MOODY'S
INVESTORS SERVICE

REQUEST
FOR COMMENT

Minority Holding Companies: Proposed Cross-Sector Methodology

Table of Contents:

SUMMARY 1
IMPACT ON RATINGS 1
HOW TO SUBMIT COMMENTS 2
PROPOSED CROSS-SECTOR METHODOLOGY 3
MOODY'S RELATED PUBLICATIONS 19

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Summary

In this Request for Comment, we propose to introduce a new cross-sector methodology that describes our general principles for assessing entities whose activities are essentially limited to owning non-controlling interests (regardless of ownership percentage) in non-financial corporate entities,[1] and certain types of financial corporations, globally.[2]

The characteristics of entities with non-controlling ownership interests in corporations are different from those of entities with controlling interests. The entities to which this methodology would apply would be rated using the relevant sector methodology, and this cross-sector methodology would describe additional considerations for a minority holding company, including structural subordination, an absence of control of the operating company, and a lack of access to all of its cash flow. They also have long-term minority interests in only one or two corporations, which closely connects the credit quality of the holding company to the operating company.

Typically, entities with an existing or expected non-controlling ownership interest in more than two non-financial corporations are rated using our methodology for investment holding companies and conglomerates.[3]

Impact on Ratings

If this methodology is introduced as proposed, we expect few, if any, changes to outstanding ratings.

This expected rating impact only reflects the methodological changes noted above and does not incorporate potential impact from other factors, including prevailing market conditions or factors specific to a particular issuer or transaction, such as financial metrics or qualitative considerations, that may be relevant to the rating analysis.

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1 For simplicity in this request for comment, we frequently refer to corporate entities as corporations; however, they may be organized in a variety of ways, including as partnerships or limited liability companies.

2 For clarity, non-financial corporations include utilities, corporate infrastructure and REITs. This methodology would also apply to entities owning non-controlling interests in the following financial sectors: asset managers, insurance brokers, finance companies and securities industry service providers.

3 A link to a list of our sector and cross-sector methodologies can be found in the "Moody's Related Publications" section.

How to Submit Comments

In this Request for Comment, we are seeking feedback on our proposed methodology for assessing entities with non-controlling ownership interests in corporate entities. The text of the proposed methodology follows. Prior to publication of the proposed methodology, we may also consider other changes to the methodology as a result of the consultation process and our internal review.

We invite market participants to comment on the Request for Comment by March 8, 2021 no later than 11:59 P.M. Eastern Time, by submitting comments on the Request for Comment page at www.moodys.com. Upon appropriate consideration of received comments, we will adopt and publish the cross-sector methodology, which would be titled *Minority Holding Companies Methodology*.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Proposed Cross-Sector Methodology

Minority Holding Companies Methodology

Introduction

In this cross-sector rating methodology, we explain our general principles for assessing credit risk of entities[4] whose activities are essentially limited to owning non-controlling interests (regardless of ownership percentage) in one or two corporate entities, [5] including non-financial corporations and certain types of financial corporations, globally.[6]

We also discuss other considerations, which are factors whose credit importance varies widely among these entities or because the factor may be important only under certain circumstances or for a subset of these issuers. In addition, some of the methodological considerations described in one or more cross-sector rating methodologies may be relevant to ratings for these entities. Furthermore, since ratings are forward-looking, we often incorporate directional views of risks and mitigants in a qualitative way.

Our presentation of this cross-sector rating methodology proceeds with (i) the scope of this methodology; (ii) our general approach to assessing entities with non-controlling ownership interests in corporations; and (iii) other considerations. Appendix A provides additional information about how we assess the financial metrics described in this methodology.

Scope of This Methodology

This cross-sector methodology applies globally to entities whose assets consist predominantly of a non-controlling ownership interest in one or two corporations, including non-financial corporations and financial corporations in certain sectors.[7] These holdings are expected to be long term, and distributions from the operating company are the entity's primary source of cash flow to pay debt service. The non-controlling entities rated using this methodology do not have any meaningful operations of their own.

The non-controlling entities rated using this methodology have a meaningful direct or indirect ownership interest of a corporation, typically of at least 15% but no more than 50%.[8, 9] The entities have varying levels of influence on the management of the operating company and on distributions through some combination of board representation and authority or veto power over key decisions of the operating company, including decisions about distributions to the non-controlling entity.

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4 In this methodology, we use the terms "minority holding company" and "non-controlling entity" interchangeably to refer to entities with non-controlling ownership interests.

5 For simplicity in this methodology, we frequently refer to corporate entities as corporations; however, they may be organized in a variety of ways, including as partnerships or limited liability companies.

6 For clarity, non-financial corporations include utilities, corporate infrastructure and REITs. This methodology would also apply to entities owning non-controlling interests in the following financial sectors: asset managers, insurance brokers, finance companies and securities industry service providers.

7 The guidance in this cross-sector methodology applies unless specified otherwise in sector-specific methodologies.

8 We typically rate an entity with control of the operating company's decisions using the relevant sector methodology for the operating company, even if economic ownership is less than 50%. In cases where an entity controls the operating company and economic ownership is meaningfully below 100%, we may also consider some of the general principles included in this cross-sector methodology.

9 The general principles described in this cross-sector methodology do not apply to entities that control an operating company, regardless of the ownership percentage.

Typically, entities with an existing or expected non-controlling ownership interest in more than two non-financial corporations are rated using our methodology for investment holding companies and conglomerates.[10]

General Approach for Assessing Minority Holding Companies

This methodology framework comprises four components. The first two components — Operating Company Credit Quality and Minority Holding Company Sector Methodology Scorecard-indicated Outcome — are used to arrive at the Minority Holding Company Outcome Before Notching (see example in Exhibit 1).

The Operating Company Credit Quality component has two sub-components. The first sub-component is the operating company's scorecard-indicated outcome and the second is its assigned rating,[11] which are based on the relevant sector scorecard and methodology.[12]

The Minority Holding Company Sector Methodology Scorecard-indicated Outcome is assessed based on the same sector methodology scorecard as the operating company but incorporates the minority holding company's debt burden and any distributions it may make. We adjust the operating company's balance sheet, cash flow and income statement metrics when those metrics include debt, interest expense and dividends or other distributions, based on the minority holding company's percentage of economic ownership. When assessing financial policy and similar factors, we assess those of both the minority holding company and the operating company. Because the minority holding company does not have meaningful standalone operations, all other components of the Minority Holding Company Sector Methodology Scorecard-indicated Outcome are assessed the same as for the operating company.

To arrive at the Minority Holding Company Outcome Before Notching, we compare the scorecard-indicated outcomes of the operating company (line B in the example in Exhibit 1 below) and the minority holding company (line C) and subtract any difference in notches between the two from the operating company's assigned rating (line A). This results in the Minority Holding Company Preliminary Scorecard-Indicated Outcome. Based on this outcome and other issuer-specific considerations, we determine an Minority Holding Company Outcome Before Notching, which is capped by the operating company's rating.

We then apply downward notching, based on (i) the Subordination Risk component and (ii) the Influence on the Operating Company and Stability of Distributions and Coverage component. The result of this analysis is the Minority Holding Company Outcome Before Other Considerations.[13]

As a result of this analysis, the rating assigned to the minority holding company or its debt is at least one and often multiple notches lower than the rating for the operating company. The minority holding company's reliance on distributions from an operating company it does not control creates significant incremental risk for minority holding company creditors compared to operating company creditors. Generally, this level of risk is not consistent with an investment-grade credit profile.

[10] A link to a list of our sector and cross-sector methodologies can be found in the "Moody's Related Publications" section.

[11] For government-related issuers (GRIs), we use a Baseline Credit Assessment (BCA), which represents our opinion of an issuer's standalone intrinsic strength, absent any extraordinary support from an affiliate or a government, rather than the assigned rating. We use the BCA because we think it would be highly unlikely that a government would provide extraordinary support in order to allow the operating company to make distributions to a minority owner. For more information about Baseline Credit Assessments, see *Rating Symbols and Definitions*. A link to our cross-sector methodology that describes our approach for government-related issuers and a link to *Rating Symbols and Definitions* can be found in the "Moody's Related Publications" section.

[12] A link to a list of our sector and cross-sector methodologies can be found in the "Moody's Related Publications" section.

[13] Please see the "Other Considerations" section.

EXHIBIT 1

General Approach for Assigning Ratings to Minority Holding Companies - Illustrative Example*

Component	Sub-component / Outcome
Operating Company Credit Quality	A. Operating Company Rating
	B. Operating Company Scorecard-indicated Outcome
Minority Holding Company Sector Methodology Scorecard-indicated Outcome	Operating Company Scale, Business Profile, and Profitability and Efficiency
	Minority Holding Company Aggregated Leverage and Coverage
	Minority Holding Company and Operating Company Financial Policy
	C. Minority Holding Company Sector Methodology Scorecard-Indicated Outcome
Minority Holding Company Preliminary Scorecard-Indicated Outcome (A – (B – C)) **	
Minority Holding Company Outcome Before Notching	
Notching Components	
Subordination Risk	
Influence on the Operating Company and Stability of Distributions and Coverage	
Minority Holding Company Outcome Before Other Considerations	
Other Considerations	
Loan-to-Value Ratio and Value of Ownership Stake	
Other Structural Considerations	
Liquidity	
Environmental, Social and Governance Considerations	
Minority Holding Company Outcome	

* This is an illustrative example for a sector where the scorecard factors are Scale, Business Profile, Profitability and Efficiency and Financial Policy.

** See Exhibit 3 for an illustrative example.

Source: Moody's Investors Service

Discussion of the Methodology Components

In this section, we explain our general approach for scoring each component or sub-component, and we describe why they are meaningful as credit indicators.

Operating Company Credit Quality Component

Why It Matters

The operating company's credit quality is important to the minority holding company's credit quality because distributions from the operating company constitute the primary source of cash to pay the minority holding company's debt service. The credit quality of the operating company provides important indications of its financial management and liquidity, and it is a primary determinant of the operating company's ability to access the capital and credit markets.

How We Assess It

We use the rating[14] and scorecard-indicated outcome of the operating company.[15]

The operating company's rating represents the highest possible rating for the minority holding company.

Minority Holding Company Sector Methodology Scorecard-indicated Outcome

In this component, we consider the effect of additional leverage at the minority holding company using the sector methodology scorecard for the operating company, with some adjustments.

Why It Matters

The minority holding company's[16] ability to obtain cash to pay its debt relies on the strength and stability of the operating company. The minority holding company's proportional credit metrics are also important, because they incorporate the incremental, structurally subordinated debt of the minority holding company that is not reflected in the operating company's credit metrics.

Operating Company Metrics Other Than Leverage and Coverage and Financial Policy

The operating company's non-leverage and coverage and financial policy metrics, such as scale, business profile, and profitability and efficiency,[17] provide important indications of its ability to distribute cash to the minority holding company, which has no meaningful operations distinct from its ownership interest in the operating company.

Minority Holding Company Aggregated Leverage and Coverage[18]

Inclusion of the minority holding company's debt in leverage and coverage measures provides important indications of its financial flexibility. These metrics aggregate the minority holding company's leverage with a proportional share of the operating company's leverage. They provide indications of how much exposure to double leverage and financial risk the minority holding company is willing to undertake and provide insights into its financial strength relative to the operating company and to other similar minority holding companies.

Minority Holding Company and Operating Company Financial Policy

Financial policy is an important rating determinant because it directly affects debt levels, credit quality, the future direction for the minority holding company, and the risk of adverse changes in financing and capital structure. The management of the minority holding company is typically different from the management of the operating company, and it may have a different risk tolerance and approach to capital allocation.

[14] The rating we use may be a public rating or an unpublished rating for our internal analytical use. For government-related issuers (GRIs), we use a Baseline Credit Assessment, which represents our opinion of an issuer's standalone intrinsic strength, absent any extraordinary support from an affiliate or a government, rather than the assigned rating. For more information about Baseline Credit Assessments, see *Rating Symbols and Definitions*. A link to this publication can be found in the "Moody's Related Publications" section.

[15] For non-controlling entities with interests in companies in two different industries, we use the relevant sector methodologies and scorecards for the operating companies and determine a composite score based on our view of the relative risk of the operating companies. Notionally, we may consider a risk-weighted average based on expected dividend flows in arriving at a composite score.

[16] For the purpose of this methodology, "minority holding company" refers to the top holding company that owns the non-controlling interest and issues the debt. We consider any intermediate holding companies that exercise control over the operating companies to be part of the analytical unit that, in aggregate, forms the operating company. These intermediate holding companies may have debt that is also structurally senior to the holding company debt rated using this methodology.

[17] Further examples include factors and sub-factors pertaining to the entity's regulatory or concession framework, operating environment, asset type, quality or diversification, investment and capital program and contract quality.

[18] Leverage and coverage refers to all quantitative metrics that assess debt leverage and coverage.

How We Assess It

We use the relevant sector methodology and scorecard for the operating company, and we make adjustments as described below.[19]

OPERATING COMPANY METRICS OTHER THAN LEVERAGE AND COVERAGE AND FINANCIAL POLICY:

Because the minority holding company does not have operations distinct from its ownership interest in the operating company, we typically use operating company scores for factors and sub-factors other than those used to assess leverage and coverage and financial policy, or, if the operating company is not rated, we assess these factors based on the guidance in the relevant sector methodology.

MINORITY HOLDING COMPANY AGGREGATED LEVERAGE AND COVERAGE:

In assessing minority holding company leverage and coverage, we calculate or estimate proportionately consolidated metrics using minority holding company data and the minority holding company's proportional ownership interest[20] of the operating company. For example, we typically calculate or estimate a proportionately consolidated debt-to-EBITDA ratio based on total minority holding company debt, the minority holding company's proportional share of the operating company's debt (based on its percentage of ownership) and the minority holding company's proportional share of the operating company's EBITDA (based on its percentage of ownership). For more information and examples, please see the appendix.

MINORITY HOLDING COMPANY FINANCIAL POLICY:

We assess the financial policies (and similar factors and sub-factors) of both the minority holding company and the operating company, based on the factor or sub-factor described in the relevant sector methodology. The minority holding company's Financial Policy score[21] is capped by the score for the operating company and may be lower.

Minority Holding Company Outcome before Notching

Using the sector methodology scorecard, with the adjustments described above, we arrive at the Minority Holding Company's Sector Methodology Scorecard-indicated Outcome. Because scorecard-indicated outcomes are not expected to match the actual ratings for each company, the Minority Holding Company Outcome Before Notching starts from the rating of the operating company. To arrive at the Minority Holding Company Outcome Before Notching, we compare the sector methodology scorecard-indicated outcomes of the operating company and the minority holding company and subtract any difference in notches between the two from the operating company's rating. Typically, this is the starting point for the Minority Holding Company Outcome before the notching components. In some cases, we may adjust the starting point based on our forward view of leverage at the minority holding company in relation to the operating company, for example, or based on additional leverage and coverage metrics that provide a different perspective on the minority holding company's debt burden.

Notching Components

We apply further downward notching based on two notching components: the Subordination Risk component, and the Influence on the Operating Company and Stability of Distributions and Coverage component.

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[19] In cases where the sector methodology does not have a scorecard, we consider the additional leverage at the holding company qualitatively.

[20] In cases where the minority holding company's economic interest in the operating company (e.g., the minority owner's proportionate share of cash distributions) is different from its ownership interest, the proportionate share of relevant financials is based on the economic interest.

[21] For clarity, where factors related to financial policy, such as opacity and complexity or corporate behavior and risk management are notching factors or sub-factors in the sector methodology, the notching for the minority holding company cannot be higher than the notching for the operating company.

Subordination Risk Notching Component

In this component, we consider the structural subordination risk that typically exists for all holding companies and results in differences in expected loss severities in the event of default, even for holding companies that own and control 100% of an operating company. The minority holding company's debt is structurally subordinate[22] to the operating company's debt and to any debt at intermediate holding companies. We assess subordination risk based on the guidance in our cross-sector methodology for notching corporate instruments based on differences in security and priority of claim,[23] unless there is more specific guidance in the relevant sector methodology used to assess a minority holding company's credit profile.[24] Some of the special considerations described in the cross-sector methodology may be particularly important considerations that increase risk for creditors of holding companies with non-controlling ownership interests and may lead to greater-than-standard notching. These include the potential for the minority holding company to have a higher probability of default than the operating company, as well as the potential for unbalanced capital structures, in which a particular debt constitutes a very small or large proportion of total debt.

Notching for structural subordination is generally one downward notch. If the operating company has multiple classes of debt, the rating assigned to the debt of the minority holding company is typically lower than the rating for the operating company's most junior instrument.

Influence on the Operating Company and Stability of Distributions and Coverage Notching Component

After consideration of subordination risk, we apply further downward notching based on our assessment of the Influence on the Operating Company and Stability of Distributions and Coverage component.

Why It Matters

The extent of the minority holding company's influence on the operating company is important because the minority holding company relies on distributions from the operating company to pay debt service but does not have control over its strategic or financial decisions, including changes to its distribution policy, or access to its financial resources. The stability of distributions and the level of coverage they provide for the minority holding company's debt service payments are also critical considerations.

This notching component has two sub-components:

Influence on the Operating Company

The minority holding company's extent of influence on the operating company is important because the minority holding company's debt service is paid primarily by distributions from the operating company. All else being equal, minority holding company creditors are usually in a better position where the minority holding company has meaningful influence on the level and timing of the operating company's distributions.

For example, a minority owner may be in a position to prevent changes in financial and business strategy that may negatively affect the operating company's credit quality and, by extension, the credit quality of the minority holding company. Shifts in business strategy, along with transformative changes such as asset

[22] In cases where there are intercreditor agreements among operating company and holding company creditors that we consider would be effective, including in the event of a bankruptcy or other insolvency proceeding, we would take the terms and conditions of these agreements into account in our assessment of subordination risk.

[23] A link to a list of our sector and cross-sector methodologies can be found in the "Moody's Related Publications" section.

[24] Sector methodologies may contain relevant guidance addressing, for example, structural subordination or complex corporate and capital structures.

sales or M&A and associated financings, among other changes, can increase business and financial risk. Material changes to the balance sheet can also affect the operating company's financial risk profile. Participation on the operating company's board of directors is an important way in which minority holding companies gain influence.

Structural provisions of credit or shareholder agreements are often a core aspect of our analysis, because they can provide important protections for minority holding company creditors by facilitating a stable and robust level of distributions. The shareholders' agreement may provide a minority holding company with veto rights concerning major decisions (such as material changes to the operating company's underlying business, distributions, and debt issuances, or a decision to file for bankruptcy). In other cases, the terms and conditions of operating company and minority holding company debt agreements or any intercreditor agreements may provide protections to minority holding company creditors. Other provisions of shareholder or credit agreements may include frequent and regular reporting requirements for both the operating company and the minority holding company.

However, some structural provisions within the operating company credit agreement or intercreditor agreement, such as meaningful limits or restrictions on distributions, may increase risk for minority holding company creditors. In addition, terms of operating company credit agreements that support the credit profile of the operating company, such as limitations on additional debt or the buying and selling of assets, and change of control provisions, benefit minority holding company creditors only while those provisions, or the credit agreement itself, remain in place. If the minority holding company creditors cannot influence decisions related to changes in the credit agreement or any replacement agreement, these protections may erode before the minority holding company's debt matures.

If the operating company's credit quality deteriorates, structural features in credit agreements that are favorable to minority holding company creditors (e.g., the absence of restrictions that could meaningfully limit distributions, or committed minimum distributions) could support a base level of distributions to the minority holding company that may provide sufficient cash for continued debt service. However, any consequential weakening of the operating company's leverage and coverage metrics could also pressure the credit quality of the minority holding company. The converse is that restrictions in operating company credit agreements (e.g., covenants or restricted payments) that meaningfully limit distributions could support the operating company's credit quality but pressure the minority holding company's credit quality. These scenarios highlight that a weakening of credit quality at the operating company is often amplified for creditors at the minority holding company.

The minority holding company's percentage of ownership is often, although not always, a strong indicator of the extent of its influence on the operating company's significant decisions.

Stability of Distributions and Coverage

The expected stability of the operating company's distributions and the level of coverage they provide relative to the minority holding company's debt service requirements are important, because these distributions are the minority holding company's primary source of cash flow to pay debt service.

How We Assess It

In this component, we apply downward notching based on our qualitative assessment, guided by the descriptions below and the matrix in Exhibit 2. There may be cases in which one characteristic is sufficiently important to the credit profile that it has the largest influence on the number of downward notches we assign.

INFLUENCE ON THE OPERATING COMPANY:

Our qualitative assessment of this sub-component typically includes a review of the relevant terms of credit agreements, intercreditor agreements and shareholder agreements, including any amendments to these agreements. A secondary consideration is the minority holding company's percentage of ownership in the operating company.

We typically consider the structural features of credit and shareholder agreements and assess the extent to which they ensure a continued stream of distributions sufficient to meet the minority holding company's debt service requirements. For example, where a shareholder's agreement provides the minority holding company with veto power over changes to the distribution policy and stipulates a minimum level of distributions, we typically apply fewer downward notches than where a shareholder's agreement does not have these structural features.

We also typically consider whether the operating company credit agreement restricts the operating company's ability to distribute cash to the minority holding company, for example through maintenance covenants that require the operating company to comply with stipulated thresholds or through other limitations and restrictions. There is typically greater downward notching where there is limited cushion relative to covenant levels or distribution tests than where there is more headroom or no meaningful limitations on distributions.

We also typically assess the minority holding company's ability to influence the operating company's financial and business strategy. The minority holding company may have specific veto rights or the ability to participate in major decisions, or it may have board representation. We typically consider the number of representatives the minority holding company has on the operating company's board of directors.

In addition to our assessment of the structural features, we consider the minority holding company's percentage of ownership in the operating company. We may also consider the track record of decisions at the operating company and their impact on minority holding company creditors to assess the extent of the minority holding company's influence on the operating company.

STABILITY OF DISTRIBUTIONS AND COVERAGE:

Our qualitative assessment is informed by the operating company's track record of distributions and incorporates our view of the stability of the operating company's cash flows and distributions and the level of coverage they provide for the minority holding company's debt service.

In assessing the expected stability of cash flows, we may consider how distributions will perform in economic cycles (including a review of the operating company's track record of distributions through down cycles), the diversification of the operating company's customer base, whether contracts or subscriptions may support stability, the durability of the operating company's competitive position, the outlook for the operating company's capital expenditure requirements, and how secular change (e.g., technology, product substitution or regulatory change) will affect the level and stability of distributions. For operating companies in certain sectors, the regulatory environment may affect the level and stability of distributions. We may perform scenario analysis and consider how structural features that govern an operating company's distributions (including limitations on distributions) would affect the minority holding company's ability to pay its debt service. We may also assess the operating company's free cash flow relative to its dividends and capital expenditures.

In assessing a minority holding company's capacity to pay its debt service, we also consider the ratio of the distributions the minority holding company receives from the operating company (less any minority holding company general expenses, if material) to the minority holding company's cash interest expense. A higher ratio indicates a stronger credit profile for the minority holding company, all else being equal. However, the

ratio is not directly comparable across minority holding companies, because a given level of interest expense coverage may imply very different levels of risk for minority holding company creditors where operating company cash flow volatility is high than where operating company cash flow is very stable. In addition, a given level of cash flow volatility may pose greater risk for minority holding companies with weaker coverage than the same level of cash flow volatility poses for a minority holding company with stronger coverage. We also consider the level of influence the minority holding company has on the operating company, because a lower coverage ratio may pose less risk for a minority holding company with a high level of influence than for a minority holding company with less influence. For these reasons, we assess the ratio in tandem with the expected stability of operating company distributions and the level of minority holding company influence on the operating company.

We may also consider additional debt service coverage metrics that are meaningful in the analysis of a particular minority holding company. For example, where the minority holding company pays regular dividends to its equity holders, we typically consider a ratio of distributions received by the minority holding company (less any minority holding company general costs, if material) to minority holding company interest expense and minority holding company dividends paid to equity holders. As another example, where the minority holding company has amortizing debt, we may consider a ratio of minority holding company EBITDA to minority holding company total debt service (or levelized debt service). We may also consider the period needed for the minority holding company to fully amortize its debt using the distributions it receives.

EXHIBIT 2

Notching Component: Influence on the Operating Company, and Stability of Distributions and Coverage – Typical Considerations

Stability of Distributions and Coverage		Influence on the Operating Company: Strong	Influence on the Operating Company: Moderate	Influence on the Operating Company: Limited
High Stability and Coverage	The operating company's business is very stable, with extremely low economic cyclicality and a strong track record of stability (e.g., long-term contracts, regulated revenues or subscriptions from a highly creditworthy or diverse customer base provide a high degree of confidence in projected cash flow); AND distributions provide very high coverage of the non-controlling entity's debt service; distributions are very stable.	Strong influence or veto power over changes to the operating company's distribution policy; strong influence or veto power over financial and corporate structure decisions, including material changes to underlying business or balance sheet, mergers and consolidations, change of control or ownership, filing for bankruptcy; no restrictions in operating company credit agreements that could meaningfully limit distributions; substantial board representation; ownership is typically greater than 35%.	Moderate influence over changes to the operating company's distribution policy; moderate influence or veto power over major financial and corporate structure decisions, including change of control or ownership, filing for bankruptcy; some board representation; ownership is typically 20% to 35%.	Limited influence on changes to the operating company's distribution policy; limited influence on major corporate decisions; limited board representation; ownership is typically less than 20%; OR there are restrictions in operating company credit agreements (e.g., covenants or restricted payments) that meaningfully limit distributions.
Moderate Stability and Coverage	The operating company's business is stable, with limited economic cyclicality (e.g., contracts or subscriptions from a diverse customer base provide moderate confidence in projected cash flow); AND distributions provide good coverage of the non-controlling entity's debt service; distributions are stable.			
Low Stability and Coverage	The operating company's business is subject to significant economic cyclicality, with a limited track record or limited visibility of projected cash flow; OR distributions provide weak coverage of the non-controlling entity's debt service; OR distributions are volatile.			

Stability of Distributions and Coverage	Influence on the Operating Company: Strong	Influence on the Operating Company: Moderate	Influence on the Operating Company: Limited
High Stability and Coverage	Strong Influence / High Stability (-1 notch)	Moderate Influence / High Stability (-2 notches)	Limited Influence / High Stability (-3 to -5 notches)
Moderate Stability and Coverage	Strong Influence / Moderate Stability (-2 notches)	Moderate Influence / Moderate Stability (-3 to -5 notches)	Limited Influence / Moderate Stability (-4 to -6 notches)
Low Stability and Coverage	Strong Influence / High Volatility (-3 to -5 notches)	Moderate Influence / High Volatility (-4 to -6 notches)	Limited Influence / High Volatility (-6 or more notches)

Source: Moody's Investors Service

Arriving at the Minority Holding Company Outcome Before Other Considerations

Below is an illustrative example of how we use the sector scorecard and notching factors described above to arrive at the outcome before other considerations. In this example, the Minority Holding Company Sector Methodology Scorecard Outcome is two notches lower than the operating company scorecard-indicated outcome, resulting in a Minority Holding Company Preliminary Scorecard-indicated Outcome that is two notches lower than the operating company rating. One downward notch for Subordination Risk and two downward notches for Influence on the Operating Company, and Stability of Distributions and Coverage are applied to the Baa3 Minority Holding Company Outcome Before Notching, resulting in a total three downward notches from the Minority Holding Company Outcome Before Notching to arrive at the Minority Holding Company Outcome Before Other Considerations.

EXHIBIT 3

Arriving at the Minority Holding Company Outcome Before Other Considerations – Illustrative Example

Components of Minority Holding Company Outcome Before Notching		
Operating Company Rating		Baa1
Operating Company Scorecard-indicated Outcome	Baa2	
Minority Holding Company Sector Methodology Scorecard-indicated Outcome	Ba1	
Difference between Operating Company Scorecard-indicated Outcome and Minority Holding Company Sector Methodology Scorecard-indicated Outcome	2	
Minority Holding Company Preliminary Scorecard-Indicated Outcome		**Baa3**
Minority Holding Company Outcome Before Notching		Baa3
Notching Components	Assessment	Assigned Downward Notches
Subordination Risk		1
Influence on the Operating Company, and Stability of Distributions and Coverage		
- Stability of Distributions and Coverage	High	
- Influence on the Operating Company	Moderate	
Downward notches for Influence on the Operating Company, and Stability of Distributions and Coverage	2	2
Minority Holding Company Outcome Before Other Considerations		Ba3

Source: Moody's Investors Service

Other Considerations

Loan-to-Value (LTV) Ratio and Value of Ownership Stake

The economic value of the minority holding company's ownership interest relative to the amount of its debt is an important consideration, because proceeds from the sale of its equity interest in the operating company could support debt repayment. In addition, the value of the equity interest may play an important role in the minority holding company's capacity to refinance its debt and its debt-refinancing costs.

We typically assess the extent of debt coverage provided by the value of the ownership interest as well as the liquidity and stability of the equity value. For example, an ownership interest in a public company whose shares trade frequently on major exchanges typically provides a minority holding company with greater liquidity and access to cash for debt repayment than an ownership interest in a privately held company.

We typically calculate or estimate LTV using a ratio whose numerator is the principal amount of debt and whose denominator is the estimated value of the ownership interest. The information available for the latter may vary widely among issuers. Where available, the value is typically based on a market price for actively traded shares. For privately held entities, we typically consider available information, which may include EBITDA multiples for transactions of comparable companies, third-party valuations by reputable firms, or accountants' fair value estimates. Limited information related to value or volatility in the underlying value typically leads to a more conservative estimate. A low LTV ratio may indicate an ability to access credit markets to refinance debt or obtain additional liquidity, potentially supporting a higher minority holding company rating than would otherwise be the case. However, market value in excess of the loan does not by itself prevent default, because a minority holding company cannot always immediately monetize its stake and access cash, although low loan-to-value may support recovery in an event of default. Conversely, a high LTV ratio may lead to a lower rating, even for an entity with strong influence over the operating company, because it could indicate problems in servicing debt over the long term and lower recovery in the event of a default. Consideration of LTV may become more important in our analysis as the debt gets closer to maturity.

Significant volatility in the value of the ownership stake or a rapid deterioration of the value are also considerations likely to place negative pressure on the minority holding company rating, which would likely increase ahead of an upcoming need to refinance debt.

Other Structural Considerations

We typically consider the structural provisions of credit and shareholder agreements, as described in the "Influence on the Operating Company" notching discussion. In addition, we also typically review terms and conditions in shareholder and credit documents that may provide other structural protections to a minority holding company's debtholders. For example, we typically consider whether minority holding company debtholders benefit from a pledge of the shares in the operating company and whether sale of the shares triggers repayment of the debt. We also typically consider whether the shareholder agreement or any other agreement restricts the ability of the minority holding company to sell operating company shares. We may also consider terms and conditions related to the use of excess cash at the minority holding company and cross-defaults (e.g., whether an operating company default triggers a minority holding company default).

Liquidity

Our assessment of the credit profiles of both the operating company and the minority holding company typically considers liquidity based on the guidance in the sector-specific methodology, as well as in our cross-sector methodology that discusses our general principles for assessing liquidity risk.[25] For the non-controlling entity, we may also consider the potential for interruption in the receipt of distributions from the operating company and the timing of cash receipts and required outflow. We may also consider any structural features in the transaction that meaningfully improve liquidity, such as debt service reserves. We typically also consider liquidity shortfalls that may result from the debt structure (e.g., bullet or balloon maturities).

[25] A link to a list of our sector and cross-sector methodologies can be found in the "Moody's Related Publications" section.

Environmental, Social and Governance Considerations

Minority holding company ratings are generally unlikely to be affected by environmental, social and governance considerations (ESG) that are not already incorporated into the operating company rating. However, if there were meaningful incremental ESG risks or benefits at the minority holding company level, we would incorporate them into the rating. For information about our approach to assessing ESG issues, please see our methodology that describes our general principles for assessing these risks.[26]

Where it is material, our assessment of the credit profiles of both the operating company and the minority holding company considers corporate governance. Our analysis of the minority holding company may incorporate an assessment of the relationship between operating-company and minority holding company owners and the potential for their interests to align or diverge.

[26] A link to a list of our sector and cross-sector methodologies can be found in the "Moody's Related Publications" section.

Appendix: Calculation or Estimation of Leverage and Coverage Metrics

In this appendix, we provide information about how we calculate or estimate a minority holding company's proportionally consolidated leverage and coverage metrics. We also provide illustrative examples.

Proportionally consolidated metrics aggregate the minority holding company's relevant financial data with a proportional share of those of the operating company. We use data from the financial statements of both the minority holding company, where available, and the operating company, and we may also use additional information provided by issuers and our own forward-looking estimates. For both the minority holding company and the operating company, the quantitative credit metrics incorporate our standard adjustments[27] to income statement, cash flow statement and balance sheet amounts for items such as underfunded pension obligations and operating leases. We may also make other analytical adjustments that are specific to a particular company.

For leverage and coverage sub-factors, we calculate or estimate proportionally consolidated ratios in order to incorporate the minority holding company's debt burden and any distributions it may make. We adjust balance sheet, cash flow and income statement metrics whose components include debt, interest expense and dividends or other distributions, based on the minority holding company's percentage of economic ownership. Taking interest expense as an example, we add the minority holding company's proportional share of operating company interest (i.e., the operating company interest expense times the minority holder's percentage ownership in the operating company) and the full amount of the minority holding company's interest expense.

If the minority holding company pays regular dividends to its equity holders, we typically include these dividends, less the dividends received from the operating company, in our calculations or estimations of free cash flow and retained cash flow. In addition to including the minority holding company's debt, the minority holding company may have balance sheet cash, which we include in any proportionally consolidated metrics that include cash (e.g., net debt), as well as in our assessment of the minority holding company's liquidity.

Because the minority holding company does not have meaningful standalone operations, we typically do not incorporate any operating cash flow, working capital or capital expenditures of the minority holding company into our proportionally consolidated metrics.

Following are illustrative examples of leverage and coverage metrics and how we calculate or estimate them:

NET DEBT/EBITDA:

The numerator is the proportional share of the operating company's net debt plus the minority holding company's net debt, and the denominator is the proportional share of the operating company's EBITDA.

EBIT/INTEREST EXPENSE:

The numerator is the proportional share of operating company EBIT, and the denominator is the proportional share of the operating company's interest expense plus the minority holding company's interest expense.

[27] For an explanation of our standard adjustments, please see the cross-sector methodologies that describe our financial statement adjustments in the analysis of, respectively, non-financial corporations and financial institutions.

RCF/NET DEBT:

The numerator is the proportional share of the operating company's retained cash flow (cash generation before working capital movements and capital expenditure, and after dividend payments) plus dividends received by the minority holding company minus the sum of minority holding company interest and dividends paid by the minority holding company. The denominator is the proportional share of the operating company's net debt plus the minority holding company's net debt.

FFO/DEBT:

The numerator is the proportional share of the operating company's funds from operations minus minority holding company interest expense, and the denominator is the proportional share of the operating company's total debt plus the minority holding company's total debt.

FFO+INTEREST EXPENSE/INTEREST EXPENSE:

The numerator is the proportional share of the operating company's funds from operations plus the proportional share of the operating company's interest expense, and the denominator is the proportional share of the operating company's interest expense plus the minority holding company's interest expense.

CFO/NET DEBT:

The numerator is the proportional share of the operating company's cash from operations minus minority holding company interest expense, and the denominator is the proportional share of the operating company's net debt plus the minority holding company's net debt.

DEBT/BOOK CAPITALIZATION:

The numerator is the proportional share of the operating company's total debt plus the minority holding company's total debt, and the denominator is the proportional share of the operating company's book capitalization.

RCF/CAPEX:

The numerator is the proportional share of the operating company's retained cash flow plus dividends received by the minority holding company minus the sum of minority holding company interest and dividends paid by the minority holding company, and the denominator is the proportional share of the operating company's capital expenditure.

RCF-CAPEX/DEBT:

The numerator is the proportional share of the operating company's retained cash flow plus dividends received by the minority holding company minus the sum of the proportional share of the operating company's capital expenditure, minority holding company interest and dividends paid by the minority holding company. The denominator is the proportional share of the operating company's total debt plus the minority holding company's total debt.

EBITDA-CAPEX/INTEREST EXPENSE:

The numerator is the proportional share of the operating company's EBITDA minus the proportional share of the operating company's capital expenditure, and the denominator is the proportional share of the operating company's interest expense plus the minority holding company's interest expense.

FIXED-CHARGE COVERAGE:

The numerator is the proportional share of the operating company's EBITDA, and the denominator is the proportional share of the operating company's fixed charges, including interest expense, capitalized interest, preferred dividends, trust preferred distributions and preferred unit distributions, plus the minority holding company's interest expense, capitalized interest, preferred dividends, trust preferred distributions and preferred unit distributions.

EQUITY/TOTAL CAPITALIZATION:

The numerator is the proportional share of the operating company's equity minus the minority holding company's debt, and the denominator is the proportional share of the operating company's capitalization.

REVENUE/DEBT:

The numerator is the proportional share of the operating company's revenue, and the denominator is the proportional share of the operating company's total debt plus the minority holding company's total debt.

EXHIBIT 4

Illustration of the Calculation of Common Scorecard Metrics for an Example 35%-owned Minority Holding Company

Key Adjusted Metrics	Operating Company (OpCo)	Minority Holding Company (MHC)	Proportionally Consolidated Minority Holding Company	
			Value	Ratio
Balance Sheet				
Debt	10,000	2000	5,500	(35% of OpCo Debt + MHC Debt)
Cash	500	200	375	(35% of OpCo Cash + MHC Cash)
Book capitalization	22,000		7,700	(35% of OpCo Book capitalization)
Income Statement				
Revenue	9,000		3,150	(35% of OpCo Revenue)
EBITDA	3,100		1,085	(35% of OpCo EBITDA)
EBIT	2,750		963	(35% of OpCo EBIT)
Interest expense	500	130	305	(35% of OpCo Interest expense + MHC Interest expense)
Cash Flow Statement				
Funds from Operations (FFO)	2,655		799	(35% of OpCo FFO - MHC Interest expense)
Dividends paid	455	25		
Retained Cash Flow (RCF)	2,200		774	(35% of OpCo RCF + 35% of OpCo Dividends paid - MHC Interest expense - Dividends paid by MHC)
Cash Flow from Operations (CFO)	2,500		745	(35% of OpCo CFO - MHC Interest expense)
Capital expenditures	750		263	(35% of OpCo Capital expenditures)
Free Cash Flow (FCF)	1,295		458	(35% of OpCo FCF + 35% of OpCo Dividends paid - MHC Interest expense - Dividends paid by MHC)

Key Leverage and Coverage Ratios	Operating Company	Proportionally Consolidated Minority Holding Company
Leverage		
Debt / EBITDA	3.2x	5.1x
Debt / Book capitalization	45%	71%
RCF / Debt	22%	14%
FFO / Debt	27%	15%
FCF / Debt	13%	8%
Coverage		
EBIT / Interest	5.5x	3.2x
EBITDA / Interest	6.2x	3.6x
(EBITDA - CAPEX) / Interest	4.7x	2.7x
(FFO + Interest) / Interest	6.3x	3.6x

Source: Moody's Investors Service

Moody's Related Publications

Cross-sector credit rating methodologies are typically applied in tandem with sector credit rating methodologies, but in certain circumstances may be the basis for assigning credit ratings. A link to a list of sector and cross-sector methodologies can be found here.

For data summarizing the historical robustness and predictive power of credit ratings, please click here.

For further information, please refer to *Rating Symbols and Definitions*, which is available here.

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