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Stable Outlook for U.S. State and Local Government Toll Facilities

Strong Trend in Toll Revenues Fueled by Economic Growth and Growth in Capital Needs

Summary Opinion

Moody's projects a stable credit outlook for the U.S. state and local government owned toll facility sector in 2006 and into 2007. Established toll roads are generally achieving stable or slightly improving credit trends due to traffic and revenue growth, which serves as an offset to expected higher leverage for capital improvements and new projects. Some recently constructed toll roads are still underperforming original expectations due to weak local economic conditions or overly optimistic traffic and revenue forecasts.

Moody's rates 47 toll facilities with approximately \$45 billion of total rated debt outstanding. Of these, 44 currently carry a stable credit outlook. We rated one new issuer in 2005, representing two new securities and \$248 million of debt. The total debt reviewed by Moody's in 2005 amounted to \$36.5 billion -- excluding the \$1.8 billion privatized Chicago Skyway transaction. The median rating for this sector is A2 and reflects the financial strength and stability of the sector. Key underlying credit trends supporting the stable outlook include:

- Expected continuation of general positive economic trends in the U.S. and the resultant strong traffic demand for toll facilities and positive revenue growth for most toll roads;
- Continued pressure on state and local governments to use tolls rather than tax revenues to finance road projects;
- Increased leverage of toll facility revenues to fund capital improvements and new projects;
- Continued congestion and growth in traffic despite rising gasoline prices;
- Expected growth in alternative financing solutions, such as public/private partnerships or privatization of all or part of a toll system;
- Benefits and risks associated with various technological innovations, such as automatic tolling, and congestion/peak pricing schemes;
- Fewer downgrades and negative outlook changes in 2005 compared to 2004, a trend we expect will continue in 2006.

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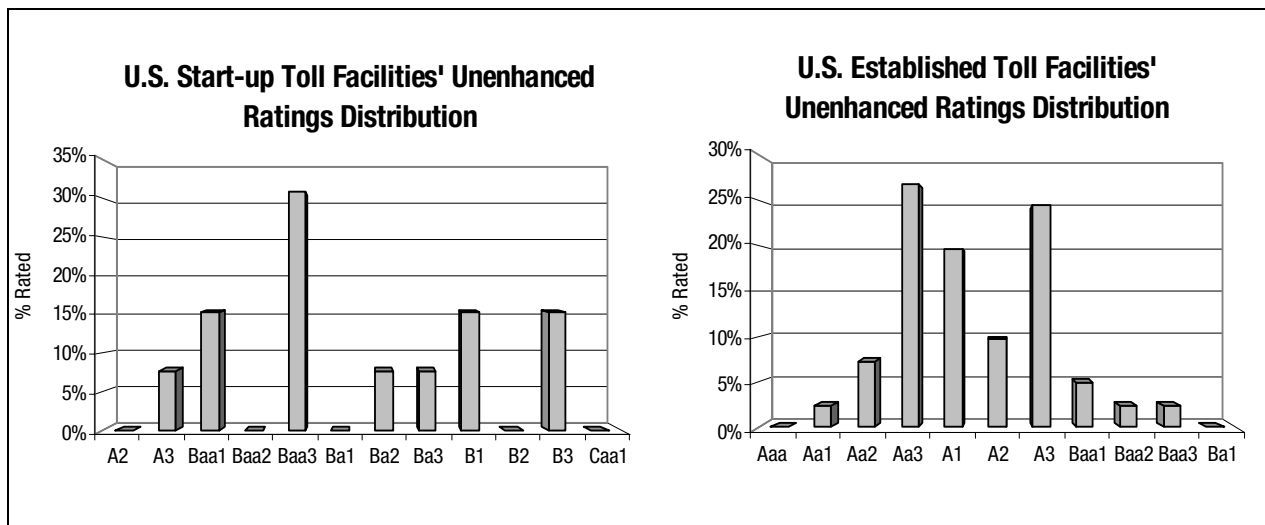
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Generally Improving Economic Conditions Support Stable Outlook

Moody's expects stable credit quality for toll facilities through 2006 due to the ongoing improvement of regional and state economies. Our overall outlook reflects the differing extent to which these economies depend upon specific industries, such as manufacturing, tourism, or oil extraction, and the conditions within those key industries. Excluding Gulf Coast local governments impacted by Hurricane Katrina, the rebound in employment and personal income observed in most municipalities in 2005 is expected to bolster toll facility traffic and revenue in 2006. Throughout much of 2005, with few exceptions, state and local governments benefited from gains in private sector employment, leading to sustained growth in employment and personal income. Nonetheless, the outlook for facilities located in industrial Midwest and Southwest is less favorable due to relatively weaker economies that, while increasingly diversified, remain dependent upon declining manufacturing sectors, particularly automobiles. Service areas that have traditionally relied the most on manufacturing tend to be below the national average in terms of private sector employment recovery since the 2001 recession, thus may experience greater traffic variability.

Stable Operating Results Reflect Improvement In Key Financial Performance

Our analysis of most recently available audited financial performance shows that established facilities continue to experience consistency in most key financial ratios. Moody's median rating for established facilities remains A1, reflecting the absence of material changes in expense growth while traffic and revenue continue to meet or exceed budgeted projections. High levels of internal liquidity and higher debt service coverage margins also help maintain credit quality in the sector. In contrast, Moody's median rating for start-up facilities is Baa3, largely due to traffic demand lagging projections and failure to keep pace with escalating debt service. Since our "2005 Toll Road Sector Outlook", operating and maintenance expense per roadway mile jumped from approximately \$455,000 to \$631,000, a 39% increase for start-ups, compared to \$571,000 to \$593,000, or 4% increase for established facilities. Debt per mile increased to \$45.7 million from \$39.4 million, a 16% increase for start-ups, while debt per mile for established facilities remained largely unchanged at \$3.3 million. The median aggregate debt service coverage for both established and start-up facilities remained stable, approximating 1.9 times and 1.4 times, respectively.



Multi-Asset Roads Continue To Perform Well; Start-Ups At Greater Risk

The stable outlook for U.S. government-owned toll facilities is further supported by the large number of established, multi-asset facilities that Moody's rates. Approximately 78% of all Moody's toll road ratings are for established facilities, which typically consist of statewide networks of roads/bridges serving dense urban areas. Their asset and revenue diversity helps buffer established facilities against cyclical economic downturns that may severely affect start-ups, and contributes to their traffic stability. However, many of these established facilities are facing large capital improvement needs to maintain existing assets and keep pace with traffic growth and Moody's expects that debt levels will continue to rise.

In contrast to established facilities, start-ups tend to be a single regional road or bridge, exposing them to cyclical economic downturns and volatile traffic trends. For example, the recent regional economic slowdown and loss of tech-

nology jobs in the Denver area have contributed to reductions in residential development and the much slower than expected job growth along the Northwest Parkway corridor, which negatively affected traffic. As a result, in January, Moody's lowered its senior rating for the Northwest Parkway Public Highway Authority to B1 from Baa3 and the subordinate rating to B3 from Ba1.

Predominant Outlook is Stable; Moderating Level of Rating Upgrades-To-Downgrades and Outlook Changes in 2005

Currently, the sector is dominated by stable outlooks (44 out of 47). One issuer carries a positive outlook and two carry a negative outlook, including the Greater New Orleans Expressway, rated A2. The 2005 number of upgrades in the sector exceeded the number of downgrades. Three of the five rating changes in 2005 were upgrades while two were downgrades, affecting \$9.4 billion and \$850 million of debt respectively. Watchlist actions affected three credits with \$2.4 billion of debt, and upon final review, we affirmed the ratings on all three credits and assigned a stable outlook to one and negative outlook to two. Excluding the Watchlist review, rating outlooks experienced three upward revisions and one downward revision. Total amount of debt affected by outlook revisions in 2005 was \$1.2 billion.

As Transportation Funding Fails to Keep Pace with Long Term Needs, Tolls Emerge as Alternate Funding Option

As economic growth and increased traffic congestion fuel demands for new roads and as state and local governments face increased pressure to reduce tax burdens, tolled facilities are increasingly being used to finance or accelerate funding for new or expansion projects. Toll revenues facilitate debt financings, thus allowing for a shift of project costs from present to future toll payers. Debt financing also helps expedite full project completion through upfront funding rather than building projects incrementally on a pay-as-you go basis with annual cash flow, or until sufficient funds are accumulated. For example, with the Tacoma Narrows Bridge being the only toll facility in Washington State, the state transportation commission is recommending adoption of a statewide tolling and pricing policy to supplement gasoline taxes, the traditional source of funding for new highway projects in the state. Likewise, toll revenues also facilitate the creation of public-private partnerships, and innovative pricing strategies that rely on electronic toll collection (ETC).

In the new Federal transportation bill, Accountable, Flexible and Efficient Transportation Equity Act: A Legacy for Users, or SAFETEA-LU, Congress recognized the usefulness of tolls in funding transportation projects and alleviating traffic congestion. The bill authorized the implementation of tolling and pricing programs at facilities that use federal funds. Further, the bill authorized the implementation of up to \$15 billion of private activity bonds for surface transportation projects already receiving federal funding, and expanded the ability of state and local highway agencies to impose tolls. The authorization offers opportunities for participation in various pilot programs such as express lanes and tolling of high occupancy vehicle (HOV) facilities. Tolling authority was permitted for up to fifteen demonstration projects for existing HOV facilities, or where toll capacity is added. While, the credit impact of these initiatives is currently uncertain, Moody's expect continued robust debt issuance as toll operators take advantage of them to finance needed projects.

Rating Changes		
	Toll Road	Rating Change
2005 upgrades	Orange County Expressway	A2 to A1
	Triborough Bridge and Tunnel	Aa3 to Aa2
	Illinois State toll Highway	A1 to Aa3
2005 downgrades	Northwest Parkway	Baa3 to B1
	Pocahontas Parkway Association, Virginia	Ba3 to Ba2
2004 upgrades	Harris County Toll Road Authority	A2 to A1
	Florida Turnpike	A3 to A2
	Chesapeake Expressway, Virginia	Baa2 to Baa1
2004 downgrades	Pocahontas Parkway Association, Virginia	Baa3 to Ba2
	San Joaquin Hills Transportation corridor	Baa3 to Ba2
	Miami-Dade Expressway Authority	A2 to A3
Outlook Changes		
	Toll Road	Outlook Change
2005 Outlook changes	New Hampshire State Turnpike Toll Facility	Stable to Negative
	Santa Rosa Bay Bridge Authority	Negative to Stable
	North Texas Tollway Authority	Stable to Positive
	Greater New Orleans Expressway	Stable to Negative
	Tampa Hillsborough County Expressway	Watchlist for possible downgrade to Stable

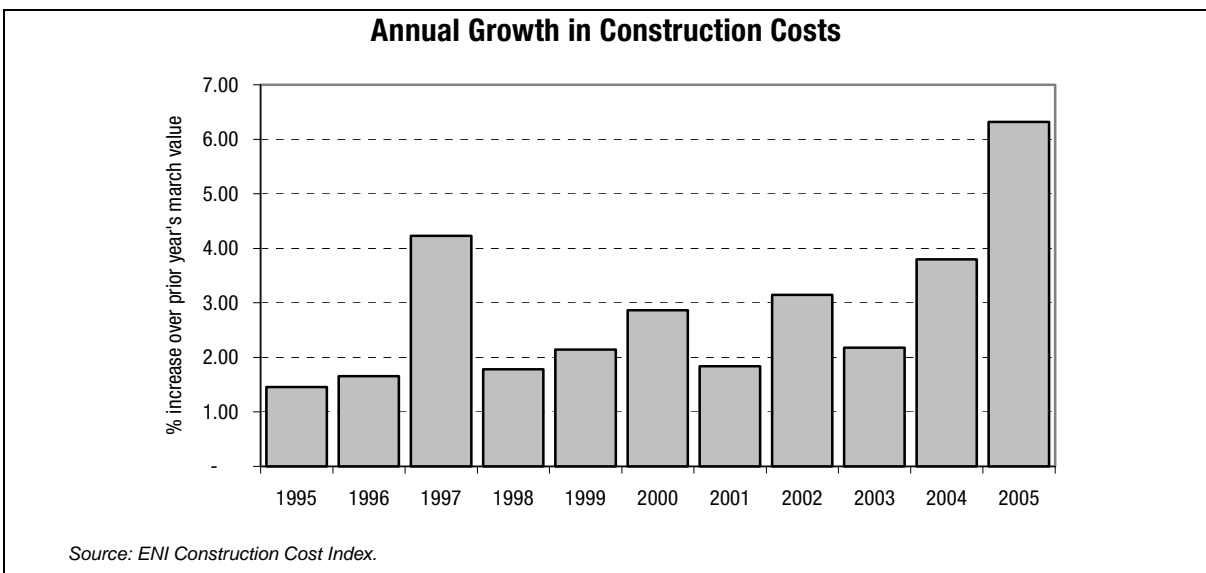
As Use Of Innovative Financing Techniques Expected to Grow; Some New Credit Risks Emerge

Moody's expects to see more innovation in financing techniques for new toll facilities, particularly as infrastructure needs grow and local, state and federal resources become increasingly stretched across competing demands. Ownership and financing models and techniques used in Europe, Latin America and Canada are now being adapted to and implemented in the U.S. market. These financing innovations include the use of public/private partnerships to expedite project construction or transfer construction risk to a private party, private bank loan financing, and fully privatized concession agreements. Other innovations include the sale and privatization of existing publicly-owned facilities by local governments in need of cash. The recent sale of the Chicago Skyway for \$1.83 billion, the sale of the Indiana Turnpike for \$3.85 billion, and the proposed construction and operation of 316 miles of the Trans Texas Corridor at a cost of \$7.6 billion, are recent examples of a trend toward the privatization of toll road assets.

Risks associated with private ownership include regulatory or legal limits on the ability of the operator to raise tolls sufficiently to cover costs, potential termination of the concession agreement while debt is still outstanding, and the potential for bankruptcy or insolvency of the private operator. Other risks include the private operator's ability and willingness to pledge sufficient capital to maintain the asset throughout the life of the concession and the potential diversion of toll revenues for non-core enterprises, although this can be mitigated with distribution tests and also can happen with traditional government-operated enterprises. In addition, the relinquishment of control over toll rate-setting and capital reinvestment by the local government, may in turn subject the local government to political risk from constituents unhappy with a new tolling regime or the physical condition of the privatized toll facility.

Congestion Growth in Traffic Continues to Drive Capital Planning; Toll Roads Faced with Increasing Construction Costs and Interest Rates

Many toll road operators are trying to find ways to alleviate congestion and efficiently utilize capacity through less capital cost intensive measures such as demand management. However, toll roads that continue to experience congestion growth will likely require capacity expansion. As a result, sizeable capital improvement programs (CIPs) are being implemented, contributing to our expectation of continued strong level of debt issuance in 2006. Moody's notes that given the current interest rate environment and the recent increases in construction costs related to both fuel and materials cost increases, toll facilities with completed CIPs may be better off financially in the medium term than those that are currently implementing or considering sizeable CIPs. A combination of investing in demand-driven capital projects rather than speculative expansion projects that depend on future development to pay for themselves, and management's ability and willingness to adjust toll rates, or delay and scale back capital projects if needed can help minimize debt levels and mitigate risks, which will in turn help stabilize ratings.



The following are examples of toll roads that are embarking on large complex capital programs that call attention to the heightened risks around construction and borrowing costs. Because of a significant increase in credit risks associated with the assumption and implementation of the seismic retrofit program for the Bay Area Toll Authority bridges, now totaling \$8.685 billion, of which \$6.2 billion is expected to be debt financed, Moody's revised to negative

from stable the outlook assigned to the authority's Aa3 rating. A very high single bid for the construction of the San Francisco-Oakland Bay Bridge has resulting in a doubling of the cost for the seismic program for the East Span project. Furthermore, recent added delay raises concerns that actual bids may be higher than budgeted, pressuring debt service coverage and liquidity levels. Similarly, anticipated construction of the Foothill-South project by the Foothill Eastern Transportation Corridor Agency, rated Baa3 with a stable outlook, could also pressure the agency's financial position, depending on the final project cost, finance plan, and financial feasibility.

Miami-Dade County Expressway Authority, Florida (rated A3 with a stable outlook) is also experiencing credit pressures presented by the significant increase in debt associated with its CIP. In order to afford the significant increase in annual debt service costs, the Authority will rely heavily on revenue from planned new toll plazas on segments of the system that are not currently tolled. Traffic growth is expected to resume upward following some fall-off in recent years due to a series of recent toll increases. However, these increases have demonstrated the willingness of the Authority to exercise its rate-setting autonomy and raise tolls when necessary.

In contrast, the recent toll increase by the Illinois State Highway Authority has enabled the Authority to afford its sizeable and much needed CIP designed to address road congestion and reconstruction of its aging assets. The added financial clarity about its CIP among other things, prompted Moody's to upgrade the Authority to Aa3 from A1. Also, Moody's revised the outlook on the A1 rating of North Texas Tollway Authority to positive from stable. The positive outlook acknowledged the conservative planning procedures adopted to meet future development, and Moody's expectation that the Authority will continue to complete existing capital projects on time and within budget, and implement new projects on an as-needed basis.

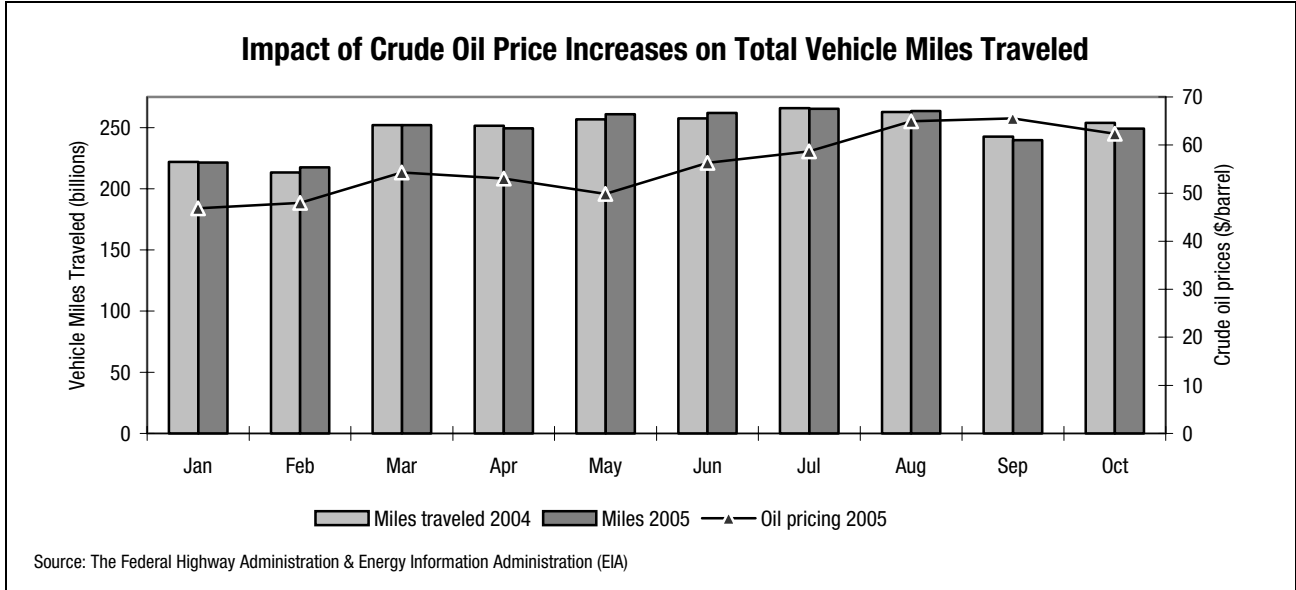
Moody's Will Monitor Benefits and Risks Associated with Various Innovative Pricing Schemes

Several innovative and creative solutions to congestion, such as open-road tolling (ORT) and high occupancy toll (HOT) lanes, are gaining momentum across the U.S. While ORT is a method of electronic toll collection where vehicles enter and exit a toll zone at main-line speeds without stopping at a toll plaza or modifying speed or direction. HOT lanes are limited access lanes that provide free or reduced cost access to qualifying HOV and other vehicles not meeting passenger occupancy requirements by paying a toll.

In Moody's view, the implementation and operation of ORT and HOT lanes introduces new technology and enforcement risks that tend to increase as you move down the rating spectrum. For established facilities, financial strength mitigates these risks and safeguards credit quality. Further, multi-asset facilities can mitigate the risk by implementing ORT or HOT lanes on one segment at a time. For start-ups, risks associated with ORT could be the difference between an investment and speculative grade credit rating.

Rising Gasoline Prices May Potentially Affect Discretionary Traffic, Though a Lesser Impact on Commercial Traffic Is Expected

Though the annual average closing price for crude oil futures on the New York Mercantile Exchange reached \$61 a barrel in 2005, a 42% increase from 2004's average price, the sector seemed to have weathered rising costs very well. We note that travel patterns and traffic demand usually lag fuel increases, as the latter requires a period of adjustment. Moody's does not expect credit concerns related to fuel prices in 2006 for the sector. The highest oil price increase in 2005 was recorded in late August following Hurricane Katrina, which interrupted production, importation, and refining of a tenth of all the crude oil consumed in the United States and almost half of the gasoline produced in the country. Yet traffic, as measured by vehicle miles traveled, experienced only a slight decline following the increase.



In Moody's view, the impact of rising oil prices is limited to discretionary traffic as passengers avoid unnecessary trips and use alternative modes where available. Toll roads with heavy commercial vehicle traffic, or those that provide critical links between employment and residential centers tend to be less sensitive to fuel price increases. For commercial users, the increased cost can be passed along to customers, and while some commuters may car pool or telecommute, trips to and from work generally are not discretionary.

Definitions:

Median

The median represents the middle value in an ordered sequence of data, such that 50% of the observations are below the median and 50% are above the median. Unlike the mean, the median is affected only by the number of observations in a data set and not by the magnitude of the extremes.

Debt per roadway mile (\$)

Net funded debt divided by the aggregate length of the entity's roads.

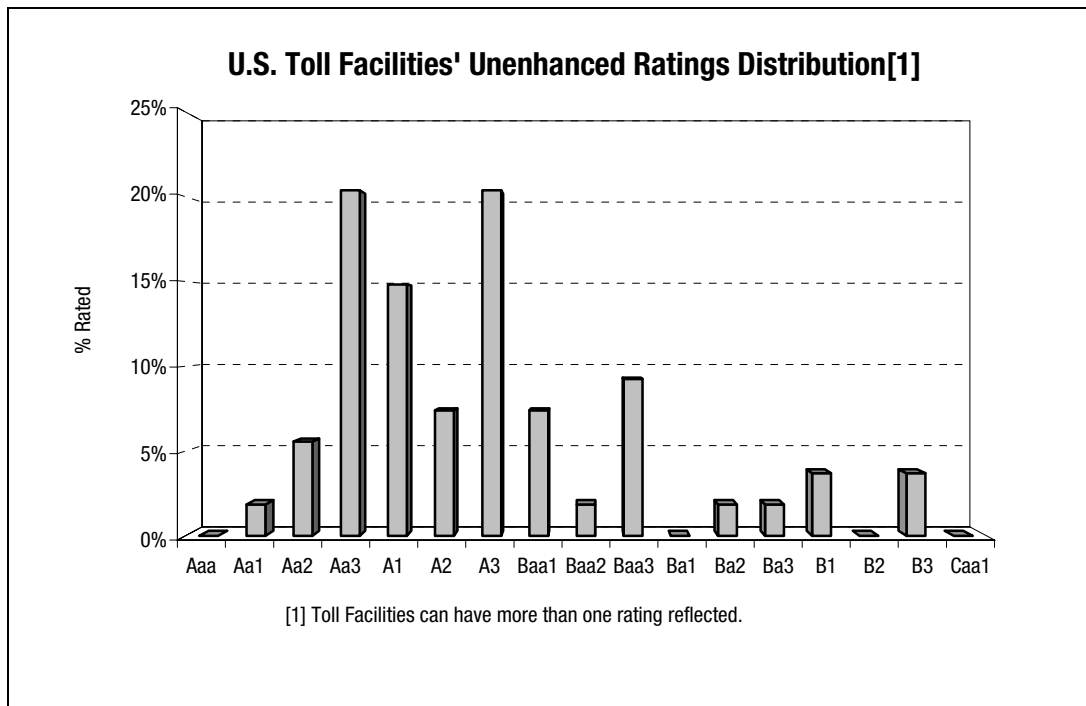
Senior lien debt service coverage (x)

Net revenues divided by principal and interest requirements on an entity's senior lien debt for the fiscal year.

O&M expense per roadway mile (\$)

Total expenses for operations, maintenance and administration divided by the aggregate length of the entity's roads.

APPENDIX 1:



APPENDIX 2

Moody's U.S. State and Local Government Toll Facilities' Most Senior Ratings

State	Moody's Organization Name	Senior Rating	Stage of Development	Asset Mix	Geographical Distribution	Facility Type
CA	Bay Area Toll Authority, CA	Aa3	Established	Multi-asset	Regional	Bridge
TX	Cameron (County of) TX	A3	Established	Multi-asset	Regional	Bridge
TX	Central Texas Regional Mobility, TX	Baa3	Start-up	Single-asset	Regional	Highway
TX	Central Texas Turnpike System, TX	Baa1	Start-up	Single-asset	Regional	Highway
VA	Chesapeake (City of) VA Toll Facility	Baa1	Start-up	Single-asset	Regional	Highway
TX	Del Rio (City of) TX	Baa2	Established	Single-asset	Regional	Bridge
DE	Delaware River and Bay Authority, DE	A1	Established	Multi-asset	Regional	Bridge
PA	Delaware River Joint Toll Bridge Commission, PA	A2	Established	Multi-asset	Regional	Bridge
PA	Delaware River Port Authority, PA	A3	Established	Multi-asset	Regional	Bridge
CO	E-470 Public Highway Authority, CO	Baa3	Start-up	Single-asset	Regional	Highway
TX	Eagle Pass Toll Bridge System	Baa1	Established	Single-asset	Regional	Bridge
FL	Florida (State of) FL - Sunshine Skyway	A1	Established	Single -asset	Regional	Bridge
FL	Florida (State of) Turnpike System	Aa2	Established	Multi-asset	State-wide	Highway
FL	Florida Department of Transportation - Allegator Alley	A3	Established	Single -asset	Regional	Highway
CA	Foothill/Eastern Transportation Corridor Agency, CA	Baa3	Start-up	Single-asset	Regional	Highway
LA	Greater New Orleans Expressway Commission, LA	A2	Established	Single Asset	Regional	Bridge
TX	Harris (County of) TX Toll Facility, TX	A1	Established	Multi-asset	Regional	Highway
IL	Illinois State Toll Highway Authority, IL	Aa3	Established	Multi-asset	Regional	Highway
KS	Kansas Turnpike Authority, KS	A1	Established	Multi-asset	State-wide	Highway
TX	Laredo (City of) TX	A3	Established	Multi-asset	Regional	Bridge
FL	Lee (County of) FL	A3	Start-up	Multi-asset	Regional	Bridge
ME	Maine Turnpike Authority, ME	Aa3	Established	Single-asset	State-wide	Highway
MD	Maryland Transportation Authority	Aa3	Established	Multi-asset	State-wide	Combined
MA	Massachusetts Turnpike Authority - Metropolitan Highway System	A3	Established	Multi-asset	Regional	Combined
MA	Massachusetts Turnpike Authority - Western Turnpike	Aa3	Established	Single-Asset	Regional	Highway
TX	McAllen (City of) TX	A2	Established	Multi-asset	Regional	Bridge
FL	Miami-Dade County Expressway Authority, FL	A3	Established	Multi-asset	Regional	Highway
NH	New Hampshire (State of) Turnpike Enterprise	A1	Established	Multi-asset	State-wide	Highway
NJ	New Jersey Turnpike Authority	A3	Established	Multi-asset	State-wide	Highway
NY	New York State Bridge Authority, NY	Aa2	Established	Multi-asset	Regional	Bridge
NY	New York State Thruway Authority, NY	Aa3	Established	Multi-asset	State-wide	Combined
TX	North Texas Tollway Authority, TX	A1	Established	Multi-asset	Regional	Highway
CO	Northwest Parkway Public Highway Authority	B1	Start-up	Single-asset	Regional	Highway
OH	Ohio Turnpike Commission, OH	Aa3	Established	Multi-asset	State-wide	Highway
OK	Oklahoma Transportation Authority	Aa3	Established	Multi-asset	State-wide	Highway
CA	Orange County Transportation Authority, CA	A1	Start-up	Single-asset	State-wide	Highway
FL	Orlando-Orange County Expressway Authority, FL	A1	Established	Multi-asset	Regional	Highway
PA	Pennsylvania Turnpike Commission, PA	Aa3	Established	Multi-asset	State-wide	Highway
VA	Pocahontas Parkway Association, VA	Ba3	Start-up	Single Asset	Regional	Highway
CA	San Joaquin Hills Transportation Corridor Agency, CA	Ba2	Start-up	Single-asset	Regional	Highway
FL	Santa Rosa Bay Bridge Authority, FL	B1	Start-up	Single-asset	Regional	Bridge
NJ	South Jersey Transportation Authority, NJ	A3	Established	Single-asset	Regional	Highway
FL	Tampa-Hillsborough County Expressway Authority, FL	A3	Established	Single-asset	Regional	Highway
NY	Thousand Islands Bridge Authority, NY	A3	Established	Single-asset	Regional	Bridge
VA	Toll Road Investors, L.P.	Baa3	Start-up	Single-asset	Regional	Highway
NY	Triborough Bridge & Tunnel Authority, NY	Aa2	Established	Multi-asset	Regional	Bridge
WV	West Virginia Parkways, Economic Development and Tourism Authority, VA	Aa3	Established	Single-asset	State-wide	Combined

Related Research

Special Comment:

[Moody's Key Ratios and Medians for U.S. Government Owned Toll Facilities \(Report # 93899\)](#)

[Stable Outlook for State Ratings \(Report # 96540\)](#)

[Positive Credit Trends in Most Municipal Sectors in 2005: Credit Weakness Observed in the Southeast Region during the Fourth Quarter due to Hurricane Katrina Rating Revisions \(Report # 96316\)](#)

[Construction Risk: Mitigation Strategies for U.S. Public Finance \(Report # 89406\)](#)

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Report Number: 96984

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