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Credit Opinion: N.V. Luchthaven Schiphol

Global Credit Research - 06 Aug 2013

Amsterdam, Netherlands

Ratings

| Category | Moody's Rating |
|---|----------------|
| Outlook | Negative |
| Bkd Sr Unsec MTN -Dom Curr Schiphol Nederland B.V. | (P)A1 |
| Outlook | Negative |
| Senior Unsecured -Dom Curr | A1 |

Contacts

| Analyst | Phone |
|-------------------------------|-----------------|
| Johan Verhaeghe/London | 44.20.7772.5454 |
| Neil Griffiths-Lambeth/London | |
| Andrew Blease/London | |

Key Indicators

| N.V. Luchthaven Schiphol[1] | 12/31/2012 | 12/31/2011 | 12/31/2010 | 12/31/2009 | 12/31/2008 | 12/31/2007 |
|-----------------------------|------------|------------|------------|------------|------------|------------|
| EBITA Margin | 25.7% | 25.7% | 25.3% | 22.6% | 25.6% | 28.7% |
| EBITA / Average Assets | 6.1% | 5.9% | 5.4% | 4.8% | 6.1% | 7.7% |
| EBITA Interest Coverage | 3.3x | 3.1x | 2.2x | 2.2x | 4.4x | 6.5x |
| FFO Interest Coverage | 5.5x | 4.4x | 3.3x | 4.2x | 5.9x | 8.4x |
| FFO / Net Debt | 31.5% | 24.4% | 20.4% | 23.9% | 20.5% | 43.1% |
| RCF / Net Debt | 25.1% | 19.3% | 16.1% | 19.4% | -16.4% | 33.9% |

[1] Standard adjustments in accordance with "Rating Methodology: Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations, Part 1, Part 2 and Part 3". In addition, Moody's adjusts for one time items.

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

Opinion

Company Profile

N.V. Luchthaven Schiphol ("Schiphol Group", A1 negative) is a holding company of a group that owns and operates Amsterdam Airport Schiphol, Rotterdam Airport, Lelystad Airport, and 51% of Eindhoven Airport, which together comprise most of the airport capacity in the Netherlands. In addition, Schiphol Group has minority investments in a number of overseas airports. The largest of the Dutch airports, Amsterdam Airport Schiphol, is the fourth-largest airport in Europe by passenger numbers. Schiphol Group is currently 70% owned by the Government of Netherlands (Aaa negative), 20% by the Municipality of Amsterdam, 2% by the Municipality of Rotterdam, and 8% by Aéroports de Paris ("ADP"). Schiphol Group has a cross-shareholding and co-operation agreement with ADP.

Rating Rationale

The A1 rating reflects our view of Schiphol Group's fundamental credit quality, which is represented by (1) a baseline credit assessment (BCA) of a3; and (2) a two-notch rating uplift for the likelihood of extraordinary support being provided by the Government of Netherlands in the event that this were ever to be required to avoid a default, as assessed in accordance with Moody's rating methodology for government-related issuers (Government-Related Issuers: Methodology Update, published July 2010).

More particularly, as well as the BCA of a3, Schiphol Group's A1 rating reflects (1) the Aaa local currency rating of the Government of Netherlands; (2) our assessment of a moderate likelihood of support for the group, should it become necessary, from the government; and (3) our assessment of a moderate default dependence between the government and the group.

The BCA of a3 reflects (1) Schiphol Group's ownership of Amsterdam Airport Schiphol ("Schiphol Airport", the fourth-largest airport in Europe by passenger numbers) and other airports in the Netherlands; (2) its fairly high exposure to transfer traffic, and reliance on Air France-KLM, a French Dutch airline group; (3) its moderate, albeit increasing, capital expenditure (capex) programme; (4) certain operational constraints that may impede the pace of volume growth in future years; and (5) its current financial profile, which we expect to be somewhat affected by increased capital investments over the next few years.

Recent Developments

For the 12 months ending June 2013, Schiphol Airport's passenger volumes increased 2.3% relative to the same period of the previous year. This percentage increase is somewhat stronger than we typically see with the other major European hub airports.

On 17 April 2013, Schiphol Group published its results for the year ending December 2012. Overall revenues rose 5.8% (to EUR1.35 billion). Over the same period, total passenger numbers also rose, by 2.6% to 51 million, and aircraft movements grew 0.8% to 423,467. The European airport industry in general saw a moderate increase in passenger volumes in 2012, with a strong first half of the year but weaker growth in the second half. In H1 2013, traffic at Schiphol increased by 3.1% relative to the same period last year. This higher growth rate relative to other main European airports can be explained by the successful transfer product of the airport's home carrier Air France-KLM. For airports in core EU countries, we expect 0%-3% passenger volume growth for the year ending 2013. The company's base-case expectation is passenger volume growth of 1% for 2013.

The total revenues of the group's aviation business rose by 5.3% in 2012, to EUR773 million. This increase can largely be explained by the increase in traffic volume and a moderate rise in airport charges. Revenues in the consumer products & services business area (comprising retail sales, parking charges, concession fees, media and advertising) accounted for more than 25% of Schiphol Group's total revenue, and rose by 7.9% in 2012. Overall EBITDA in 2012 and in 2011 rose 4% and 6% to EUR534 million and EUR512 million respectively, driven by growth in the aviation and consumer products & services business areas. The somewhat weaker EBITDA growth in 2012 was due to fair value losses on real estate.

Currently, Schiphol Airport is close to its capacity limits on peak days. This may lead to capacity constraints, which will limit the Schiphol Airport's growth prospects and may also make Schiphol Airport less competitive with other major hub airports in Europe and the Gulf states. To expand its capacity, the company plans a capital investment programme, called "the masterplan". The works started in 2013 and the company plans to invest approximately EUR775 million over the next five years.

Following consultation with airlines, Schiphol Airport raised airport charges by 0.5% as of April 2013, following previous airport charge increases of 2% in April 2012 and 0.6% in April 2011. An independent study, executed in February 2013 on behalf of the Dutch government, demonstrated that Schiphol Airport's charges remain competitive relative to other major European airports.

It is expected that no later than 2016, Schiphol will set its airport charges in accordance with a changed regulatory framework, which is currently in development and should be approved by parliament in the next year or so. Currently, charges are reset yearly. Under the adjusted framework, Schiphol Airport will set its charges for three-year periods, with the first period starting in 2016. In making these changes, the airport charges will become more predictable and transparency around the charges-setting will improve through a more intense consultation process.

Rating Drivers

The six key business and financial factors (detailed below) are assessed in light of the Rating Methodology for Operational Airports outside of the United States, published May 2008. The overall rating methodology grid score maps to an A2 rating, one notch higher than Schiphol Group's current BCA. The key reason for this difference relates to our expectation that the group's credit metrics will be affected by increased capital investments over the next few years.

Factor 1 - Governance and Rate Setting

Schiphol Group has been designated as the operator of Schiphol Airport for an indefinite period of time, and owns its airport assets outright in perpetuity. Despite its ownership structure, Schiphol Group is a financially independent commercial enterprise. Its legal status does not place any particular legal restrictions on what it can do and hence does not provide any particular protections from bankruptcy. At the same time, the airports operated by Schiphol Group, particularly Schiphol Airport, are regulated in a number of areas, including noise and environment, aviation operations, capacity, safety and airport charges.

Following the implementation of a legislative decree in July 2006 (the "Aviation Act"), Schiphol Airport is subject to a 'dual till' system of economic regulation. This means that it operates with a regulated return on a defined aviation asset base, also called the regulated asset base. The airport charges are set on an annual basis and total airport charges may not exceed permitted revenue which is the sum of all aviation related cost, including a regulated weighted average cost of capital. The charges are set by Schiphol Airport in accordance with the Dutch economic regulation of airport charges which is part of the Aviation Act. Before the charges are set, there is a formal consultation with airlines whereby projections of costs, traffic volume and capex are explained. In this process, the airport operator takes into consideration all the forward requirements of the users of the airport. Based on this process, the Schiphol Group makes its longer term investment decisions. Possible disputes with its airline customers on the airport charges set, are referred to the relevant Dutch government agency (the Netherlands Competition Authorities). This is a fairly new regulatory framework that has been introduced in 2006. As of November 2007 the first airport charges were set under this economic regulation regime. Under the 'dual till' principle, the non-aviation activities (consumers and real estate segments) at Schiphol Airport as well as all other activities of Schiphol Group, including its other Dutch airport interests, are not subject to economic regulation.

Subject to parliamentary approval, the regulatory framework will be changed. Under the adjusted framework, Schiphol Airport will set its charges for three-year periods. The charges will be set based on negotiations with the airlines, to take place every three years, with the first round of negotiations starting in 2015. During such a three-year period, charges can deviate from agreed levels if (1) unplanned security measures need to be implemented; or (2) actual traffic volume is different from planned volume in any one year, in which case the difference will be reflected in the revenue allowance for the three subsequent years. The framework will include an incentive mechanism whereby (1) if actual capex is less than budgeted levels, then the savings are shared on a 50/50 basis between the airport and the airlines, if however actual costs are higher than planned then the excess cost will be completely incurred by Schiphol Airport; (2) on an annual basis, the airport will need to provide insight to the airlines with respect to the evolution of its costs; and (3) Schiphol Airport will need to benchmark its charges and the quality of its services to a peer group of European and Middle Eastern airports.

Schiphol Airport has announced its intention to, in consultation with the airlines, increase its airport charges up to a maximum of 1% for 2014 and 2015.

Factor 2 - Market Position

As well as serving Amsterdam - a major trading centre and capital city of an advanced European country - Schiphol Group owns Rotterdam Airport and has majority ownership of Eindhoven Airport. As a result, Schiphol Group has a virtual monopoly of the international airports in the Netherlands. In addition, Schiphol Airport is the third-largest airport by cargo volumes in Europe, a position underpinned by the Netherlands' role as a major distribution centre for non-European companies in the EU.

Schiphol Airport has a virtual monopoly on air travel originating and ending in the Netherlands. However, given the very good rail network in continental north-west Europe, the airport is exposed to rail travel competition for certain European travel destinations. The government's high-speed rail plans (to better connect the Netherlands to the high-speed rail networks of Belgium and Germany) are advanced, but have suffered some delays. The London-Amsterdam service will not be ready before 2016 and Amsterdam-Brussels service experienced severe problems due to a faulty train fleet. Nevertheless, once these high-speed train connections are in place, they will increase the potential catchment area of Schiphol Airport, but may also serve to increase competition on short-haul routes and bring Schiphol into more direct competition with airports in Paris and Brussels.

Factor 3 - Passenger and Airline Base

Schiphol Airport faces strong competition from surrounding airports. It therefore strongly depends on its transfer passengers in order to maintain its volume and extensive network. However, Schiphol Airport's high exposure to transfer traffic (41% of total passenger volume, which is the highest of any European airport rated by Moody's) leaves the airport exposed to the fortunes of its main hub carrier. The Air France-KLM alliance accounted for nearly 63% of Schiphol Airport's total passengers (or 32.3 million) in 2012 and will have a material impact on Schiphol Airport's future traffic volumes. To date the impact on Schiphol Airport's traffic volumes has been positive. For example, in H1 2013, traffic at Schiphol Airport increased by 3.1% relative to the same period last year, which is a higher growth rate relative to other main European airports. Most of this growth is driven by the Air France-KLM alliance and its successful transfer product, resulting in higher average load factors.

Compared with most other airports rated by Moody's, Schiphol Airport has experienced relatively low volatility of passenger traffic since the late 1990s. However, this changed in 2009, when the airport suffered from a 8.1% decline in passenger numbers. Nevertheless, passenger numbers began to recover in 2010, climbing by 3.8% in 2010, 10.8% in 2011 and 2.6% in 2012.

Factor 4 - Operating Environment & Capital Programme

The existing runway system of Schiphol Airport has the physical capacity to handle around 600,000 air transport movements ("ATM") a year. In 2012, Schiphol Airport's total ATMs amounted to 423,467. However, there are also noise regulations that place a limit on the number of ATMs a year and this may impact growth longer term. However, an agreement was reached to allow for approximately 510,000 ATMs a year as of 2010. In addition, Schiphol Group could reallocate up to 70,000 flights from Schiphol Airport to other Dutch airports which would free up additional capacity at Schiphol Airport.

Current terminal capacity is 60 million passengers a year. Following some planned modifications in the upcoming years, Schiphol Group expects this total number of passengers to be reached in 2019. In 2012, the airport handled around 51 million passengers, which is still well below its capacity limits.

In terms of capital investment, in 2012 Schiphol Airport completed a EUR800 million investment, spread over 10 years, in new automated baggage systems in order to ensure the handling and flow of 70 million pieces of baggage per year. The investment mainly benefits transfer traffic. To a large extent, these baggage system investments have already been incorporated in airport charges. Schiphol Group's total capex in 2012 was EUR289 million (15% higher than its EUR251 million investment in 2011), comprising the completion of the new baggage system and other investment projects.

Schiphol Group plans to make capital investments of approximately EUR2.6 billion spread over six years between 2013 and 2018. Approximately 30% of this capex, or EUR775 million, relates to the company's masterplan. The remaining EUR1.8 billion, or EUR 300 million per annum which is in line with the group's historic annual capex level, relates to normal capital expenditure which also includes ongoing airside expansions, major maintenance work, investments in information & communications technology and selected investments in commercial property. The masterplan is a modular investment programme, spread over the next five to ten years, aimed at expanding airport capacity, in particular terminal and pier capacity.

Currently, Schiphol Airport is close to its capacity limits on peak days. Schiphol Group expects that over the next ten years, passenger numbers will increase by 25%. This may lead to capacity constraints, which will limit the company's growth prospects and may also make Schiphol Airport less competitive with other major hub airports in Europe and the Gulf states. In particular, once the airport's traffic exceeds 55 million passengers a year, which is projected to be in 2016, the quality of its services will deteriorate unless the masterplan is implemented. The main components of the masterplan in the next five years include (1) an investment in central security in the non-Schengen area of the airport; (2) a small new terminal facility; and (3) the first phase of a new pier.

The company expects its capital investments to peak in 2014 and 2015 at EUR550 million and EUR450 million, respectively. Although the Schiphol Group will fund its capital investments mainly with operating cash flows, a portion of its capital investments will be debt financed during peak years.

Factor 5 - Stability of Business Model and Financial Structure

Schiphol Group's debt covenants do not place any significant limits on its investment activity or business outside airport services. Although the conditions of the group's EUR350 million European Investment Bank loan facility include a requirement to comply with an equity/total assets ratio of 30%, currently this covenant does not limit the

ability of management to materially increase leverage, given the existence of significant headroom. A lack of legal/contractual restrictions is balanced by the track record of Schiphol Group, which has traditionally had a conservative financial structure with a modest amount of debt leverage. Nevertheless, the group paid a one-off special dividend of EUR500 million in 2008, which, together with the net investment in ADP, has increased its debt leverage. However, we do not expect similar events to occur in the near future.

The co-operation agreement with ADP indicates that Schiphol Group may make overseas investment in other SkyTeam airports. However, we understand that this is not management's current intention, and therefore we do not consider it likely in the near term.

Factor 6 - Key Credit Metrics

Schiphol Group has been scored on the basis of its financial results for the year ending 31 December 2012. The 2012 credit metric scores results in an indicated rating from the grid of A2, one notch above Schiphol Group's current BCA of a3. We expect the metrics to be slightly affected in the near term, as new debt will be issued to fund planned investments in the coming years.

GRI Factors

Our assessment of moderate dependence recognises that while the majority of the revenues of Schiphol Group and the Government of Netherlands are generated domestically, they both derive a significant level of revenues/income from economies outside of the Netherlands. The moderate support assessment reflects (1) the Government of Netherlands' 70% direct ownership of Schiphol Group, combined with the possibility that, at some point, the group may be partly privatised, although this is not expected in the foreseeable future; (2) the modest possibility that state aid rules may apply to any extraordinary support provided by the Government of Netherlands (if required), and the likelihood that the Government of Netherlands would nevertheless proceed with such support; (3) the high importance of Schiphol Airport to the Dutch economy; and (4) the history of government bailouts in the Netherlands and the low likelihood that a default by Schiphol Group would create a negative market perception of the credit quality of the Government of Netherlands.

Liquidity Profile

Schiphol Group's liquidity position is satisfactory, although we note that the group will need external funding within the next 12 months to meet all its liquidity needs.

Of the group's EUR1.9 billion of gross debt outstanding at the end of December 2012, EUR385 million is due within the next 12 months. Additionally, the group plans capex of approximately EUR500 million within a year and its projected dividend payment is around EUR100 million. The funds the group generates plus its available liquidity are not quite sufficient to cover its capex plan and debt maturities. Therefore the company will need external funding over the next 12 months to cover all its liquidity needs.

The group's primary sources of committed liquidity are (1) a EUR300 million credit facility, due October 2016, which is undrawn; and (2) a EUR100 million undrawn credit facility, due January 2015. The company's EUR350 million facility from the European Investment Bank is fully drawn. Furthermore, as at 31 December 2012, the company had EUR445 million of cash and cash equivalents.

The group plans to meet its bond debt maturity of EUR370 million in January 2014 by issuing debt in the capital markets and in the bank market.

Rating Outlook

The negative outlook on Schiphol Group's ratings reflects the negative outlook on the rating of the Government of Netherlands and the fact that any deterioration in the creditworthiness of the Dutch sovereign rating would likely adversely affect the company's rating. Given Schiphol Group's 70% direct state ownership, the credit quality of the Dutch government is one of the main drivers of uplift incorporated in the company's ratings.

What Could Change the Rating - Up

Although traffic growth at Schiphol Airport is somewhat stronger compared with other main European airports, given the current economic conditions and the negative outlook on the rating of the Government of Netherlands, we consider an upgrade of Schiphol Group's ratings to be unlikely at this stage. Upward rating pressure could be warranted if the company were able to improve its financial profile such that it was largely in line with that reported prior to its 2008 financial statements and if we changed back to stable the outlook on the rating of the Government

of Netherlands.

What Could Change the Rating - Down

We could downgrade Schiphol Group's ratings in the event of a downgrade of the rating of the Government of Netherlands. A rating downgrade could also result if the financial profile of Schiphol Group deteriorates to the extent that any of the following ratios falls consistently below the identified levels: (1) cash interest coverage below 3.5x; (2) FFO/debt below 12.5%; or (3) a Moody's debt service coverage ratio below 3.5x.

Furthermore, a programme of material overseas or non-core investments could dilute Schiphol Group's existing business profile to the extent that it has negative rating implications.

Rating Factors

N.V. Luchthaven Schiphol

| Airports Industry | Aaa | Aa | A | Baa | Ba | B | Caa |
|--|-----|-------|-------|-----|----|---|-----|
| Factor 1: Governance and Rate Setting (15%) | | | | | | | |
| a) Legal Status / Corporate Objectives | | | X | | | | |
| b) Rate Setting Methodology | | | | X | | | |
| c) Nature of Ownership / Control | X | | | | | | |
| Factor 2: Market Position (15%) | | | | | | | |
| a) Size of Service Area | X | | | | | | |
| b) Robustness & Diversity of Service Area | X | | | | | | |
| c) Competition for Medium to Long Distance Travel | | X | | | | | |
| Factor 3: Passenger & Airline Base (10%) | | | | | | | |
| a) Passenger Mix (O&D / Transfer) | | | | | X | | |
| b) Standard Dev of Long Term Average Annual Passenger Growth Rate | | | X | | | | |
| c) Carrier Base (Transfer Traffic) | | | | X | | | |
| Factor 4: Operating Environment & Capital Programme (10%) | | | | | | | |
| a) Operational Restrictions | | | | X | | | |
| b) Complexity of Airport Capital Expenditure Programme | | | X | | | | |
| Factor 5: Stability of Business Model & Financial Structure (10%) | | | | | | | |
| a) Ability and Willingness to Pursue Opportunistic Corp Activity | | | X | | | | |
| b) Ability and Willingness to Increase Leverage | | | | X | | | |
| c) Targeted Proportion of Rev outside of Owned Airport Services | | | | X | | | |
| Factor 6: Key Credit Metrics (Hist & Projected) (40%) [1][2] | | | | | | | |
| a) (FFO + Interest Expense) / (Interest Expense - Non-Cash Int) | | | 5.53x | | | | |
| b) FFO / Debt | | | 24.4% | | | | |
| c) Debt Service Coverage Ratio | | 6.32x | | | | | |
| d) Implied Concession Life Coverage Ratio | | 15.8% | | | | | |
| Rating: | | | | | | | |
| Indicated Rating from Grid Factors 1-6 | | | A2 | | | | |
| Rating Lift | | | 0.0 | | | | |
| a) Indicated Rating from Grid | | | A2 | | | | |
| b) Actual Rating Assigned | | | A3 | | | | |

| Government-Related Issuer | Factor |
|-------------------------------------|--------|
| a) Baseline Credit Assessment | a3 |
| b) Government Local Currency Rating | Aaa |

| | |
|-----------------------|----------|
| c) Default Dependence | Moderate |
| d) Support | Moderate |

[1] Standard adjustments in accordance with "Rating Methodology: Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations, Part 1, Part 2 and Part 3". In addition, Moody's adjusts for one time items. [2] Based on financial data as of 12/31/2012; Source: Moody's Financial Metrics



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