Citigroup Global Markets Inc.

April 2, 2013

Knik Arm Crossing

Financing Briefing

Table of Contents

1. Project Delivery With a Public-Private Partnership

Public-Private Partnership Approach

KABATA's proposed P3 approach has been tested in numerous projects in the US and around the world.

- KABATA is using a public-private partnership, or P3, to build and operate the Crossing
  - Alaska legislature authorized and encouraged use of P3 for project delivery under AS 19.75.111
- Availability fee P3's for surface transportation have been used successfully in the US for:
  - East End Bridge (over Ohio River near Louisville, KY)
  - Presidio Parkway (San Francisco)
  - I-595 (Fort Lauderdale)
  - Denver Eagle "Fastracks"
  - Port of Miami Tunnel
- P3s are accepted as a mainstream method to finance, deliver and operate major projects worldwide, including in the UK, US, Germany, France, Italy, Spain, Portugal, Australia, Canada, Chile and Brazil
  - Concept is so well proven that in Canada any project over $100M using federal funds must analyze use of P3 and justify why P3 should NOT be used
  - US road P3's have come in 23% to 42% lower than the owner's capital cost estimate[1]

(1) For East End Bridge, Presidio Parkway and I-595, the most recent three availability fee P3's.

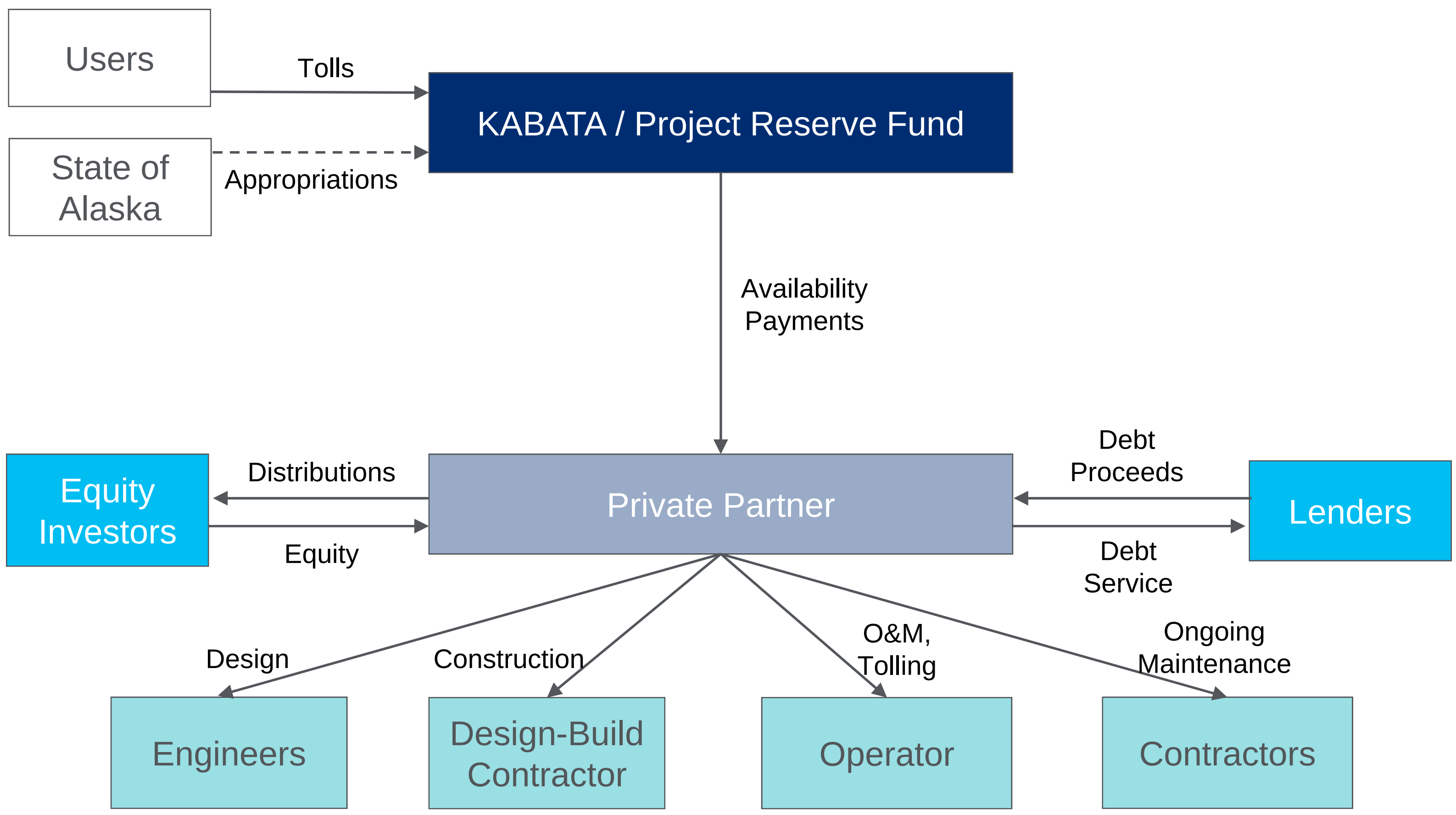
Procurement Status

Procurement is in process with firm bids expected in 2013.

- KABATA is well along in the procurement of a private partner with the following international consortia competing for the Crossing:
  - Alaska Infrastructure Access Partners **-** Infrared Capital Partners; Bouygues; Colaska; URS Alaska; Moffatt & Nichol; USKH; R&M Consultants; Macquarie Capital
  - Cook Inlet Passage Partners **-** Meridiam Infrastructure; Kiewit; Manson Construction; Transfield Services; Parsons Transportation Group; Golder Associates; Dowl HKM; Dan Brown and Associates; BMT Fleet Technologies; KPMG Corporate Finance
  - North Star Mobility Group **–** Hochtief; ACS Infrastructure Development; Iridium; Flatiron Constructors; Dragados; Traylor Bros.; HNTB; CH2M Hill Engineers; Alaska Interstate Construction; Arcadis; Kodiak Map; Hart Crowser; Earth Mechanics; Bittner-Shen; Denali Drilling; Gregg Drilling
- Six consortia submitted qualifications statements and the three firms shown were short listed by KABATA
- Key members of each team are a mix of local Alaska firms and industry leaders in US and worldwide P3s

Structure for Availability Fee P3 Deal

Private partner provides single point responsibility for design, construction, financing and long-term operation and maintenance, all for a pre-determined annual availability fee.



Risk Sharing

The following summarizes the key risk sharing, where the private partner takes risks under its control and KABATA assuming risks of uncontrollable events.

Risk	Party Taking Risk
Design deficiencies	Private Partner
Construction cost	Private Partner
Design/construction integration	Private Partner
Construction schedule	Private Partner
KABATA discretionary change orders/KABATA acts	KABATA
All other design/construction change orders	Private Partner
Specific conditions/events outside private partner control (see page 6)	KABATA
Debt service	Private Partner
O&M cost (for 35 years)	Private Partner
Needed renewal capital expenditures (for 35 years)	Private Partner
Future expansions	KABATA / Private Partner
Toll collection cost (for 35 years)	Private Partner
Toll revenue	KABATA
Availability payment	KABATA / Project Reserve / State Moral Obligation

Availability Payment

Private partner bears risk that its costs exceed the availability fee.

- Availability payments are payments by KABATA to private partner to the extent the Crossing is “available” to traffic
  - No availability payments owed until project is opened for service
  - To the extent the private partner does not keep lanes open, or does not operate and maintain the Crossing to detailed operating standards, the availability payment is reduced
- Availability payment is set by formula at the time the concession is signed and includes components for:
  - Recovery of capital (debt and equity), which are fixed and not subject to escalation
  - Operation, maintenance and repair, which are fixed, but subject to inflation escalation
  - Tolling services, which are fixed fees per collected toll, but subject to inflation escalation

Events Outside Private Partner Control

While KABATA has assumed designated uncontrollable circumstances risks, steps have been taken to mitigate those risks to KABATA.

- KABATA retains certain other risks related to KABATA changes or acts in its control and, listed below, items out of the control of the private partner

KABATA Retained Risks Outside of Private Partner Control	Mitigation
Discovery of unforeseen subsurface conditions, hazardous waste, archeological resources, endangered species	Extensive subsurface investigation completed, including borings in the Knik Arm and historical/archeological surveys along the bridge and roadway alignment
Delays in receipt of certain major permits or right of way acquisition; costs of changes in state law or permit conditions	Major permits and right of way should be completed prior to private partner selection
Delays by utilities	There are not many utilities along right of way and they are known and mapped Utility memoranda of understanding, should be executed prior to private partner selection
Force majeure events, including earthquakes, war, terrorism, fires, floods	The Crossing is required to be designed to withstand earthquakes, fires and floods The private partner is required to carry casualty insurance If an event is catastrophic, it is likely to be covered in part by FHWA, FEMA and/or other federal disaster aid

2. Impact of Proposed Legislation on the State's Credit

Proposed Legislation

Passage of SB13 (or HB23) is condition to the project proceeding under the “availability fee” P3 approach and obtaining a low cost TIFIA loan from the US Department of Transportation.

- Key elements of the proposed legislation:
  - Ability to establish a Project Reserve and subject it to a trust arrangement
  - Toll revenues collected by KABATA are deposited into the Project Reserve
  - KABATA’s availability payment obligation and KABATA expenses are paid from the Project Reserve
  - The KABATA chair must annually certify to the Governor and Legislature the status of the Project Rserve and amounts needed, if any, to restore it to its minimum requirement
  - By the time the Crossing opens for traffic, the project reserve is expected to be funded by State appropriations totaling $150 million, with a “down payment” this year

- Project Reserve minimum requirement is (1) 120% of the estimated average availability payment over next three years plus (2) 120% of prior year KABATA expenses minus (3) prior year toll revenues
  - Provides liquidity to KABATA to make the availability payments and fund KABATA administrative costs given the annual legislative schedule (appropriations can normally only be made during the 90 day session)

Purpose of State Financial Backstop

The private partner is investing nearly $800 million of its funds to build the Crossing and needs assurance that KABATA and the State can pay if the private partner meets its obligations.

Request	Key Purpose
1. Funding shortfalls if availability payments and other expenses exceed toll revenues	• Provides funding for early year projected revenue shortfalls during traffic ramp up on bridge • Under base case projections there are minimal future need for State support
2. Funding “pinhole” risks	• Provides funding for “pinhole” risks assumed by KABATA • Pinhole risks proposed to be backstopped by the State include: (1) termination costs, should the concession be terminated prior to its maturity for KABATA fault or convenience ; and (2) compensation for specific conditions/events outside private partner control

Assumptions Provided by Team of Experts

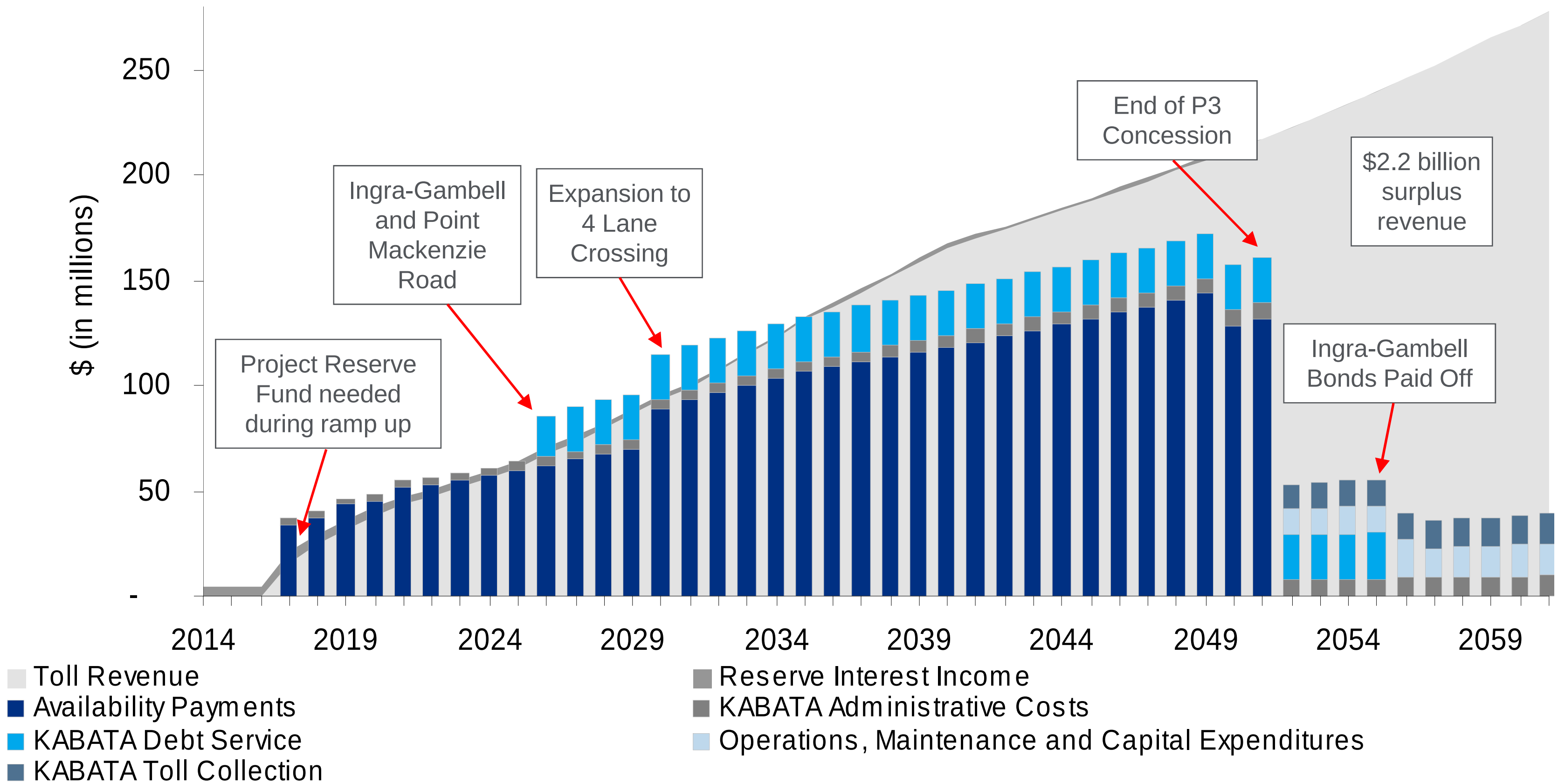
The financial projections are based on a set of assumptions carefully prepared by a team of experts in their respective fields.

- As KABATA's financial advisor, Citigroup has prepared financial projections to show how the project will perform under a set of assumptions developed by national experts in their respective fields:

Assumption	Firm	Credentials
Construction Cost	HDR[1]	Fifth-ranked engineering firm for highway design in the US
Traffic and Revenue	CDM Smith	Foremost Traffic and Revenue consultant with more studies supporting financings than any other firm
Operations and Maintenance	HDR/PND	Fifth-ranked engineering firm for highway design in the US and one of the top Alaskan road and bridge engineers
Toll Collection	CDM Smith	Leading toll system advisor to toll and transportation agencies
Renewal Capital Expenditures	CDM Smith[2]	Substantial experience in inspecting bridges and developing capital maintenance programs for transportation agencies in the US.
Debt and Equity	Citigroup	One of the world's largest banks and the #1 underwriter of US toll road bonds

(1) HDR was assisted by PND, Armeni, William Ott and DCS for bridge design and Hydro-Ram and IHC Merwede for piling
(2) CDM Smith was assisted by PND

KABATA Projected Obligations and Toll Revenues



Key Assumptions

Traffic & Revenue	• Traffic and toll revenue assumptions from CDM Smith study dated August 2011 and as updated August 2012
Tolls	• $5 per trip (2017) initially for passenger vehicles and escalating at CPI – higher for commercial vehicles
Expenses	• Availability payment under the base case financial analysis with equity, private activity tax exempt bonds and 33% TIFIA • Assumes the bridge is expanded to four lanes and Ingra-Gambell connector is built as traffic warrants • KABATA annual administrative expenses of $3.0 million at opening and escalating at inflation (2.5%)
Term of Analysis	• 45 years from Crossing opening, which is 10 years beyond the 35 year concession term (bridge life estimated at 75-100 years)

Sensitivities

Sensitivities prepared to determine upside and downside impact of the project on KABATA and the State.

- Analyses completed:
  - Base case – Most likely traffic and revenue projection
  - Upside and downside sensitivities at 5% (aggressive upside), 25% (upside), 75% (downside) and 95% (severe downside) probabilities that traffic will exceed
- Analyses include:
  - Initial Crossing:
    - Two lane bridge and connecting roads with four lane foundation
    - Government Hill tunnel built to six lanes to avoid future neighborhood disruption
  - Future Expansions:
    - Adding an additional two lanes to the initial configuration (estimated 2030[1] for base case)
    - Constructing Ingra-Gambell connector and Point MacKenzie Road upgrade to four lanes (estimated 2025[1] for base case)
    - Timing of these Phase 2 additions controlled by KABATA and the State based on traffic, congestion and funding availability

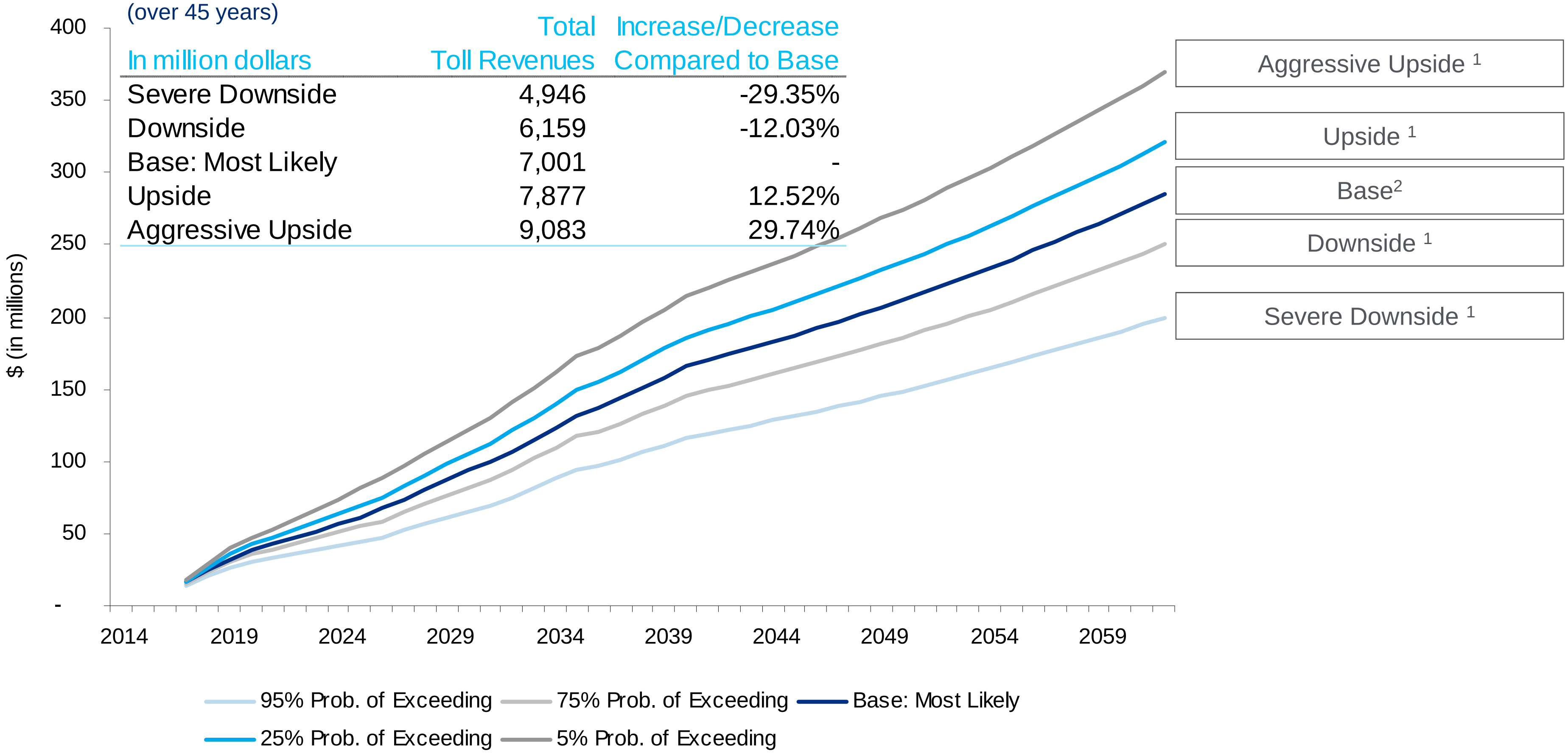
(1) Based on traffic capacity analysis by CDM Smith and HDR.

Revenue Sensitivity Results from Monte Carlo Simulations

Citi analyzed the Crossing's revenues under five cases, the base case previously described and four alternative probability cases at higher and lower traffic and revenue volumes.

Toll Revenue Projections
(over 45 years)

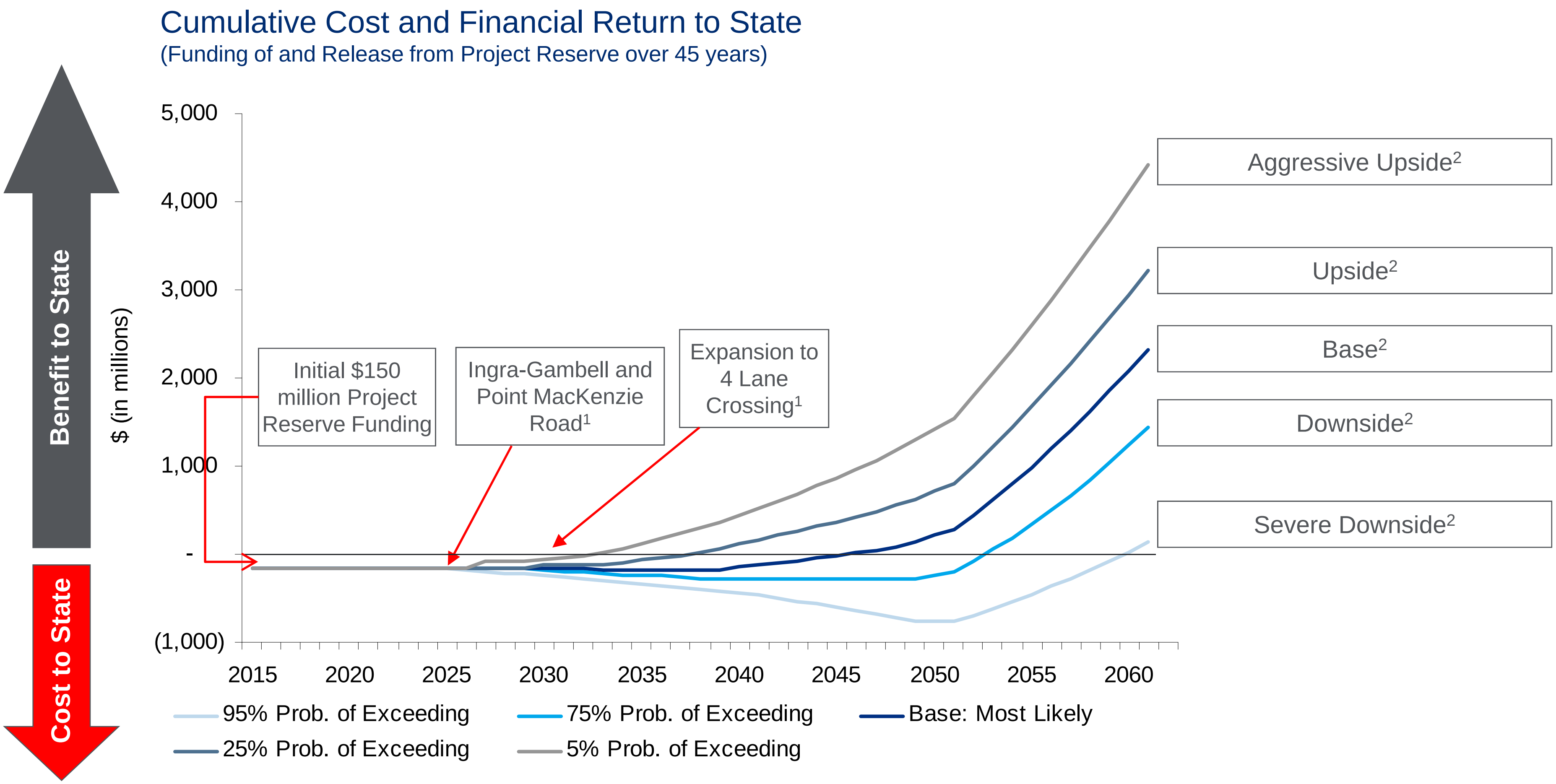
In million dollars	Total Toll Revenues	Increase/Decrease Compared to Base
Severe Downside	4,946	-29.35%
Downside	6,159	-12.03%
Base: Most Likely	7,001	-
Upside	7,877	12.52%
Aggressive Upside	9,083	29.74%



(1) The severe downside, downside, upside and aggressive upside cases represent 95%, 75%, 25% and 5% probabilities that traffic and toll revenues will be greater, respectively. For instance, under the severe downside, 95% probability case, there is only a 5% probability that toll revenues will be below the projection.

(2) Equal probability that the traffic and toll revenues could be higher or lower than projection.

Project Cost/Benefit to State



(1) Dates these expansions occur under the base case. Under the sensitivities, the expansions occur earlier (upside cases) or later (downside cases) based on when traffic levels warrant the expansion.

(2) The severe downside, downside, base, upside and aggressive upside cases represent 95%, 75%, 50%, 25% and 5% probabilities that traffic and toll revenues will be greater, respectively. For instance, under the severe downside, 95% probability case, there is only a 5% probability that toll revenues will be below the projection.

Sensitivity Results

Under the base case, over 45 years, ongoing appropriations of $37 million are required, while the Knik Arm Crossing generates $2.3 billion of revenues to fund transportation in the State.

	Severe Downside[1]	Downside[1]	Base Case (Most Likely)[2]	Upside[1]	Aggressive Upside[1]
Initial Project Reserve Funding Gross/ (Present Value)[3, 4]	$150 million ($150 million)	$150 million ($150 million)	$150 million ($150 million)	$150 million ($150 million)	$150 million ($150 million)
Expected Future State Liability Gross/ (Present Value)[3, 4]	$627 million ($208 million)	$135 million ($56 million)	$37 million ($16 million)	$0 ($0)	$0 ($0)
Expected Total State Liability Gross/(Present Value)[3, 4]	$777 million ($358 million)	$285 million ($206 million)	$187 million ($166 million)	$150 million ($150 million)	$150 million ($150 million)
Expected State Financial Return Gross/(Present Value)[3, 4]	$910 million ($139 million)	$1,725 million ($265 million)	$2,513 million ($424 million)	$3,364 million ($628 million)	$4,561 million ($934 million)
Net State Revenues Gross/(Present Value)[3, 4]	$133 million (-$219 million)	$1,440 million ($59 million)	$2,326 million ($258 million)	$3,214 million ($478 million)	$4,411 million ($784 million)

(1) The severe downside, downside, upside and aggressive upside cases represent 95%, 75%, 25% and 5% probabilities that traffic and toll revenues will be greater, respectively. For instance, under the severe downside, 95% probability case, there is only a 5% probability that toll revenues will be below the projection.

(2) Equal probability that the traffic and toll revenues could be higher or lower than projection.

(3) Present value assumes 4.4% discount rate (State's 30 year borrowing cost).

(4) Includes Crossing and expansion to 4 lanes and Ingra-Gambell Viaduct when traffic warrants.

Conservative Assumptions Used in the Financial Analysis

Citigroup's analysis uses conservative, reasonable assumptions.

- Interest rate assumptions significantly above current market
  - 1.5% higher for tax-exempt PABs
  - 1.1% higher for TIFIA loan
  - Using current market interest rates eliminates any State reserve replenishment in other than the 95% probability, severe downside scenario
    - Reduction in the reserve replenishment in 95% probability scenario from $627 million to $113 million
- Construction cost includes a $84 million contingency
- Assumes crossing expansion as traffic warrants, even if state is paying under "moral obligation" pledge
  - If KABATA did not move forward with the expansions, under the severe downside case, State reserve replenishment drops from $627 million to $113 million, but the Crossing would become congested
- Upside and downside traffic and revenue projections modeled
- 33% TIFIA and no rural eligibility
  - Recent Federal Highways reauthorization allows up to 49% TIFIA and lower interest rate for rural projects
    - Portion of the Crossing in the Mat Su likely considered rural
- Does not consider the benefits of the Crossing to the public or the resulting economic development
- At the end of analysis State owns a $1 billion+ asset unencumbered

Analysis of Financial Impact of Legislation on State

State's appropriation pledge is a back up to toll revenues and would only be triggered if toll revenues are insufficient to pay costs.

- KABATA's source of funds to pay the private partner is a "double barreled" credit
  - Payable FIRST from toll revenues in the Project Reserve as the intended primary source of debt repayment
  - Payable SECOND from the appropriated funds in the Project Reserve, initially equal to $150 million, and a commitment to seek a state appropriation if the Project Reserve falls short of minimum requirement
    - Minimal future appropriations needed under the base case financial projections
- Moral obligation commitments are an accepted credit support feature used by the Alaska Bond Bank and AIDEA which have good records of debt repayment and have been credit neutral to the State's own bond rating
- KABATA use of the State "moral obligation" provision has been carefully crafted as back-up credit protection that should be viewed as credit neutral to the State's own bond rating because of the strength of the overall project plan and strength of the primary security

Analysis of Impact of Legislation on State (continued)

The proposed legislation should be credit neutral to the State, given the minimal projected need for appropriations and the importance of the project to the State.

- The moral obligation provision, while fundamental to the credit, is likely to be used sparingly
  - No availability payments due until the Project is completed and available for service, which removes the construction risks (State is not taking on construction cost overrun or schedule risk)
    - In the base case, aggregate draws from the State are $36 million; other shortfalls are covered by the Project Reserve without the need for further appropriations
    - Under a severe downside case, “95% probability of exceeding,” first Project Reserve replenishment by State is in 2025 ($9 million) and maximum annual payment is $38 million in 2043
- Project essentiality
  - Infrastructure projects, like the Knik Arm Crossing, fill an essential need and spur economic development

Citi believes that sustainability is good business practice. We work closely with our clients, peer financial institutions, NGOs and other partners to finance solutions to climate change, develop industry standards, reduce our own environmental footprint, and engage with stakeholders to advance shared learning and solutions. Highlights of Citi's unique role in promoting sustainability include: (a) releasing in 2007 a Climate Change Position Statement, the first US financial institution to do so; (b) targeting $50 billion over 10 years to address global climate change: includes significant increases in investment and financing of renewable energy, clean technology, and other carbon-emission reduction activities; (c) committing to an absolute reduction in GHG emissions of all Citi owned and leased properties around the world by 10% by 2011; (d) purchasing more than 234,000 MWh of carbon neutral power for our operations over the last three years; (e) establishing in 2008 the Carbon Principles; a framework for banks and their U.S. power clients to evaluate and address carbon risks in the financing of electric power projects; (f) producing equity research related to climate issues that helps to inform investors on risks and opportunities associated with the issue; and (g) engaging with a broad range of stakeholders on the issue of climate change to help advance understanding and solutions.

Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.

efficiency, renewable energy and mitigation