



Moody's Investors Service

Credit Opinion: Prague, City of

Global Credit Research - 11 Feb 2010

Czech Republic

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A1

Contacts

Analyst	Phone
Katerina Hamplova/Prague	420.224.222.929
Andrea Wehmeier/Frankfurt	49.69.707.30.700
David Rubinoff/Toronto	1.416.214.1635

Key Indicators

Prague, City of

	2004	2005	2006	2007	2008
Net Direct and Indirect Debt/Operating Revenue (%)	76.6	69.8	66.9	61.7	54.6
Debt Service/Total Revenue (%)	4.2	2.6	3.1	3.0	3.0
Gross Operating Balance/Operating Revenue (%)	23.9	32.0	29.0	33.2	37.2
Cash Financing Surplus (Requirement)/Total Revenue (%)	-11.9	2.8	1.6	1.6	11.9
Self-Financing Ratio	0.7	1.1	1.1	1.0	1.4
Current Intergovernmental Revenue/Operating Revenue (%) [1]	89.7	89.1	89.7	90.7	90.0
Capex/Total Expenditure (%)	33.6	31.4	30.1	33.8	30.6

[1] Current intergovernmental revenue = current transfers + shared taxes

Opinion

SUMMARY RATING RATIONALE

The A1 global scale issuer rating for the City of Prague reflects the city's consistently strong operating performance. Prague enjoys comfortable cash reserves, strengthened by financial surpluses during 2005-08. The rating also takes into account the structure and maturity of the city's debt and the indirect liabilities of its companies, the unprecedented effects of the economic recession on its tax revenue as well as the limited flexibility in operating revenue and the rigidity in operating expenditure under the Czech regional and local governments (RLGs) framework.

National and international peer comparison

The City of Prague's rating is the same as that of the Czech Republic and is higher than those of all other Czech RLGs that have a global scale rating. Prague's position relative to national peers reflects its outstanding local economic performance as a hub of the Czech Republic as well as its sound financial and operating performance, which enables it to manage a higher level of debt compared to its national peers. Prague's rating is higher than those

of other capital cities in Central and Eastern Europe (CEE), whose ratings range from A2 to Ba2. Prague's debt continues to be slightly below the median of these regional governments, while debt service is close to the median. In addition to the better operating performance, the stronger operating environment for RLGs in the Czech Republic, compared with Poland, Estonia, Hungary, Latvia, Croatia and Turkey, supports higher levels of debt at an equivalent level of credit risk.

Credit Strengths

Credit strengths for the City of Prague include:

Strong operating balances that support the city's investment programme

High cash reserves supported by good financial performance

Decreasing stock of debt

Credit Challenges

Credit challenges for the City of Prague include:

Significant deterioration in tax revenue associated with the economic downturn in 2009

Low revenue flexibility and relative rigidity in operating expenses

Large yet manageable bullet repayments in the contained stock of debt

Significant investment requirements which might require additional external funding

Transport company as an off-balance sheet obligation, consuming one third of city's expenditure and 9% of city's net direct and indirect debt

Rating Outlook

The outlook for the City of Prague's long-term issuer rating is stable.

What Could Change the Rating - Up

A rating upgrade is not likely in the medium term.

What Could Change the Rating - Down

A sustained deterioration in its financial, especially operating, performances combined with a significant increase in the stock of debt would exert downward pressure on the rating.

DETAILED RATING CONSIDERATIONS

The rating assigned to the City of Prague reflects the application of Moody's Joint Default Analysis (JDA) rating methodology for regional and local governments (RLGs). In accordance with this methodology, Moody's first establishes the baseline credit assessment (BCA) for the municipality and then considers the likelihood of support coming from the national government to avoid an imminent default by the municipality, should this extreme event ever occur.

Baseline Credit Assessment

Prague's BCA of 6 (on a scale of 1-21, where 1 represents the lowest credit risk) reflects the following factors:

Financial Position and Performance

The financial performance of the city has been positive since 2005 after four years of deficits (4.5% of total revenue on average). The main indicator of this recovery was the operating performance that showed impressive results, as indicated by gross operating margins (GOB) of 33% on average between 2005 and 2008. The city's finances benefited from significant national economic growth (more than 6% in 2005-2007 and 3% in 2008) and the cost-cutting measures introduced by its management in 2006. In 2008 revenue rose by 5.5%, outpacing expenditure growth of 2.7%; this led to the highest operating surplus in recent history (37% of operating revenues), despite the halving of national economic growth.

The economic downturn in 2009 has severely impacted the city's shared tax revenues, which are expected to fall for the first time in recent history by an unprecedented 14-16% from 2008 levels. Although revenue shortfalls should be partly offset by savings in operating expenditure, operating surpluses are bound to weaken and the GOB is not likely to exceed 30% in 2009. However, the operating margin should remain comfortably in surplus. As a consequence, the city's so far extraordinarily high self-funding capacity of planned capex will likely be reduced. If all budgeted capex for 2009 is carried out despite a lower operating surplus, the financial balance before external funding will become slightly negative. In 2010, Moody's expects national GDP to stagnate. The city intends to continue with its tight control of operating expenditure in order to cover capital spending needs. Nevertheless, a positive financial balance is less likely an outcome if the city sticks to the existing investment programme.

In the medium and long term would shrinking self-funding capacity represent a challenge for the implementation of those targets, exerting pressure on the city's budget (in terms of its existing investment requirements), which could deplete its cash reserves and necessitate additional external funding. However, the severity of these concerns depends on further developments in the macroeconomic situation and/or the adjustment of the investment programme.

Prague consistently dedicates around 30% of its budget to capital expenditure (capex). A great proportion of the city's capex is dedicated to transport (almost 50% in 2005-08). Prague also funded the build-up of the city ring road, the extension of the underground network and the implementation of flood protection, and spent around 10% of its budget on the city's schools. Since 2007, the city has managed to carry out this high level of investment without tapping its cash reserves or undertaking new borrowing.

As mentioned above Prague has retained significant cash reserves, averaging 37.1% of its operating revenue in 2005-08, which provide it with a substantial cushion to face potential financial stress. Excellent financial results boosted the strong cash cushion to 45.4% of operating revenue in 2008, from 35.5% in 2007. The city fully used its sinking fund of CZK5.64 billion in 2009 for a bond repayment (CZK6.92 billion), which is unlikely to be replenished given the city's need to fund its strategic investments. Although the city's cash reserves are likely to drop to close to 30% of its operating revenue as a result, reserves should remain at comfortable levels, covering more than 50% of its direct debt.

Debt Profile

The net direct and indirect debt of Prague comprised a moderately high 54.6% of operating revenue in 2008 (CZK30.8 billion). The debt ratio has been consistently decreasing from 77% in 2003 thanks to the aversion of the city's representatives to new debt and the sinking fund created in 2002. Factored into our net direct and indirect debt ratio for the city is the debt of its transport company, which reached CZK2.83 billion in 2008 (drawn in 2004 on new metro cars) and forms 9% of its net debt stock. The debt of the city districts is relatively small, amounting to CZK0.145 billion in 2008 and is evenly divided between state borrowing and bank loans. An increase in the city's debt may be expected in relation to strategic investments like a wastewater treatment plant if EU funds are not available. This project could increase the net debt ratio by up to 15% of the city's operating revenue (or CZK8.6 billion).

More than half Prague's direct debt falls on bank loans, with focus on EIB funding for the public transport system and the extensive repairs in the aftermath of the 2002 floods. Bonds issued between 1999 and 2003 in euros or CZK represent the majority of the remaining debt (40%). Prague has hedged its bonds against any foreign currency exposure and EIB loans against the interest rate risk. In general, the currency risk has been eliminated, while around 50% of the city's debt is exposed to interest rate risk.

Despite a relatively sizeable debt stock, the repayment schedule remains manageable thanks to long-term maturities. Debt service was relatively low and stable at around 3% of total revenue in 2005-08. Notable peaks in bond repayment are due in 2009-11 and 2013, but should not exceed 15% of total revenue. The bond repayment of EUR 200 million in 2009 was covered from its own reserves (mostly by a sinking fund). The 2010 maturing bond will be covered either from cash reserves or an already existing EIB loan. The remainder is likely to be refinanced, but is subject to the decision of a new management team (elections to be held at the end of 2010). For the EIB loans, Prague benefits from a grace period of five to seven years, with a maturity of 15-30 years, depending on the investment.

The transport company already mentioned above represents a substantial burden for the city: it had operating costs of CZK13.4 billion in 2008, around 53% of which covered by the city's transfer. In addition, all investments in the rolling stock are funded with the city's budget. Prague dedicates around CZK5 billion annually to upgrade or acquire buses, trams and metro cars. Although the requirements are evident, based on signed contracts with suppliers, the transport company needs to negotiate the investment transfers with the city every year. Consequently, around CZK30 billion is still not secured by the city's transfers, and new contracts (for further underground expansion) will inevitably follow. This fact represents a significant challenge for the city's rating, as the investment requirements of the transport company will weigh on its budget and put pressure on its indebtedness.

Governance and Management Factors

For the past four years (2005-08), the city has stayed well within its budgetary targets and has demonstrated a prudent approach to its revenue and expenditure budgeting, fully taking into account its responsibilities and partly its revenue sources, excluding central government transfers. The city proved capable of adjusting its budget to adverse economic conditions in 2009, action which is likely to have maintained a near-balanced budget for the year. The list of investments for a particular year stems from detailed planning, with the emphasis on timing, and is now more realistic. Prague provides long-term budgetary forecasts until 2014. They show the city's intention to cover all strategic and maintenance investment with own sources rather than new borrowing. The city does not rely on capital revenue, as it tends to keep its property and has a very limited chance of obtaining capital transfers according to EU criteria. The city exercises sophisticated and cautious debt management.

Reporting required by the Ministry of Finance is comprehensive and timely: a financial statement on a monthly basis; a quarterly balance sheet (of itself as well as of its contributory organisations) and profit and loss account; a yearly annual report (including its contributory organisations); and information about new debt and borrowing, with an annual report available within six months of the subsequent year. An independent entity audits the annual financial accounts of the city and its districts.

Economic Fundamentals

With a contribution to national GDP of 24% and GDP per capita 2.5 times the national average in 2008, Prague is economically outperforming its domestic peers and is well positioned relative to other European cities. Although Prague is the economic centre of the country and enjoys a robust economy, Moody's does not focus closely on the local economic environment: under the Czech RLGs' institutional and financial framework, local economic fundamentals do not directly influence their budgets, which rely almost entirely on the growth of the national economy.

Demographic trends, however, have a direct impact on the amount of revenue coming into the city, so they are valid for analysis. After years of population decline, due both to negative natural balances and net migration, the city has recently seen a reversal in demographic trends, owing mainly to positive migration inflow. A natural increase was recorded in 2006 when, for the first time in 26 years, the number of live births exceeded the number of deaths. With a population of 1.23 million people as of 31 December 2008, Prague is home to 11.9% of the total population of the Czech Republic.

Operating Environment

The operating environment for Czech RLGs reflects that of OECD emerging-market economies, with relatively high GDP per capita, modest GDP volatility and a relatively high ranking on the World Bank's Government Effectiveness Index. The combination of these characteristics suggests a low level of systemic risk, as reflected in the A1 rating assigned to the Czech Republic.

Institutional Framework

The framework for Czech municipalities, which began taking shape in the mid-1990s, has been relatively predictable until now, with the fundamentals of the system largely stable.

The Czech economy is expected to decline by 4.3% in 2009, which when compared with average annual growth of 5.3% over the past three years, brings about a challenging reduction in tax revenue for municipalities. In 2009, the year-on-year decline in shared tax revenue reached 14% in total, which constitutes a significant shock for Czech cities, especially as it brings a rather abrupt end to recently buoyant revenue growth. 2010 will be another challenging year for municipalities, as they will have to adjust their budgets according to revenue stagnation. Moreover, a further decline in shared tax revenue cannot be ruled out depending on the dynamics of an economic recovery and the potential time lag before it takes effect. Such an unprecedented situation for Czech municipalities will require a strong budgetary response and will test the cities' ability to adapt to constrained conditions despite the low budgetary flexibility they are afforded. Nevertheless, some cuts are avoidable, especially in terms of capital spending and (in the short term) the operating side of budgets. Moody's believes potential challenges will also be eased by cities' comparatively low debt and the comfortable cash cushions accumulated in previous years.

Czech municipalities generally enjoy only limited budgetary flexibility. Most of their operating revenues are either shared taxes collected at national level or operating-related transfers from the central government. This leaves municipalities with only marginal taxation power and a limited ability to tap into wealth generated by the local economic environment. The tax base and tax rate of all taxes are set by the central government. City-controlled fees are capped and are often already set at their maximum legal threshold. The cities' potential use of the real estate tax (see above) remains very politically sensitive. It appears that the state has offered no clear indication that it will grant cities significant independent tax-raising capacity, despite expected adjustments to the financing system. The municipalities'

ability to influence operating expenditure is also constrained. Operating expenditure mainly consists of services that cities are obliged to provide under national law. Additionally, salaries of civil servants and the level of social benefits provided to citizens are set by the central government. Therefore, local governments can only contain growth in current expenditure by restructuring administrative costs, reallocating staff resources, streamlining the education sector, or making other organisational and administrative changes.

Prague is divided into 57 districts, the boundaries of which can be changed only by its assembly. Given the districts' strong representation in the assembly, a reduction in their number through mergers is unlikely. Although districts are self-governing bodies recognised by national law, with their own legislature, council and mayors, they are financially heavily dependent on central government transfers. A high proportion of these transfers can be explained by the range of their responsibilities outlined in the city's status, especially education (for those under the age of 15) and social welfare benefits, which are funded by the central government in the Czech budgetary system. The rest is non-tax revenue generated by the property entrusted to them by the city and taxes either fully assigned to them (property tax) or shared with the city. The financial performance of each district is strictly controlled by the city. In theory, districts do not need approval from the city to borrow (without the city's guarantees) but, in practice, smaller ones are required to collateralise by the city-owned property (which the city has to approve). The biggest (12-13 of the total) borrow freely. Moody's presents the city's accounts without the districts but, owing to the close links between them and the city, the obligations of the districts are disclosed in overall debt as indirect obligations of the city.

Extraordinary Support Considerations

Moody's assigns a very high likelihood of extraordinary support from the central government, reflecting the city's strategic importance to the national economy and the lack of a default history in the municipal sector.

Moody's also assigns a very high level of default dependence between the municipality and the central government, reflecting a heavy reliance on central government resources, in the form of either shared taxes, which are determined and collected nationally and redistributed on a per capita basis, or transfers from the state budget.

Output of the Baseline Credit Assessment Scorecard

In the case of the City of Prague, the BCA scorecard (presented below) generates the BCA of 5, close to the BCA of 6 assigned by the rating committee.

The BCA scorecard, which generates estimated baseline credit assessments from a set of qualitative and quantitative credit metrics, is a tool used by the rating committee in assessing regional and local government credit quality. The credit metrics captured by the scorecard provide a good statistical gauge of stand-alone credit strength and, in general, higher ratings can be expected among issuers with the highest scorecard-estimated BCAs. Nevertheless, the scorecard-estimated BCAs do not substitute for rating committee judgements regarding individual baseline credit assessments, nor is the scorecard a matrix for automatically assigning or changing these assessments. Score card results have limitations in that they are backward-looking, using historical data, while the assessments are forward-looking opinions of credit strength. Concomitantly, the limited number of variables included in the scorecard cannot fully capture the breadth and depth of our credit analysis.

ABOUT MOODY'S SUB-SOVEREIGN RATINGS

National and Global Scale Ratings

Moody's assigns national scale ratings in certain local capital markets in which investors have found the global rating scale provides inadequate differentiation among credits or is inconsistent with a rating scale already in common use in the country. Moody's National Scale Ratings are opinions of the relative creditworthiness of issuers and issues within a particular country. While loss expectation will be an important differentiating factor in the ultimate rating assignment, it should be noted that loss expectation associated with National Scale Ratings can be expected to be significantly higher than apparently similar rating levels on Moody's global scale. Moody's National Scale Ratings rank issuers and issues in order of relative creditworthiness: higher ratings are associated with lower expected credit loss.

National Scale Ratings can be understood as a relative ranking of creditworthiness (including relevant external support) within a particular country. National Scale Ratings are not designed to be compared among countries; rather, they address relative credit risk within a given country. Use of National Scale Ratings by investors is only appropriate within that portion of a portfolio that is exposed to a given country's local market, taking into consideration the various risks implied by that country's foreign and local currency ratings.

The Moody's Global Scale rating for issuers and issues in local currency allows investors to compare the issuer's/issue's creditworthiness to all others in the world, rather than merely in one country. It incorporates all risks relating to that country, including the potential volatility of the national economy.

Country Ceilings for Foreign Currency Obligations

Moody's assigns a ceiling for foreign-currency bonds and notes to every country (or separate monetary area) in which there are rated obligors. The ceiling generally indicates the highest rating that can be assigned to a foreign-currency denominated security issued by an entity subject to the monetary sovereignty of that country or area. In most cases, the ceiling will be equivalent to the rating that is (or would be) assigned to foreign-currency denominated bonds of the government. Ratings that pierce the country ceiling may be permitted, however, for foreign-currency denominated securities benefiting from special characteristics that are judged to give them a lower risk of default than is indicated by the ceiling. Such characteristics may be intrinsic to the issuer and/or related to Moody's view regarding the government's likely policy actions during a foreign currency crisis.

Baseline Credit Assessment

Moody's baseline credit assessment incorporates the government's intrinsic credit strength and accounts for ongoing operating subsidies and transfers from the supporting government. In effect, the baseline credit assessment reflects the likelihood that a local government would require extraordinary support.

Extraordinary Support

Extraordinary support is defined as action taken by a supporting government to prevent a default by a regional or local government (RLG) and could take different forms, ranging from a formal guarantee to direct cash infusions to facilitating negotiations with lenders to enhance access to needed financing. Extraordinary support is described as low (0%-30%), moderate (31% - 50%), high (51% - 70%), very high (71% - 95%) or fully supported (96% - 100%).

Default Dependence

Default dependence reflects the likelihood that the credit profiles of two obligors may be imperfectly correlated. Such imperfect correlation, if present, has important diversifying effects which can materially change the joint-default outcome. Intuitively, if two obligors' default risks are imperfectly correlated, the risk that they would simultaneously default is smaller than the risk of either defaulting on its own.

In the application of joint-default analysis to RLGs, default dependence reflects the tendency of the RLG and the supporting government to be jointly susceptible to adverse circumstances leading to defaults. Since the capacity of the higher-tier government to provide extraordinary support and prevent a default by an RLG is conditional on the solvency of both entities, the more highly dependent -- or correlated -- the two obligors' baseline default risks, the lower the benefits achieved from joint support. In most cases, the close economic links and/or overlapping tax bases and/or close intergovernmental fiscal arrangements between different levels of government result in a moderate to very high degree of default dependence.

Default dependence is described as either low (0% - 30%), moderate (31% - 50%), high (51% - 70%) or very high (71% - 100%).

Rating Factors

Prague, City of

Baseline Credit Assessment Scorecard - 2007	Value	Score	Sub-Factor Weighting	Sub-Factor Total	Factor Weighting	Total
Factor 1: Operating Environment						
National GDP per capita (PPP basis, \$US)	22,689	6	50.0%	6.00	60.0%	3.60
National GDP Volatility (%)	6.7	9	25.0%			
National Govt Effectiveness Index (World Bank)	0.99	3	25.0%			
Factor 2: Institutional Framework						
Predictability, Stability, Responsiveness	7.5	7.5	50.0%	10.01	10.0%	1.00
Fiscal Flexibility (A): Own-Source Revenues	15	15	16.7%			
Fiscal Flexibility (B): Spending	15	15	16.7%			
Fiscal Flexibility (C): Extent of Borrowing	7.5	7.5	16.6%			
Factor 3: Financial Position & Performance						
Interest Payments/Operating Revenue (%)	2.3	3	33.3%			

Cash Financing Surplus(Req)/Total Revenue (%)	1.8	6	33.3%	3.33	7.5%	0.25
Gross Operating Balance/Operating Revenue (%)	31.8	1	33.3%			
Net Working Capital/Total Expenditures						
Factor 4: Debt Profile						
Net Direct and Indirect Debt/Operating Revenue	61.7	3	50.0%	2.50	7.5%	0.19
Short-Term Direct Debt/Direct Debt (%)	0.9	1	25.0%			
Net Debt/Operating Revenue Trend	-6.3	3	25.0%			
Factor 5: Governance & Management						
Fiscal Management	1	1	40.0%	1.00	7.5%	0.08
Investment & Debt Management	1	1	20.0%			
Transparency & Disclosure (A)	1	1	15.0%			
Transparency & Disclosure (B)	1	1	15.0%			
Institutional Capacity	1	1	10.0%			
Factor 6: Economic Fundamentals						
Regional or Local GDP pc PPP - estimated (\$US)	47,339	1	100.0%	1.00	7.5%	0.08
Estimated BCA						5



Moody's Investors Service

CREDIT RATINGS ARE MIS'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

© Copyright 2010, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY

PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."