

Statewide Mobility Partners LLC and Subsidiary

(A Delaware Limited Liability Company)

Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

Statewide Mobility Partners LLC and Subsidiary

(A Delaware Limited Liability Company)

Index

December 31, 2008 and 2007

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Report of Independent Auditors

To the Board of Directors and Members of
Statewide Mobility Partners LLC

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, members' equity (deficit) and cash flows present fairly, in all material respects, the financial position of Statewide Mobility Partners LLC and its Subsidiary (the "Company") at December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of depreciation for highway-related property and equipment as of January 1, 2008.

PricewaterhouseCoopers LLP

February 25, 2009

Statewide Mobility Partners LLC and Subsidiary
(A Delaware Limited Liability Company)
Consolidated Balance Sheets
December 31, 2008 and 2007
(in thousands of dollars, except per unit data)

	2008	2007
Assets		
Current assets		
Cash	\$ 236	\$ 12
Restricted cash and cash equivalents	3,561	4,560
Accounts receivable, net of allowance for doubtful accounts of \$43 and \$0 as of December 31, 2008 and 2007, respectively	7,939	7,619
Prepaid expenses and other current assets	2,027	1,459
Current portion of toll freeze deposit	<u>13,054</u>	<u>16,325</u>
Total current assets	<u>26,817</u>	<u>29,975</u>
Property and equipment		
Bridges and roads	886,497	790,905
Machinery and equipment	9,543	6,448
Tools	278	248
Furniture and fixtures	442	209
Computers and office equipment	3,607	1,512
Vehicles	<u>2,818</u>	<u>2,818</u>
	903,185	802,140
Less accumulated depreciation (see Note 2)	<u>(88,838)</u>	<u>(60,290)</u>
	814,347	741,850
Projects in progress	<u>113,606</u>	<u>86,692</u>
Net property and equipment	927,953	828,542
Advance payments to contractors	20,392	30,942
Concession rights, net of amortization of \$100,900 and \$60,542 as of December 31, 2008 and 2007, respectively	2,925,917	2,966,275
Deferred financing costs, net of amortization of \$22,140 and \$13,327 as of December 31, 2008 and 2007, respectively	57,294	66,107
Long-term toll freeze deposit	46,906	-
Restricted cash and cash equivalents, long-term	<u>51,280</u>	<u>78,248</u>
Total assets	<u>\$ 4,056,559</u>	<u>\$ 4,000,089</u>
Liabilities and Members' Equity (Deficit)		
Current liabilities		
Accounts payable	\$ 9,238	\$ 9,076
Due to related parties	1,253	961
Accrued other liabilities	11,742	7,537
Deferred revenues	1,310	630
Current portion of due to IFA	<u>13,054</u>	<u>16,325</u>
Total current liabilities	36,597	34,529
Customers' deposits	775	442
Due to IFA	46,906	-
Derivative liability	1,925,966	344,711
Long term debt	<u>3,539,941</u>	<u>3,402,241</u>
Total liabilities	<u>5,550,185</u>	<u>3,781,923</u>
Commitments and contingencies (Note 14)	-	-
Members' equity (deficit)		
Members' capital		
One hundred units at \$20 par value	2	2
Additional paid-in capital	702,856	731,427
Accumulated other comprehensive loss	(1,518,929)	(241,116)
Accumulated deficit	<u>(677,555)</u>	<u>(272,147)</u>
Total members' equity (deficit)	<u>(1,493,626)</u>	<u>218,166</u>
Total liabilities and members' equity (deficit)	<u>\$ 4,056,559</u>	<u>\$ 4,000,089</u>

The accompanying notes are an integral part of these consolidated financial statements.

Statewide Mobility Partners LLC and Subsidiary

(A Delaware Limited Liability Company)

Consolidated Statements of Operations

Years Ended December 31, 2008 and 2007

(in thousands of dollars)

	2008	2007
Revenue		
Toll revenue	\$ 147,491	\$ 143,380
Lease and other revenue	7,994	7,713
Total revenues	<u>155,485</u>	<u>151,093</u>
Operating expenses		
Salaries and wages	4,745	4,786
Operations overhead	6,398	6,941
Routine repairs and maintenance	9,079	8,627
Toll collection expenses	10,974	12,735
Other office and administrative expenses	5,715	4,885
Insurance	1,345	1,591
Depreciation and amortization (see Note 2)	68,954	78,290
Total operating expenses	<u>107,210</u>	<u>117,855</u>
Operating income	48,275	33,238
Derivative (loss) gain	(209,484)	32,201
Interest expense, net	<u>(244,199)</u>	<u>(238,872)</u>
Net loss	<u>\$ (405,408)</u>	<u>\$ (173,433)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Statewide Mobility Partners LLC and Subsidiary
(A Delaware Limited Liability Company)
Consolidated Statements of Members' Equity (Deficit)
Years Ended December 31, 2008 and 2007
(in thousands of dollars)

	Members' Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Members' equity at December 31, 2006	\$ 760,000	\$ (88,974)	\$ (98,714)	\$ 572,312
Distributions	(28,571)	-	-	(28,571)
Net loss	-	-	(173,433)	(173,433)
Net unrealized loss in hedging activities	-	(152,142)	-	(152,142)
Total comprehensive loss	-	-	-	(325,575)
Members' equity at December 31, 2007	731,429	(241,116)	(272,147)	218,166
Distributions	(28,571)	-	-	(28,571)
Net loss	-	-	(405,408)	(405,408)
Net unrealized loss in hedging activities	-	(1,277,813)	-	(1,277,813)
Total comprehensive loss	-	-	-	(1,683,221)
Members' deficit at December 31, 2008	<u>\$ 702,858</u>	<u>\$ (1,518,929)</u>	<u>\$ (677,555)</u>	<u>\$ (1,493,626)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Statewide Mobility Partners LLC and Subsidiary
(A Delaware Limited Liability Company)
Consolidated Statements of Cash Flows
Years Ended December 31, 2008 and 2007
(in thousands of dollars)

	2008	2007
Cash flows from operating activities		
Net loss	\$ (405,408)	\$ (173,433)
Adjustments to reconcile net loss to net cash used in operating activities		
Amortization of deferred financing costs included in interest	8,813	8,812
Depreciation and amortization of property and equipment	28,596	37,925
Amortization of concession rights	40,358	40,365
Loss on disposal of property and equipment	401	-
Net unrealized loss in hedging activities	303,442	64,642
Changes to operating assets and liabilities		
Accounts receivable	(3,351)	(1,841)
Prepaid expenses and other current assets	(568)	(30)
Accounts payable	162	(2,509)
Accrued other liabilities	(3,028)	(905)
Due to related parties	3,323	(4,187)
Accrued interest	-	(762)
Deferred revenues	680	312
Customers' deposits	333	101
Net cash used in operating activities	<u>(26,247)</u>	<u>(31,510)</u>
Cash flows from investing activities		
Advance payments to contractors	-	(23,500)
Purchase of property and equipment	(110,625)	(74,684)
Change in restricted cash and cash equivalents	27,967	36,792
Net cash used in investing activities	<u>(82,658)</u>	<u>(61,392)</u>
Cash flows from financing activities		
Distributions and return of capital	(28,571)	(28,571)
Proceeds from Series B loan	27,500	29,000
Proceeds from Series C loan	110,200	92,600
Financing fees paid	-	(122)
Net cash flows provided by financing activities	<u>109,129</u>	<u>92,907</u>
Net change in cash and cash equivalents	224	5
Cash and cash equivalents		
Beginning of period	<u>12</u>	<u>7</u>
End of period	<u>\$ 236</u>	<u>\$ 12</u>
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	<u>\$ 144,326</u>	<u>\$ 140,618</u>
Supplemental disclosure of non-cash financing activity		
Purchase of property and equipment under liabilities	<u>\$ 7,233</u>	<u>\$ 8,413</u>
Net unrealized loss in hedging activities charged to other comprehensive income	<u>\$ (1,277,813)</u>	<u>\$ (152,142)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Statewide Mobility Partners LLC and Subsidiary

(A Delaware Limited Liability Company)

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(in thousands of dollars, except toll rate data)

1. Description of Operations

Statewide Mobility Partners, LLC (the "Company") is a limited liability company formed as of January 12, 2006 pursuant to the laws of the State of Delaware. The Company wholly owns ITR Concession Company Holdings, LLC ("ITRCCH"), which in turn wholly owns ITR Concession Company LLC ("ITRCC").

The Company is indirectly owned 50% by Cintra Concesiones de Infraestructuras de Transporte, S.A. ("Cintra") and 50% by Macquarie Infrastructure Group and Macquarie Infrastructure Partners, Inc. ("Macquarie") (collectively the "Members").

ITRCC was formed for the purpose of (1) leasing the Indiana Toll Road from the Indiana Finance Authority ("IFA"), and (2) operating and collecting the toll revenues and maintaining the Indiana Toll Road under the terms of the Concession and Lease Agreement between ITRCC and IFA dated April 12, 2006. The Company was formed for the purpose of owning ITRCC and ITRCCH.

The Indiana Toll Road was opened to traffic in 1956 and stretches 157 miles across the northernmost part of Indiana from its border with Ohio to the Illinois state line. It provides a principal link between Chicago and the East coast.

On April 12, 2006, ITRCC entered into a Concession and Lease agreement with the IFA for the exclusive right to operate, manage, rehabilitate and toll the Indiana portion of the Toll Road. On June 29, 2006, the closing date, as defined under the Concession and Lease agreement, ITRCC, made a one-time rent payment of \$3.8 billion to the IFA and consequently assumed the operations of the Indiana Toll Road.

The Concession and Lease Agreement, among other things, requires ITRCC to:

- Be responsible for all aspects of the Indiana Toll Road operations and to be in accordance with the provisions of the Concession and Lease agreement and applicable laws.
- Fund and complete certain mandatory expansion projects which include the implementation of a barrier-controlled electronic toll collection system and expansion of travel lanes no later than 2010 (see also Note 12).
- Fund certain capital expenditures of the Indiana State Police ("ISP") totaling \$5.0 million, on the closing date, in connection with the latter's provision of law enforcement services along the Indiana Toll Road.
- Reimburse the IFA annually for traffic patrol and traffic law enforcement services provided by the ISP on the Indiana Toll Road in the amount of \$6.0 million payable in equal quarterly installments. The IFA shall be permitted to increase the annual reimbursement every year by certain applicable percentage increases.

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(in thousands of dollars, except toll rate data)

On April 12, 2006, the Concession and Lease agreement was amended to implement a toll freeze period beginning on June 29, 2006, and continuing until the earlier of (i) the implementation of a barrier-controlled electronic tolling system or (ii) two years from the closing date (collective the "Toll Freeze Period"). During such toll freeze period, tolls to be collected from Class 2 users (including commuter discount users) shall be based on the original toll rates in effect on June 29, 2006. Under the terms of the amended Concession and Lease Agreement, the IFA has agreed to fund and reimburse ITRCC for its lost revenues which is the difference between the (a) tolls actually collected from the class users using the original toll rate and (b) tolls that would have been collected had ITRCC been entitled to charge the contract toll rate specified in the original Concession and Lease Agreement during the Toll Freeze Period (see also Note 4).

On February 5, 2008, the Concession and Lease agreement was further amended to extend the toll freeze period through the earlier of (i) June 30, 2016, or (ii) one hundred twenty (120) days following notice of termination of the toll freeze period having been delivered to the Company by the IFA.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, ITRCCH and ITRCC. All significant intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents

ITRCC considers all short-term investments with original maturities of three months or less to be cash equivalents. Cash equivalents include short-term investments in money market mutual funds.

Restricted Cash and Cash Reserves

ITRCC deposits all of its cash collections into a designated bank account. Transfers of funds from this designated bank account into its operating bank accounts require the approval of ITRCC's lenders. Restricted cash as of December 31, 2008 and 2007 pertain to project accounts (see Note 5).

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Accounts Receivable

ITRCC's accounts receivable primarily includes amounts to be collected from the Illinois State Toll Highway Authority ("ISTHA"), the New York Highway Authority, and various other governmental agencies that issue electronic toll collection ("ETC") transponders. The amounts to be collected are for prepaid and postpaid tolls incurred by motorists who possess a transponder issued by these other agencies which was used on the Indiana Toll Road. Management regularly reviews its postpaid tolls receivable and amounts due from these governmental agencies to provide an allowance when it considers them uncollectible. In establishing the allowance for doubtful accounts, ITRCC considers historical write-off experience and amounts past due, exceeding predetermined criteria. The actual amount of accounts that are not collected in a timely manner may differ from the allowance estimated by management.

Property and Equipment

Property and equipment includes purchased and leased tangible assets acquired in connection with the Concession and Lease agreement entered into with the Indiana Finance Authority, namely the bridges and road, buildings, leasehold interest on land and leasehold improvements, and other furniture, fixtures, and equipment associated with operating the Indiana Toll Road.

Effective January 1, 2008, ITRCC changed its method of depreciation for highway-related property and equipment from the straight-line method to a modified units of production method which makes use of traffic volume over an asset's estimated useful life. This method is referred to as the "traffic-based depreciation method". Under the traffic based depreciation method, depreciation of an asset is a function of both time and usage. The impact of usage on depreciation is taken into account by use of traffic volume. The time factor implies that an asset has a maximum longevity, regardless of usage and depreciation expense cannot be less than the straight-line amount which would be calculated using the asset's maximum economic life. Depreciation expense for an individual asset is the greater of the amount computed under the traffic-based method or straight-line over the individual asset's maximum economic life. ITRCC has concluded that the traffic-based depreciation method better reflects the consumption of the expected benefits of these assets and therefore represents a preferable method of depreciation for highway-related property and equipment.

ITRCC has accounted for the change in the method of depreciation for its highway-related property and equipment as a change in accounting estimate under Statement of Financial Accounting Standards No. 154 "Accounting Changes and Error Corrections" ("SFAS 154"), which requires that a change in accounting estimate is accounted for in (a) the period of change if the change affects that period only or (b) the period of change and future periods if the change affects both.

Depreciation expense for highway-related assets was \$25.3 million for the year ended December 31, 2008 and is included in depreciation and amortization in the Company's consolidated statement of operation for the year ended December 31, 2008. Had the Company continued using the straight-line method of depreciation for highway-related assets, depreciation expense for highway-related assets would have been \$34.1 million for the year ended December 31, 2008.

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Property and equipment are stated at cost less accumulated depreciation. ITRCC capitalizes additions and improvements that add to productive capacity or extend an asset's useful life. Maintenance and repair expenditures are charged to operations as incurred. Depreciation is recorded over the following useful lives, under the modified units of production method for highway-related assets and the straight line method for all other assets during the year ended December 31, 2008, and under the straight line method for all assets during the year end December 31, 2007:

Bridges and roads	5-75 years
Machinery and equipment	4-5 years
Tools	4-5 years
Furniture and fixtures	5-12 years
Computers and office equipment	3 years
Vehicles	5 years

For the year ended December 31, 2008 and 2007, total depreciation expense was \$28.6 million and \$37.9 million, respectively.

ITRCC capitalizes interest cost as part of the cost of acquiring property and equipment for items that require a period of time to get ready for their intended use. The interest rate applied is the interest rate on ITRCC's Series C Loan as proceeds from the Series C Loan are solely used to fund capital expenditures. ITRCC capitalized \$3.3 million and \$3.4 million of interest expense for the years ended December 31, 2008 and 2007, respectively.

ITRCC originally recorded the aggregate fair value of property and equipment acquired by major category on the basis of an appraisal performed by an outside independent appraiser when they were acquired in connection with the Concession and Lease Agreement (see Note 3). When components of these major property and equipment categories are removed from service, (either through sale, abandonment, or the item having been rendered functionally obsolete), ITRCC estimates the remaining net book value of the property and equipment being disposed and recognizes a gain or loss on disposal for the removed item. For property and equipment acquired subsequent to the inception of the Concession and Lease Agreement, when an item is removed from service, ITRCC recognizes a gain or loss on disposal for the removed item on a specific identification basis.

Concession Rights

The value assigned to the right to operate the Indiana Toll Road is amortized on a straight-line basis over the life of the Concession and Lease Agreement of 75 years and assumes no residual value.

Impairment of long-lived assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flow expected to be generated by the asset (undiscounted and without interest charges). If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. The Company has not recognized any impairment on long-lived assets as of December 31, 2008 and 2007.

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Concession and Lease Agreement Direct Costs

ITRCC has capitalized those costs directly related to entering into the Concession and Lease Agreement and has included such costs in the total amount allocated to property and equipment under lease or concession rights based upon relative fair values (see Note 3).

Deferred Financing Costs

Deferred finance costs consist of costs incurred in connection with obtaining ITRCC's debt. The costs have been capitalized and are amortized to interest expense over the terms of the loans, using the effective interest method. Amortization expense related to deferred financing costs was \$8.8 million for the years ended December 31, 2008 and 2007. Annual amortization expense of deferred finance costs for each of the next five years amounts to \$8.8 million per year.

Construction Retention

Retention amounts represent amounts due to contractors upon significant completion of highway construction contracts which are withheld pending final inspection of the works performed. Retention amounts withheld from invoices range from 5% to 10% of the underlying invoice total and are recorded as an accrued liability at the time payment is made on the underlying invoice. As of December 31, 2008 and 2007, \$9.1 million and \$4.4 million was recorded for construction retention, respectively, and is recorded in accrued liabilities in the consolidated balance sheets.

Income Taxes

The Company operates as a limited liability company and is a disregarded entity for federal and state income tax purposes. The Company is not liable for U.S. federal income taxes as its members recognize their share of income and loss in their respective tax return. Accordingly, no provision for U.S. federal income taxes is recorded.

Traffic and Revenue Recognition

Revenues include toll revenues, which are recognized at the time vehicles use the Indiana Toll Road. The Indiana Toll Road has two toll collection systems. The Barrier System is used in the first 23 miles of the western portion of the road. Under the Barrier System, the customers pay their tolls at time of entry to the Toll Road, as well as at certain exits within this portion. The Ticket System is used from mile post 24 to the eastern end of the road. Under the Ticket System the customers obtain a ticket as they entered this section of the Toll Road, and pay for the toll based on the rates stated on the ticket when they exit this section. Toll revenues are collected in four ways:

Cash Collections - Cash received at the automatic coin collection machines and actual toll booths each day is deposited into deposit accounts.

Electronic Toll Collection – In late June 2007, ITRCC implemented the Electronic Toll Collection (ETC) system in the Barrier Section. ITRCC issues its own transponders, the i-Zoom to be used for transmitting the usage of the toll road by the vehicle to the ETC System. ITRCC is also a member of the Inter-Agency Group ("IAG"), an organization with twenty three member agencies that operate the E-Z Pass on 46 roads, bridges and tunnels in the Northeast and the Midwest and as such, ITRCC also accepts the transponders issued by other members of IAG. Customers are

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charged according to their usage. For customers who have a prepaid account, the usage amounts are deducted from the initial deposits set up which is automatically replenished by the customer when it reaches a minimum amount. For commercial customers who have a post pay account with ITRCC, the usage amounts are billed every month. Charges incurred by customers using other agencies' transponders are settled between agencies once a month.

Commercial Charge Account – ITRCC recognizes the charged amount when a customer's charge account card is swiped for passage. The total transactions for each commercial customer are billed monthly. The Commercial Charge Account was discontinued on April 1, 2008 with the implementation of the Electronic Toll System throughout the entire toll road.

IFA Reimbursement – See Note 4

Toll rates are based on number of axles per vehicle and are subject to the maximum amounts ITRCC is entitled to establish in accordance with the terms of the Concession and Lease agreement. The toll rates in effect for vehicles traveling the entire distance in the Barrier and Ticket Systems, as of December 31, 2008 are as follows:

Vehicle Classification	2008		2007	
	Barrier	Ticket	Barrier	Ticket
2 axles	\$ 1.25	\$ 6.75	\$ 1.25	\$ 6.75
3 axles	1.75	9.00	1.50	8.50
4 axles	3.25	17.75	2.75	14.75
5 axles	4.25	23.00	3.50	19.00
6 axles	5.00	27.00	4.25	22.25
7 or more axles	9.25	50.25	7.75	41.50

Lease Revenue Recognition

Under the terms of the Concession and Lease Agreement, see Note 3, ITRCC is entitled to collect lease revenues from third parties that lease space in travel plazas along the Indiana Toll Road. The terms of the lease agreements with each lessee provide for the payment of minimum annual rent payments, rent payments based on the lessee's sales, or a combination of both minimum annual rent and rent payments based on the lessee's sales. The terms of the leases with each lessee also contain annual rent increases. The executed leases in effect as of December 31, 2008 expire at various dates through January 2015 and contain right of renewal options which are at the option of both the lessee and ITRCC. ITRCC recognizes lease revenue under the leases on the accrual basis according to the terms of each individual lease.

Accounting for Derivative Instruments and Hedging Activities

ITRCC accounts for derivatives and hedging activities related to its interest rate swaps in accordance with Statement of Financial Accounting Standards ('SFAS') No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities—Deferral of Effective Date of FASB Statement No. 133, SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, and SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities.

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SFAS No. 133 requires that all derivative financial instruments be recorded on the balance sheet at fair value. Changes in fair values are recorded each period in income or Other Comprehensive Income ("OCI"), depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. ITRCC formally documents all relationships between derivative hedging instruments and hedged items, as well as their method of assessing hedge effectiveness.

If certain conditions are met, a derivative may be specially designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign-currency-dominated forecasted transaction. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and resulting designation.

For a qualifying cash flow hedge, changes in the fair value of the derivative, to the extent that the hedge is effective, are recorded in OCI, until earnings are affected by the variability of cash flows of the hedged transaction. Any ineffective portion of a cash flow hedge is immediately recognized as a derivative gain or (loss) in the statement of operations. Amounts recorded in OCI are reclassified to interest income or interest expense during the period in which the hedged transaction impacts earnings, unless (a) occurrence of the forecasted transaction is not probable, in which case the amount in accumulated OCI is reclassified to earnings immediately, (b) ITRCC expects at any time that continued reporting of a net loss in accumulated OCI would lead to recognizing a net loss on the combination of the hedging instrument and hedged transaction (and related asset acquired or liability incurred) in one or more future periods, in which case the loss is reclassified immediately into earnings for the amount that is not expected to be recovered, or (c) the occurrence of the forecasted transaction was the issuance of long-term debt; in which case, ITRCC recognizes the effective portion of the cumulative changes in fair value as interest expense over the life of the long-term debt.

If a derivative no longer qualifies as a cash flow hedge, ITRCC will discontinue hedge accounting prospectively. ITRCC continues to carry the derivative on the balance sheet at fair value and records further changes in fair value in the statements of operations as derivative gain or loss on hedging activities until the derivative is terminated or re-designated.

Currently ITRCC only designates and accounts for its hedge relationships using cash flow hedge accounting.

The changes in the value of the undesignated portion of derivatives are reported as derivative loss in the statement of operations.

All derivatives are recorded on the balance sheet at their estimated fair value. Where available, the fair value of derivative instruments is based on quoted market prices received from knowledgeable independent sources. However, active markets do not exist for all of the Company's derivative instruments. Consequently, the independent sources the Company uses to obtain quoted market prices may use estimating techniques, such as discounted cash flow analysis and comparison to similar instruments to determine fair values. Estimates developed by these independent sources involve subjective judgment about the amount, timing and probabilities of potential future cash flows. These estimates are susceptible to material change over time.

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Fair Value of Financial Instruments

As of December 31, 2008, the carrying amount of certain financial instruments employed by the Company, including restricted cash, accounts receivable, accounts payable and accrued expenses were representative of their fair values because of the short-term maturity of these instruments. The carrying amount reported in the consolidated balance sheet as of December 31, 2008 and 2007 for long-term debt is \$3.5 billion and \$3.4 billion, respectively. Using a discounted cash flow technique, the Company has determined the fair value of its debt to be \$3.1 billion as of December 31, 2008. In determining the fair value, the Company considered an interest rate spread that would be issued for comparable debt. As of December 31, 2007, the fair value of the Company's debt approximated its carrying value.

Interest rate swap agreements have been recorded at the estimated fair values as discussed in Note 9.

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* ("FAS 157"). FAS 157 clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and expands disclosures about the use of fair value measurements. These additional disclosures are provided in Note 9.

In accordance with Financial Accounting Standards Board Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* ("FSP 157-2"), ITRCC deferred the adoption of FAS 157 for nonfinancial assets and nonfinancial liabilities, except those items recognized or disclosed at fair value on an annual basis, until January 1, 2009.

Recent Accounting Pronouncement

In September 2008, the Financial Accounting Standards Board ("FASB") adopted Statement of Financial Accounting Standards No. 161 "Disclosures about Derivative Instruments and Hedging Activities, an amendment to FAS 133" ("FAS 161"). FAS 161 expands the required disclosures pertaining to the Company's derivative instruments and hedging activities in terms of the risks the Company intends to manage with these strategies. FAS 161 is effective for fiscal years beginning after November 15, 2008 and will not have a significant impact on ITRCC's financial position.

3. Investment in the Concession and Lease Agreement

On June 29, 2006, ITRCC paid \$3.8 billion to the IFA for the following:

- Right to use roads and bridges which form part of the Indiana Toll Road
- Right to use buildings which housed the office and the toll booths
- A leasehold interest in the land associated with the Indiana Toll Road
- Certain computer software and hardware for the operation of the Toll Road
- Certain furniture and fixtures, and
- A concession right to operate the toll road

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All rights and leasehold interests are for a period of 75 years.

The Concession and Lease Agreement included both the acquisition of certain "Concession Rights" and the right to lease certain tangible assets, namely the bridges and roads, buildings, leasehold interest on the land, furniture, fixtures, and equipment associated with operating the Indiana Toll Road. ITRCC has determined that a lease exists, (the "Lease Arrangement"), under the guidance of EITF 01-08, "Determining Whether an Arrangement Contains a Lease" as the agreement conveyed the right to ITRCC to operate the underlying property and equipment and ITRCC has taken on the financial risk associated with operating such property and equipment.

ITRCC has also determined that the Lease Arrangement qualifies as a capital lease under FAS 13, "Accounting for Leases" since the term of the Concession and Lease Agreement exceeds 75% of the economic useful life of the leased property. Consequently, the one-time lease payment of \$3.80 billion has been allocated to the tangible assets and the intangible asset, "Concession Rights," based on their relative fair market values.

ITRCC used an outside independent appraiser to help determine the fair values of the various assets associated with the Concession and Lease Agreement.

ITRCC allocated the \$3.8 billion paid to the IFA and \$23.7 million of other direct costs associated with entering into the Concession and Lease Agreement to the following assets based upon their relative fair values:

Concession rights	\$ 3,027,066
Bridges and roads	680,313
Buildings	22,940
Leasehold interest on land	85,530
Vehicles	3,880
Machinery, tools and equipment	2,895
Furniture, fixtures and office equipment	490
Materials (salt and fuel)	560
	<hr/>
	\$ 3,823,674

4. Toll Freeze Deposit

As discussed in Note 1, on April 12, 2006, the Concession and Lease agreement was amended by the First Amendment to the Indiana Toll Road Concession and Lease Agreement ("the First Amendment") to take into consideration the provisions for the funding and reimbursement of lost revenues related to the Toll Freeze Period. A Toll Freeze Period was implemented starting from the closing date of June 29, 2006 and continuing until the earlier of (i) the implementation of a barrier-controlled electronic tolling system or (ii) two years from the closing date. The First Amendment provided that in respect of tolls charged during the Toll Freeze Period, the IFA shall pay ITRCC on a monthly basis, the difference between the tolls actually collected from Class 2 users (including

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Commuter Discount Users) during the Toll Freeze Period and the tolls that would have been collected from the same Class 2 users had ITRCC been entitled to contract toll rates under the original Concession and Lease Agreement. The IFA applied \$60 million from the Concession and Lease payment to fund the toll freeze deposit account. Such toll freeze deposit account is maintained in the name of ITRCC, which shall have exclusive dominion and control over such deposit. The First Amendment further provided that ITRCC shall use the toll freeze deposit account solely to fund reimbursement of lost revenues and shall not use such funds for any other purpose without prior consent of the IFA.

On February 5, 2008, the Concession and Lease agreement was further amended by the Fourth Amendment to the Indiana Toll Road Concession and Lease Agreement (“the Fourth Amendment”) which extended the Toll Freeze Period through the earlier of (i) June 30, 2016, or (ii) one hundred twenty (120) days following notice of termination of the Toll Freeze Period having been delivered to the Company by the IFA. Under the Fourth Amendment, the IFA deposited an additional \$60 million into the Toll Freeze deposit account to be used in the manner described under the First Amendment.

The Fourth Amendment also provided a mechanism whereby if the balance in the toll freeze deposit account falls below \$30 million at any point prior to the termination of the Toll Freeze Period, the IFA will deposit additional funds into the toll freeze deposit account so that immediately following the deposit, the balance in the toll freeze deposit account will be \$60 million, provided however that, ITRCC and the IFA shall periodically review the balance in the toll freeze deposit account and the rate upon which such funds are being withdrawn by ITRCC in respect of the lost revenues and may agree to restore the balance in the toll freeze deposit account to an amount less than \$60 million if conditions warrant.

The Fourth Amendment also permits ITRCC to withdraw funds from the toll freeze deposit account for payment three times per month whereas withdrawals were permitted monthly under the First Amendment.

Interest earned on the toll freeze deposit shall be held in the toll freeze deposit account and included as amounts accrued and remaining on deposit. Upon termination of the Toll Freeze Period, interest or investment income on the toll freeze deposit account shall become payable to the IFA. Consistent with these conditions, all interest or investment income on the toll freeze deposit account are recorded as due to the IFA.

ITRCC has recognized toll freeze revenue of \$15.5 million and \$31.2 million for the years ended December 31, 2008 and 2007, respectively. This revenue is reported as part of toll revenues in the consolidated statements of operations. The amounts withdrawn from the toll freeze deposit account were \$17.3 million and \$31.4 million for the years ended December 31, 2008 and 2007, respectively. The amounts withdrawn from the toll freeze deposit account differ from the toll freeze revenue recognized due to the timing of the withdrawal requests. The remaining amount of \$16.33 million including interest at December 31, 2007, was reflected as a short-term asset and liability in the consolidated balance sheets due to the expected June 30, 2008 Toll Freeze Period termination. With the Fourth Amendment, the Toll Freeze Period was extended and therefore the remaining balance in the toll freeze deposit account, \$60.0 million, is reflected in both short-term and long-term assets and liabilities. The short term portion is based on estimated amounts to be earned in the upcoming twelve months.

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Upon termination of the toll freeze period and following the implementation of the tolls at the contract toll rate, ITRCC shall disburse the funds remaining in the toll freeze deposit account, after the application of all payments of lost revenues owed to ITRCC, back to the IFA including all interest accrued with respect to such funds.

5. Project Accounts System (Cash Reserve Accounts)

Under the terms of its loan agreement, ITRCC is required to maintain the following cash reserve accounts:

- Proceeds account
- Collections account
- Operating account
- Construction proceeds account
- Revenue stabilization reserve account
- Distribution account
- Cash collateral

All of the project accounts are under the control of a collateral agent. These restricted cash reserve accounts are set up to fund the operating and capital expenditure requirements of ITRCC.

As of December 31, 2008 and 2007, the cash reserve accounts consisted of the following:

	2008	2007
ETC customer prepayment account	\$ 1,266	\$ 532
Proceeds account	1,523	3,342
Collections account	1,051	1,486
Operating account	7,193	4,925
Construction proceeds account	771	686
Revenue stabilization reserve account	42,866	71,665
Cash collateral	171	172
	<u>54,841</u>	<u>82,808</u>
Less - current portion	<u>(3,561)</u>	<u>(4,560)</u>
	<u>\$ 51,280</u>	<u>\$ 78,248</u>

6. Intangible Assets

As of December 31, 2008 and 2007, the Company's intangible assets consisted of the following:

	Estimated useful live (in years)	2008			2007		
		Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Concession rights	75	\$ 3,026,817	\$ 100,900	\$ 2,925,917	\$ 3,026,817	\$ 60,542	\$ 2,966,275

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Amortization expense related to intangible assets was \$40.4 million for the years ended December 31, 2008 and 2007. Annual amortization expense of concession rights for each of the next five years amounts to \$40.4 million per year.

7. Debt

On June 26, 2006, ITRCC entered into a loan agreement ("Agreement") with the following banks: Banco Bilbao Vizcaya Argentaria, BNP Paribas, Dexia Credit Local, New York Branch, Caja de Ahorros y Monte Piedad de Madrid, DEPFA Bank, The Royal Bank of Scotland plc and Banco Santander Central Hispano, S.A. which provides for a term loan of \$3.25 billion (Series A loan), a liquidity facility not to exceed \$150 million (Series B loan) and a capital expenditure facility not to exceed \$665 million (Series C loan).

As of December 31, 2008 and 2007, outstanding debt under the above Agreement consisted of the following:

	2008	2007
Series A loan	\$ 3,248,341	\$ 3,248,341
Series B loan	72,500	45,000
Series C loan	219,100	108,900
	<u>\$ 3,539,941</u>	<u>\$ 3,402,241</u>

The above loans mature on June 29, 2015 and are subject to interest rates equivalent to the 6-month LIBOR (3.13% and 5.38% as of December 31, 2008 and 2007, respectively) plus applicable margin, which are set out as follows:

- 95 basis points per annum for years 1 to 5;
- 110 basis points per annum for years 6 and 7; and
- 125 basis points per annum for years 8 and 9.

Interest is due semi-annually on June 30 and December 30. Total interest paid to the lenders exclusive of the realized derivative gains of \$26.3 million amounted to \$170.7 million for the year ended December 31, 2008. Total paid interest exclusive of the realized derivative gains of \$73.9 million for the year ended December 31, 2007 amounted to \$214.5 million.

The loan agreement also provides for prepayments of the loans at the option of ITRCC and various restrictive covenants common to such agreements, including limitations on sale of assets (not to exceed \$5 million per year); limitation on incurrence of additional debt outside of this loan agreement and those permitted under this loan agreement, and limitations on investments and distributions.

The loans are secured by all of the membership interests in ITRCC.

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8. Derivatives

ITRCC's Series A, B and C loan agreements require that it must enter into a hedging transaction no later than the borrowing date for any amounts drawn from the Series A, B or C facilities. Beginning March 28, 2006, ITRCC entered into a series of interest rate swaps which were subsequently consolidated into seven swap agreements on June 26, 2006.

Each swap agreement contained the same terms as follows:

Trade date	March 28, 2006
Effective date	June 30, 2006
Termination date	June 30, 2026
Floating rate option	USD-LIBOR-BBA
Spread	None
Floating rate day count fraction	Actual/360
Designated maturity	For each calculation period ending prior to the floating rate payer payment date in December 2006, 1 month For each calculation period thereafter, 6 months.
Fixed rate	See table below

The terms of the above swap agreements provide for varying notional amounts during the life of the swaps ranging from \$459.9 million to \$605.6 million.

The fixed rate of each swap agreement over the term of the agreement is as follows:

From and Including	To but Excluding	Rate
June 30, 2006	June 30, 2010	3.1500%
June 30, 2010	June 30, 2011	3.4000%
June 30, 2011	June 30, 2013	3.6500%
June 30, 2013	June 30, 2015	4.1500%
June 30, 2015	June 30, 2016	4.9000%
June 30, 2016	June 30, 2017	5.9500%
June 30, 2017	June 30, 2018	6.1500%
June 30, 2018	June 30, 2019	6.6500%
June 30, 2019	June 30, 2020	7.3470%
June 30, 2020	June 30, 2021	7.8319%
June 30, 2021	June 30, 2022	9.3850%
June 30, 2022	June 30, 2023	9.5444%
June 30, 2023	December 31, 2023	11.2900%
December 31, 2023	June 30, 2025	11.2901%
June 30, 2025	June 30, 2026	11.2904%

ITRCC's effective interest rate on the swaps was 5.82% for the years ended December 31, 2008 and 2007.

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ITRCC designated 90% of the Series of Swaps as cash flow hedges and records the effective portion of the hedge as a component of other comprehensive income. ITRCC uses the hypothetical derivative method to determine the ineffective portion of the Series of Swaps, and records those amounts as derivative loss in the statement of operations.

A summary of ITRCC's changes in fair values of derivatives is as follows:

	Series A, B and C Swaps
Derivative liability at January 1, 2007	\$ (127,927)
Derivative gain recognized in operations from January 1, 2007 through December 31, 2007	32,201
Interest expense from January 1, 2007 through December 31, 2007	(96,843)
Other comprehensive loss from January 1, 2007 through December 31, 2007	<u>(152,142)</u>
Derivative liability at December 31, 2007	(344,711)
Derivative loss charged to operations from January 1, 2008 through December 31, 2008	(209,484)
Interest expense from January 1, 2008 through December 31, 2008	(93,958)
Other comprehensive loss from January 1, 2008 through December 31, 2008	<u>(1,277,813)</u>
Derivative liability at December 31, 2008	<u>\$ (1,925,966)</u>

9. Fair Value of Financial Instruments under FAS 157

FAS 157 applies to all assets and liabilities that are being measured and reported on a fair value basis. FAS 157 establishes a framework for measuring fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and expands disclosure about fair value measurements. FAS 157 requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

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The following table summarizes the valuation of our financial instruments by the above FAS 157 pricing levels as of the valuation dates listed:

	December 31, 2008		
	Quoted Market Price (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Money Market investments	\$ -	\$ 46,114	\$ -
Total assets	\$ -	\$ 46,114	\$ -
Derivative instruments - liability position	\$ -	\$ 1,925,966	\$ -
Total liabilities	\$ -	\$ 1,925,966	\$ -

The unrealized gains and losses on money market investments are included in interest expense, net in the statement of operations. The unrealized gains and losses on derivatives are included in other comprehensive income, derivative loss and interest expense in the consolidated balance sheet and consolidated statement of operations.

The Company's derivative instruments require the Company to pay interest based upon a fixed interest rate and an agreed upon notional amount while the Company receives interest based upon a variable interest rate and an agreed upon notional amount. The interest rate used to determine the variable amount of interest received each period is based upon the LIBOR swap rate. The LIBOR swap rate is observable at commonly quoted intervals for the full term of the swaps and therefore is considered a level 2 item. FAS 157 states that the fair value measurement of a liability must reflect the nonperformance risk of the entity. Therefore, the impact of the Company's creditworthiness has also factored into the fair value measurement of the derivative instruments in a liability position.

10. Related Party Transactions

On June 29, 2006, ITRCC entered into a Cost Sharing Agreement with Skyway Concession Company LLC ("SCC"), an affiliate. The terms of this agreement provide that ITRCC and SCC share the compensation costs of certain SCC employees based upon an estimate of the amount of time spent by such employees to ITRCC and SCC. Likewise, this agreement provides for ITRCC to reimburse SCC approximately 50% of the utilities, repairs, supplies and other costs of maintaining and operating the SCC office. From time to time ITRCC and SCC may add to, delete, change or modify the expenses to be shared and the percentages of such expenses which each party shall bear. The total amount of costs incurred by ITRCC in relation to this agreement for the years ended December 31, 2008 and 2007 amounted to \$1.6 million and \$1.4 million, respectively, of which \$0.4 million and \$0.1 million remained outstanding as of December 31, 2008 and 2007, respectively. These amounts are included in the consolidated balance sheets as due to related parties.

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On September 23, 2008, ITRCC entered into an Electronic Toll Collection Agreement with Skyway Concession Company, LLC ("SCC"), an affiliate. The terms of the agreement permit ITRCC to collect and process electronic toll collection ("ETC") transactions occurring on the Chicago Skyway on behalf of SCC. Cash received by ITRCC for ETC transactions having occurred on the Chicago Skyway is remitted to SCC according to terms of the agreement.

In exchange for collecting and processing ETC transactions on behalf of SCC, SCC reimburses ITRCC for fees and expenses related to this agreement incurred by ITRCC plus a margin of 10.0%.

In addition, ITRCC paid for the installation of certain hardware and software systems to permit the collection and processing of ETC transactions by ITRCC on behalf of SCC and SCC was responsible for the reimbursement of these amounts to ITRCC.

ITRCC processed a total amount of \$24.6 million under this agreement on behalf of SCC during the year ended December 31, 2008 and collected a total of \$21.6 million which was remitted to SCC.

The Electronic Toll Collection Agreement is good through June 9, 2018 and may be extended if agreed upon by both parties.

The Company's Members, or their affiliates, from time to time, provide the Company, ITRCCH, or ITRCC with certain services related to operation of the Indiana Toll Road. The services provided have included, but are not limited to, the payment of the initial start-up costs, acting as members on the Company's Board of Directors, maintenance of the Back Office System, and working or consulting on behalf of the Company, ITRCCH, or ITRCC. The Company, ITRCCH, or ITRCC reimburses its Members for the cost of providing these services. The total amount of costs incurred by the Company, ITRCCH, and ITRCC in relation to services provided by the Company's Members for the year ended December 31, 2008 and 2007 amounted to \$0.9 million and \$3.9 million, respectively, of which \$0.9 million and \$0.8 million remained outstanding as of December 31, 2008 and 2007, respectively.

11. Service Agreements

On June 29, 2006, ITRCC entered into a services agreement with the IFA and the Indiana Department of Transportation ("INDOT"), whereby, ITRCC has requested the services of certain INDOT employees whose primary responsibilities relate to the Indiana Toll Road for an initial term of nine months starting from June 29, 2006, the closing date. In accordance with the terms of the services agreement, ITRCC shall pay service fees equal to the salaries and wages of such employees plus the certain costs for employment benefits and other compensation. Total service fees paid amounted to \$7.0 million for the year ended December 31, 2007.

This service agreement was terminated on February 15, 2007 by mutual agreement of ITRCC, IFA and INDOT.

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12. Significant Contracts

As noted in Note 1, ITRCC is required to complete certain mandatory expansion requirements as follows:

1. Implement a barrier-control electronic toll collection within two years from June 29, 2006 the closing date. This requirement was fulfilled during the year ended December 31, 2008.
2. Expand to 3 travel lanes in each direction from Milepost 14.0 to Milepost 15.5 by December 31, 2008. By mutual agreement of ITRCC and the IFA, this requirement was later extended until December 31, 2010.
3. Expand to 3 travel lanes in each direction from Milepost 10.6 to Milepost 14.0 and lower Toll Road elevation to accommodate the flight path of Gary Chicago International Airport by December 31, 2010.
4. Expand to 3 travel lanes in each direction from Milepost 18.5 to 20.27 by December 31, 2007. This requirement was fulfilled during the year ended December 31, 2007.

To comply with the first mandatory expansion requirements, ITRCC entered into the following two agreements for the design, development, installation and support of an electronic toll collection system:

- a) On July 6, 2006, ITRCC entered into an agreement with Soluziona S.A. a company incorporated under Spanish Law for the design, development, installation and support of a toll collection and telephone system according to ITRCC specifications.
- b) On October 27, 2006, ITRCC entered into an agreement with Indra Systemas S.A., a Spanish Company, which will design, develop, install and support a new Toll Collection System in the barrier section of the Toll Road, according to ITRCC'S specifications.

On September 15, 2006, ITRCC, Indiana Toll-Roads Contractors, LLC, Ferrovial Agroman, S.A., and Reith-Riley Construction Co., Inc. entered into an agreement for the design, and construction work as specified in item 2, 3 and 4 of the mandatory expansion requirements, above, for a total contract value of \$250 million. ITRCC intends to fund this through their capital expenditure facility, Series C loan (see also Note 7).

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13. Self-Insurance

ITRCC has a self-insured medical program which is reinsured for aggregate stop loss and specific stop loss to partially fund the cost of providing health coverage to eligible full time employees effective June 1, 2007. For the period from June 1, 2007 through May 31, 2008, ITRCC was limited to the aggregate stop loss amount of \$4.0 million and benefits beyond this limit were covered by a third-party stop loss insurance policy. In June of 2008 the program was renewed with substantially similar coverage amounts extending through the end of May 2009 and an aggregate stop loss of \$4.0 million. There is a \$5 million life time specific stop loss limit for each employee under both policies.

Total expenses incurred under ITRCC's self-insured medical plan amounted to \$3.0 million and \$2.1 million for the year ended December 31, 2008 and the period from June 1, 2007 through December 31, 2007, respectively.

14. Commitments and Contingencies

ITRCC may be subject to certain liabilities, claims, and commitments in the ordinary course of business. ITRCC retains insurance for property and casualty risks related to the Indiana Toll Road. Management believes purchased insurance coverage is adequate to cover all claims.

Under the terms of the Concession and Lease Agreement, ITRCC is obligated to indemnify the IFA for losses suffered by the IFA arising out of, among other things, any failure on the Company's part to comply with or observe any of the terms or obligations under the Concession and Lease Agreement, any liabilities relating to the Indiana Toll Road or its operation after June 30, 2006, and any tax attributable to the transfer of ITRCC's interest to the Concession and Lease Agreement.

15. Risks and Uncertainties

ITRCC is subject to credit risk due to the risk of nonperformance by counterparties to the derivative agreements. If the recent disruptions in the credit markets continue, it may increase the likelihood that derivatives counterparties could experience liquidity or financial constraints that may prevent them from meeting their obligations to ITRCC which in turn could adversely affect the Company's financial condition and results of operations. In order to manage counterparty credit risk, management monitors the counterparties' credit ratings as determined by independent rating agencies. The counterparties' credit ratings ranged from BBB to AA as of December 31, 2008.

16. Subsequent Event

In February 2009, ITRCC and a union representing approximately 36% of ITRCC's employees reached an agreement on the terms of a one year contract. The agreement provides the covered employees an increase in wages. The agreement represents the Company's first collective bargaining agreement with its employees.