

Indiana Road Company LLC

**c/o Babcock & Brown LP
2 Harrison Street
San Francisco, CA 94105
(415) 512-1515**

January 20, 2006

Charles Schalliol
Director, Office of Management and Budget
Statehouse
200 W. Washington St.
Room 212
Indianapolis, IN 46204

Re: Indiana Toll Road Concession and Lease

Dear Mr. Schalliol,

Indiana Road Company LLC ("Indiana Road") is pleased to submit the attached executed and completed Indiana Toll Road Concession and Lease Bid Form (the "Bid Form") pursuant to which Indiana Road offers to enter into the Indiana Toll Road Concession and Lease Agreement (the "Offer") with the Indiana Finance Authority (the "IFA") and in return agrees to pay the IFA a Rent of **\$2.84 billion**. Accompanying the Offer are 3 Letters of Credit totaling \$75 million as required pursuant to Paragraph 6 of the Bid Form.

Also, enclosed is a conditional offer under which a Rent of **\$3.25 billion** would be paid (the "Conditional Offer"). Further, we have attached a brief summary of the Indiana Road ownership group, our financing arrangements and additional information about the Offer (Please see Attachment 1, the "Executive Summary").

Key highlights of Indiana Road, its Team Members and its Offer, are:

- World class operator and contractors including Transfield Services - a global road operation manager, Walsh Construction - a leading Indiana road contractor, and Allied Barton Services - a national toll collection company;
- US and international long term owners of infrastructure which are involved in toll roads and infrastructure assets around the globe;



- A commitment to local content, including giving a priority to hiring existing road employees, use of local contractors such as Walsh Construction and adhering to “Buy Indiana”;
- A major commitment to future capital expenditures, exceeding \$1 billion over the next 25 years and plans to introduce full electronic tolling; and
- All required funding is unconditionally committed.
 - Fully committed and underwritten equity commitments are being provided by Indiana Road Team Members;
 - Fully committed and underwritten debt financing is being provided by JPMorgan and Lehman Brothers.
 - The senior bonds, which will be executed in the Rule 144a market, have received an indicative investment grade rating by each of Moody’s and Standard & Poor’s and will be insured pursuant to financial guarantee insurance policies to be issued by FGIC and MBIA;
 - Subordinated debt has also received indicative ratings from each of Moody’s and Standard & Poor’s, confirming the robustness of the Indiana Road financing plan;
 - A capital expenditure facility will be ranked pari-pasu with the senior debt; and
 - Finally, the financing plan incorporates the up-front funding of operating and debt service reserves, as well as a revenue stabilization fund.

Assumptions

The Offer is subject to the following assumptions:

- Indiana Road agrees to accept the Indiana Toll Road Concession and Lease Agreement in the form of the last full draft dated January 10, 2006 and posted in the Data Room by the IFA on January 11, 2006 amended by the optional changes to the Concession Agreement and Schedules dated January 13, 17 and 19, 2006.
- On or prior to the date of notice from the IFA under Paragraph 5, the Toll Road Legislation is enacted into law in substantially the form of the draft made available to the bidders on January 11, 2006 at the following website:

www.in.gov/apps/lrs/session/billwatch/billinfo?year=2006&session=1&request=getBill&docno=1008www.in.gov/apps/lrs/session/billwatch/billinfo?year=2006&session=1&request=getBill&docno=1008 and not subsequently amended or modified.

- Indiana Road believes that Paragraph 7 of the Bid Form, "Automatic Adjustment", provides an inappropriate mechanic for adjusting the Rent because the adjustment as proposed by IFA does not represent a value for money proposition for the IFA. Indiana Road reasoning is that using the single point on the yield curve creates exposure to:
 - Changes in the shape of the yield curve;
 - The rate of change in the rent for varying levels of underlying interest rate convexity; and
 - Changes in the Treasury to Swap spread.

Consequently, Indiana Road believe that the interest rate mechanism must be tailored to represent the capital structure and the bid price contained in the Offer. We are happy to discuss this mechanism with the IFA and its advisors to ensure that the interest rate setting protocol and the subsequent adjustment to the Rent is transparent.

- In respect of the mandatory capital expenditure works, the Gary Sewer will not require relocation in connection with such works:

Conditional Offer

Under our acquisition traffic model, the current Level of Service obligations require us to undertake a lane widening program across the length of the Toll Road well in advance of any capacity constraints along the road. The current provision effectively targets the peak hour every week which is far in excess the average demand throughout the week. In our view this road widening is not necessary to ensure that the Toll Road continues to provide acceptable traffic flow levels to commuters. The capital upgrade and associated maintenance costs are over \$1 billion and materially affect our offer. **We** have proposed below a regime more in-line with our estimated lane capacity and results **in a higher Rent**.

As such, in addition and as an alternative to (but not in substitution for) the Offer made in the attached Bid Form and subject to the assumptions set forth above, we are pleased to provide the following offer to the Indiana Finance Authority in the event the Concession Agreement can be amended to reflect the following concept in respect of Subsection (b)(ii) "Congestion Relief" of Section 5.5(b) "Exceptions to Section 5.1 outlined below.

the determination of a Minimum LOS in Section 5.5(b)(ii) of the Concession Agreement shall be replaced by a Maximum Vehicle Capacity Ratio of 2,200 vehicles per lane per hour. Pursuant to the methodology set forth specified in Section 5.5(b)(i), if the Maximum Vehicle Capacity Ratio is achieved or exceeded for any element of the Toll Road, then the procedures for congestion relief improvements in Section 5.5(b) would be applicable.

Our Offer has been constrained by the limited timeframe and, thus, we were not fully able to optimize the Offer. In the event we are granted additional time via a BAFO or other process, we are confident of a higher offer. Taking into consideration the LOS adjustments outlined above, and an additional period of time to further optimize our equity structure, we believe the Rent for

this Conditional Offer would be approximately **\$3.25 billion**. A period of up to 20 business days would assist us in underwriting such an amount.

Team Members and LOC

We note the following matters with respect to the attached Bid Form:

- The ownership of Indiana Road (as referred to in Paragraph 8, "Applicant Authorization" of the Bid Form) has been revised and enhanced by the addition of four new "Team Members" to complement the existing team of Babcock & Brown, Transfield Services and Challenger:
 - John Hancock Life Insurance Company, John Hancock Tower 57th Floor, 200 Clarendon, Boston, MA 02117
 - WestScheme Pty Limited as trustee for Westscheme of 251 Adelaide Terrace, Perth WA 6805, Australia;
 - Statewide Superannuation Pty Ltd as trustee for Statewide Superannuation Trust of Statewide House, 99 Gawler Place, Adelaide SA 5000, Australia; and
 - Motor Trades Association of Australia Superannuation Fund Pty Limited as trustee for MTA Superannuation Fund Level 3, MTA House 39 Brisbane Avenue, Barton ACT 2600 Australia.
- As required under the Bid Procedures and provided in Paragraph 6 of the Bid Form, our submission is accompanied by Letters of Credit in the amount of \$75 million to secure our performance under Section 5 of the Bid Form, and which Letters of Credit are available to be drawn and retained by the Agency as liquidated damages as the Agency's sole and exclusive remedy for breach by Applicant of its obligations.

The Concession and Lease of the Indiana Toll Road represents a valuable opportunity for all stakeholders. Indiana Road and its constituent Team Members look forward to working with you to bring the **Concession and Lease** to a swift contractual close and to an outcome that meets and exceeds expectations.

Charles Schalliot
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We look forward to a long and successful relationship between the Indiana Finance Authority and Indiana Road Company LLC.

Please feel free to call me if you have any questions.

Respectfully,

A handwritten signature in black ink, appearing to read "M. M. Garland". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Michael M. Garland
President
Indiana Road Company LLC