we believe) transparent and stable tariff system, that provides superior visibility over Atlantia's future cash flows. Nonetheless, the stock has underperformed the S&P MIB Index by 7ppts YTD due to a dreadful mix of sector and company-specific elements: i) traffic slowdown, in terms of both actual and expected figures (FY08E -0.5%, FY09E 0%), due to a gloomy macro outlook; ii) oil price rally; iii) interest rate spike; iv) significant overhang risk on Atlantia stock: both Abertis and Unicredito (combined stake of c.10%) are willing to sell shares at a reasonable price, while we suspect many funds may have been forced to sell them.

As a consequence, Atlantia's price makes little sense from a fundamental point of view. Even on our rather bearish numbers, to justify the current price, we would have to assume zero traffic growth until the end of the concession AND i) either tariffs growing at only 70% of CPI or ii) a fixed 7.7% WACC (+c.15% vs. our base case). Our DCF delivers a valuation of €23.0/share, to which we apply a 10% discount to reflect: i) negative sector momentum; ii) a weak traffic outlook; iii) significant overhang risk; iv) increasing interest rate spreads; and v) country risk. Our multiple valuation, while not conclusive, supports our valuation.

We therefore initiate coverage on Atlantia with a Buy/Medium Risk rating and a €20.6/share target price. However, we believe timing is key: on the one hand, we think the stock is deeply undervalued, but on the other we fail to see a probable short-term catalyst, since traffic and GDP evolution are unlikely to surprise on the upside in the near future.

One of the main European toll roads

Atlantia is the largest motorway management company in Italy, controlling c.61% (+3,400 km) of the Italian toll motorway network or 17% of the European toll motorway network. Autostrade manages the main north-south arteries connecting Milan to Naples through the central part of the country and Milan to Taranto on the Adriatic coast. The Group generated revenues of €3.3bn in FY07A (+4.2% YoY) and €1.7bn in H108A (+7.8% YoY), with EBITDA of €2.1bn in FY07A (+4% YoY) and €1.05bn in H108A (+3.7% YoY). 85% of toll revenues are generated by the main operating subsidiary, Autostrade per l'Italia, which also has the longest concession to expiry (2038). Other revenues are generated by engineering and construction, TLC tower management, and services. The Group also operates in Poland, the US and South America and is planning to continue its international expansion.

New capex plan and new remuneration

The Italian motorway system is characterized by a saturated and insufficient network (due to severe underinvestment) and by the lowest tariffs in Europe. To solve both issues, Atlantia has agreed a c.€19bn capex plan, of which €12bn relates to previous contracts between ANAS and Atlantia (1997 and 2002) and €7bn is new capex. In exchange for this financial commitment, in June 08 Atlantia was afforded:

- **A transparent and stable tariff system**, which links remuneration to real inflation and recognises a specific IRR on the 2002 capex plan (“X factor”), as well as for new investments (an RAB-based “K factor”), providing superior visibility on future cash flows.
- **A clear set of indemnities, covenants and guarantees** that grants a high degree of visibility and stability to Atlantia’s future performance and should avoid further conflict between ANAS and Atlantia.

Basing our forecasts on a conservative set of assumptions (08-12 traffic growth of +2.9%), we believe Atlantia should post a revenue CAGR of c.4% and an EPS CAGR of 3.2% over 08-16, with an average 65% dividend payout.

Atlantia stock down despite all of this ... why?

This summer we witnessed a savage sell-off in the global infrastructure sector, with share price falls of up to c.40%; toll road and airport stocks alike have suffered similar fates. We would have expected Atlantia to be more resilient after the upgraded tariffs scheme approval, but this has not been the case.

A dreadful mix of sector and company-specific elements have depressed Atlantia stock (-12% YTD vs. S&P MIB Index). The sector has been penalized by:

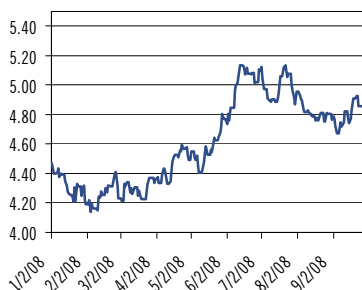
- **GDP and traffic:** Slowing GDP, in terms of both actual and expected figures, had a negative impact on traffic: French and Spanish motorways reported weak traffic figures in June-August (-3% to -7%), and ANAS reported that July and August traffic on Italian motorways was down -2%/-3% YoY, with drastic (-10%/15%) contractions on some stretches.
 - **Oil price rally:** The recent oil price spike will have helped to further depress traffic figures, while in Italy fuel prices proved quite “sticky” when oil prices dipped.
 - **Interest rate spike:** Rising interest rates have a negative impact on concessions, via an increased WACC and financing costs. On top of that, we fear the current credit crunch is reducing the appeal of the motorways business due to expected refinancing costs, so investors are requiring higher returns to invest in such assets. We would stress, however, that Atlantia has no significant debt maturing before 2011 and that 94% is fixed-rate or hedged.
- Atlantia stock is further burdened by a significant **overhang risk**:
- Both Abertis and Unicredito (combined stake 10%) have formally declared that their participation in Atlantia is no longer strategic, and that they are willing to sell shares at a reasonable price (and we think both could benefit from a cash injection).
 - We suspect that many funds owning the name are selling or have been forced to sell, and short interest speculation may have contributed.

Figure 1. EU motorways: YTD performance

Atlantia YTD	Abertis YTD	Cintra YTD	Brisa YTD
-40%	-31%	-19%	-28%

Source: Powered by dataCentral
dataCentral is Citi Investment Research's proprietary database, which includes Citi estimates, data from company reports and feeds from Reuters, Datastream, First Call, IBES and Toyo Keizai.

Figure 2. Italian LBY since 01 Jan 08



Source: Citi Investment Research

Oversold? Judge for yourself

We believe the current share price makes little sense from a fundamental point of view. In order to obtain a fair equity value broadly in line with current price we would need either to:

- Assume **zero traffic growth** until the end of concession AND tariffs increasing by **only** 70% of inflation (i.e. equivalent to Atlantia completing only 35% of planned capex in the next 10 years); or
- Assume **zero traffic growth** AND an average **7.7% WACC** over the entire concession (vs. our already conservative average WACC assumption of 6.75%).

We consider both the above scenarios unrealistic, and we believe Atlantia stock is trading well below intrinsic value.

DCF points to a fair equity value of €23.0

We value Atlantia using a DCF model, given the high visibility on company cash flows until the end of concession. This method delivers a valuation of €23.0/share (implicit EV/EBITDA 09E: 10.5x). We discount the forecast FCFs using the average value of rolling WACCs between 2008E and 2022E (6.1%) and between 2023E and 2038E (7.3%): this is the same as assuming a “long-term” capital structure in which D=40% and E=60%. Our average WACC assumption over the concession lifetime works out at c.6.75%. We consider this WACC conservative, given that, hopefully, credit and financial market conditions will improve in the next 30 years; nonetheless, we believe Atlantia’s valuation is extremely appealing even under this harsh set of assumptions.

We assume dividend growth of +10% per year until 2021, then +3.5% until 2038. With a more aggressive dividend policy (i.e. improving Atlantia's balance sheet efficiency until the end of concession and lowering the long-term WACC to 6.1% from 7.3%), we estimate Atlantia's fair equity value could exceed €28/share.

...but a 10% discount is justified, so TP set at €20.6

To set our target price, we apply a 10% discount to our DCF valuation to reflect: i) negative momentum for the whole motorways sector; ii) a current negative traffic outlook; iii) significant overhang risk; iv) increasing interest rate spreads and v) country risk. Our multiple valuation, while not conclusive, supports our valuation:

- **At our target price of €20.6**, Atlantia’s implied adj. EV/EBITDA 09E would be 10x, which looks inexpensive vs. peers.
- **At our DCF valuation of €23.0**, Atlantia’s implied adj. EV/EBITDA 09E would be 10.5x, which still looks quite appealing vs. peers (e.g. significant discount vs. Brisa’s current consensus multiple, albeit Brisa has superior profitability).

Initiating with Buy/Medium Risk rating, €20.6 TP, but timing is key

We initiate coverage of Atlantia with a Buy/Medium Risk rating and a target price of €20.6/share (10% discount applied to our fundamental DCF valuation). However, we believe timing is key: on the one hand, we think the stock is deeply undervalued, but on the other we fail to see a probable short-term catalyst, since traffic and GDP evolution are unlikely to surprise on the upside in the near future.

That said, the big picture for Atlantia looks to be improving slightly:

- The political pressure to which the company has been subject in the past two years (e.g. opposition to the merger with Abertis) seems to have eased somewhat. Moreover, we believe that the improved transparency and visibility on rights and rules provided by the new tariff agreement should make it more sustainable on the long term.
- Speculation over oil and raw materials seems to be declining, and we think softening demand is unlikely to sustain commodity prices going forward.
- Given the slowing US and EU economies, we would note that a lower bond yield environment would support sector valuation. Lower yields should benefit motorways, lowering their WACCs and partially compensating for the significant increase in spreads.

Risks

- **Traffic:** In our view, the number one risk for Atlantia, from both an operational and stock price perspective, is weaker-than-expected traffic growth. This is most likely to result from prolonged GDP stagnation. On top of that, we believe: i) the oil price and competition among different means of transportation could have a negative impact, while ii) debottlenecking could be a positive. Note, however, that revenue related to the K Factor (c.10% of FY20E revenue) is not dependent on traffic evolution, as it is RAB-based.
- **Significant overhang risk:** c.10% of Atlantia's share capital is in the hands of shareholders that have publicly declared they are willing to sell their stakes. Both Unicredito (CRDI.MI; €3.02; 2H) and Abertis consider their participations no longer strategic, and we believe: i) Unicredito could potentially use the proceeds of the sale to improve its capital ratios before year-end; and ii) Abertis could benefit from a cash injection to ease its current gearing. The market fears a significant price recovery could be an incentive for Abertis and Unicredito to sell their shares, likely limiting potential share price upside, in our view. At the same time, we suspect some of the recent pressure on the stock may have been caused by the forced liquidation of significant stakes by funds that were obliged to sell shares.

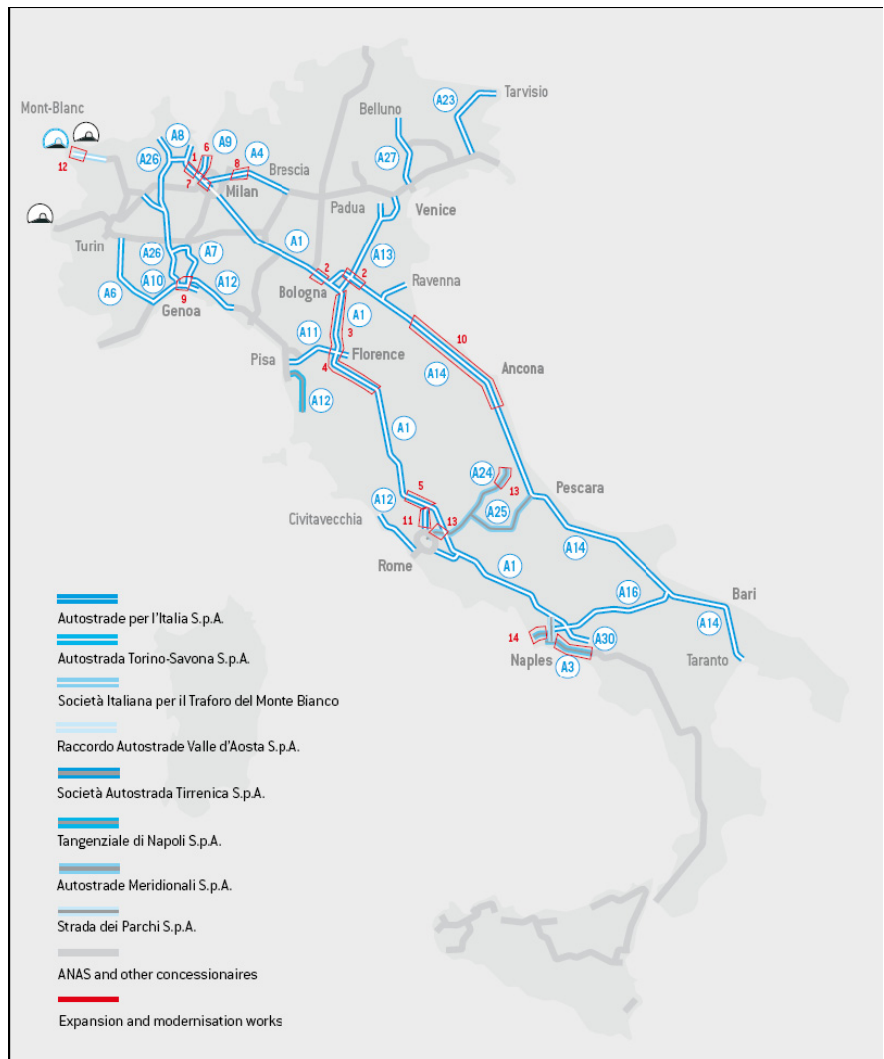
- **Debt and interest rates:** We believe investors require additional incentives to invest in highly leveraged stocks at present, given ongoing credit crunch. Rising interest rates could also impact WACC and lower cash generation via an increase of debt service costs in the medium to long term. We estimate that Atlantia's net debt should increase to c.€16bn by 2018 from c.€9.5bn currently. However, we do not consider this a problem, as Atlantia's balance sheet should remain solid: i) **Net Debt/EBITDA** should at no point exceed 5.0x, which we believe is a comfortable level for a motorway player with such a long concession; and ii) **DSCR (Debt Service Coverage Ratio)**, defined as Op.FCF before interest on debt service, should remain over 2.0x. On top of that, i) Atlantia's credit rating remains sound even after its new capex commitment: company debt is rated "Single A" by both Moody's and S&P; ii) its average debt maturity is 8 years; iii) it has no significant debt maturing before 2011, implying limited refinancing risk; iv) its average Kd is c.5.1%, although this is likely to increase in time; v) 94% of its debt is fixed-rate or hedged.
- **Country and regulatory risk:** The previous turbulence in Atlantia's relationships with the regulator/government seems to have subsided, and the new agreement sets out a clear regulatory framework. However, we think such problems remain a real, if remote, risk.

Company at a Glance

Atlantia Group is composed of the parent company Atlantia (named Autostrade SpA till 4 May 2007), a financial holding with no operational role, and of its fully-owned operating subsidiary Autostrade per l'Italia SpA, which mainly operates the motorway concessions. Autostrade per l'Italia SpA is Italy's largest toll motorway company and one of the leading players in Europe owing to its directly and indirectly controlled concessionaires. The Group also operates in Poland, the US and South America.

Atlantia is the largest infrastructure investor in Italy and one of the leading motorways company in Europe. Managing over 61% of the Italian toll motorway network representing 17% of the European toll motorway network, Autostrade manages the main north-south arteries connecting Milan to Naples through the central part of the country and Milan to Taranto on the Adriatic coast.

Figure 3. Atlantia network



Source: Atlantia

85% of toll revenues are generated by the main operating subsidiary Autostrade per l'Italia, which also has the longest concession to expiry (2038), implying that for the Group as a whole the weighted (by length of motorway) average concession expiry date is 2037. Given the strong prevalence of this operating subsidiary, we have modelled Autostrade Group using a single consolidated model.

ASPI (main Atlantia's concession) network extension has remained stable since 1997, hence we consider ASPI traffic evolution a good like-for-like proxy for traffic on the entire Atlantia network.

Figure 4. Atlantia traffic evolution

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Km Travelled													
Yoy chge	Expiry												
Autostrade per l'Italia	2038			4.6%	2.8%	3.6%	3.6%	3.0%	2.8%	1.9%	0.1%	3.1%	2.3%
Tangenziale di Napoli	2037			-0.4%	1.7%	1.4%	0.5%	-2.0%	1.0%	1.4%	0.3%	1.3%	0.7%
Torino - Savona	2038			4.5%	4.1%	5.4%	4.7%	5.1%	7.5%	1.6%	1.0%	4.3%	2.3%
Società Autostrada Tirrenica	2028			4.4%	5.3%	7.6%	8.6%	2.6%	1.4%	0.4%	1.3%	2.1%	1.2%
Raccordo Valle d'Aosta	2033			4.0%	-43.2%	-7.5%	16.6%	68.9%	27.9%	0.2%	8.9%	1.1%	16.9%
Autostrade Meridionali	2012			0.3%	3.0%	2.8%	0.0%	-0.8%	0.6%	0.4%	-1.3%	3.0%	1.0%
Trafo del Monte Bianco	2035			na	-81.0%	-100.0%	na	na	39.0%	9.8%	11.1%	10.0%	0.0%
Strada dei Parchi	2030			na	na	na	na	na	2.7%	2.2%	1.7%	3.8%	4.3%
Total Group					2.7%	3.6%	3.5%	6.9%	2.8%	1.9%	0.1%	3.1%	2.3%
GDP Growth		0.8%	2.0%	1.8%	1.6%	2.9%	1.8%	0.4%	0.4%	1.1%	1.1%	1.7%	1.7%
Km Travelled	Expiry												
Autostrade per l'Italia	2038	mIn km	37,550	39,277	40,359	41,812	43,315	44,603	45,859	46,733	46,769	48,214	49,313
Tangenziale di Napoli	2037	mIn km	999	995	1,012	1,026	1,031	1,011	1,021	1,036	1,039	1,053	1,060
Torino - Savona	2038	mIn km	653	682	711	749	785	825	887	901	910	949	971
Società Autostrada Tirrenica	2028	mIn km	179	187	197	212	230	236	239	240	243	248	251
Raccordo Valle d'Aosta	2033	mIn km	59	61	35	32	37	63	81	81	88	89	104
Autostrade Meridionali	2012	mIn km	1,444	1,448	1,491	1,534	1,535	1,522	1,531	1,538	1,517	1,562	1,577
Trafo del Monte Bianco	2035	mIn km	0	12	2	0	0	6	8	9	10	11	11
Strada dei Parchi	2030	mIn km	0	0	0	0	0	1,922	1,974	2,018	2,053	2,132	2,223
TOTAL		mIn km	40,883	42,662	43,807	45,364	46,933	50,188	51,600	52,556	52,629	54,258	55,510
Traffic index													
Autostrade per l'Italia	N.			100.0	102.8	106.5	110.3	113.6	116.8	119.0	119.1	122.8	125.6
Tangenziale di Napoli	N.			100.0	101.7	103.1	103.6	101.6	102.6	104.1	104.4	105.8	106.5
Torino - Savona	N.			100.0	104.1	109.8	115.0	120.9	129.9	132.0	133.4	139.1	142.3
Società Autostrada Tirrenica	N.			100.0	105.3	113.3	123.0	126.2	127.9	128.4	130.0	132.7	134.3
Raccordo Valle d'Aosta	N.			100.0	56.8	52.5	61.2	103.4	132.3	132.7	144.5	146.1	170.8
Autostrade Meridionali	N.			100.0	103.0	105.9	106.0	105.1	105.7	106.2	104.8	107.9	108.9
Trafo del Monte Bianco	N.			100.0	19.0	0.0	0.0	51.0	70.8	77.7	86.4	95.0	95.0
Strada dei Parchi	N.							100.0	102.7	105.0	106.8	110.9	115.6
Total Group				100.0	102.7	106.3	110.0	117.6	121.0	123.2	123.4	127.2	130.1
Yoy change of traffic index					2.7%	3.6%	3.5%	6.9%	2.8%	1.9%	0.1%	3.1%	2.0%

Na = not applicable Source: Company data, Citi Investment Research

The Group generated revenues of €3.3bn in FY07A (+4.2% YoY) and €1.7bn in H108A (+7.8% YoY), with EBITDA of €2.1bn in FY07A (+4% YoY) and €1.05bn in H108A (+3.7% YoY).

Figure 5. Atlantia Group – revenue and EBITDA for key businesses

	Revenues						EBITDA					
	2006	2007	YoY chg.	1H07	1H08	YoY chg.	2006	2007	YoY chg.	1H07	1H08	YoY chg.
Italian Motorway Concessionaires												
Autostrade per l'Italia	2,719	2,779	2.2%	1,335.7	1,386.7	3.8%	1,795	1,791	-0.2%	885.2	906.4	2.4%
Autostrade Meridionali	69	73	5.5%	35.7	35.2	-1.4%	32	33	0.3%	15.8	14.5	-8.2%
Strada dei Parchi	123	132	6.6%	62.6	63.8	1.9%	66	69	6.0%	36.4	34.9	-4.1%
Tangenziale di Napoli	54	58	7.6%	28.8	30.8	6.9%	17	20	15.5%	13	9.3	-28.5%
Autostrada Torino-Savona	63	65	2.8%	31.3	31.8	1.6%	30	32	6.0%	16.2	15.3	-5.6%
Raccordo Autostradale Valle d'Aosta (RAV)	10	12	17.2%	5.3	5.7	7.5%	-1	2	nm	0.9	0.9	1.1%
Società Autostrada Tirrenica	25	26	4.0%	11.8	11.8	-0.3%	15	16	6.6%	7.4	7.2	-2.7%
Società Italiana per il Traforo del Monte Bianco	55	76	40.2%	24.4	26.4	8.2%	36	51	43.1%	15.6	17	9.0%
Other Subsidiaries												
Pavimental	518	489	-5.7%	234.1	165.0	-29.5%	20	22	10.1%	6.3	11.3	79.4%
SPEA Ingegneria Europea	99	91	-8.4%	43.2	40.4	-6.5%	25	24	-4.0%	10.7	9.5	-11.2%
EssediEsse Società Servizi	29	30	3.1%	14.9	15.3	2.7%	4	5	21.6%	2.7	1.6	-40.7%
Infoblu	2	2	0.0%	0.7	0.9	28.6%	1	0	nm	0.1	0.3	184.7%
TowerCo	11	14	29.0%	6.6	7.7	16.7%	7	9	27.9%	4.4	5.11	15.1%
AD Moving	16.9	18	7.1%	7.8	8.5	9.0%	1	1	nm	0	0.5	nm
Port Mobility	2	3	nm	1.3	1.9	46.2%	-	-1	nm	-0.4	0.1	-132.8%
Autostrade International US Holdings, Inc	5	5	-6.3%	2.5	15.8	532.0%	1	0	nm	0.2	-1.0*	-618.5%
Stalexport Autostrady**	-	21	na	-	23.8	na	-	13	na	-	16	na

*Includes ETC Co, consolidated from 31-Dec-07.

**Group consolidated from 30-Jun-07.

Source: Company data, Citi Investment Research

Valuation

We value Atlantia using a DCF model, given the high visibility on company cash flows until the end of concession. This method delivers a valuation of €23.0/share (implicit EV/EBITDA 09E: 10.5x). We consider our average 6.75% average WACC assumption to be conservative, given that, hopefully, credit and financial market conditions will improve in the next 30 years; nonetheless, we believe Atlantia's valuation is extremely appealing even under this harsh set of assumptions.

To set our target price, we apply a 10% discount to our DCF valuation to reflect: i) negative momentum for the whole motorways sector; ii) a current negative traffic outlook; iii) significant overhang risk; iv) increasing interest rate spreads and v) country risk. Our multiple valuation, while not conclusive, supports our valuation.

We therefore initiate coverage of Atlantia with a Buy/Medium Risk rating and a €20.6/share target price (implied adj. EV/EBITDA 09E of 10.0x).

Valuation methodology

DCF methodology is widely used to value motorway assets: these companies, in fact: i) operate with concessions that last for several decades; ii) have specific and typically transparent investment plans; and iii) benefit from good visibility on tariff dynamics. All of these elements contribute to the visibility of long-term cash flows and hence support using DCF as the preferred valuation method.

Other valuation methods (e.g. market multiples) suffer from company-specific factors, such as differences in concession length, which are likely to introduce a significant bias in valuation. Nonetheless, we believe investors assign some importance (or even more, in these times) to such rough yet expedient valuations, so we therefore run these as a sanity check.

Finally, taking a look at the implied IRR offered by Atlantia stock (another common means of comparison among different motorways), we estimate that it is in line with peers, although we think Atlantia has scope to put in place a more aggressive dividend policy than that which we (conservatively) model.

DCF

We run one DCF model on our estimates for the Group as a whole, given that there is one main contributor to Group cash flow, Autostrade per l'Italia, the main operating subsidiary, which generates 85% of Group toll revenues and which also holds the longest concession.

No terminal value

We forecast cash flows until 2038, the end of the concession, and add no terminal value: this means we assume that, at the end of concession, the concession will not be renewed and the assets will be returned free of charge to the state. Of course, Atlantia could obtain a concession renewal on or before that date, but we prefer to apply the most conservative assumption.

WACC

We discount the forecast FCFs using the average value of rolling WACCs between 2008E and 2022E (6.1%) and between 2023E and 2038E (7.3%): this is the same as assuming a “long-term” capital structure in which D=40% and E=60%. Our average WACC assumption over the concession lifetime works out at c.6.75%.

Figure 6. Atlantia: WACC calculation

	2008	2009	2010	2011	2012	2013
Risk-Free Rate	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Stock Beta	1.00	1.00	1.00	1.00	1.00	1.00
Mkt Risk Premium	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
Cost of Equity	11.50%	11.50%	11.50%	11.50%	11.50%	11.50%
% MP	30.99%	31.38%	31.43%	30.73%	30.17%	29.18%
Cost of Debt (gross)	5.10%	5.40%	5.70%	6.50%	6.50%	6.00%
Tax rate	33.00%	33.00%	33.00%	33.00%	33.00%	33.00%
Cost of Debt (net)	3.42%	3.62%	3.82%	4.36%	4.36%	4.02%
% MT	69.01%	68.62%	68.57%	69.27%	69.83%	70.82%
WACC	5.92%	6.09%	6.23%	6.55%	6.51%	6.20%

Source: Citi Investment Research estimates

Figure 7. Atlantia WACC at a glance

Average 2008-22	6.1%
Average 2023-38	7.3%
Average on entire concession	6.75%

Source: Citi Investment Research estimates

We believe our assumptions (Beta = 1.0 and 6.5% market risk premium) are very conservative; moreover, we raise Atlantia’s Kd from 2009E, to discount the fact that new financing needs coupled with a partial renegotiation of the debt may reflect less favourable conditions. We note, however, that 94% of Atlantia debt is fixed or hedged.

Figure 8. Atlantia DCF valuation (€m)

Cumulated DFOCF	21,426.0
Financial assets as of 31/12/07	190.0
Deferred tax assets	1,118.5
Enterprise Value (€ mn)	22,734.5
Net Financial Debt as of 31/12/07 (€ mn)	(9,241.5)
Minorities book value (€ mn)	(378.5)
Employees benefits obligations	0.0
Equity Value (€ mn)	13,114.5
Value per share (€)	23.0
Price as of 30/09/08 (€)	15.47
Implied upside (downside)	48.7%

Source: Citi Investment Research estimates

We would stress that:

- We adjust Atlantia’s EV for the present value of deferred tax assets (c.€1.12bn) related to the goodwill created after the Group reorganisation in 2003. From a cash flow point of view, this implies that Atlantia’s cash taxes will be c.€110m below the P&L figure until 2020E.

- Our cash flow forecasts take into account the capitalized revenue generated by the X Factor (c.€325m in 2008-12E);

Of course, Atlantia could achieve a more efficient balance sheet structure and, therefore, a lower long-run WACC.

We assume dividend growth of +10% per year until 2021, then +3.5% until 2038. With a more aggressive dividend policy (i.e. improving Atlantia's balance sheet efficiency until the end of concession and lowering the long-term WACC to 6.1% from 7.3%), we estimate Atlantia's fair equity value could exceed €28/share.

Figure 9. Atlantia sensitivity of DCF valuation to 2023-38E WACC

WACC	6.31%	6.81%	7.31%	7.81%	8.31%
Fair equity value	27.7	25.2	23	21	19.2
Implied premium (discount) vs. base case	20.4%	9.6%	0.0%	-8.7%	-16.5%

Source: Citi Investment Research estimates

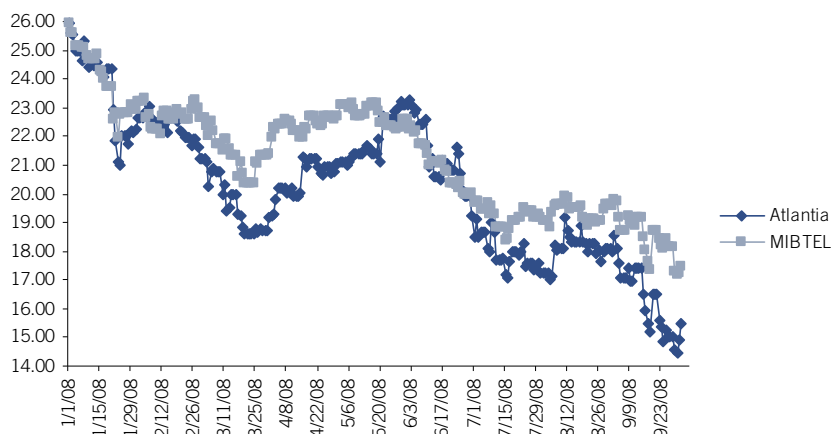
A necessary reality check

While we think our fundamental valuation could look excessively conservative at first glance, it nevertheless implies substantial upside from current levels, given the sell-off in the sector YTD.

Atlantia has underperformed Italian index

In the table below we present Atlantia's stock performance vs. S&P MIB Index. Until recently, the stock followed the index in its downward trend, far from behaving like a defensive stock. Moreover, Atlantia has underperformed the index in the past two months. We find this particularly surprising, considering that Atlantia now has a fair and transparent tariff scheme such that conflicts with ANAS and the Ministry of Transport should now be a thing of the past.

Figure 10. Atlantia vs. S&P MIB since 01 January 2008



Source: Powered by datacentral

European motorways have fared poorly

Atlantia has, however, not been the only European motorway concessionaire to witness such a remarkable fall in its share price: as noted by our sector analysts in their 16 July 2008 note, this summer witnessed a savage sell-off in the global infrastructure sector, with share price falls of up to c.40%; toll road and airport stocks alike have suffered similar fates.

Figure 11. Sector stock performance

	Abertis	Cintra	Atlantia	Brisa	Vinci
YTD	-31%	-19%	-40%	-28%	-35%
Last 1 month	-3%	1%	-17%	10%	-18%
Last 2 month	7%	17%	-10%	9%	-9%
Last 3 months	-4%	16%	-19%	0%	-10%
Last 12 months	-33%	-24%	-35%	-22%	-42%
Since Jan'07	-30%	-31%	-29%	-24%	-32%

Source: Powered by datacentral

If we look at Abertis, the toll road company with the longest stock market history in Europe, and examine its monthly share price changes, the current sell-off represents the sharpest decline on record.

We believe the main causes are to be found in:

- **Weak GDP and traffic outlook:** Slowing GDP, in terms of both actual and expected figures, had a negative impact on traffic.

Figure 12. Citi EU Area GDP forecasts

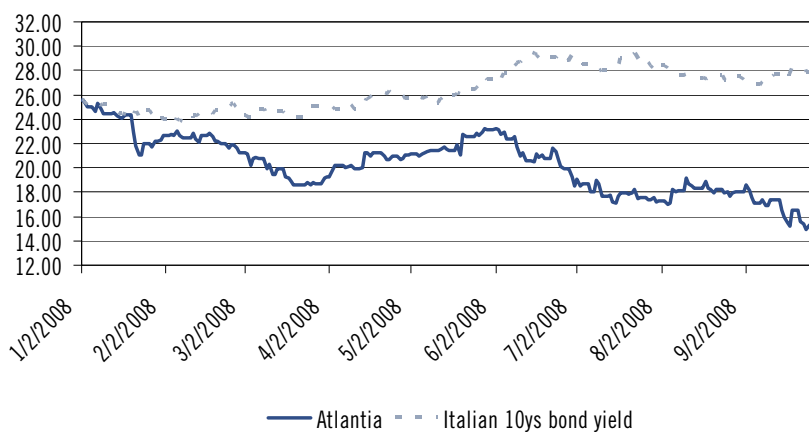
	2007	GDP growth 2008E	2009E
EU Area	2.7%	1.2%	0.5%
Germany	2.6%	1.6%	0.6%
France	2.1%	0.9%	0.5%
Italy	1.4%	0.2%	0.5%
Spain	3.8%	1.3%	-0.2%
Netherlands	3.5%	2.0%	1.0%
UK	3.0%	1.1%	-0.3%

Source: Citi Investment Research

French and Spanish motorways reported weak traffic figures in June-August (-3% to -7%), and ANAS reported that July and August traffic on Italian motorways was down -2%/-3% YoY, with drastic (-10%/15%) contractions on some stretches. This disappointed investors, given the mismatch between the common perception about motorways as a defensive stock and the current cyclical implications, triggering a stock de-rating.

- **Oil price rally:** The recent oil price spike will have helped to further depress traffic figures (a detailed analysis can be found in the “Traffic” section of this report), while in Italy fuel prices proved quite “sticky” when oil prices dipped. An Italian consumer association recently calculated that fuel prices should have fallen to an estimated c.€1.38/l following a heavy Brent correction, vs. an actual level of c.€1.45/l at the time of these findings.
- **Interest rate spike:** Rising interest rates have a negative impact on concessions, via an increased WACC and financing costs.

Figure 13. Atlantia share price vs. 10-yr Italian bond yield from 01 Jan 08



Source: Powered by datacentral

- **Inflation growth**, which, in turn, could have fostered higher interest rate expectations.

Figure 14. Citi EU Area CPI forecasts

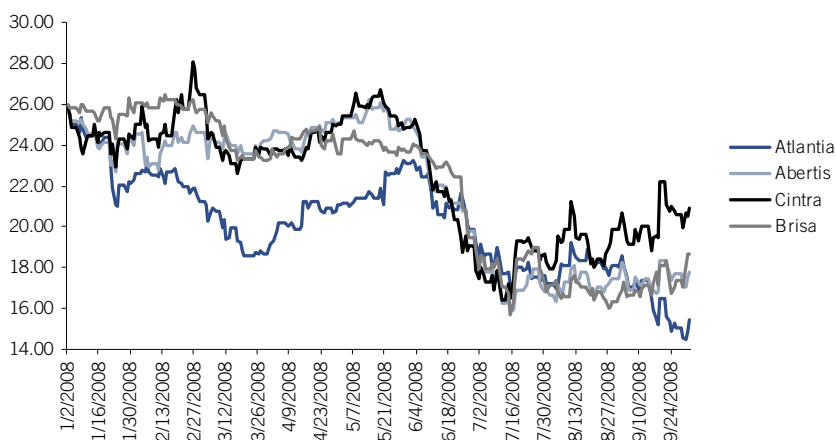
	CPI Inflation		
	2007	2008E	2009E
EU Area	2.1%	3.4%	2.3%
Germany	2.3%	2.7%	2.0%
France	1.5%	3.0%	1.7%
Italy	2.0%	3.5%	1.8%
Spain	2.8%	4.3%	2.7%
Netherlands	1.6%	2.4%	1.8%
UK	2.3%	3.8%	3.4%

Source: Citi Investment Research

But Atlantia has underperformed them!

At the same time, however, Atlantia has underperformed its EU peers, becoming probably the cheapest motorway stock in the sector, on our estimates. We suspect this relative underperformance is due to non-fundamental reasons, probably the potential overhang and forced selling:

Figure 15. Atlantia stock price performance vs. EU Peers since 1 January 2008



Source: Powered by datacentral

- **Former Schema 28 shareholders overhang:** c.10% of Atlantia's share capital is in the hands of shareholders that have publicly declared they are willing to sell their stakes. Both Unicredito and Abertis consider their participations no longer strategic, and we believe: i) Unicredito could potentially use the proceeds of the sale to improve its capital ratios before year-end; and ii) Abertis could benefit from a cash injection to ease its current gearing.
- **Forced sellers:** We suspect some of the recent pressure on the stock may have been caused by the forced liquidation of significant stakes by funds that were obliged to sell shares.

Current price implies unrealistic scenarios

However, we believe the current share price makes little sense from a fundamental point of view. In order to obtain a fair equity value broadly in line with current price we would need either to:

- Assume **zero traffic growth** until the end of concession AND tariffs increasing by **only 70%** of inflation (i.e. equivalent to Atlantia completing only 35% of planned capex in the next 10 years); or
- Assume **zero traffic growth** AND an average **7.7% WACC** over the entire concession (vs. our already conservative average WACC assumption of 6.75%).

We consider both the above scenarios unrealistic, and we believe Atlantia stock is trading well below intrinsic value.

Our target price: applying a 10% discount to DCF valuation

Our fundamental valuation delivers a fair equity value of €23.0/share.

However, as shown above, it is clear that the market is unwilling to value motorway assets, including Atlantia, at such levels at present. We think this likely reflects:

- **Negative momentum** for the whole motorways sector.
- **Gloomy traffic outlook:** GDP forecasts do not allow any optimism on short-term traffic evolution: this has a close to zero impact on a 30-year DCF, but a considerable effect on market sentiment.
- **Significant overhang risk:** The market fears a significant price recovery could be an incentive for Abertis and Unicredito to sell their shares, likely limiting potential share price upside, in our view.
- **Increasing interest rate spreads:** We believe investors require additional incentives to invest in highly leveraged stocks at present, given the ongoing credit crunch.
- **Country and regulatory risk:** The previous turbulence in Atlantia's relationships with the regulator/government seems to have subsided, and the new agreement sets out a clear regulatory framework. However, we think such problems remain a real, if remote, risk.

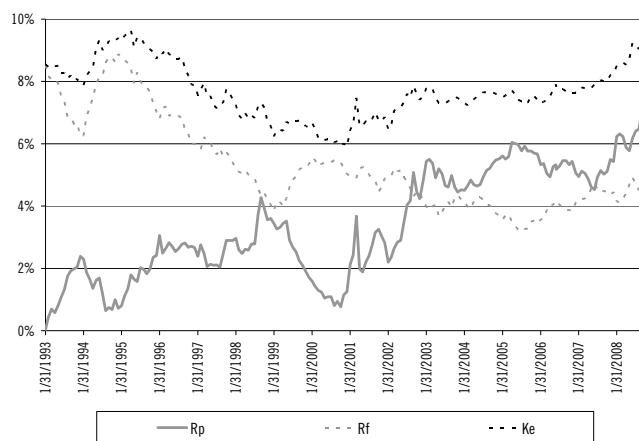
We believe these negative factors are here to stay, at least for some time, so we apply a 10% discount to our DCF, obtaining a target price of €20.6 per share.

Recent Risk-Free Rate Evolution

To further support our cautious approach to valuing Atlantia, we present a brief analysis of the market risk free rate, risk premium and cost of equity evolution over the past 15 years and compare the K_e dynamics with Atlantia's share price since the company's reorganization (and releverage). We would note that:

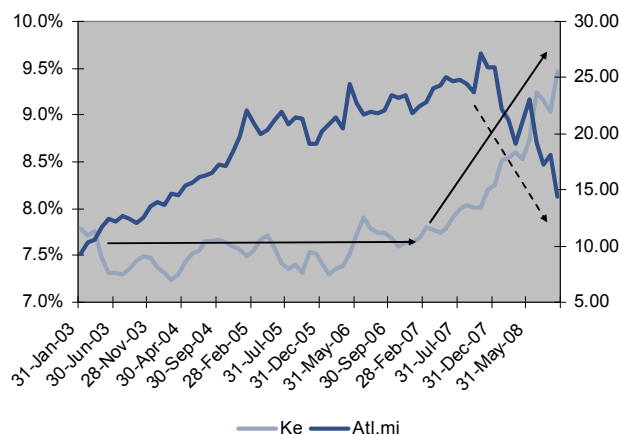
- **From 2003 to mid 2007** (until the subprime crisis started), the risk premium and risk free rate had a roughly inverse relationship (Figure 16), resulting in a flattish K_e (Figure 17). This sustained Atlantia's share price.
- **From mid 2007 until today** we have seen the risk free rate remaining broadly flat and the risk premium increasing by +c150 bps, driving a spike in K_e . In our view, this has had an extremely negative impact on Atlantia's share price and justifies our very cautious approach.

Figure 16. Risk free, risk premium and K_e (Beta = 0.7) 1993 - today



Source: Citi Investment Research

Figure 17. ATL IM share price and K_e since 2003



Source: Citi Investment Research

Our multiple valuation, while not conclusive, supports our valuation.

Figure 18. Atlantia sensitivity of DCF valuation to 2023-38E WACC

WACC	6.31%	6.81%	7.31%	7.81%	8.31%
Fair equity value	27.7	25.2	23	21	19.2
Implied premium (discount) vs. base case	20.4%	9.6%	0.0%	-8.7%	-16.5%

Source: Citi Investment Research estimates

Europe's main toll roads players

In this section we present a comparative analysis among Atlantia and the other main European motorway players: Abertis, Cintra and Vinci.

Figure 19. Toll road key data

	Abertis	Cintra	Atlantia	Brisa*
€m				
No.sh, m	670.3	541.3	571.7	600.0
Sh.price	14.38	8.34	15.47	7.22
Mkt Cap/Equity value est	9,639	4,514	8,844	4,333
Net Debt (1/08)	12,999	8,200	9,242	3,472
Minorities (Est/Book value)	1,495	4,786	379	40
EV	24,133	17,500	18,465	7,845
Adjusted (operational) EV	20,774	15,709	15,783	7,118
Net debt/Ebitda 07	5.7	11.8	4.5	7.6
Net debt/EV (minorities at SOTP/book value)	54%	47%	50%	44%
Net debt/EV (minorities at market)	55%	52%	50%	44%

* estimates are from consensus

Source: Powered by datacentral

We believe market multiples are of limited significance in valuing Atlantia:

- Concession length is a key element: we believe the most comparable of the peer group in this respect is Brisa (concession expiring in 2032).
- The specifics of the Italian motorway network (tunnels and bridges) that have a negative impact on costs make comparisons rather meaningless (this could help explain why on EV/km Atlantia does not look as cheap as on other metrics).

Moreover, differences in the regulatory framework make any comparison even harder.

Nonetheless, we believe investors assign some value, particularly in these times, to such rough yet expedient valuations.

- **At the current price of €15.47**, Atlantia's implied adj. EV/EBITDA 09E is c.7.7x, which looks undervalued vs. peers. We note that the only other company trading at a single digit multiple, Abertis, has a shortened concession length and offers a lower dividend yield.
- **At our target price of €20.6**, Atlantia's implied adj. EV/EBITDA 09E would be 10x, which looks inexpensive vs. peers.
- **At our DCF valuation of €23.0**, Atlantia's implied adj. EV/EBITDA 09E would be 10.5x, which still looks quite appealing vs. peers (e.g. significant discount vs. Brisa's current consensus multiple, albeit Brisa has superior profitability).

Figure 20. Toll road valuation

	Abertis	Cintra	Atlantia	Brisa*
EV/Ebitda 06	11.5	29.4	9.6	18.1
EV/Ebitda 07	10.6	25.1	9.3	16.5
EV/Ebitda 08e	10.3	23.4	9.4	16.1
Adjusted EV/Ebitda 08e	8.9	20.9	8.1	14.5
Adjusted EV/Ebitda 09e	8.7	19.1	7.7	13.9
Avg concession expiry date	2025	2075	2038	2032
Years remaining	17.0	67.0	30.0	24.0
DIV Yld 2006	3.5%	1.5%	3.7%	4.2%
DIV Yld 2007	3.6%	1.6%	4.3%	4.6%
EV/km	7.4	7.0	6.4	7.0
Adjusted EV/km	6.3	6.3	6.1	6.4

* estimates are from consensus

Source: Powered by datacentral

Motorway IRR

Another way to value different motorways is by comparing the IRR implied by their dividends over the concession period. On this basis, we estimate that Atlantia is in line with the best in class (Abertis and Cintra), despite its substantial capex plans, which are likely to impact cash generation for quite a long period of time.

Figure 21. European motorways IRR

	Abertis	Cintra	Atlantia	Brisa*
Dividend IRR	11.33%	11.05%	11.00%	9.58%

* estimates are from consensus

Source: Citi Investment Research estimates

Figure 22. Toll road operational data

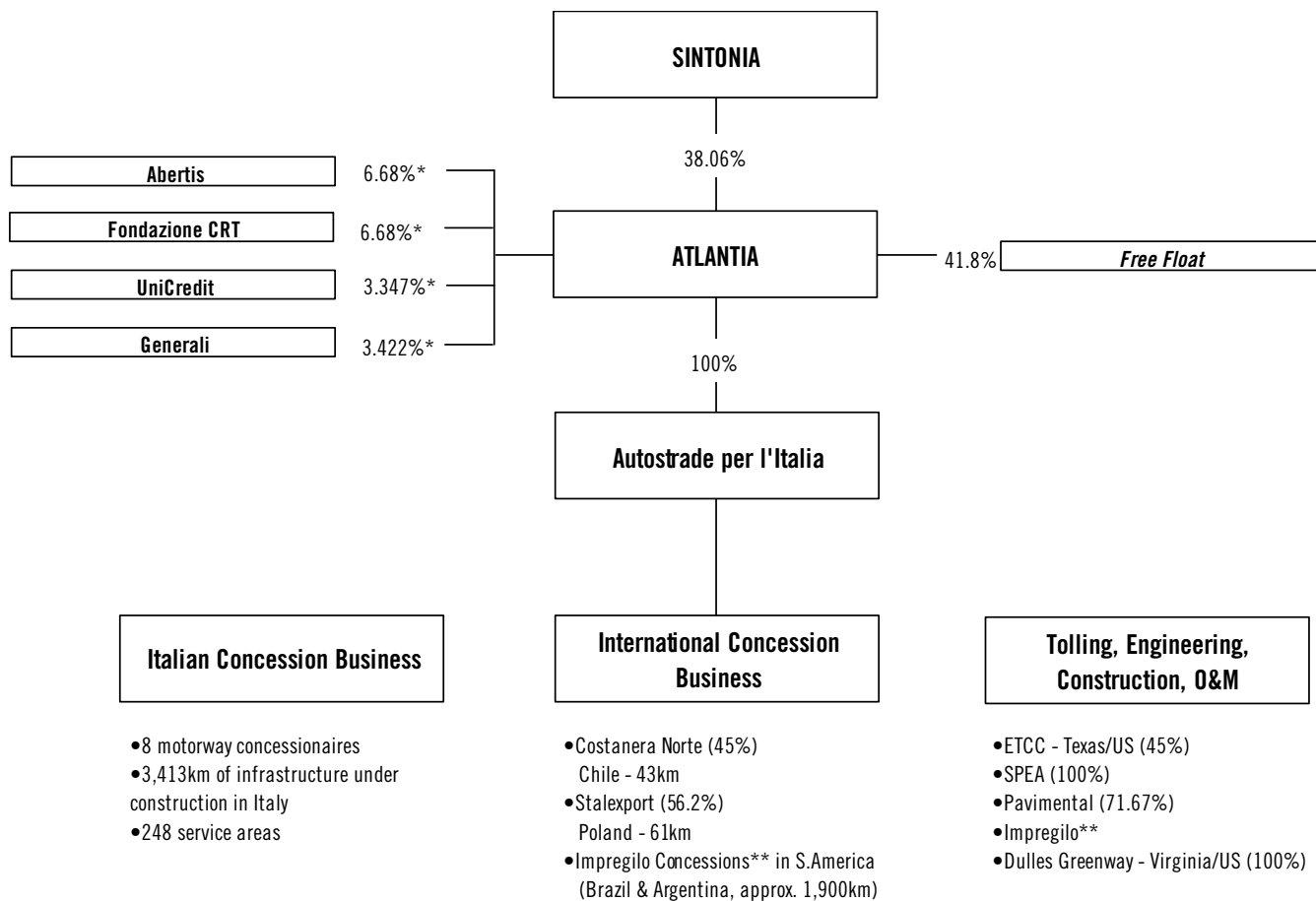
	Abertis	Cintra	Atlantia	Brisa*
Ebitda 06	2,099	593	1,989	418
Ebitda 07	2,269	694	2,068	460
Ebitda 08e	2,439	746	2,088	470
Ebitda 09e	2,598	815	2,159	491
Sales 06	3,335	885	3,141	586
Sales 07	3,620	1,025	3,272	647
Sales 08e	3,667	1,079	3,440	672
				698
Ebitda margin 06	62.9%	67.0%	63.3%	71.3%
Ebitda margin 07	62.7%	67.7%	63.2%	71.1%
Ebitda margin 08e	66.5%	69.1%	60.7%	69.9%
Avg concession expiry date	2025	2075	2038	2032

* estimates are from consensus

Source: Powered by datacentral

Shareholder structure

Figure 23. Atlantia shareholder structure



Source: Atlantia

Atlantia Business Under a Lens

Atlantia's core business is the management of motorway concessions in Italy. The Group is also running a similar business abroad and operates in a variety of other businesses.

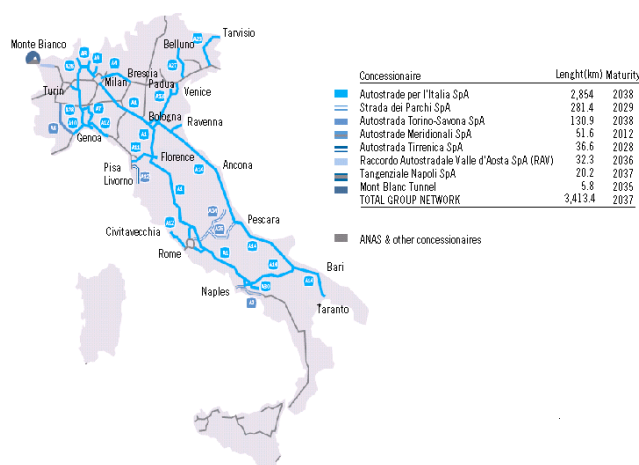
Atlantia's concession business

Concession business in Italy

With its 3,413km network under concession in Italy, Atlantia manages the main North-South arteries connecting Milan to Naples through the central part of the country and Milan to Taranto on the Adriatic coast through its 100%-owned operating company, Autostrade per l'Italia.

Group core activities in Italy are the building, maintenance and management of motorways through concessionaire companies, as well as the supply of support services for the core business.

Figure 24. Group network in Italy



Source: Atlantia

Figure 25. Motorway business in Italy (as of 30 June 2008)

Company	Business:	Share Held By:
Autostrade per l'Italia	Motorway Construction & Concessions	100% Atlantia
Autostrade Meridionali	Motorway Construction & Concessions	58.98% Autostrade per l'Italia
Strada dei Parchi	Motorway Construction & Concessions	60% Autostrade per l'Italia
Tangenziale di Napoli	Motorway Construction & Concessions	100% Autostrade per l'Italia
Autostrada Torino-Savona	Motorway Construction & Concessions	99.98% Autostrade per l'Italia
Raccordo Autostradale Valle d'Aosta (RAV)	Motorway Construction & Concessions	47.97% Traforo del Monte Bianco
Società Autostrada Tirrenica	Motorway Construction & Concessions	94% Autostrade per l'Italia
Società Italiana per il Traforo del Monte Bianco	Motorway Construction & Concessions	51% Autostrade per l'Italia

Source: Company data, Citi Investment Research

The Italian concession business relates to management, construction, maintenance and toll collection services for motorways under concession for a total length of overall 3,413.4 km, accounting for 52% of the Italian motorway system. Autostrade per l'Italia's grid alone accounts for €2,854.6km, with traffic of 49,313 vehicles. Its concession is the longest and will expire in 2038. Other concessions expire between 2012 and 2038.

Figure 26. Autostrade per l'Italia & its motorway concession subsidiaries – key data

	Length (km)		Traffic (m/km)		Revenues (€m)		Ebitda (€m)		Investments (€m)	
	Y06A	Y07A	Y06A	Y07A	Y06A*	Y07A	Y06A*	Y07A	Y06A*	Y07A
Autostrade per l'Italia	2,854.6	2,854.6	48,214	49,313	2,719	2,779	1,795	1,791	961	992
Società Italiana per il Traforo del Monte Bianco	5.8	5.8	11	11	55	76	36	51	3	2
Raccordo Autostradale Valle d'Aosta (RAV)	27	32.3	89	104	10	12	-1	2	29	18
Società Autostrada Torino-Savona	130.9	130.9	949	971	63	65	30	32	21	25
Società Autostrada Tirrenica	36.6	36.6	248	251	25	26	15	16	4	3
Strada dei Parchi	281.4	281.4	2132	2,223	123	132	66	69	50	111
Tangenziale di Napoli	20.2	20.2	1053	1,060	54	58	17	20	15	16
Autostrade Meridionali	51.6	51.6	1561	1,577	69	73	32	33	37	35
TOTAL Concession Motorways	3,408.1	3,413.4	54,257	55,510	3,119	3,221	1,991	2,014	1,120	1,202

*IFRS

Source: Company data, Citi Investment Research

Autostrade per l'Italia (ASPI)

Autostrade per l'Italia is the operational arm of Atlantia. Its core business is the management of a motorway concession issued by ANAS until 31st December 2038. The renewal of this concession will not be automatic, but will be reassigned after a public tender.

ASPI runs its motorway concession (and construction) and business with further 7 subsidiaries in Italy. The company is also involved in a number of service sectors connected to its core business, such as engineering (SPEA Ingegneria), maintenance (Pavimental) and telecommunication services (Infoblu), as well as international consulting and concession management in the motorway sector (Autostrade International US Holding Inc, Autostrade International of Virginia O&M Inc). These activities are discussed later in this report.

As outlined in Figure 26, ASPI recorded €2.8bn revenues in FY07 (+2.2% YoY) o/w:

- **Toll revenue** accounted for €2.6bn (+2.2% growth and 85% of ASPI revenue in FY07) owing to a 2.28% traffic increase YoY.
- **Non-toll revenues** included service areas (€178m in FY07, +5.3% YoY), fees from Telepass and Viacard¹ (€91m, +8.2% YoY) and other services, such as advertising, sale of toll collection systems and global services (€150m, -3.5% YoY).

Autostrade per l'Italia's investment programme for the expansion and modernization of the national grid is generally split into two linked programmes: the so-called "1997 Agreement" with ANAS and the "IV Addendum of 2002" (we provide greater details in following sections). Subsidiaries' programmes also involve the development of their networks.

¹ i.e. an automatic electronic toll payment system. Telepass allows vehicles to cross through the toll station without stopping to pay a toll. The toll is automatically charged to the current account of the accountholder. Viacard requires a stop, instead. The card is equipped with a magnetic band and is available for pre-paid credits, or is linked to bank account with no spending limit. Fast payment can also be made by using either a normal ATM bank cards or a credit card. Both require a stop.

A detailed description of Autostrade per l'Italia's motorway construction and concession activities can be found in Appendix II, while the Service Business is summarized in Appendix III.

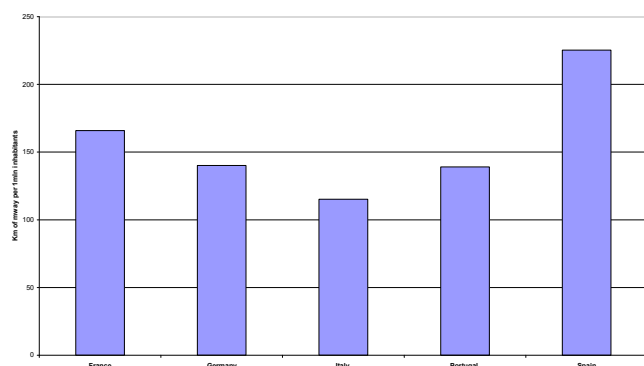
Atlantia's Capex Plan

New investments are of paramount importance in motorway concessions. This is particularly true in the case of Atlantia: the Italian motorway system, in fact, suffers from a significant and increasing lag vis-a-vis the other major European economies, due mainly to underinvestment in the past.

A saturated network

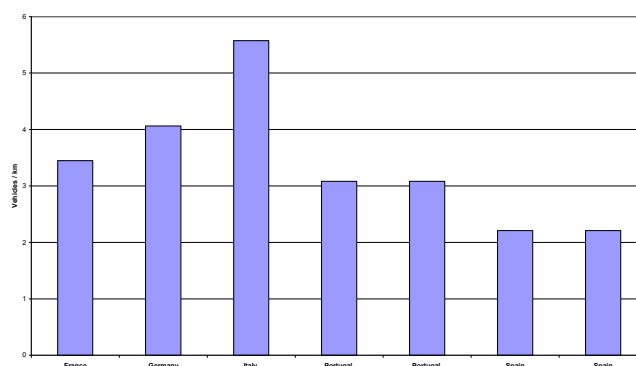
The Italian motorway network has in fact grown to be saturated and insufficient for the amount of traffic that flows through its arteries. This is mainly the result of a law dating back to the 1970s that has since never been changed, which prohibited the construction of new motorway stretches in Italy in the belief that the existing network was sufficient.

Figure 27. Kilometers of motorway per 1 mln inhabitant



Source: ASECAP

Figure 28. Car density on motorways in EU countries (vehicles/Km)



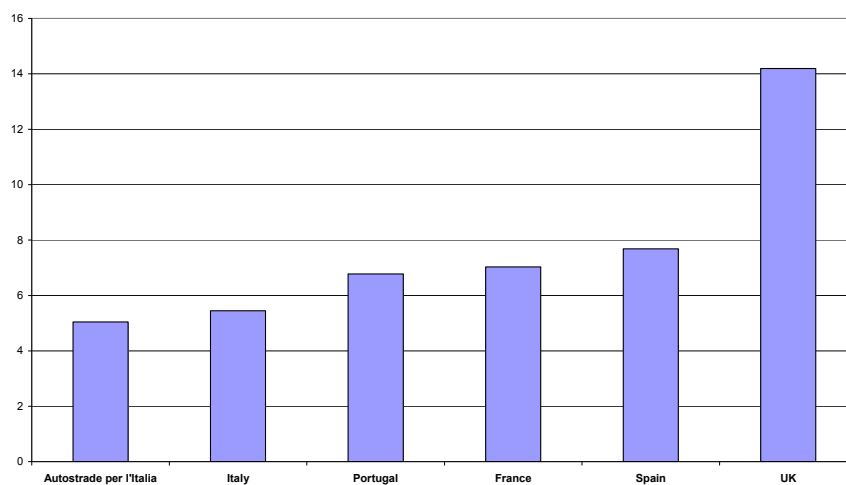
Source: ASECAP

So while Italy's motorway network, back in 1980, was larger than the French one and three times the size of the Spanish one, today France's network is 65% bigger than Italy's, and the Spanish one is 75% larger (source: Unioncamere, 2008). Not surprisingly, one of the reasons most often given for Italy's loss of competitiveness in the international arena is the inadequacy of its motorway infrastructure, which has resulted from this law.

The lowest tariffs in Europe

Due mostly due to the lack of significant new motorway construction in Italy since the 1970s, when tariffs were also frozen as a means to curb spiraling inflation (motorway companies were substantially state-owned at the time), tariffs in Italy are among the lowest in Europe, although in some countries such as the UK, Holland and Germany motorway systems are toll-free (toll roads are very few and limited in length). Nevertheless, consumers perceive the service provided by Italian motorways as inadequate, given the high congestion that affects the network, particularly in the industrialized parts of the country, for the reasons stated above.

Figure 29. Passenger car toll motorway tariffs in the EU compared (€ per km of highway)



Source: ASECAP

Investment evolution

In order to find a solution to these problems, in 1997 (1997 Agreement) and later on in 2002 (IV Addendum), Autostrade (Atlantia's name at the time) was involved in the development of a network of over 500km in concession. The expected cost of this project amounted to approximately €8bn, of which €1bn was to be paid by the Italian government.

Delays and project changes led to a final estimated cost of €11bn, of which Autostrade, as of December 2007, had paid approximately €2.5bn. On top of that, Autostrade targeted new additional investments worth €7bn to be completed by 2020 in agreement with ANAS, Italy's Highways Agency. Autostrade and its subsidiary concession companies committed to a major programme for the expansion and modernization of nearly 52km of road networks entailing a total investment of approximately €1.2bn.

Summing up, Atlantia's capex plan should amount to c€20bn over the next 10 years.

1997 agreement

In 1997 Autostrade and ANAS signed an agreement to regulate the concession business, especially the price-cap mechanism to set the toll fee collection, and laid the basis for its upcoming privatisation, which took place in 1999.

Initial 1997 capex: €3.5bn

The Agreement envisaged investments for €3.5bn for 240km of road network, principally the construction of the "Variante di Valico" stretch of the A1 motorway from Bologna to Florence through the Apennines and the connected road systems passing through the Bologna and Florence areas.

As of FY07: 60% completion, €4.1bn already spent

Unfortunately, as of H101, the approval process for this project was still blocked by the Ministry of the Environment, which began an environmental impact assessment. In July, Autostrade appealed to the Regional Administrative Court against the Ministry of the Environment for breach, winning the legal action in Nov 01. Currently, however, only the Barberino-North Florence and the South Florence-Incisa sections are to be completed.

As of end FY07, roughly 60% of the work included in the 1997 Agreement (137.4 km) has been completed, while contracts for works valued at over €4.1bn have been awarded or completed, far in excess of the original budget of €3.5bn.

The status of works originally planned in 1997 is shown below:

Figure 30. Status of investments contained in the 1997 financial plan (as of 31-Dec-07)

	Km	Amount* (€m)
Completed sections**	137.4	1,163
Awarded sections	56.9	2,991
Approved sections***	2.2	34
Sections for which approvals are pending	40.4	1,022
Total	236.9	5,210

*Single Concession Agreement of October 2007

**The value of sections completed with only one lane is 50% of the total

***Although sections have been approved, contracts have not yet been awarded.

Source: Company data, Citi Investment Research

Expenditure to date is shown in the table below:

Figure 31. Evolution of investments contained in the 1997 financial plan (€m)

	Y97 Budget (a)	Y02 Budget (b)	Most Recent* Revision (c)	Variation (b-a)	Variation (c-b)
Total Budgeted Investments	3,556	4,500	5,210	944	710
Investments by 31 Dec 2007	3,556	4,500	1,948	944	-2,552

*Single Concession Agreement of October 2007

Source: Company data, Citi Investment Research

Reasons for the underinvestment are:

- According to **Atlantia**, the lengthy authorization process (as of today only 55% of the 2002 capex plan has been authorized).
- According to **detractors** (including the former Minister of Infrastructure, Mr Di Pietro, who also fiercely opposed the Atlantia-Abertis merger), Atlantia's opportunistic behaviour, aiming at reducing capex in order to improve its cash generation.

The latter argument, however, needs further investigation since, according to Atlantia, the financial benefit of delaying capex has yet to be proven. For example, in the case of the Variante di Valico between Olona and Florence (1997 Agreement), the short-term benefit has been largely exceeded by a significant increase in the total cost of the infrastructure. More precisely, total capex as per the 1997 Agreement summed to €3.5bn, based on the assumption that the "Variante di Valico" section would have been completed in FY03. Due to authorization delays, from 2002 to 2007, Autostrade per l'Italia did not complete €2.6bn of capex, obtaining a financial saving of c.200m, which has been placed in a special fund for construction-related projects.

From €3.5bn to €4.5bn (2002) to €5.2bn (today)

In the mean time, the updated Financial Plan of 2002 (included in the IV Addendum) entailed revisions to both construction schedules such that total costs amounted to €4.5bn, while currently the total cost of the projected interventions stands at c€5.2bn.

The updated Financial Plan of 2002 also clarified that delays in works were not the fault of Autostrade and that the financial benefits arising from such delays were less than the increase in costs to be borne by the company.

IV addendum (2002)

Signed in 2002...

In FY02 Autostrade and ANAS signed the so-called "IV addendum" to the 1997 Agreement, envisaging a further €4.5bn investments (concerning a total of 285km of network) to remove bottlenecks close to Milan, Genoa and Rome and along the Adriatic coast.

Effective in 2004

The contract became effective only in June 2004 (following a letter from ANAS announcing that the interministerial decree approving the Addendum had been registered with the Italian Court of Auditors) and works could thus only start from this date.

As of YE07, progress of the construction of the works included in the plan was affected by long approval processes regarding sections of the Rimini North-Pedaso motorway, Lainate-Como, the Fiano Romano-Rome orbital motorway and new junctions required by the IV Addendum.

FY07: 55% of works authorized

At 31 December 2007 around 55% of the works had been authorized, 16% of the contracts had been awarded and c.11% of the works had been completed.

Figure 32. Changes in investments required by the IV addendum (€m)

	2002A	2003A	2004A	2005A	2006A	2007A
Investments required by the VI Addendum	2	50	244	684	915	1,002
Revised investments*	2	-	9	81	313	745
Investments completed	4	6	68	82	220	218
Accumulated cost increases	2	8	67	68	-25	-552

*Investments delayed by 21 months from the date of the drafting of the VI Addendum (September 2002) to the date of its effectiveness (June 2004) and adjusted for the Mestre Bypass.

Source: Company data, Citi Investment Research

Other investments by concessionary subsidiaries

Autostrade's subsidiaries (i.e. Società Autostrade Meridionali, Raccordo Autostradale Valle d'Aosta e Strada dei Parchi) envisage further c€1.2bn in investments (for a total of 52km) in addition to the projects outlined in 1997 Agreement and in the IV Addendum.

Figure 33. Minor concessions new capex (€m)

	Km Covered by Project	Km open to Traffic (31-Dec-07)
RAV AO-Mont Blanc Tunnel (A5) Morgex-Entrèves (1999 Agreement)	12.4	12.4
Strada dei Parchi RM-AQ-TE and Torano Pescara (A24 and A25) (2001 Agreement)*	19.9	0
- Villa Vomano-Teramo	5.7	WiP
- Rome East (Lunghezza)-Via P. Togliatti	14.2	Final Project Approved
Autostrade Meridionali NA-Pompei-SA (A3) Napoli-Pompei (1999 Agreement)**	20	8.3
Total Works by Subsidiaries	52.3	20.7

*In operation from 2003.

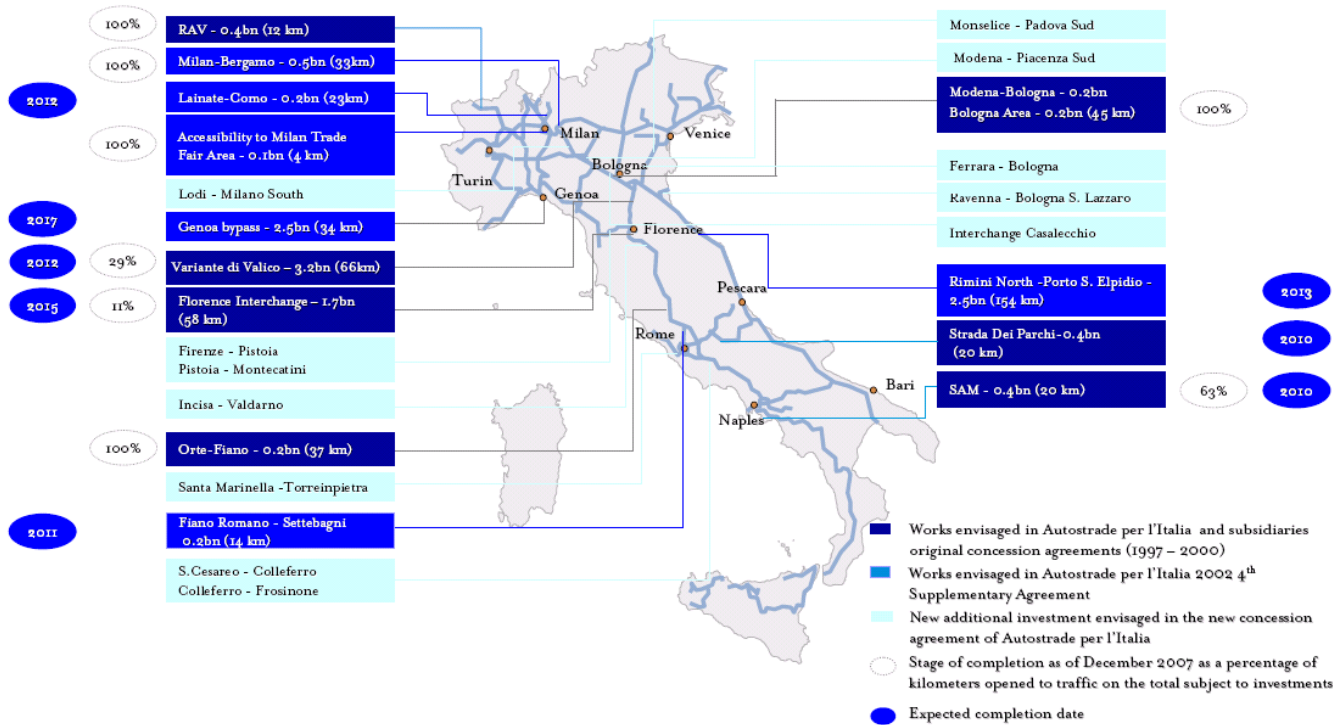
**Planned widening on SAM's network regards 24.9 km, including 4.5 km already open to traffic during Agreement of 1972-1992.

Source: Company data, Citi Investment Research

Current work situation

As of H108 the works ongoing on Atlantia's network was as follows.

Figure 34. Group's major works in progress

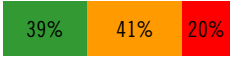
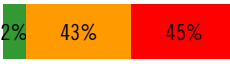


Source: Atlantia

The new capex plan (and its remuneration)

In order to speed up the network development process, the new contract between ASPI and ANAS clearly defines the new capex plan, explicitly recognising a definite remuneration (i.e. tariff) increase for each component of the new capex plan (1997 capex, 2002 capex, reallocation of ongoing capex, noise reduction plan and new investments).

Figure 35. Atlantia capex plan and tariff remuneration

Autostrade per l'Italia Investment Programmes	Residual Capex* & Investment Period	Status as of 31-Mar-08	Tariff Compensation
Major Works 1997 Concession Agreement	€4bn 2008-2015	 39% 41% 20% Executed In Progress To Be Authorized	•70% * CPI
Major Works 2002 Supplementary Agreement	€5.6bn 2008-2017	 12% 43% 45% Executed In Progress To Be Authorized	•X Factor
Reallocation of Ongoing Capex to New Investments	2bn 2008-2020	•Already included in 1997 Concession Agreement Capex commitment	•70% * CPI
Completion of Noise Reduction Plan	€0.7bn 2008-2021	•Included in the new contract	•K Factor (RAB Based)
New Investments	~ €5bn 2012-2020	•Commitment to implement the preliminary plan to upgrade over 300km of network with additional new lanes	•K Factor (RAB Based)
TOTAL	€17.3bn		

*Gross capex, excludes government grants, capitalized costs, ongoing capex, non motorway investments

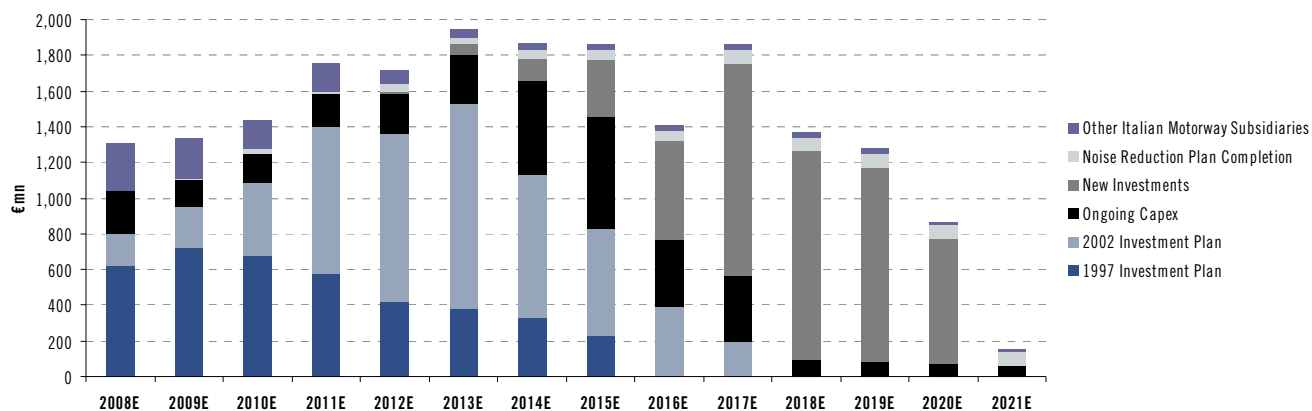
Source: Atlantia

New investments refers to the expediting of the debottlenecking of c.300km of Atlantia network via the development of third and fourth lanes that were not included in the original 1997 and 2002 capex plans. On top of that, new noise reduction barriers will be installed and also remunerated with a RAB-system.

Finally, a share (c.€2bn) of the original ongoing capex (€4.0bn) will be included in the capex plan and also remunerated via tariffs, which will increase at a rate of 70% of CPI. The remaining €2bn will translate in c.€70m extra capex per year until the end of concession.

Note that the capex plan does not include any maintenance capex (either ordinary or extraordinary), since this is fully expensed in the P&L.

Figure 36. Atlantia capex plan (2008-12, €m)



Source: Atlantia

In our view, it is unrealistic to attempt to precisely forecast a “recurrent” level of capex between 2021 (the end of the plan) and 2038 (the end of concession). However, we estimate that c.€130m-150m is a realistic range for normalised capex, excluding further growth capex plans. In any case, we assume Atlantia will have to hand back to the state the assets after the concession expiry, so the incentive to invest will decrease with time.

Tariffs

The ambitious new capex plan has been agreed in exchange of a new tariff system. In July 2008, Autostrade per l'Italia, Atlantia's main concession, announced final approval of the new tariff scheme that was signed in October 2007 between Atlantia and ANAS.

According to the agreement, Atlantia can count on:

- **A transparent and stable tariff system**, which links remuneration to real inflation and recognises a specific IRR on the 2002 capex plan ("X factor"), as well as for new investments (an RAB-based "K factor"), providing superior visibility on future cash flows.
- **A clear set of indemnities, covenants and guarantees** that grants a high degree of visibility and stability to Atlantia's future performance and should avoid further conflict between ANAS and Atlantia.

In the following section we briefly outline the main points of the previous tariff scheme and then explain the new tariff system in greater detail.

The previous tariff scheme

(From "Driving with Poor Visibility – 26 January 2007)

The previous tariff scheme was based on the price cap mechanism with a productivity factor, the X Factor, being renegotiated every five years. Tariffs were set according to the following formula:

$$\Delta T = \Delta P - X + B\Delta Q$$

where:

- **ΔP** was the programmed inflation rate forecast by the Government;
- **$B\Delta Q$** was the quality parameter (set by the regulator ANAS) and;
- **X** was the productivity factor, which in turn could be divided into three components:
 - **$X1$** – the inflation gap recovery
 - **$X2$** – productivity recovery target and
 - **$X3$** – new investment coverage

Each parameter, with the exclusion of ΔP , which was set by programmed inflation as included in the government's yearly budget, was set at the start of each regulation period (i.e. every five years for the following five-year period). One exception to this was that Autostrade obtained an extension to the setting of the X parameter from the normal five years to a 10-year period. The +20% tariff increase granted on the 2002 Addendum, which Autostrade signed with ANAS to finance €4.7bn worth of planned investments, was spread over a 10-year period for two reasons: i) extension of the time horizon made it easier for the company to finance the investment plan and payback of the related debt; ii) being spread over a longer period, the tariff increases needed to remunerate the large amount of investment would have been more gradual than over a five-year period. Overall, this system appeared to be appreciated by investors, given that it allowed for higher visibility over the critical tariffs issue.

Under the previous scheme, increases in costs and traffic were not explicitly considered by the formula. Nevertheless, one of the components of the X Factor, X2, involved a productivity recovery target that implicitly considered traffic increases expected on the specific motorway routes to which the toll charges apply and forced the motorway company to achieve cost savings. Whatever additional savings the company was able to achieve would have been theirs to keep. There was no element in this system that attributed accountability for delays to planned investments.

The new tariff scheme

In July 2008, Autostrade per l'Italia, Atlantia's main concession, announced the approval of a new tariff scheme that was signed in October 2007 between Atlantia and ANAS.

Figure 37. New agreement timeframe







Source: Atlantia

The new Single Concession agreement introduces a new tariff system and, at the same time, regulates the relationship between Autostrade per l'Italia and ANAS.

In a nutshell:

Figure 38. Pillars of the new contract

A New Price Cap Formula		<ul style="list-style-type: none"> • A simple formula for the entire duration of the concession based on a fixed percentage of actual inflation (70%*CPI)
New Investments		<ul style="list-style-type: none"> • A defined mechanism to remunerate additional investments not originally included in the 1997 Concession Agreement through specific additional tariff component (X factor and K factor) • Clear provisions for the compensation of overrun costs as well as penalties in case of delays
Explicit Indemnities		<p>An explicit compensation mechanism in the event of regulatory changes or early termination of the concession</p>
Covenants & Guarantees		<p>Well defined constraints on indebtedness, extraordinary transactions and change control involving the concessionaire</p>

Source: Atlantia

New tariff formula

The new tariff scheme is still based on a price cap scheme, and explicitly recognises extra-remuneration for new capex. We would stress that, despite negotiations that are under way, the new tariff scheme has so far been signed only by ASPI. Nonetheless, we are confident that the minor concessions will also sign a similar agreement soon, hence we assume the new tariffs apply to them too from 2009.

Under the new regime, tariffs are determined by the following formula:

$$\Delta T = 70\% * CPI + X + K$$

Where:

- **Inflation:** new tariffs are automatically adjusted by 70% of the actual rate of inflation for the previous 12-month period (1 July-30 June);
- **X factor:** this represents compensation for the 2002 capex plan and recognises a tariff increase based on a 7.2% real post tax IRR on the planned investments;

- **K Factor:** this compensates the company for new investments (i.e. those not included in the 1997 and 2002 investment plans) via a RAB-based system that allows a return on investment equal to WACC pre-tax before additional leverage.

We note that the new agreement explicitly states that the construction risk (for X and K factors) is transferred to Atlantia only after the authorization process has been completed and final approval for the project has been given by ANAS (apart from a force majeure or third-party event).

This should help avoid further discussion between Atlantia and ANAS over responsibility for any delays to the execution of the capex plan.

a. Inflation

This tariff component is relatively simple to model: the only element that requires some attention is the period over which CPI is recorded:

$$\text{Inflation}_t = (\text{July}_{t-2} - \text{June}_{t-1}) \text{ real CPI}$$

This, of course, creates a time lag, so an inflation spike recorded in H208, let's say, would be recognised in tariffs only in FY10. On the other hand, the adjustment is only postponed, with a limited impact on such a long-term business.

The fact that only 70% of inflation is included in tariffs introduces a soft "efficiency factor", since costs are likely to fully reflect price inflation (as we have modeled in our opex forecasts).

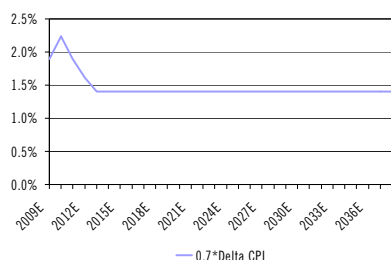
b. X Factor

The X Factor remunerates the capex included in the IV Atto Aggiuntivo (2002), and recognises a 7.2% IRR on each project. We expect the X Factor to contribute to c.4.3% cumulative tariff growth over the period of the Plan (2009-12).

The X factor will continue to contribute to tariffs until the end of concession, but it should stop increasing YoY from 2018 on (i.e. after the completion of the last project).

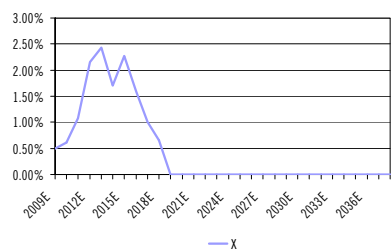
We would stress that the X Factor leaves Atlantia exposed to traffic risk (both upside and downside): the returns are calculated on 2002 Supplementary Agreement traffic forecasts², so if actual traffic beats or falls short of these expectations, this will be reflected in Atlantia's revenue.

Figure 39. 70% CPI tariff increase



Source: Citi Investment Research

Figure 40. X Factor tariff increase



Source: Citi Investment Research

² The 2002 Supplementary Agreement forecast a 1.75% annual growth from Y08 to Y12, 1% from Y13 to Y17, 0.5% from Y18 to Y22 and 0% thereafter.

Figure 41. 2002 capex plan by project (€m)

	End year	Capex (bn)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Milan-Bergamo	2012	500	-20.0	-40.0	-80.0	-160.0	-200.0	0.0	0.0	0.0	0.0	0.0
Lainate Como	2012	200	-40.0	-40.0	-40.0	-40.0	-40.0					
Acc. to Milan Fair area	2012	100	-20.0	-20.0	-20.0	-20.0	-20.0					
Fiano Romano - Settebagni	2011	200	-50.0	-50.0	-50.0	-50.0						
Rimini North-Porto Sant'Elpidio	2013	2500	-50.0	-80.0	-220.0	-550.0	-680.0	-920.0				
Genoa bypass	2017	2500						-280.0	-900.0	-640.0	-410.0	-270.0
Total		3500	-180	-230	-410	-820	-940	-1,200.0	-900.0	-640.0	-410.0	-270.0

Source: Company data, Citi Investment Research

c. K Factor

The K Factor introduces a RAB-based compensation (typically used for water or energy concessions) for the remuneration of a motorway asset. Under this regime, capital employed is remunerated at a given allowed return, which is calculated at the beginning of each five-year regulatory period and remains fixed thereafter.

The RAB based tariffs elements are:

- **Regulated Asset Base (RAB);**
- **Allowed rate of return (WACC);**
- **Recognized costs** on company' operations

The tariffs are calculated by i) multiplying the RAB for the allowed rate of return, ii) adding back the recognized costs (in this case the D&A, as there is no additional capex deriving from the new investment plan), obtaining the allowed revenue for each year; and iii) deriving additional revenue per year that should be generated by the "K factor" tariff increase:

$$((\text{RAB} * \text{WACC}) + \text{D\&A}) / \text{traffic}$$

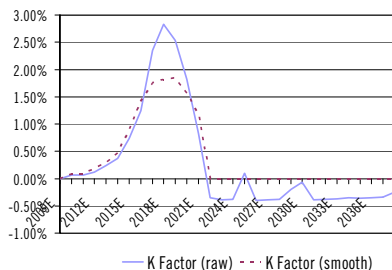
We understand that the K factor contribution to tariffs should start from FY09, in coincidence with the beginning of the "new investment" plan.

Atlantia can only increase its return vs. the regulatory return by beating the regulatory WACC, via to a lower cost of debt or a more efficient balance sheet (releverage).

No traffic risk

Interestingly, in the case of the K Factor, traffic is not a revenue driver, since RAB-based remuneration systems focus on a given return on investments: any significant difference in return during a five-year period will imply an adequate tariff adjustment in the following period in order to preserve the total return of the capex plan.

Figure 42. K Factor “raw” vs. “smooth”



Source: Citi Investment Research

“Smoothing” the revenue profile

The RAB increases every year with new capex and decreases with D&A. Atlantia’s assets are fully depreciating over the concession period, so the RAB will ultimately tend to zero (assuming no further unplanned capex).

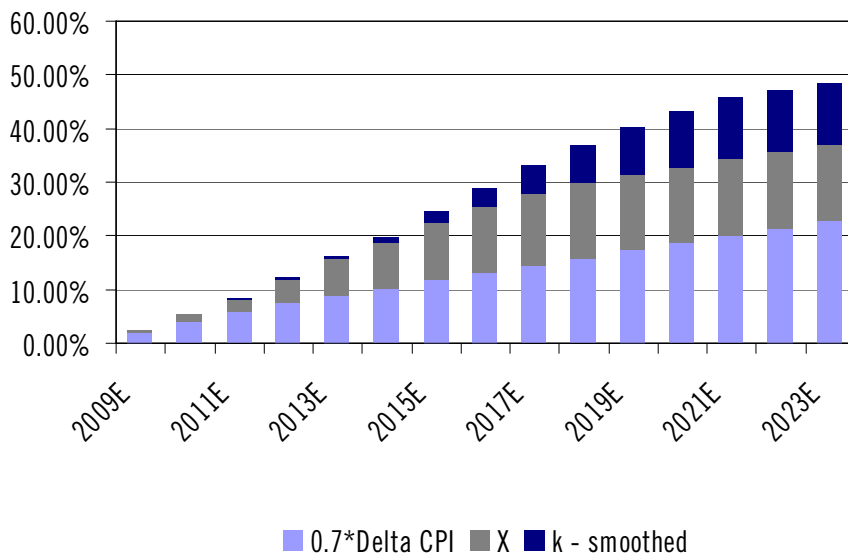
This would imply that tariff should increase with RAB and, after a peak in 2018, gradually decrease until 2038.

In order to avoid this impractical consequence, Atlantia negotiated a “smoothed” tariff increase (see side chart), under which tariffs will grow (at less than under an “as is” scenario, of course) until 2022 and will then remain flat until the end of the concession (instead of zeroing). We expect the K Factor impact in the Plan period (2009-12) to have a non-material cumulative impact (c.0.25%).

Summing up: the expected tariff evolution

In the table below we present our assumptions on Atlantia tariff evolution.

Figure 43. Atlantia cumulative tariff increase, 2009-23



Source: Citi Investment Research

Other key elements of the new agreement

Apart from defining the new tariff scheme, the new Agreement clearly defines the rights and obligations of both ANAS and ASPI, by stating:

1. Explicit indemnities
2. Covenants and guarantees
3. Other provisions

1. Explicit indemnities

- **Pass-through:** any change in taxes, legislation and regulation that impacts the industry will not affect the concession holder, since tariffs will be adjusted via a "pass-through" mechanism. The only exception refers to "general taxation policy".
- **Early termination:** the Agreement clearly regulates any type of event leading to a revocation, withdrawal or early termination of the concession.
- **Indemnity:** an indemnity is granted when a concession ends prior the expiration of the contract.³

2. Covenants and guarantees

- **Financial covenants:** the concessionaire must have a DSCR >1.2x⁴ at the end of each fiscal year. Moreover, it must have irrevocable financing equal to the investment gap in respect of the concession agreement plan.
- **Regulatory provisions:** in case of delays to the 1997 Agreement capex plan, the concessionaire must put aside regulatory provisions of equity capital corresponding to equivalent cumulated net profits until the investments reach the amount of €4.5bn, as originally planned.
- **Extraordinary transactions:** authorization is required in the event of extraordinary events involving the concession holder, such as: mergers, de-mergers, liquidation, headquarters relocation, change in purpose of the company. No change of control rules apply, apart from common market practices.
- **M&A:** acquisitions and disposals are exempt from pre and post transaction authorization if DSCR exceeds 1.6x.

³ According to the concession contract, the indemnity corresponds to the net present value of expected cash flows until the termination of the concession (net of a penalty of 10% of the value applied only if the revocation is ascribable to the Concessionaire's fault).

⁴ *Debt Service Coverage Ratio = Operating Cash Flow before Interest/Debt Service

3. Other provisions

- **Revenue sharing:** if the actual traffic growth exceeds the 2002 Supplementary Agreement⁵ estimates by 1ppt annually on a five-year basis, 50% of the economic benefit (net of taxes) is to be paid to a special fund destined to the financing of new investments without additional tariffs.
- **Penalties:** the concessionaire i) must pay a €2m penalty when a quality indicator used in the previous tariff formula decreases below FY06 levels; ii) is further charged from €10k to €500k if the quality standard deteriorates; and iii) has to pay a €25k sanction for each month of delay in executing works after all authorizations have been granted.
- **Administrative sanctions:** the concessionaire pays penalties from €25k up to €2m if it violates its information obligations towards ANAS or other major contractual obligations.

Current vs. previous tariff scheme: main differences

In this section we try to sum up the main differences between the previous tariff system and the current one:

- **Real vs. budget inflation:** the previous price cap formula increased with programmed CPI, while the difference between programmed and actual inflation was compensated by the X1 factor (one of the three components of the X-factor) every five years. The current tariff is simpler and more visible: it allows tariffs to recover fully 70% of actual inflation, with less of a lag.
- **RAB-based K factor:** a significant difference is the additional parameter K, which introduces a RAB-based mechanism (which is a de facto profit cap) similar to those usually applied to electricity and gas utilities. The K factor is determined by equating the NPV of expected incremental revenues to that of additional allowed incremental costs at an allowed rate of return. This gives concessionaire a strong incentive to perform the agreed capex plan in a timely manner, since the return on investments (and not traffic dynamics) will be its revenue driver.
- **Construction risks:** delays in the construction of projects are now the responsibility of the concession holder (the motorway company) from the time the project receives approval from the regulator. The responsibility of each party for delays or misconduct is clearly defined. In particular, motorway companies will not bear the burden of additional costs for delays that are related to elements beyond their control, something that was not present under the previous tariff scheme.

⁵ The 2002 Supplementary Agreement forecast a 1.75% annual growth from Y08 to Y12, 1% from Y13 to Y17, 0.5% from Y18 to Y22 and 0% thereafter. The share of net revenues subject to claw back corresponds to 75% if the traffic exceeds those estimates by 1.5%.

New tariff system: positives and negatives

We believe the new tariff frame has many positives, which exceed the (limited) negatives.

In our view the **positives** are:

- **Visible:** new tariffs give investors much more visibility on future tariff evolution and greatly reduce the impact of fudge factors such as $B\Delta Q$, which was a “quality” (that is, potentially highly discretionary) factor to be set by ANAS.
- **Inflation-linked:** CPI is not entirely recognised in tariffs (only 70% is), but this refers to real inflation and not to the budget one.
- **Fair return:** in our view, the returns related to the X factor (7.2% is real and post-tax, so the nominal pre-tax is much higher) and, based on Atlantia statements, also to the K factor appear at least fair.
- **Fair covenants:** the same holds true for the covenants and the guarantees introduced under the new contract, which clearly define the rights and liabilities of each party.

On the other hand, some **negatives** can be identified:

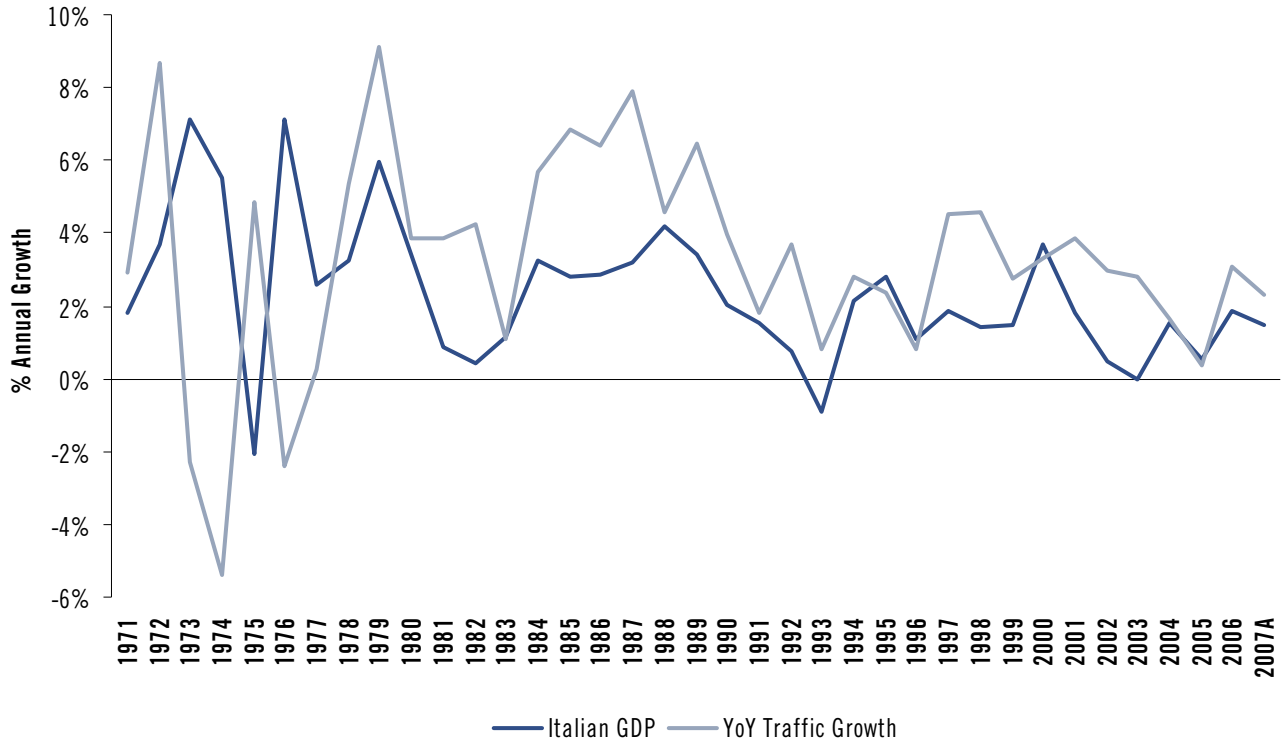
- **Implicit efficiency factor:** only the 70% of real CPI is given in the next year's tariff, implying that ASPI should compensate for the remaining 30% by increasing its efficiency. It is worth noting, however, that the cost structure of motorway concessionaires is characterized by rather fixed costs that generate significant operating leverage and could, therefore, reduce the pressure on the implicit efficiency factor. Tariffs are increased on the basis of the previous year's inflation, and this time-lag could create some pressure on margins in the event of inflation spikes.
- **Cost over-run on 1997 capex:** these costs overruns are not compensated and could therefore considerably impair Autostrade per l'Italia's profitability.

Traffic Evolution

Traffic as a GDP proxy

Motorway traffic has historically shown a strong correlation with GDP, and Italy is no exception. More generally, we would observe that traffic in Italy has exhibited broadly positive growth in the past c.40 years, often exceeding GDP.

Figure 44. Italian GDP and traffic annual growth



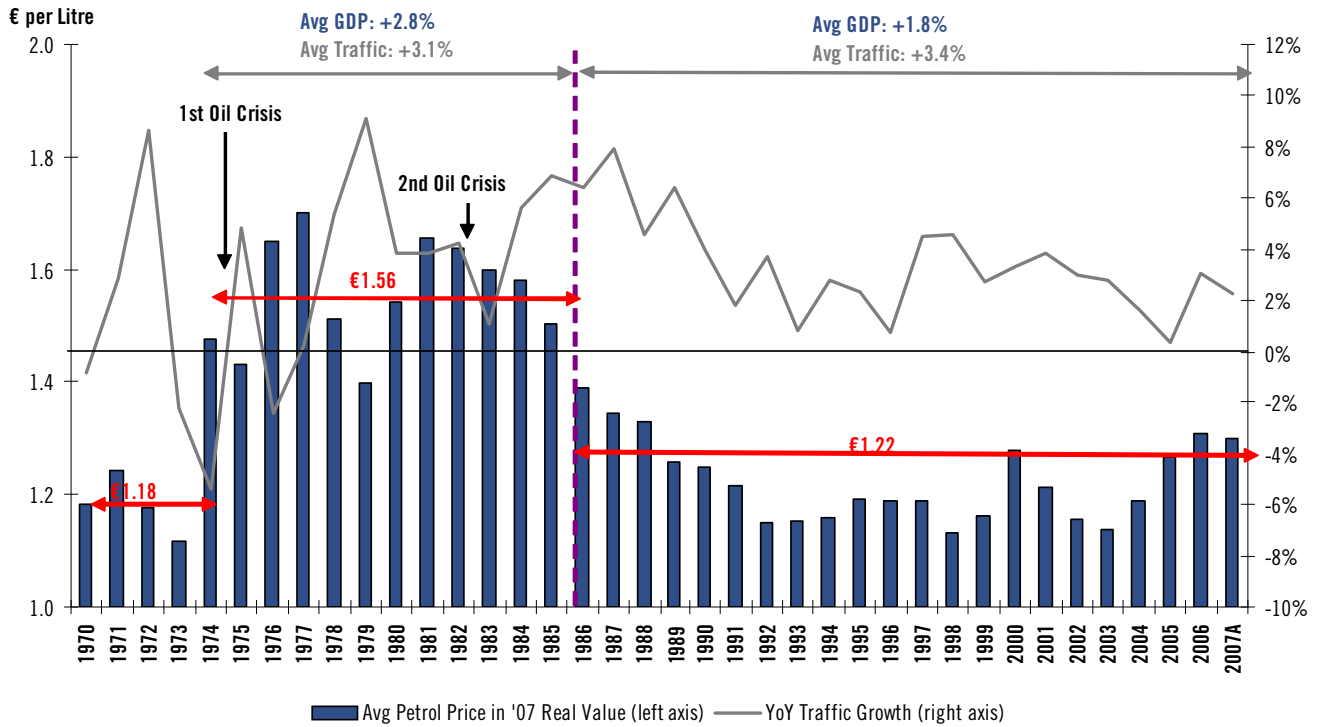
Source: Atlantia

The only exception to this tendency has been the sharp decline at the beginning of 1970s, coinciding with geopolitical tensions that triggered an oil price rally and global economic slowdown.

Fuel price impact on traffic?

Atlantia presents some evidence against a correlation between traffic evolution and oil prices: traffic (and GDP) have been growing despite fuel price increases.

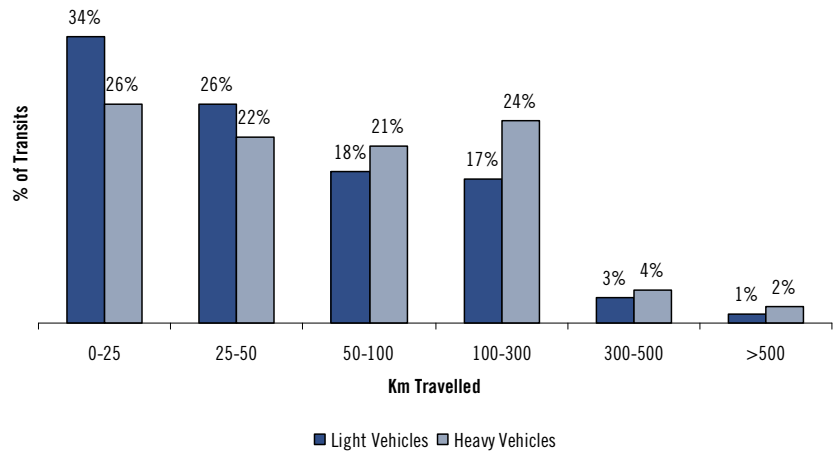
Figure 45. Traffic and oil price dynamics 1970-2007



Source: Atlantia

Moreover, Atlantia points out that the majority of its traffic is generated by light vehicles on relatively short routes (below 100 km).

Figure 46. Traffic breakdown by distance travelled, 2007*

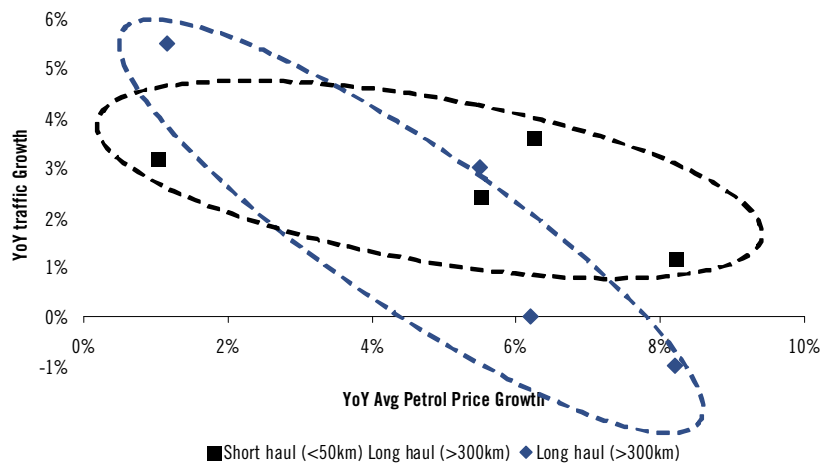


* Data refers to ASPI network

Source: Atlantia

At the same time, the company also underlines how heavy traffic’s elasticity to fuel price is somewhat positive, while light traffic seems to be rather stable despite fuel price fluctuations. We would stress that light traffic accounts for c.75% of Atlantia traffic, while heavy traffic has a minor impact (c.25%).

Figure 47. Correlation of light traffic to gas price, 2004-07



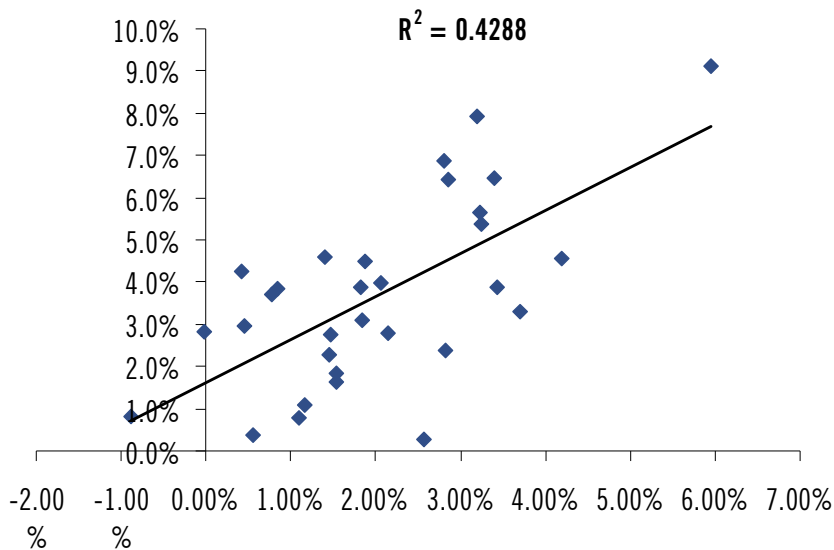
Source: Atlantia

The implication is that, even assuming a correlation between traffic and fuel prices, this is only significant for and likely to have a negative impact on long-haul heavy traffic, which accounts for a limited portion of Atlantia’s traffic.

However, we believe this may be not conclusive. Running a correlation based on historical annual data for GDP, traffic and oil price variations from 1977 (to exclude the first oil crisis) to today, and using the same data set as Atlantia, we reach slightly different conclusions:

- The correlation between traffic and GDP is, as expected, high and positive.

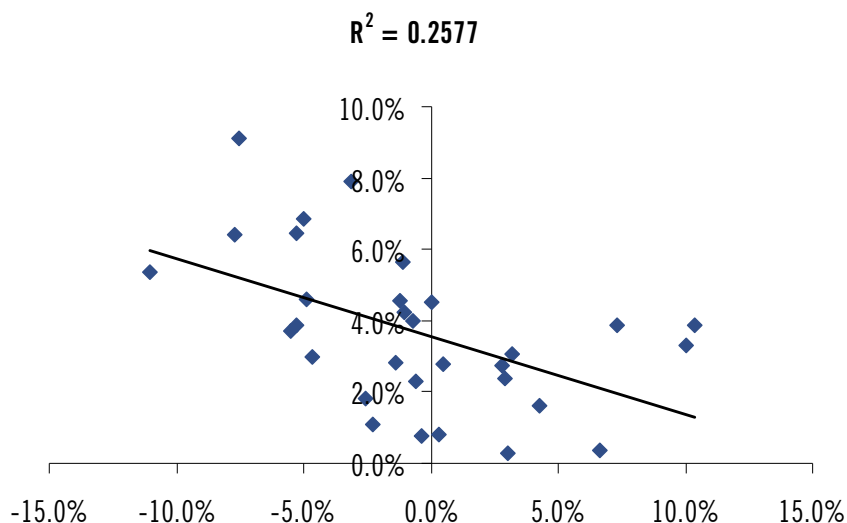
Figure 48. Correlation between GDP and traffic



Source: Company data, Citi Investment Research

- However, the correlation between traffic and oil price, while definitely less significant, is meaningful and negative.

Figure 49. Correlation between fuel price and traffic



Source: Company data, Citi Investment Research

Increasingly so!

We therefore suggest that both GDP AND oil prices actually have an impact on traffic evolution.

Some evidence from ANAS

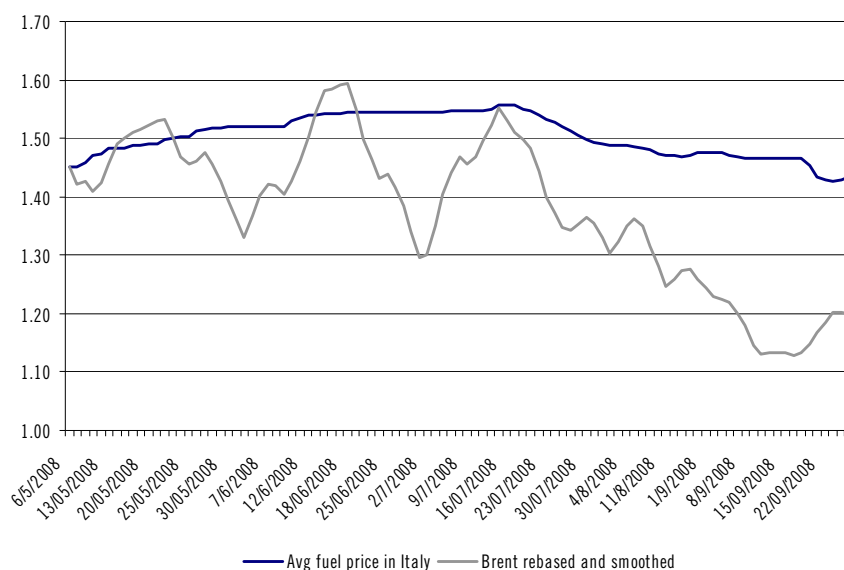
Our thesis is to some extent supported by a recent statement by the President of ANAS that the fuel price rally had contributed to changing certain habits, reducing car commuting and, in some cases, providing an incentive for people going on holiday to use means of transport other than cars. As a matter of fact, July and August traffic was down -2%/3% YoY, with drastic (-10%/15%) contractions in some motorway stretches (source: ANAS)

In light of this statement, we suspect that, in the present situation, the impact of fuel prices on traffic may have been amplified by the simultaneous oil price spike and economic slowdown.

What are the consequences?

It is impractical for us to attempt to model a 30-year fuel price dynamic, so we do not explicitly factor this into our traffic estimates. We would note, though, that, despite the recent dip in the oil price, we could see some lag before fuel prices in Italy are adjusted, given a certain observed “stickiness” in Italian fuel prices recently. In the table below we compare the Brent price with average fuel prices in Italy since the beginning of May 08.

Figure 50. Brent vs. average fuel price in Italy (May 08 to September 08)



Source: Datastream, Citi Investment Research, www.prezzibenzina.it on Quotidiano Energia data

At the same time, we feel this could be a key factor in:

- **Influencing stock price:** We believe Atlantia's stock price elasticity to fuel prices is likely to increase following the recent oil price spike.
- **Inter-transport competition:** In our view, more energy-efficient means of transport (e.g. trains) could get an increasing share of the transport market in the future. See below for further details.

Expected traffic evolution

Short-term gloom

In the short term Atlantia expects very low traffic growth: FY08 YoY growth is forecast to be negative (c.0.5%), while a partial recovery is expected to take place in FY09 (c.1%).

We agree with the scenario for FY08, but we are more cautious on the FY09 outlook: we expect Italian GDP growth to be barely positive, and traffic could share the same fate. However, should the oil price remain stable below the physiological threshold of \$100US/b, we could see a positive impact on traffic.

Back to historical average in the medium to long term

We expect traffic to start growing again from 2010, coming back to a reassuring +2.4% by 2012.

Our traffic estimates are shown in the table below.

Figure 51. Atlantia expected traffic evolution

	2012-17	2018-22	2023-38
GDP	1.0%	0.8%	0.5%
GDP Multiplier	1.2x	1.0x	1.0x
Traffic growth	1.2%	0.8%	0.5%

Source: Citi Investment Research estimates

We would stress that, on our estimates, Atlantia traffic should not trigger the revenue-sharing covenant included in the new agreement (i.e. if actual traffic growth exceeds the 2002 Supplementary Agreement⁶ estimates by 1ppt annually on a five-year basis, 50% of the economic benefit (net of taxes) is paid to a special fund destined to the financing of new investments without additional tariffs).

That said, we view our traffic revenue forecasts as a fair base case: there are several factors that could boost or slow down traffic in the future. We identify two in particular: debottlenecking and intermodal competition.

1. Debottlenecking could boost traffic

Atlantia's capex plan aims at debottlenecking the Italian motorway network (i.e. reducing average daily traffic per lane in the c.7% of network on which ADT is over 16,000 units per day).

Atlantia estimates that as of FY21 its capex plan is likely to reduce this value from 7% to 6%, which does not look to be a vast improvement. However, the percentage of extremely congested network portions (i.e. > 22,000 ADT) should be reduced to zero, according to the company.

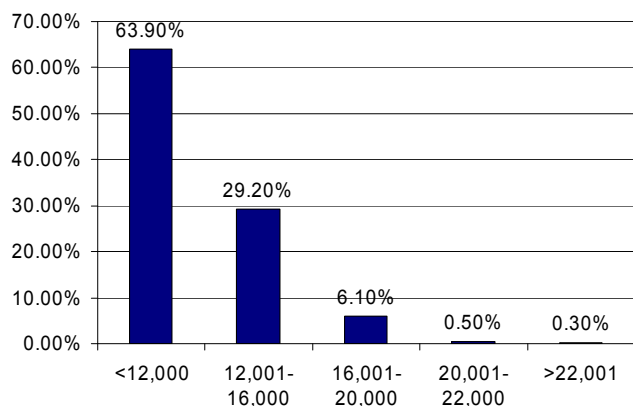
The debottlenecking should improve the quality of service and, most importantly from a revenue perspective, should ultimately increase traffic by making the use of motorways more efficient. As evidence, Atlantia reports that the opening of a 4th lane in two sections has dramatically improved traffic:

- Traffic growth on the **Modena-Bologna** stretch has recently outperformed the ASPI network, at 2.2% pa (before construction of the 4th lane it had underperformed, at -2.0% pa);
- Traffic growth on the **Milan-Bergamo** stretch has recently outperformed the ASPI network, at 7.9% pa (before construction of the 4th lane it had underperformed, at -1.3% pa);

⁶ The 2002 Supplementary Agreement forecast a 1.75% annual growth from Y08 to Y12, 1% from Y13 to Y17, 0.5% from Y18 to Y22 and 0% thereafter. The share of net revenues subject to claw back corresponds to 75% if the traffic exceeds those estimates by 1.5%.

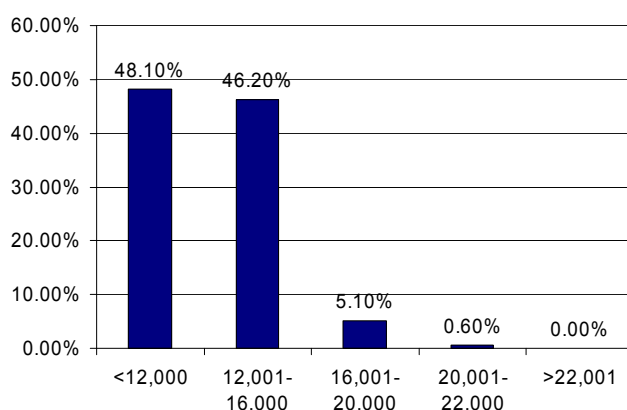
Should further debottlenecking prove so successful, we would need to consider revising up our estimates. We emphasise, however, that Milan-Bergamo is possibly one of the most congested sections of the network.

Figure 52. ADT per lane FY07



Source: Company data, Citi Investment Research

Figure 53. ADT per lane FY21 (after debottlenecking)



Source: Citi Investment Research estimates

2. Intermodal competition could reduce traffic

We believe in the future we could see more competition among different means of transportation (air, road and rail). In particular, European Commission Policies for Intermodal Passenger Travel identify the key needs of a new European transport system in Europe:

- **More efficient travel:** a better use of saturated capacities, especially road and air, is of paramount importance. At the same time, road congestion costs in the EU amount to about 1% of GDP (~€120 billion)
- **Safer travel:** in the EU 27 there were still c.43,000 road deaths in 2006
- **Cleaner travel:** CO2 emissions from transport grew by 32% in the period 1990-2005; 73% of the total derived from road transport and, if nothing is done, a further increase of + 15% can be expected from 2005 to 020.

In our view, therefore, increasing use of alternative means of transport is likely to be encouraged in the near future, and we believe train is likely to be the means of choice due to:

- All of the above-mentioned reasons: more efficient, safer and cleaner;
- The diffusion of high-speed train links all cross Europe is remarkable; in Italy some additional stretches should also be open by the year-end.

In the future, therefore, we could see more efficient integration of different means of transportation, which could include an important role for rail: this view is reportedly shared by Atlantia's President (source: *Milano Finanza*).

Atlantia's Strategy

The main points of Atlantia's strategy are as follows:

- **Consolidation of Italian motorway business**, improving efficiency and delivering the substantial capex plan just approved.
- **Existing business: selective investment strategy**. Atlantia has no plans to invest in non-core activities, but management will try to extract value from businesses lacking critical mass (e.g. the proposed operation with DMT). We struggle to see how the company's involvement in CAI to rescue Alitalia fits with this strategic statement. The company has said that it may divest businesses with a sub-optimal IRRs.
- **New business: international growth and tight risk/reward model**. Atlantia will evaluate opportunities in the international arena optimizing the risk/return profile, potentially in partnership with Sintonia. Moreover, Atlantia is planning to launch a dedicated infrastructure investment vehicle open to other primary investors to operate in large-scale markets.
- **Available financial firepower**: We see scope for Atlantia's expansion plans to be funded by gearing potentially much higher than that which we estimate after 2020. This could allow for balance sheet efficiency improvement.

We have already discussed in details the current business and its expected evolution, so below we focus on Atlantia's potential international growth.

International growth strategy

Atlantia's international strategy is based on a careful evaluation of:

- The type of investment: greenfield, brownfield or privatisation.
- The geographic area to be targeted.

1. Investment type

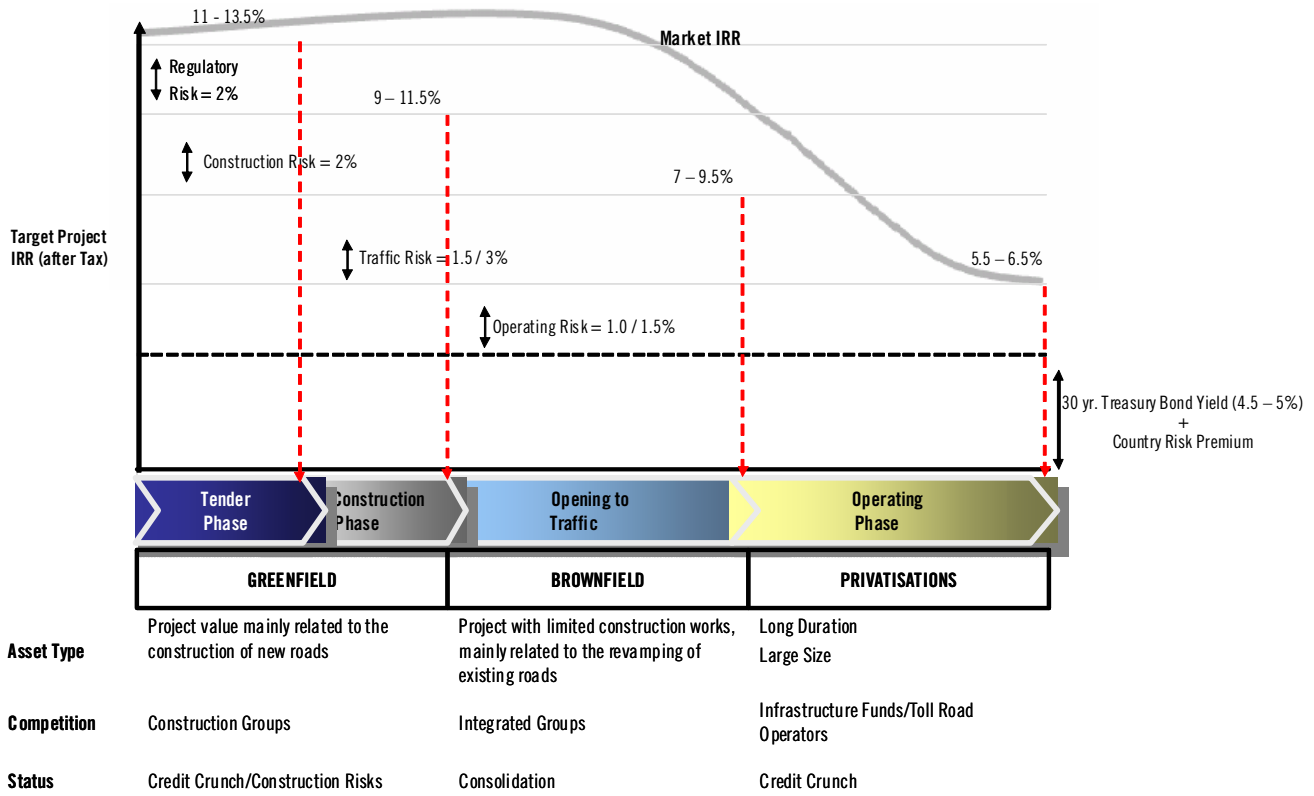
We believe the company will focus on **brownfield project**, since:

- They offer the best risk/reward profile and significant IRRs.
- They allow Atlantia to leverage its core competencies.
- In the current credit market, they are probably the most defensive infrastructure investments.

We believe Atlantia may also enter greenfield projects, albeit likely only in urban areas, where traffic risk is limited.

Atlantia evaluates new investment in light of the following table, where the required IRR/risk profile is clearly presented.

Figure 54. Investment criteria & market dynamics



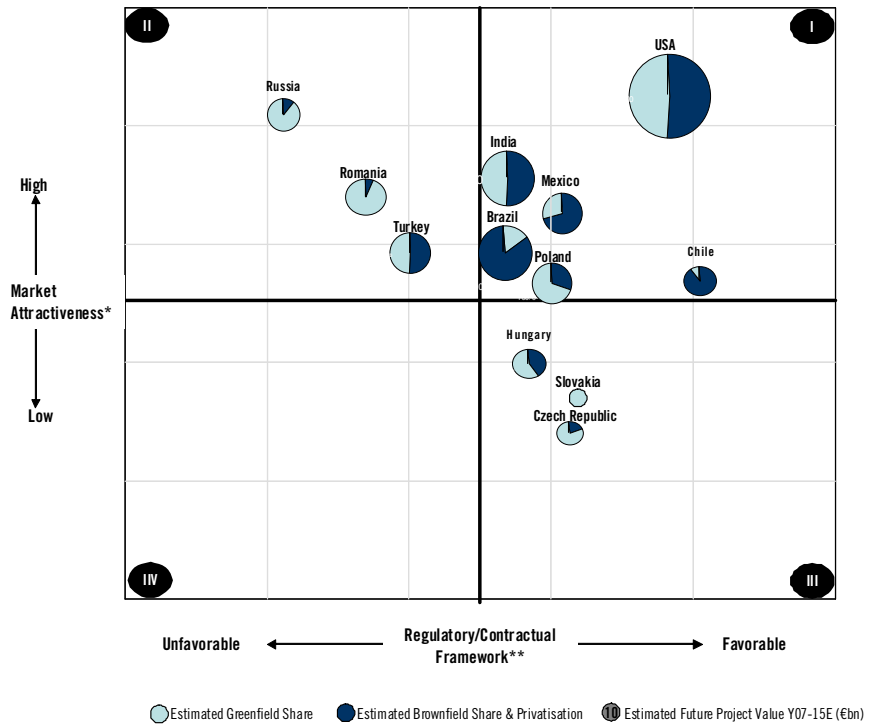
Source: Company presentation

2. Target geographic areas

We believe one of the pillars of every internationalization strategy is an attentive evaluation of the risk/reward profile of each potential target country. Atlantia runs this analysis using the schematic shown below.

The markets perceived as most attractive look to be the US (in which Atlantia already operates the Dulles Greenway in Virginia and significant privatizations are expected), Brazil, India (in which the company is bidding on several deals in partnership with Tata), eastern Europe and selected countries in Latam. Atlantia is also trying to enter (with a limited investment and in partnership with a local player) the highly promising but potentially risky Russian market.

Figure 55. Atlantia strategic options: market and regulation attractiveness



*GDP per capita as of today and future prospects, number of vehicles/inhabitant as of today and future perspectives, population and growth rate

** Based on 7 quantitative parameters forecast by OCSE, SACE, World Bank and WSJ

Source: Company Presentation on Infra-News, Dealogic, PPP news, Fondazione ENI privatization barometer, World Bank Privatisation database, EIU, OCSE, SACE, World Bank and WSJ

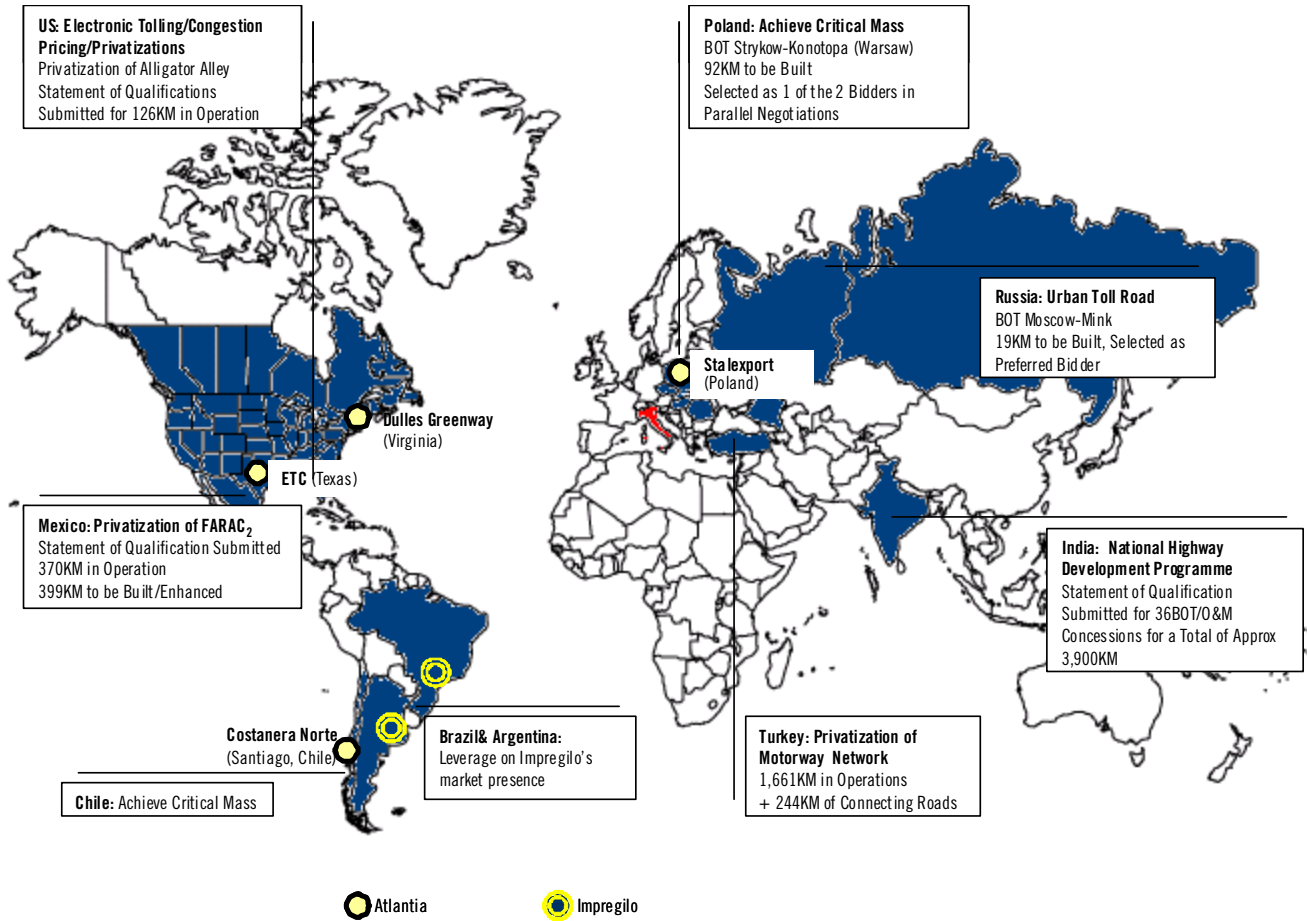
We welcome Atlantia’s focus on internationalization, and we believe the company could leverage its significant competence in motorway management to create additional value. Moreover, Atlantia can count on:

- Sintonia shareholders (GS, Mediobanca) providing the needed financial flexibility and know-how;
- Impregilo (IPGI.MI; €2.86; 1S) (10% owned via IGLI) providing international market penetration, especially in Latin America.

We would note, however, that in the short term the size of Atlantia’s capex plan and the current credit crunch could mean some caution is warranted before further increasing leverage.

Figure 56 below summarizes Atlantia’s current geographic exposure and potential expansion targets.

Figure 56. Market presence and opportunities under current evaluation



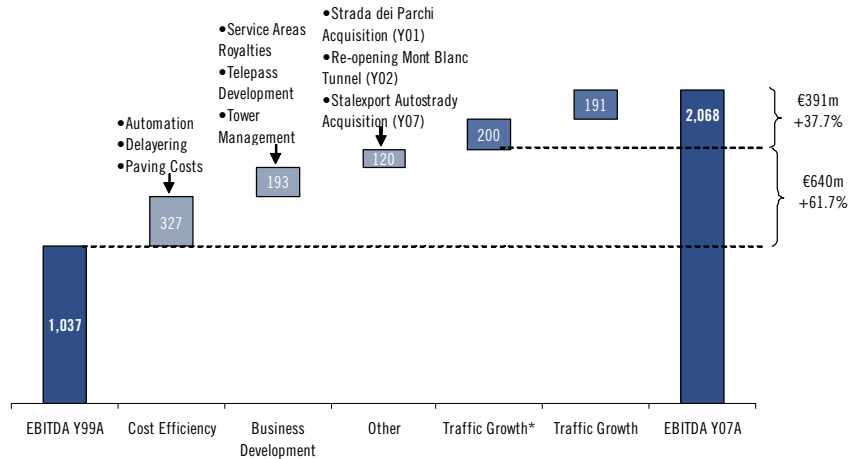
Source: Company presentation

Financials

Historical financials

Since 2000, Atlantia has undergone a turnaround that has allowed the company to increase its revenues (+58% cumulative growth) and profitability (EBITDA margin +660 bps). We summarize the main growth drivers in Figure 57 below: note that only c.40% of EBITDA growth has been driven by “exogenous” factors (i.e. traffic and tariffs).

Figure 57. 1999-2007 growth drivers



Note: 1999 figures are Italian GAAP compliant, 2007 figures are IFRS compliant

* Net of change in the concession fee from 1% to 2.4% since 2007

Source: Citi Investment Research

Autostrade Group began its restructuring process in 2003 by transferring Autostrade SpA's motorway assets to the newly established company Autostrade per l'Italia SpA.

In the following section, we present the company's historical P&L, balance sheet and cash flow statements.

Figure 58. Atlantia P&L, 2000-07A (€)

	2000A	2001A	2002A	2003A	2004A	2005A	2006A	2007A
Net toll revenue	1,889.4	2,003.9	2,133.5	2,329.1	2,424.7	2,517.6	2,686.4	2,767.2
Other operating revenue	181.5	222.7	223.3	240.7	527.5	439.7	454.9	504.3
Total revenues	2,070.9	2,226.6	2,356.8	2,569.8	2,952.2	2,957.3	3,141.2	3,271.6
% growth			5.8%	9.0%	14.9%	0.2%	6.2%	4.1%
Work in progress variations	2.3	-1.7	2.2	1.5	0.0	0.0	0.0	0.0
Value of production	2,073.2	2,225.0	2,359.0	2,571.3	2,952.2	2,957.3	3,141.2	3,271.6
Raw and consumable materials		-69.9	-53.8	-109.9	-136.8	-127.9	-135.3	-131.7
Services	0.0	-218.6	-231.2	-262.0	-361.4	-391.4	-403.4	-422.8
Other operating costs		-166.4	-143.8	-119.9	-97.7	-85.0	-87.7	-136.3
Value added	1,638.6	1,770.0	1,930.2	2,079.6	2,356.4	2,353.0	2,514.9	2,580.8
As % of value of prod.	79.0%	79.6%	81.8%	80.9%	79.8%	79.6%	80.1%	78.9%
Labour costs	-466.2	-452.9	-464.2	-492.2	-524.3	-538.8	-571.3	-551.0
Capitalised labour costs		5.1	5.9	10.0	22.2	39.2	45.5	38.5
EBITDA	1,172.4	1,322.2	1,471.8	1,597.4	1,854.2	1,853.4	1,989.1	2,068.3
As % of value of prod.	56.6%	59.4%	62.4%	62.1%	62.8%	62.7%	63.3%	63.2%
Dep & amort ex-g'will	-225.6	-234.9	-262.6	-275.7	-267.7	-260.2	-325.4	-345.5
Provisions	-101.3	-144.6	-126.6	-154.3	-111.2	-63.2	-57.3	-79.5
Writedowns on receivables	-14.0	-15.2	-16.0	-20.8	0.0	0.0	0.0	0.0
EBITA	831.5	927.5	1,066.7	1,146.6	1,475.3	1,530.0	1,606.4	1,643.3
As % of value of prod.	40.1%	41.7%	45.2%	44.6%	50.0%	51.7%	51.1%	50.2%
Goodwill amort.	0.0	0.0	0.0	-260.7	0.0	0.0	0.0	0.0
EBIT	831.5	927.5	1,066.7	885.9	1,475.4	1,573.3	1,606.4	1,643.3
As % of value of prod.	40.1%	41.7%	45.2%	34.5%	50.0%	53.2%	51.1%	50.2%
Net interest	-91.5	-79.9	-47.7	-379.1	-489.6	-460.7	-475.9	-467.6
Capitalised interest costs		7.9	5.9	6.0	14.8	26.1	30.4	26.1
Value adjustments	-112.8	-151.1	-104.2	21.8	-1.0	-1.7	0.7	1.1
Associates	-4.5	1.6	-15.0	-2.8	0.0	0.0	3.8	-5.7
Pre-tax profit	622.6	706.0	905.6	531.8	999.6	1,137.1	1,165.4	1,197.3
As % of value of prod.	30.0%	31.7%	38.4%	20.7%	33.9%	38.4%	37.1%	36.6%
Tax	-294.5	-316.7	-402.2	-305.9	-413.1	-443.0	-493.0	-820.1
Net profit of operating assets	328.1	389.3	503.4	225.9	586.5	694.0	672.4	377.2
Net gain/(loss) assets sold/ to be sold					148.7	153.2	0.0	14.5
Net profit (pre-mins.)	328.1	389.3	503.4	225.9	735.1	847.2	672.4	391.7
Minorities	18.6	26.7	25.6	7.0	0.2	-12.6	-7.1	-11.0
Net profit	346.7	416.0	529.1	232.9	735.3	834.6	665.3	380.7
As % of value of prod.	16.7%	18.7%	22.4%	9.1%	24.9%	28.2%	21.2%	11.6%
Adjusted net profit	349.1	415.1	537.4	494.9	586.6	681.5	665.3	679.8
As % of value of prod.	16.8%	18.7%	22.8%	19.2%	19.9%	23.0%	21.2%	20.8%

Source: Company data, Citi Investment Research

Figure 59. Atlantia balance sheet, 2000-07A (€m)

	2000A	2001A	2002A	2003A	2004A	2005A	2006A	2007A
Net fixed assets	5,448.8	5,492.1	5,829.2	11,570.3	13,600.3	13,991.9	14,600.6	15,089.7
- Tangible non-reversible	121.0	120.0	138.7	90.4	117.1	159.4	171.5	177.5
- Tangible reversible	4,419.8	4,430.9	4,701.7	5,575.5	5,533.5	5,315.9	6,146.0	6,833.8
- Tangible reversible under construction	565.3	600.8	474.3	751.7	898.6	1,421.2	1,392.3	1,545.1
- Intangible ex g'will	140.4	142.0	152.5	296.3	111.0	100.7	100.4	203.8
- Goodwill	0.0	0.0	0.0	4,379.9	4,382.9	4,382.9	4,382.9	4,396.4
- Equity investments	202.3	198.4	362.0	476.4	85.6	133.5	205.2	190.0
- Deferred tax assets	0.0	0.0	0.0	0.0	2,471.5	2,461.7	2,194.5	1,737.0
- Other fixed assets	0.0	0.0	0.0	0.0	0.0	16.6	7.8	6.1
Current assets	699.0	902.6	995.4	2,260.7	891.8	918.7	970.1	1,040.9
- Stocks	129.9	133.8	135.4	136.2	142.5	57.8	50.0	54.2
- Trade receivables	366.4	408.9	529.6	545.6	563.5	688.9	773.2	755.8
- Other receivables	202.7	360.0	330.4	1,578.8	185.8	172.1	147.0	231.0
Current liabilities	991.4	1,236.2	1,176.7	2,593.5	1,334.6	1,481.2	1,642.5	1,701.9
- Trade payables	433.7	432.4	486.8	522.7	496.1	566.3	628.5	683.8
- Provisions for future risks	49.1	53.9	48.3	92.2	104.7	203.0	222.2	205.5
- Other payables	508.5	749.9	641.5	1,978.6	733.8	711.9	791.8	812.6
Net working capital	-292.4	-333.6	-181.3	-332.8	-442.8	-562.4	-672.4	-661.0
Net capital employed	5,156.4	5,158.5	5,647.9	11,237.5	13,157.5	13,429.4	13,928.2	14,428.7
Financed by:								
Shareholders' funds	2,642.9	2,845.0	3,081.1	1,576.9	3,174.9	3,414.0	3,862.5	4,010.3
- Share capital and reserves	2,213.6	2,420.8	2,680.4	1,177.2	2,910.3	3,134.8	3,574.4	3,631.8
- Minorities	429.3	424.2	400.7	399.7	264.6	279.3	288.1	378.5
- Redundancy provisions (TFR)	149.8	157.6	167.7	190.6	199.2	230.6	198.1	160.5
- Provision for reversionary assets renewal	776.9	915.5	1,038.1	1,168.5	889.8	795.5	834.1	893.9
- Other provisions	0.0	2.3	5.4	9.3	176.5	195.7	88.1	122.6
Total long-term liabilities	926.7	1,075.4	1,211.3	1,368.4	1,265.5	1,221.7	1,120.2	1,176.9
Net debt (cash)	1,586.8	1,238.1	1,355.6	8,292.2	8,717.1	8,793.6	8,945.5	9,241.5
- Bonds	482.0	335.7	25.8	25.8	6,459.2	6,292.8	6,326.7	6,282.5
- Long-term	735.9	737.2	1,237.1	8,677.8	2,983.1	2,796.4	2,741.9	2,859.7
- Short-term	624.8	408.9	1,003.3	750.2	515.2	767.8	796.1	918.4
- Cash & deposits	-255.9	-243.6	-910.6	-1,161.6	-1,240.3	-1,063.5	-919.2	-819.1
- Of which Treasury shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net debt (cash)	1,586.8	1,238.1	1,355.6	8,292.2	8,717.1	8,793.6	8,945.5	9,241.5

Source: Company data, Citi Investment Research

Figure 60. Atlantia cash flow statement, 2000-07A (€m)

	2000A	2001A	2002A	2003A	2004A	2005A	2006A	2007A
Adjusted net profit	328.1	389.3	503.4	225.9	735.1	847.2	672.4	391.7
Depreciation & amortisation	210.7	219.6	243.5	509.7	247.0	237.1	303.5	318.0
Provisions	101.3	144.6	126.6	154.3	111.2	63.2	57.3	79.5
Interest Charges	91.5	79.9	47.7	379.1	489.6	460.7	475.9	467.6
Capitalized revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	16.0
Cash from operations	731.6	833.4	921.2	1,269.0	1,582.9	1,608.1	1,509.1	1,272.8
Change in working capital		41.2	-152.3	151.5	110.0	119.6	109.9	(11.4)
Trading cash flow	731.6	874.6	768.9	1,420.6	1,692.9	1,488.5	1,399.2	1,284.2
Capex reversible assets (net of grants)	-322.5	-270.7	-394.9	-1,398.7	-525.2	-852.4	-1,089.0	-1,075.6
Capex non-reversible assets	-48.9	-53.0	-65.6	-55.0	-40.0	-49.2	-44.2	-40.8
Invs. in intangibles	0.0	-16.8	-30.1	-4,811.1	-75.8	-41.8	-21.7	-23.1
Financial/equity investments	0.0	0.0	-160.5	-263.4	0.0	-53.9	-69.8	-52.6
Capex	-371.5	-340.5	-651.2	-6,528.2	-641.0	-997.2	-1,224.7	-1,192.1
Operating cash flow	360.2	534.0	117.7	-5,107.6	1,051.9	491.3	174.5	92.0
Changes in other sources	-91.5	22.3	36.9	-1,458.6	-1,299.5	-133.3	0.9	-5.6
Free cash flow to equity	268.6	556.4	154.7	-6,566.2	-247.6	358.0	175.3	86.4
Dividends (Y-1)	0.0	-207.7	-272.1	-370.4	-177.2	-434.5	-327.2	-382.5
% growth			31.0%	36.1%	-52.1%	145.2%	-24.7%	16.9%
Pay out	0.0%	53.4%	54.1%	164.0%	24.1%	51.3%	48.7%	97.6%
change in NFP	268.6	348.6	-117.5	-6,936.6	-424.8	-76.5	-151.9	-296.1
NFP	-1,586.8	-1,238.2	-1,355.6	-8,292.2	-8,717.1	-8,793.6	-8,945.5	-9,241.5

Source: Company data, Citi Investment Research

Atlantia's growth drivers at a glance

Atlantia is a holding company, operating in concession, construction and several other minor businesses (electronic toll systems, telco towers, etc). Nonetheless, the lion's share of its business is the motorway concession activities, which account for c.85% of sales and even more at the EBITDA level (being on average more profitable than ancillary activities).

For this reason, Atlantia's main growth drivers are:

- **Traffic:** This could be seen as a GDP proxy, given the high correlation between the two. In Italy traffic has exhibited generally positive growth in the past c.40 years. We have tried to be conservative in modelling traffic growth.
- **Tariffs:** After the approval of the new agreement, tariffs are linked to CPI and to Atlantia's capex plan.

We divided the very long Atlantia concession (ASPI) into four periods, one explicit one, and the other three according to the subdivision used by ANAS and Atlantia in the new agreement:

- **2009-12:** we model Atlantia numbers year by year, taking into account Citi's macro outlook and company guidance;
- **2013-17:** in this first five-year period, we assumed a recovery of GDP (+1%) and CPI in line with the ECB's 2% inflation target.
- **2018-22:** We assume 0.8% GDP growth (in line with traffic) and stable CPI.
- **2023-38 (long run):** We assume 0.5% GDP and traffic growth and stable CPI. We think 0% traffic growth (per 2002 Addendum) is too conservative an assumption. In any case, the impact is quite limited (in the range of c.€1 ps).

Our macro assumptions can be summarized as follows:

Figure 61. Our GDP, traffic (vs. 2002 addendum) and CPI assumptions

	2012-17	2018-22	2023-38
GDP	1.0%	0.8%	0.5%
GDP Multiplier	1.2x	1.0x	1.0x
Traffic growth	1.2%	0.8%	0.5%
2002 Addendum	1.0%	0.5%	0.0%
CPI	2.0%	2.0%	2.0%

Source: Citi Investment Research

Expected financials

Atlantia Business Plan

Together with the announcement of the new tariff scheme, Atlantia presented a 5-year business plan. Our estimates are conservatively slightly below Atlantia's guidance, but not by much.

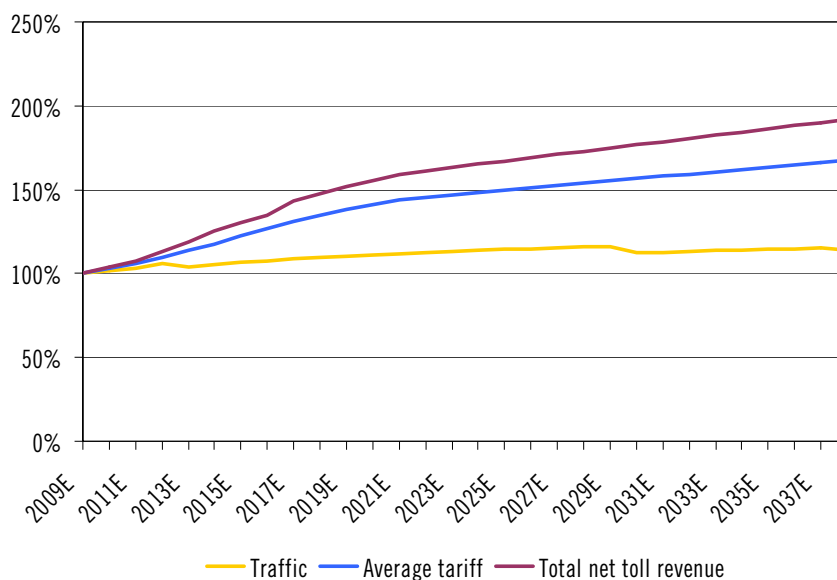
Figure 62. Citi estimates vs. Atlantia's business plan

	Revenue	EBITDA	Net Income
Guidance 2008	3500	2120	730
Citi FY08E	3440	2088	739
% Diff.	-1.7%	-1.5%	1.2%
Guidance 2012	4050	2550	900
Citi FY12E	3974	2512	836
% Diff.	-1.9%	-1.5%	-7.1%
	Average 08-12 Atlantia	Average 08-12 Citi	
Net debt /EBITDA	4.3x	4.3x	
DSCR	2.7x	2.7x	

Source: Company data, Citi Investment Research estimates

We have already commented in detail on our expectations regarding tariffs, and the graph below shows our growth assumptions for traffic, tariffs and toll revenue from 2009 to the end of concession.

Figure 63. Atlantia traffic, tariffs and net toll revenue evolution (2009E = 100%)



Source: Citi Investment Research estimates

Atlantia revenue

We expect cumulative growth of c.20% in net toll revenue over 2008-12, while we believe other revenue should grow by c.14%. Capitalized toll revenue refers to revenue generated by the X component, which will be recognised subsequent to the commissioning works that are still under construction.

Figure 64. Atlantia expected revenue, 2008-12E (€m)

	2008E	2009E	2010E	2011E	2012E
ASPI net toll revenue	2433	2491	2602	2727	2903
Other concessionaires net toll revenue	420	430	449	471	501
Capitalized toll revenue	-25	-30	-50	-100	-120
Stalexport and ETC	89	93	98	103	108
Total net toll revenue	2,917	2,984	3,100	3,200	3,392
% Change	5.4%	2.3%	3.9%	3.3%	6.0%
Service areas	193	203	207	210	214
Telepass - Viacard	99	107	115	122	128
Other revenue	230	233	235	237	240
Total other revenue	523	543	556	569	582
% Change	4%	4%	2%	2%	2%
Revenue	3440	3527	3656	3770	3974

Source: Citi Investment Research estimates

P&L

Our detailed P&L for Atlantia is as follows:

Figure 65. Atlantia P&L, 2007-12E (€m)

	2007A	2008E	2009E	2010E	2011E	2012E
Net toll revenue	2,767.2	2,916.8	2,984.4	3,099.7	3,200.5	3,392.1
Other operating revenue	504.3	523.0	543.0	556.5	569.4	581.6
Total revenues	3,271.6	3,439.8	3,527.4	3,656.2	3,769.8	3,973.7
% growth	4.1%	5.1%	2.5%	3.6%	3.1%	5.4%
Work in progress variations	0.0	0.0	0.0	0.0	0.0	0.0
Value of production	3,271.6	3,439.8	3,527.4	3,656.2	3,769.8	3,973.7
Raw and consumable materials	-131.7	-148.7	-144.5	-151.2	-153.8	-157.5
Services	-422.8	-477.4	-464.1	-485.6	-493.7	-505.8
Other operating costs	-136.3	-153.9	-149.7	-156.6	-159.2	-163.1
Value added	2,580.8	2,659.8	2,769.1	2,862.8	2,963.1	3,147.2
As % of value of prod.	78.9%	77.3%	78.5%	78.3%	78.6%	79.2%
Labour costs	-551.0	-610.0	-656.1	-658.1	-663.5	-687.4
Capitalised labour costs	38.5	38.5	46.6	48.3	49.8	52.5
EBITDA	2,068.3	2,088.3	2,159.5	2,253.0	2,349.4	2,512.2
As % of value of prod.	63.2%	60.7%	61.2%	61.6%	62.3%	63.2%
Depreciation	-318.0	-333.7	-346.6	-360.0	-412.6	-479.2
Amortization	-27.6	-26.3	-27.0	-27.3	-27.5	-27.8
Provisions	-79.5	-80.3	-81.1	-81.9	-82.7	-83.6
Writedowns on receivables	0.0	0.0	0.0	0.0	0.0	0.0
EBITA	1,643.3	1,648.0	1,704.8	1,783.8	1,826.5	1,921.6
As % of value of prod.	50.2%	47.9%	48.3%	48.8%	48.4%	48.4%
Goodwill amort.	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	1,643.3	1,648.0	1,704.8	1,783.8	1,826.5	1,921.6
As % of value of prod.	50.2%	47.9%	48.3%	48.8%	48.4%	48.4%
Net interest	-467.6	-471.3	-492.7	-518.0	-549.5	-596.8
Capitalised interest costs	26.1	28.3	29.0	31.1	37.9	39.0
Value adjustments	1.1	1.1	1.1	1.1	1.1	1.1
Associates	-5.7	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	1,197.3	1,206.2	1,242.3	1,298.0	1,316.0	1,365.0
As % of value of prod.	36.6%	35.1%	35.2%	35.5%	34.9%	34.4%
Tax	-820.1	-446.3	-459.6	-480.3	-486.9	-505.0
Net profit of operating assets	377.2	759.9	782.6	817.8	829.1	859.9
Net gain/(loss) assets sold/ to be sold					0.0	0.0
Net profit (pre-mins.)	391.7	759.9	782.6	817.8	829.1	859.9
Minorities	-11.0	-21.4	-22.0	-23.0	-23.3	-24.2
Net profit	380.7	738.5	760.6	794.8	805.7	835.7
As % of value of prod.	11.6%	21.5%	21.6%	21.7%	21.4%	21.0%

Source: Company data, Citi Investment Research estimates

EBITDA

We expect an increase in profitability (from 60.7% EBITDA margin in FY08 to 63.2% in FY12; driven by tight control over maintenance costs and other costs that should remain relatively flat over the period, labor costs should increase slightly).

D&A impact should increase

At the same time, D&A should increase as the capex plan begins, keeping the EBIT margin substantially flat until FY17E.

Financial charges should increase together with net debt, and we assume a flattish tax rate in the region of 37%.

As a consequence, EPS are expected to increase slightly over time.

Profitability after business plan period

Between 2013 and 2023 (10 years, or until the end of the second regulatory period), we model Atlantia's profitability starting from expected opex. We make the following assumptions about opex evolution:

- **Inflation:** we fully reflect the impact of inflation on Atlantia's cost base (vs. the tariff adjustment of 70% of CPI).
- **Traffic:** we believe maintenance and other costs should increase with traffic, hence we increase them every year by 50% of traffic growth.
- **Automatization:** payment system automatization should increase moderately over the concession period, slightly reducing the required dedicated workforce.

From 2023 on (i.e. in the "long run"), we model Atlantia's profitability assuming gradual growth in its EBITDA margins, which we see converging to c.70%. We believe this to be a rather conservative assumption, to which we see significant upside risk.

As a general indication, we have adopted what we consider to be a very conservative approach in modeling Atlantia's profitability.

Capital invested and net debt evolution

Figure 66. Atlantia capital invested, 2007-12E (€m)

	2007A	2008E	2009E	2010E	2011E	2012E
Net working capital	-661.0	-784.2	-795.2	-795.0	-780.6	-769.7
Net Fixed assets	15,089.7	15,993.8	16,840.8	17,771.8	18,958.1	20,040.4
Total Net assets	14,428.7	15,209.6	16,045.6	16,976.7	18,177.5	19,270.7
M/L term funds	1,176.9	1,212.0	1,243.6	1,262.8	1,283.4	1,309.7
Capital employed	13,251.8	13,997.6	14,802.0	15,713.9	16,894.1	17,961.1
covered by						
Shareholders' equity	3,631.8	3,949.6	4,247.4	4,533.0	4,778.8	4,998.5
Minorities	378.5	388.0	397.0	405.7	413.3	420.1
Shareholders' funds	4,010.3	4,337.6	4,644.4	4,938.8	5,192.0	5,418.6
Net financial position (cash)	9,241.5	9,660.0	10,157.5	10,775.2	11,702.1	12,542.4

Source: Company data, Citi Investment Research estimates

Figure 67. Gross debt as of FY07

FRN 04-11	2,000
Notes 04-22	750
Term Loan*	800
Other	1,118
Notes 04-14	2,750
Notes 04-24	1,000
EIB Loan**	450
Total	8,868

* Amortising loan with final maturity in 2015

** Two amortising loans: €200m with final maturity in 2021 and €250m with final maturity in 2022

Source: Company data, Citi Investment Research

Atlantia's ambitious capex plan will impact company's net financial position. In particular, we estimate that Atlantia's net debt should increase to c.€16bn by 2018 from c.€9.5bn currently. However, we do not consider this a problem, as Atlantia's balance sheet should remain solid:

- **Net Debt/EBITDA** should peak in FY13 and FY14, reaching 5.0x, which we believe is a comfortable level for a motorway player with such a long concession;
- **DSCR (Debt Service Coverage Ratio)**, defined as Op.FCF before interest on debt service, should never move below the 1.2x threshold defined by the new agreement covenants. In fact, on our estimates, it should remain over 2.0x.

Figure 68. Atlantia net debt ratios

DSCR	2008-12	2008-12 Business Plan	2013-22
Average Net debt/EBITDA	4.9x	4.3x	4.5x
Average DSCR	2.4x	2.7x	2.3x

Source: Citi Investment Research estimates

On top of that, Atlantia's credit rating remains sound even after its new capex commitment: company debt is rated "Single A" by both Moody's and S&P.

Debt structure

We believe it is especially important in such difficult credit markets to have a clear picture of Atlantia's debt structure.

- Average debt maturity of 8 years;
- No significant debt maturing before 2011;
- Average Kd of c.5.1%.

We see no particular reason to be concerned at present, but we believe debt market conditions could be very tough, therefore increasing Atlantia's Kd, going forward.

Cash flow analysis

Atlantia should generate negative cash flows until the end of the 1997 capex plan (FY17E), with a peak in cash absorption in FY13-FY15. This is due almost entirely to the impact of capex (and, in turn, of financial charges) and of dividends. We expect Atlantia to increase its pay-out by c.10% per year until 2020. After that date, we assume c.3.5% growth pa until the end of the concession.

Figure 69. Atlantia cash flow statement, 2007-12E (€m)

	2007A	2008E	2009E	2010E	2011E	2012E
Adjusted net profit	391.7	759.9	782.6	817.8	829.1	859.9
Depreciation & amortisation	318.0	333.7	346.6	360.0	412.6	479.2
Provisions	79.5	80.3	81.1	81.9	82.7	83.6
Interest Charges	467.6	471.3	492.7	518.0	549.5	596.8
Capitalized revenue	16.0	25.0	30.0	50.0	100.0	120.0
Cash from operations	1,272.8	1,670.2	1,733.0	1,827.7	1,974.0	2,139.5
Change in working capital	(11.4)	123.2	11.1	(0.2)	(14.4)	(10.9)
Trading cash flow	1,284.2	1,547.0	1,722.0	1,827.9	1,988.3	2,150.4
Capex reversible assets (net of grants)	-1,075.6	-1,174.5	-1,201.5	-1,289.7	-1,569.0	-1,535.1
Capex non-reversible assets	-40.8	-81.0	-82.9	-88.9	-108.2	-105.9
Invs. in intangibles	-23.1	-40.5	-41.4	-44.5	-54.1	-52.9
Financial/equity investments	-52.6	0.0	0.0	0.0	0.0	0.0
Capex	-1,192.1	-1,296.0	-1,325.8	-1,423.1	-1,731.3	-1,693.9
Operating cash flow	92.0	251.0	396.1	404.8	257.0	456.5
Changes in other sources	-5.6	-248.7	-430.9	-513.3	-624.0	-680.8
Free cash flow to equity	86.4	2.3	-34.7	-108.5	-366.9	-224.3
Dividends (Y-1)	-382.5	-420.8	-462.8	-509.1	-560.0	-616.0
% growth	16.9%	10.0%	10.0%	10.0%	10.0%	10.0%
Pay out	97.6%	55.4%	59.1%	62.3%	67.5%	71.6%
change in NFP	-296.1	-418.5	-497.6	-617.6	-927.0	-840.3
NFP	-9,241.5	-9,660.0	-10,157.6	-10,775.1	-11,702.1	-12,542.4

Source: Company data, Citi Investment Research estimates

Appendix I: Minor Atlantia Concessions

Concessions in Italy

- **Autostrade Meridionali** has under concession the A3-Naples-Pompei-Salerno motorway for 51.6km. The concession will expire on 31st December 2012.

Figure 70. Autostrade Meridionali – key data

(€m)	2006A	2007A	YoY chg
Revenues	69.3	73.1	5.5%
EBITDA	32.4	32.5	0.3%
EBITDA margin	46.8%	44.5%	
Investments	37.9	34.9	-7.9%
Net Financial Debt (as of 31 Dec)	47.1	51.3	8.9%
Average Workforce (unit)	379	387	2.1%
Traveled Km	1,562	1,577	1.0%

Source: Company data, Citi Investment Research

In FY07 Autostrade Meridionali's 5.5% revenue increase was due to a €2.1m tariff increase sustained by 1% traffic growth and a tariff adjustment generated by the surcharge in favour of ANAS (as per 2007 Financial Act).

In accordance with the agreement stipulated with ANAS in 1999, in 1H07 the company opened to traffic the stretches between km18 to km 22 and km312 to km400, enlarged six lots to the third lane and was involved in the bidding for the completion of Ponticelli junction and the lighting of San Pantaleone tunnel. Investments related to the above-mentioned projects amounted to €30.9m, with the remaining investment in FY07 representing extraordinary maintenance and minor charges.

Net financial debt increased by 8.9% due to FY07 investments.

- **Strada dei Parchi** has under concession 166.5km of the A24-Rome-Teramo motorway and 114.9km of the A25 Torano-Pescara motorway. The concession will expire on 31st December 2029.

Figure 71. Strada dei Parchi – key data

(€m)	2006A	2007A	YoY chg
Revenues	123.4	131.5	6.6%
EBITDA	65.5	69.4	6.0%
EBITDA margin	53.1%	52.8%	
Investments	49.6	111.2	124.2%
Net Financial Debt (as of 31 Dec)	766.7	859.8	12.1%
Average Workforce (unit)	515	494	-4.1%
Traveled Km	2,132	2,223	4.3%

Source: Company data, Citi Investment Research

In FY07A revenues amounted to €131.5m, (+ 6.6% YoY). Revenue growth was generated mainly by toll fees (+€5.8m) and traffic increase (+4.3% YoY).

Investments grew by 124%, due to the doubling of Villa Vomano-Teramo section, maintenance works and the development of the Lunghezza service area.

- **Tangenziale di Napoli** – the East-West Naples toll ring-road (20.2km) is under concession until 31st December 2037.

Figure 72. Tangenziale di Napoli – key data

(€m)	2006A	2007A	YoY chg
Revenues	54.3	58.4	7.6%
EBITDA	17.4	20.1	15.5%
EBITDA margin	32.0%	34.4%	
Investments	16.9	15.8	-6.5%
Net Financial Debt (as of 31 Dec)	42.4	50.3	18.6%
Average Workforce (unit)	425	424	-0.2%
Traveled Km	1,053	1,060	0.7%

Source: Company data, Citi Investment Research

FY07 revenue of €58.4m included toll fees of €52.8m: fares increased of 3.38% (as of 15th March 2007) and traffic posted +0.6% YoY growth.

Moreover, FY07 witnessed the widening of the Corso Malta area and the modernization of the Fuorigrotta-Camaldoli section.

Net financial debt increased by 18.6%.

- **Autostrada Torino-Savona** has under concession the A6-Turin-Savona motorway for 130.9km. The concession will expire on 31st December 2038.

Figure 73. Autostrada Torino-Savona – key data

(€m)	2006A	2007A	YoY chg
Revenues	63.3	65.1	2.8%
EBITDA	30.1	31.9	6.0%
EBITDA margin	47.6%	49.0%	
Investments	20.6	24.8	20.4%
Net Financial Debt (as of 31 Dec)	35	36.7	4.9%
Average Workforce (unit)	204	205	0.5%
Traveled Km	949	971	2.3%

Source: Company data, Citi Investment Research

In FY07 the company generated €65.1m of revenues, including an increase of €1.3m in tolls and +2.3% YoY traffic growth

Capex in this period (€24.8m) was directed to guardrails, optical fiber and the Mondovi service area.

Net financial debt rose by 4.9% because of both medium/long-term net financial debt of -€5.7m and lower availability of financial credit (€7.3m).

- **Raccordo Autostradale Valle d'Aosta (RAV)** – RAV is the concessionaire for the construction and operation of the 32.3km toll motorway connecting the A5 motorway (Torino-Aosta) and the Mont Blanc tunnel (Vény Valley). The concession will expire on 31st December 2036.

Figure 74. Raccordo Autostradale Valle d'Aosta – key data

(€m)	2006A	2007A	YoY chg
Revenues	9.9	11.6	17.2%
EBITDA	-0.5	1.8	-460.0%
EBITDA margin	-5.1%	15.5%	
Investments	29.1	18.4	-36.8%
Net Financial Position (as of 31 Dec)	49.9	68.3	36.9%
Average Workforce (unit)	59	58	-1.7%
Traveled Km	89.2	104	16.6%

Source: Company data, Citi Investment Research

FY07 revenue grew by 17.2%. In 2007 RAV collected approximately €32m as XXII contribution from ANAS.

- **Società Autostrada Tirrenica** has under concession the Livorno-Civitavecchia motorway. Currently it manages the 36.6km Livorno-Rosignano Marittima stretch. The concession will expire on 31st December 2028.

Figure 75. Società Autostrada Tirrenica – key data

(€m)	2006A	2007A	YoY chg
Revenues	25.3	26.3	4.0%
EBITDA	15.2	16.2	6.6%
EBITDA margin	60.1%	61.6%	
Investments	4.1	2.7	-35.1%
Net Financial Debt (as of 31 Dec)	68.3	64.5	-5.6%
Average Workforce (unit)	71	69	-2.8%
Traveled Km	248	251	1.2%

Source: Company data, Citi Investment Research

The +4% revenue growth in FY07 was driven by tolls (+€0.4m), traffic expansion (+1.2%), tariff increase (+1.45%) and service area income (+€1m).

Investments decreased by 35%, due mainly to the effect of the conclusion of the preliminary project for the Rosignano-Civitavecchia section.

The net financial position improved by €3.8m owing to lower debts in the projects business.

- **Società Italiana per il Traforo del Monte Bianco (SITMB)** – SITMB is the concessionaire for the 5.8km Italian portion of the Mont Blanc motorway tunnel. The operations for the whole tunnel (11.6km) are awarded to GEIE (i.e. the European Group for Economic Interests). The concession will expire on 31st December 2035.

Figure 76. SITMB – key data

(€m)	2006A	2007A	YoY chg
Revenues	54.5	76.4	40.2%
EBITDA	35.5	50.8	43.1%
EBITDA margin	65.1%	66.5%	
Investments	3.3	1.7	-48.5%
Net Financial Debt (as of 31 Dec)	84	62.6	-25.5%
Average Workforce (unit)	96	101	5.2%
Traveled Km (total traffic)	11	11	-1.4%

Source: Company data, Citi Investment Research

Revenues grew +40% in FY07 owing to the €22.4m Fortis-Volvo transaction (related to the fire that occurred in March 1999) and to a tariff increase of +1.43%. Toll revenues decreased by €0.4m due to a traffic reduction of -1.5%, as a result of the closure of the tunnel on the French side from the 3rd to the 10th March 2007.

Investments dipped to €1.7m, as 2006 benefited from the 1999-2002 expenses incurred to reopen and improve the tunnel (+€1.9m).

International concession business

International concession business

Atlantia's international expansion is driven by its experience in motorway network management and by the diffusion of its remote electronic toll payment systems (Telepass) to well developed motorway networks abroad.

Atlantia has equity participation in the following foreign companies (through Autostrade per l'Italia):

Figure 77. International motorway companies (as of 30 June 08A)

Company	Business:	Share	Held By:
Autostrade Participations SA	Holding Company for International Investments	99.9996% 0.0004%	Autostrade per l'Italia SPEA Ingegneria Europea
Autostrade International US Holdings, Inc*	Holding Company for US Investments	75% 25%	Autostrade per l'Italia Autostrade Participations SA
- Autostrade International of Virginia O&M	Motorway Operator	100%	Autostrade International US Holdings, Inc
- ETC	Automated Toll Collection Services	45%	Autostrade International US Holdings, Inc
Autostrade Sud America**	Financial Holding Company	45%	Autostrade per l'Italia
- Autopista do Pacifico SA**	Financial Holding Company	100%	Autostrade Sud America
- Costanera Norte SA**	Motorway Concessionaire	100%	Autopista do Pacifico SA
Stalexport Autostrady***	Polish Investment Holding Company	56.24%	Autostrade per l'Italia
- Biuro Centrum SPZOO	Administrative Services	74.38%	Stalexport Autostrady
- Stalexport Autostrada Dolnoslaska SA	Motorway Operator	100%	Stalexport Autostrady
- Stalexport Autoroute SARL	Motorway Services	100%	Stalexport Autostrady
- Stalexport Autostrada Malopolska SA	Motorway Construction & Concessions	100%	Stalexport Autoroute SARL
- Stalexport Transroute Autostrada SA	Motorway Operator	55%	Stalexport Autoroute SARL

*Includes ETC, consolidated from 31-Dec-07.

** Non-consolidated companies.

***Group consolidated from 30-Jun-07.

Source: Company data, Citi Investment Research

Chile: Costanera Norte

In more detail:

- In Chile, Autostrade finalized in 2006 the acquisition of a 100% stake in **Costanera Norte** via Autostrade Sud America (45%-owned by Autostrade per l'Italia).

Costanera Norte is a 43 km toll motorway with a free-flow-type of toll levy system operating the motorway connecting the Eastern and Western parts of Santiago del Chile.

As of 1H08, traffic on this 43km-operated motorway section grew by 4.18%. The company recorded revenues and EBITDA of €26m (+2% YoY) and €20m (-0.5% YoY), respectively. The business in Chile is not consolidated in the Group's statements.

Poland: Stalexport

- In Poland Autostrade has a 56.2% interest in **Stalexport**, a Polish listed company dealing with steel processing and trading and holder of the concession for the Krakow-Katowice motorway stretch (61km), through Stalexport Autostrada Malopolska SA.

Stalexport was consolidated from 30th June 2007 and contributed €21.2m to Group FY07 revenues and €12.7m to Group EBITDA.

Revenues and EBITDA in 1H08 amounted to €23.8m and €16m, respectively. These figures are not comparable with those for 1H07, as the subsidiary's income statement was consolidated from 1st July 2007 only.

Atlantia considers Stalexport a good entry point in the development of the motorway market in Poland, both through consortia and participation in tenders for the construction of new motorways and the management of existing ones.

US: Dulles Greenway (Virginia) and ETC

- In the US, Atlantia operates through **Autostrade International US Holdings Inc.**, which in turn holds the entire share capital of Autostrade International of Virginia O&M and a 45% interest in Electronic Transaction Consultants Corporation (ETC) in Texas⁷.

Virginia O&M has an interest in managing the 15-mile Dulles-Greenway toll road, connecting Washington International Airport to Leesburg (North Virginia), until 2056.

Figure 78. Autostrade International US Holdings Inc. – key data

(€m)	2006A	2007A	YoY chg
Revenues*	4.8	4.5	-6.3%
EBITDA*	0.5	0.3	-32.7%
EBITDA margin	10.4%	6.7%	
Net Financial Position (as of 31 Dec)	1.7	4.7	176.5%
Average Workforce (unit)	70	64	-8.6%
*ETC excluded			

Source: Company data, Citi Investment Research

In December 2007 ASPI increased its share capital in Autostrade International US Holdings by €20m.

⁷ ETC acquisition will be discussed later in this report.

Appendix II: Service Business

The Group offers supply services both in Italy and overseas to support its core business.

Figure 79. Main service business companies (as of 30 June 08A)

Company	Business:	Share	Held By:
SPEA Ingegneria Europea	Integrated Technical Engineering Services	100%	Autostrade per l'Italia
Pavimental	Motorway & Airport Construction & Maintenance	71.67%	Autostrade per l'Italia
EssediEsse Società Servizi	General Administrative Services	100%	Autostrade per l'Italia
AD Moving	Advertising Services	75%	Autostrade per l'Italia
Port Mobility	Port Mobility Services	70%	Autostrade per l'Italia
Autostrade Tech SpA	Equipment & information Systems for Transport Control & Automation & Road Safety	100%	Autostrade per l'Italia
- Telepass	Automated Toll Collection Services	100%	Autostrade Tech SpA
TowerCo	Tower Management Services	100%	Atlantia
Infoblu	Info-mobility	100%	Autostrade per l'Italia
ETC	Automated Toll Collection Services	45%	Autostrade International US Holdings, Inc

Source: Citi Investment Research on Company Data

Italy

The following companies provide support to the Italian motorway business:

- **SPEA Ingegneria Europea** is 100% held by ASPI and is engaged in engineering services for transport infrastructure, such as projects, works supervision, monitoring and maintenance both in Italy and abroad.

Figure 80. SPEA Ingegneria Europea – key data

(€m)	2006A	2007A	YoY chg
Revenues	99.1	90.8	-8.4%
EBITDA	24.9	23.9	-4.0%
EBITDA margin	25.1%	26.3%	
Investments	0.8	0.7	-12.5%
Net Financial Position (as of 31 Dec)	25.9	6.2	-76.1%
Average Workforce (unit)	493	499	1.2%

Source: Company data, Citi Investment Research

The FY07A top line (€90.8m, -8.4% YoY) was affected by a smaller number of projects, only partially compensated by works supervision and the revamping of existing structures. Net cash decreased to €6.2m due to the length of contract approvals and payment slackening from main customers.

- **Pavimental** is 71.7%-owned by ASPI and is involved in construction services and the maintenance of road surfacing.

Figure 81. Pavimental – key data

(€m)	2006A	2007A	YoY chg
Revenue	518	488.5	-5.7%
EBITDA	19.9	21.9	10.1%
EBITDA margin	3.8%	4.5%	
Investments	14.3	7.7	-46.2%
Net Financial Debt (as of 31 Dec)	17.4	69.9	301.7%
Average Workforce (unit)	685	669	-2.3%

Source: Company data, Citi Investment Research

FY07 revenues were affected by less surfacing maintenance (-€8.8m), infrastructure works (-€20.6m) and third-party works (-€10.5m), the latter partially offset by maintenance to service areas (+€11.9m). Another €1.5m decline was driven by losses in reserve funds connected to Tangenziale di Bologna multi-annual costs (€1m) and to the decrease in current and non-current operating profits (€0.5m).

The contraction in investment of 46.2% was the result of the completion of the plants & machinery programme for the acquisition of new orders.

Net financial debt of €69.9m was the result of a change in working capital.

- **EssediEsse Società Servizi** is fully-owned and provides administrative, payroll, general and facility management services to the Group.

Figure 82. EssediEsse Società Servizi – key data

(€m)	2006A	2007A	YoY chg
Revenues	29.2	30.1	3.1%
EBITDA	3.7	4.5	21.6%
EBITDA margin	12.7%	15.0%	
Net Financial Position (as of 31 Dec)	15	14.6	-2.7%
Average Workforce (unit)	316	313	-0.9%

Source: Company data, Citi Investment Research

Revenues in FY07 grew by +3% YoY, driven by contract audits for portfolio clients (+€0.6m) and for new activities (+€0.1m).

The net financial position decreased by 2.7% due to provision use and the new staff leaving indemnity regulation.

- **AD Moving** sells and manages advertising activities (such as signs in service areas, advertising space on Infomoving TV) on Italian motorways and in other dedicated facilities such as ports and airports. The company is 75%-held by Autostrade per l'Italia.

Figure 83. AD Moving – key data

(€m)	2006A	2007A	YoY chg
Revenues	16.9	18.1	7.1%
EBITDA	1.4	1.4	0.0%
EBITDA margin	8.3%	7.7%	
Investments	2.6	0.6	-76.9%
Net Financial Debt (as of 31 Dec)	1.4	1.6	14.3%
Average Workforce (unit)	8	11	37.5%

Source: Company data, Citi Investment Research

As of YE07, advertising boards were 3,362 vs. 3,289 in YE06.

In FY07 revenues increased by €1.2m YoY, owing to advertising billposting both in service areas and in ports and airports.

Investments in 2007 were conveyed to advertising acquisitions and installations, mainly within the motorways managed by Autostrade per l'Italia.

- **Port Mobility** is involved in mobility studies, building, managing and maintaining roads and car parks, and in transportation services within the Port of Civitavecchia under a concession ending on 26th March 2035. Autostrade per l'Italia holds a 70% interest in Port Mobility.

Figure 84. Port Mobility – key data

(€m)	2006A	2007A	YoY chg
Revenues	2.4	2.9	20.8%
EBITDA	0.1	-0.6	-700%
EBITDA margin	4.2%	-20.7%	
Investments	1	0.4	-60%
Net Financial Position (as of 31 Dec)	0.5	-1.7	-440%
Average Workforce (unit)	1	4	300%

Source: Company data, Citi Investment Research

- **Telepass**, 100%-held by Autostrade Tech, has been engaged in automated free flow toll collection services since the early 1990s. The company has approximately 6m devices on the network and is the leading distributor of toll collection technologies and systems, according to management. During H108 payment with Telepass on the Group's Italian network (Mont Blanc tunnel excluded) accounted for 54.32% of total transactions, vs. 52.46% in H107.
- **Infoblu SpA**, a wholly owned subsidiary of Autostrade per l'Italia, provides motorway information services to telephone, radio and TV companies and new generation satellite navigation systems on the motorway network. In June 2008, it introduced through an agreement with GARMIN two new satellite navigation products holding the Infoblu logo. In FY07 the company recorded €2m of revenues, in line with the previous year. 1H08 revenues amounted to €0.9m (+26% YoY).
- **TowerCo SpA** is 100%-held by Atlantia SpA and as of 2003 has provided tower services along the motorway infrastructure and roadside property. These services include the construction and maintenance of antennae and telecommunication plants along the motorway (such as mobile radio transmitters) for institutional and corporate purposes (such as the police, Isoradio⁸ and traffic control systems). As of 1H08, 235 sites are operational (of which 59 provide GSM/UMTS coverage in motorway tunnels), 19 are under construction and further 80 are either under project or waiting for final authorization. In FY07 revenues amounted to €14m (+29% YoY), while in 1H08 they reached €7.7m (+17% YoY).

⁸ ie a 24-hour radio dedicated to traffic information used by RAI.

Abroad

The Group also operates internationally in service business following some acquisitions made after privatisation.

- **Electronic Transaction Consultants Corporation (ETC)** – Autostrade, through Autostrade International US Holding, bought 45% of ETC for US\$27m on 19th December 2007. ETC is a leader in free-flow tolling systems in the US and operates in Texas, Illinois, Washington and Louisiana. As reported by the company, "the acquisition was partially made through subscription to a rights issue increasing issued capital and partially through purchasing shares directly from the founders of the company. The agreements with ETC's founding shareholder also provide for the granting of put options to the sellers and call options for the purchaser. In the event that these options are exercised, it will be possible to obtain 100% control of the company by 2012"⁹.

ETC income statement has been consolidated by Autostrade as of 1st January 2008.

⁹ Source: 2007 annual report.

Appendix III: Historical Milestones

1950

Autostrade-Concessioni e Costruzioni SpA was founded by IRI (Istituto per la Ricostruzione Industriale) in 1950 and began its operations in 1956 when it was granted the original concession by ANAS, Italy's highways agency, to construct, operate and maintain the A1-Autostrada del Sole motorway connecting Milan to Naples and forming the central artery of the Italian motorway network. A1 was opened to traffic in 1964.

1982-99

Autostrade Group was established in 1982 reaching a 3,400km network (or 52% of the Italian motorways) and was privatised in 1999, when IRI signed an agreement to form Autostrade's stable core group of shareholders with Schemaventotto SpA, a company controlled by the Benetton family through Edizione Holding (now Sintonia).

International expansion began in 1995 when Autostrade participated to the construction of the Washington's Dulles International Airport-Leesburg (VA) link, which is currently operated by the Group through its subsidiary, Autostrade International of Virginia O&M. In 2002 Autostrade won a 10-year concession from the Austrian government to build and manage the first multi-lane free-flow toll system applied on a large scale to 2000 km of roads and motorways in Austria.

2003-06

Autostrade Group began its restructuring process in 2003 by transferring Autostrade SpA's motorway assets to newly established company Autostrade per l'Italia SpA.

As regards international expansion, Autostrade opened M6 Toll (Birmingham), the UK's first toll motorway, in the same year and finalized in 2006 the acquisition of a 100% stake in Costanera Norte, a concession company operating the motorway connecting the Eastern and Western parts of Santiago del Chile. Still in 2006 Autostrade purchased 21.7% of Stalexport SA, a Polish company dealing with steel processing and trading and holder of a motorway concession for the A4 Krakow-Katowice motorway from 1997 to 2027. In 2007 Stalexport SA sold its steel business, and Autostrade increased its stake to 56.2% and renamed the company Stalexport Autostrady.

2007-08

Autostrade Group changed the name of the parent company Autostrade SpA to Atlantia on 5 May 2007 to more clearly separate the roles and corporate mission of Autostrade SpA (financial holding with no operational role) and its operating subsidiary Autostrade per l'Italia SpA, which operates the motorway concessions.

At the end of 2007 the Group bought through Autostrade International US Holdings Inc a 45% stake in Electronic Transaction Consultants Corporation (ETC) in Texas. ETC is a US leader in electronic, free-flow integrated toll systems, hardware and software maintenance for operating support and advisory services to customers. The company currently runs open road tolling and high occupancy tolling in Texas, Illinois, Washington and Louisiana.

The Group completed its restructuring early in 2008, by transferring the former Autostrade SpA's shareholdings in international and other road operators to Autostrade per l'Italia SpA.

Atlantia

Company description

Atlantia is the largest motorway management company in Italy, controlling c.61% (+3,400 km) of the Italian toll motorway network or 17% of the European toll motorway network. The Group generated revenues of €3.3bn in FY07A (+4.2% YoY) and €1.7bn in H108A (+7.8% YoY). Other revenue is generated by engineering and construction, TLC tower management, and services. The Group also operates in Poland, the US and South America and is planning to continue its international expansion.

Investment strategy

We rate Atlantia Buy/Medium Risk. In June 08, Atlantia signed a new tariff system that: i) links remuneration to real inflation and ii) recognises a specific (and fair) extra return on the 2002 capex plan as well as on new investments, providing superior visibility on future cash flows. Moreover, a clear set of rights and rules has been agreed upon by ANAS and Atlantia.

Nonetheless, the stock has underperformed its peers recently due to a dreadful mix of sector and company-specific elements (e.g. traffic slowdown, oil price rally, interest rate spike and significant perceived overhang risk).

As a consequence, Atlantia's price makes little sense from a fundamental point of view. However, we believe timing is key: on the one hand, we think the stock is deeply undervalued, but on the other we fail to see a probable short-term catalyst, since traffic and GDP evolution are unlikely to surprise on the upside in the near future.

Valuation

We value Atlantia using a DCF model, given the high visibility on company cash flows until the end of concession. This method delivers a valuation of €23.0/share (implicit EV/EBITDA 09E: 10.5x). We discount the forecast FCFs using the average value of rolling WACCs between 2008E and 2022E (6.1%) and between 2023E and 2038E (7.3%): this is the same as assuming a "long-term" capital structure in which D=40% and E=60%. Our average WACC assumption over the concession lifetime works out at c.6.75%. We consider this WACC conservative, given that, hopefully, credit and financial market conditions will improve in the next 30 years; nonetheless, we believe Atlantia's valuation is extremely appealing even under this harsh set of assumptions.

To set our target price of €20.6, we apply a 10% discount to our DCF valuation to reflect: i) negative momentum for the whole motorways sector; ii) a current negative traffic outlook; iii) significant overhang risk; iv) increasing interest rate spreads and v) country risk. Our multiple valuation, while not conclusive, supports our valuation.

Risks

We rate Atlantia Medium Risk. Our risk rating on the stock is derived after consideration of several risk factors, including an assessment of industry-specific risk, financial risk and management risk. In particular, we see the following key risks to our target price:

Traffic: In our view, the number one risk for Atlantia, from both an operational and stock price perspective, is weaker-than-expected traffic growth. This is most likely to result from prolonged GDP stagnation. On top of that, we believe: i) the oil price and competition among different means of transportation could have a negative impact, while ii) debottlenecking could be a positive.

Significant overhang risk: c.10% of Atlantia's share capital is in the hands of shareholders that have publicly declared they are willing to sell their stakes. The market fears a significant price recovery could be an incentive for Abertis and Unicredito to sell their shares, likely limiting potential share price upside, in our view. At the same time, we suspect some of the recent pressure on the stock may have been caused by the forced liquidation of significant stakes by funds that were obliged to sell shares.

Debt and interest rates: We believe investors require additional incentives to invest in highly leveraged stocks at present, given ongoing credit crunch. Rising interest rates could also impact WACC and lower cash generation via an increase of debt service costs in the medium to long term. We estimate that Atlantia's net debt should increase to c.€16bn by 2018 from c.€9.5bn currently.

Country and regulatory risk: The previous turbulence in Atlantia's relationships with the regulator/government seems to have subsided, and the new agreement sets out a clear regulatory framework. However, we think such problems remain a real, if remote, risk, we believe such problems are definitely a (albeit remote) risk.

Notes

Notes

Appendix A-1

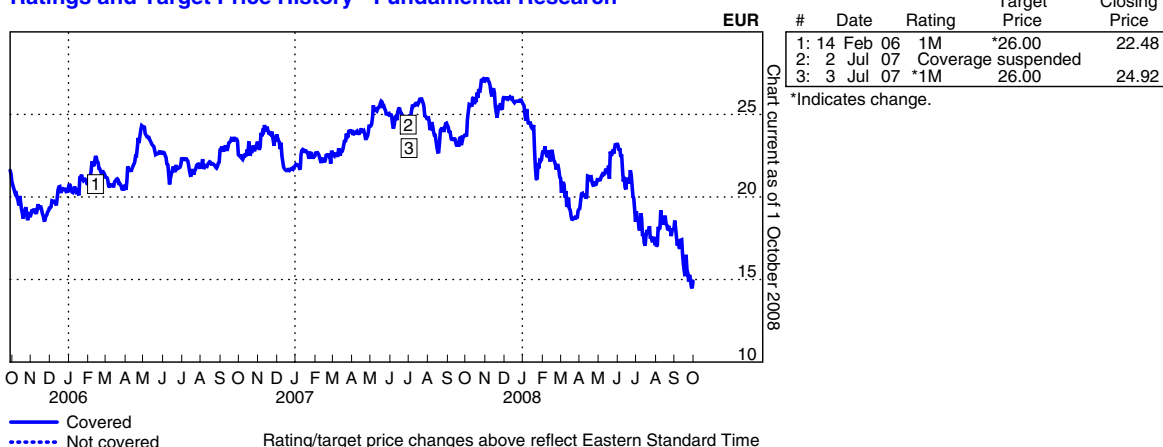
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IMPORTANT DISCLOSURES

Atlantia (ATL.MI)

Ratings and Target Price History - Fundamental Research



Mike Pinkney, CFA holds a long position in the shares of Abertis.

Citigroup Global Markets is acting as financial adviser to Capitalia in respect of their announced merger talks with Unicredito Italiano. An employee of Citigroup Global Markets is Chairman of the Advisory Board of Unicredito Italiano

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Data current as of 30 September 2008

	Buy	Hold	Sell
Citi Investment Research Global Fundamental Coverage (3133)	47%	37%	16%

% of companies in each rating category that are investment banking clients

48%

48%

40%

Guide to Fundamental Research Investment Ratings:

Citi Investment Research's stock recommendations include a risk rating and an investment rating.

Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).

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