



Moody's Investors Service

Rating Action: MOODY'S ASSIGNS Aaa RATING TO TEMASEK'S GLOBAL MTN PROGRAM; OUTLOOK STABLE

Global Credit Research - 12 Sep 2005

Hong Kong, September 12, 2005 -- Moody's Investors Service has assigned an Aaa rating to the proposed USD5 billion global medium term note program to be established by Temasek Financial (I) Limited, based on the irrevocable and unconditional guarantee provided by Temasek Holdings (Private) Limited ("Temasek"). The rating outlook is stable.

The Aaa rating reflects Temasek's strong financial profile - underscored by the large recurring dividend income from its high-quality investment portfolio - and low leverage. It also reflects the expectation the company will maintain its sizeable cash and near-cash securities, providing it with strong debt service coverage in response to any volatility in asset values.

Moody's notes Temasek's investment in emerging markets has increased, driven by the company's desire for a more diversified investment portfolio. Consequently, the portfolio's risk profile has increased somewhat, although it has become more diversified and now includes the potential for higher earnings and capital growth.

At the same time, Moody's understands that emerging-market investments still represent a relatively low portion of total assets. The rating agency further expects Temasek to exercise close risk monitoring of these investments and that its exposure to emerging markets is unlikely to grow materially during the rating horizon.

Moody's analytical approach towards Temasek remains focused on (1) the size, quality, volatility and liquidity of its portfolio relative to its debt and debt-service obligations, and (2) management's investment strategy, as well as the degree of financial flexibility available to cushion future asset coverage, potential volatility in asset values and/or dividend cash flows.

Moody's adds that Temasek's rating is Aaa even before applying its Joint Default Analysis and reflects Temasek's underlying financial strength. However, under the JDA methodology, the Aaa rating could experience downward pressure only if both the creditworthiness of Temasek on a standalone basis deteriorated and the rating of the Singapore government (Aaa) - its support provider - was lowered, given Moody's view of the existing high level of government support and dependency. The effect is to provide even greater levels of stability to Temasek's Aaa rating.

Downward pressure on Temasek's underlying fundamentals could evolve if (1) aggressive investments and/or reinvestments occur, promoting a material deterioration in the credit quality of Temasek's investment portfolio, which includes a single large investment in emerging markets; (2) further weakening is apparent in asset and dividend debt service coverage - possibly resulting from unexpected volatility in its investment operating performance, aggressive investments in high-risk and/or less-stable industries and markets, or any depletion in the size and quality of its cash and near-cash resources (through investments or dividend repatriations); or (3) indications emerge of potential moral hazard behavior, such as funding support for non-performing investee companies, or the channeling of financial resources to its government shareholder.

Moody's expects the company to maintain total debt/total equity not higher than 30%; gross cash flow/interest between 10 and 15x; and gross cash flow /adjusted debt of 70 to 85%, to support its Aaa ratings.

Temasek Holdings (Pte) Ltd., wholly owned by Singapore's Minister for Finance (Inc.), is an investment holding company.

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