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Borealis AG

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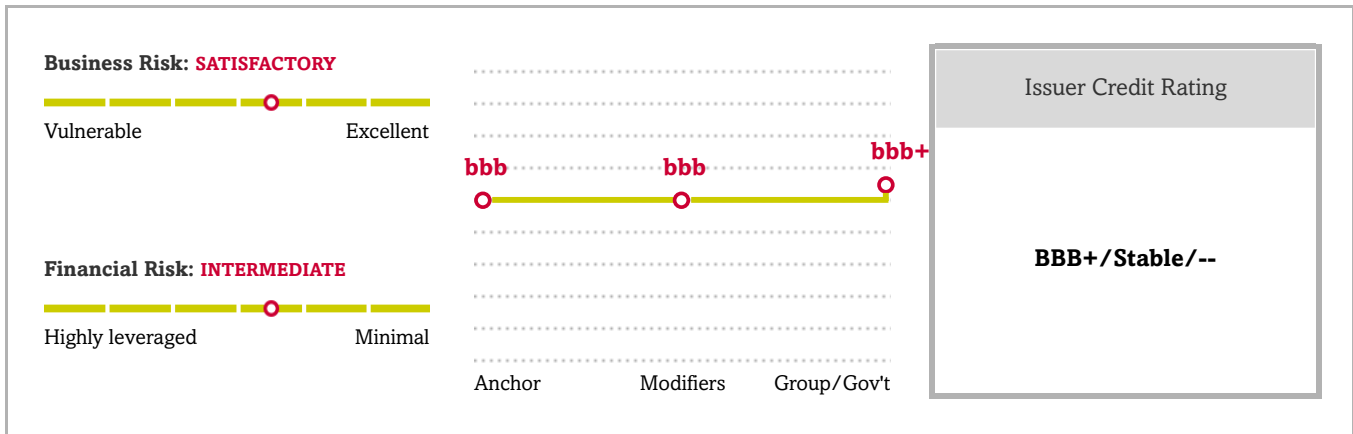
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Borealis AG



Credit Highlights

Overview

Key strengths

Second-largest polyolefin producer in Europe and among the top 10 worldwide.

Significant cash flow contribution from the Borouge joint venture (JV), which supports credit metrics.

Supportive shareholder structure that we believe improves the credit profile.

Key risks

Exposure to high cyclicality of the petrochemical industry.

Significant capacity additions in Asia in the medium term.

Credit metrics will be very strong for the rating in 2021, supported by improved market conditions. After an unprecedented 2020 slump, polyolefin prices have strongly recovered in 2021, supported by higher-than-expected oil prices and demand as well as tight supply. We expect the strong demand and prices observed in H1 2021 to last in H2 2021, translating into improved reported EBITDA of €1.7 billion-€1.8 billion in 2021, compared with €819 million in 2020. Supported by healthy dividends from Borouge of about €600 million-€620 million, the S&P Global Ratings-adjusted FFO-to-debt ratio could exceed 100% in 2021 from 51% in 2020.

Capacity additions could put pressure on current prices over the medium term but cushion in credit metrics provides comfort that Borealis could withstand an industry downturn. We anticipate a normalization in polyolefin prices in 2022-2023 as new capacities are coming on stream in large increments, mainly from Asia and North America. We therefore believe that following record high earnings in 2021, the company's reported EBITDA in 2022 could normalize to 2018-2019 levels, at about €1 billion. Combined with our assumption of healthy dividends from Borouge in 2022 as well as a prudent financial policy, this would translate into an adjusted FFO-to-debt ratio close to 45%, which is commensurate with the current rating.

Borealis will continue to focus on its core activities by potentially selling its nitrogen business and investing in polyolefins capacities. Borealis announced its intention in February 2021 to start a process divesting its nitrogen business unit including fertilizer, technical nitrogen, and melamine products. Although we do not include any proceeds from asset sales in our base case due to uncertainties on the timing and amount, we understand that such a transaction could be completed next year. The NITRO segment represented 16% of the company's sales in 2019 and 2020, and although limiting the company's product offering, we believe that a potential disposal should not significantly reduce Borealis' scale when considering parallel growth projects. The Baystar PE plant (start-up in 2022) and the new world-scale PDH plant (start-up in 2023) are in execution and we understand that the Borouge 4 is successfully

progressing in the FEED (Front-End Engineering and Design) phase.

We believe the shareholder structure will remain supportive of Borealis. We continue to view Borealis as moderately strategic entity to Mubadala (AA/Stable/A-1+), because we believe the parent is likely to provide support, if needed. This reflects Mubadala's stake in Borealis (25%) and OMV (25%) as well as Borealis' significant stake in Borouge (40%), one of the Abu Dhabi government's strategic petrochemical projects, integrated with the refinery of Abu Dhabi National Oil Company (ADNOC). We expect Borealis' stake in Borouge to remain unchanged given the technology and chemicals license it brings to Borouge's operations.

Outlook: Stable

The stable outlook reflects our view that Borealis will maintain adjusted FFO to debt above 30% over the next 12-24 months.

Downside scenario

We could take a negative rating action if Borealis pursued a larger-than-anticipated debt-funded acquisition, resulting in credit metrics falling below the aforementioned thresholds. A significant deviation in Borouge's contribution or a cut in expected dividend cash-ins--stemming from expansion projects' funding requirements--or a shift in the shareholder returns policy could also constrain the rating, in our view.

We could also lower the rating if we reassess potential ownership support as less likely, following a potential change in ownership.

Upside scenario

Rating upside may stem from a stricter leverage commitment, such that FFO to debt would exceed 60% at any point in the cycle.

Our Base-Case Scenario

Assumptions

- Brent crude oil prices of \$65/bbl for the remainder of 2021, \$60/bbl for 2022, and \$55/bbl in 2023 and beyond.
- Stand-alone reported EBITDA increasing to about €1.7 billion–€1.8 billion in 2021 from €819 million in 2020 and normalizing to 2018-2019 levels (about €900 million–€1,100 million) in 2022.
- Record high reported margins of about 20% in 2021 (versus 12% in 2020), supported by strong prices, normalizing towards 15% in 2022.
- Dividend received from Borouge, incorporated in our adjusted EBITDA calculation, of about €600 million–€620 million in 2021 and €500 million–€600 million in 2022, compared with €510 million in 2020.
- Working capital outflows of about €500 million over full year 2021, and inflows of €100 million in 2022.
- Capex of about €750 million in 2021 declining towards €650 million in the following years.
- Dividends paid to shareholders of €150 million in 2021, potentially increasing to €800 million in 2022.
- We do not include at this stage proceeds from asset sales.

Key metrics

Borealis--Key Metrics*

	--Fiscal year ended--			
	2019a	2020a	2021e	2022f
Dividends received	651.0	510.0	600-620	500-600
S&P Adjusted EBITDA	1,558.0	1,298.0	2300-2350	1500-1600
Dividends to owners	(825.0)	(300.0)	(150.0)	(800.0)
Capex	(415.0)	(632.0)	(700-800)	(600-700)
Cash tax paid	(225.0)	76.5	(100-120)	(360-380)
S&P Adjusted debt	2,322.0	2,598.0	1900-2000	2500-2600
FFO/Debt	55.0	51.0	105-115	40-45
Debt/EBITDA	1.5	2.0	0.7-0.9	1.5-1.8

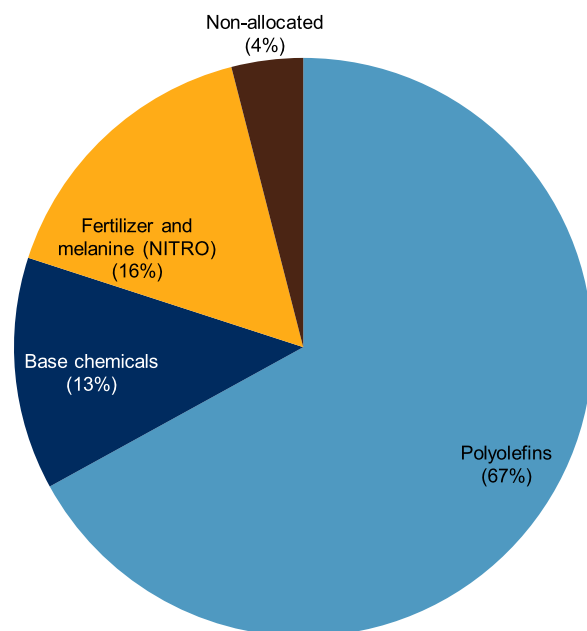
*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. FFO--Funds from operations. Capex--Capital expenditure.

Company Description

Borealis is an international provider of polyolefins, base chemicals, and fertilizers. The company operates primarily in Europe (82% of net sales in 2020) and offers services and products to customers around the world in collaboration with Borouge, a JV with ADNOC, and with Baystar, a JV with Total.

Headquartered in Vienna, Borealis currently employs about 6,900 people and operates in over 120 countries. In 2020, the company reported €6.8 billion in sales and an EBITDA of €819 million (as reported by the company, excluding dividends or income received from associated companies).

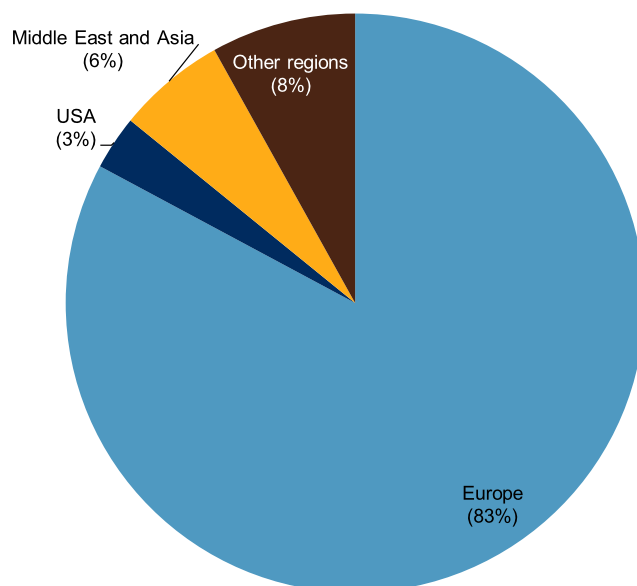
Chart 1
Net Sales By Segment, FY 2020



FY--Fiscal year. Source: S&P Global Ratings.
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Chart 2

Net Sales By Region, FY 2021



FY--Fiscal year. Source: S&P Global Ratings.

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Peer Comparison

Table 1

Borealis AG--Peer Comparison

Industry sector: Chemical Cos

	Borealis AG	Ineos Group Holdings S.A.	LyondellBasell Industries N.V.	NOVA Chemicals Corp.
Ratings as of Nov. 4, 2021	BBB+/Stable/--	BB/Stable/--	BBB/Stable/A-2	BB-/Stable/--
--Fiscal year ended Dec. 31, 2020--				
(Mil. €)				
Revenue	6,818.0	11,303.7	22,687.4	2,621.6
EBITDA	1,297.8	1,541.3	3,380.3	610.7
Funds from operations (FFO)	1,333.8	1,229.5	2,696.9	423.5
Interest expense	47.2	276.4	512.5	195.4
Cash interest paid	40.5	380.0	539.5	125.9
Cash flow from operations	1,559.4	1,512.3	2,971.6	460.2
Capital expenditure	631.7	1,356.4	1,558.9	531.4

Table 1

Borealis AG--Peer Comparison (cont.)				
Industry sector: Chemical Cos				
	Borealis AG	Ineos Group Holdings S.A.	LyondellBasell Industries N.V.	NOVA Chemicals Corp.
Free operating cash flow (FOCF)	927.7	155.9	1,412.7	(71.1)
Discretionary cash flow (DCF)	627.4	155.9	260.8	(71.1)
Cash and short-term investments	83.4	1,175.0	2,015.1	230.5
Debt	2,610.4	8,333.2	13,759.4	3,042.0
Equity	6,426.2	1,461.6	6,624.8	2,821.9
Adjusted ratios				
EBITDA margin (%)	19.0	13.6	14.9	23.3
Return on capital (%)	8.6	7.0	10.9	3.2
EBITDA interest coverage (x)	27.5	5.6	6.6	3.1
FFO cash interest coverage (x)	33.9	4.2	6.0	4.4
Debt/EBITDA (x)	2.0	5.4	4.1	5.0
FFO/debt (%)	51.1	14.8	19.6	13.9
Cash flow from operations/debt (%)	59.7	18.1	21.6	15.1
FOCF/debt (%)	35.5	1.9	10.3	(2.3)
DCF/debt (%)	24.0	1.9	1.9	(2.3)

We compare Borealis with rated industry peers including Ineos, LyondellBasell, and Nova Chemicals. Our ratings on Borealis benefit from the company's conservative financial policy, which translates into much lower leverage levels and higher ratings than Ineos and Nova. Compared with LyondellBasell, Borealis benefits from its supportive shareholder structure, leading to a one-notch uplift.

Ineos and LyondellBasell are both well diversified geographically with a good exposure to European and North American markets. On the other hand, Nova's relatively limited product and operational diversity are partly offset by its cost-advantaged position in North America, given access to lower-cost natural gas. Like Borealis, we view Nova as a moderately strategic entity to Mubadala and ratings on Nova are also enhanced by one notch of uplift due to our perception of parental support.

Business Risk: Satisfactory

Our assessment of Borealis' satisfactory business risk reflects its leading market position in polyethylene (PE) and polypropylene (PP), its resilient portfolio focusing on specialties and plastics circularity, and its ongoing geographical expansion.

Borealis is the second-largest polyolefin (PP and PE) producer in Europe and No. 8 worldwide, and is a market leader in base chemicals, fertilizers, and the mechanical recycling of plastics. The company benefits in our view from a large share of specialty products and application expertise, which justifies higher prices versus some low-cost producers and somewhat increases earnings resilience. The Borstar technology supports the production of a wide range of enhanced

PE and PP products for the most demanding applications by enabling molecular design. This makes it possible to create more sophisticated, customer-oriented solutions characterized by a unique property combination.

Finally, resilience in sales volume is also supported by the company's well-balanced portfolio with exposure to several end markets such as consumer products, energy, healthcare, infrastructure, and automotive.

Borealis' own assets are mainly concentrated in Europe, from where it generated 82% of its revenues in 2020. However, we positively view the company's expansion across the Middle East and North America via its joint ventures (Borouge and Baystar). Borealis' 40% stake in the Borouge JV (the world's largest integrated polyolefin complex) is a significant profit and cash contributor. This is also on the back of a series of expansions, the last of which, Borouge 4, is successfully progressing in the FEED (Front-End Engineering and Design) phase.

In our view, the company's geographical expansion strengthens its global footprint while increasing its exposure to competitively priced ethane in the U.S. and the Middle East. We also view positively Borealis' past investments in flexible crackers in Europe (Finland and Sweden), allowing optimization of feedstock pricing due to seasonal pricing challenges.

In our opinion, the group's key constraints include the high cyclicity of the petrochemical industry. We view polyolefin prices as highly cyclical, driven by often-abrupt changes in feedstock prices, capacity additions, and to a lesser extent changing demand patterns. In 2019, the company's reported EBITDA declined by about 20% and we expect it to more than double this year, supported by very high prices.

Similar to industry peers and to petrochemical companies, Borealis is also exposed to environmental risks and an increasing number of stringent environmental protection laws (such as regulatory requirements to reduce emissions of greenhouse gases). At the same time, Borealis is well positioned for tighter regulations and increased consumer scrutiny as it has invested in plastics circularity and recycling and has implemented several ESG related targets. Borealis' energy and climate long-term goals include, by 2025, delivering 350,000 tons of recycled polyolefin annually and ensuring that 100% of consumer products are recyclable, reusable, or contain renewable content.

Financial Risk: Intermediate

Our assessment of Borealis' intermediate financial risk reflects our expectation of adjusted FFO to debt remaining comfortably above 30% during bottom-of-cycle conditions and above 45% during top-of-cycle industry conditions.

In our assessment, Borealis will have significant rating headroom in 2021, amid very strong market conditions, which we expect to moderate in the following years.

We expect Borealis to continue generating strong free operating cash flow (FOCF) supported by dividends received from Borouge. We include in our adjusted EBITDA cash dividends received from investments accounted for under the equity method, and exclude the company's share of these investees' profits.

The dividend policy is flexible, and we would expect Borealis to lower dividends following weak market conditions. For example, we expect Borealis to pay dividends of only €150 million in 2021 following the unprecedented 2020

slump, and increase dividends to about €800 million in 2022, following the very strong performance year to date.

Financial summary

Table 2

Borealis AG--Financial Summary					
Industry sector: Chemical Cos					
	--Fiscal year ended Dec. 31--				
	2020	2019	2018	2017	2016
(Mil. €)					
Revenue	6,818.0	8,102.9	8,337.1	7,564.3	7,217.6
EBITDA	1,297.8	1,558.2	1,520.4	1,674.4	1,353.9
Funds from operations (FFO)	1,333.8	1,289.9	1,316.7	1,357.8	1,205.7
Interest expense	47.2	51.1	59.1	65.8	75.8
Cash interest paid	40.5	43.3	49.6	56.9	66.4
Cash flow from operations	1,559.4	1,498.9	1,064.2	1,194.5	1,136.9
Capital expenditure	631.7	415.3	381.6	468.9	351.9
Free operating cash flow (FOCF)	927.7	1,083.7	682.6	725.5	784.9
Discretionary cash flow (DCF)	627.4	258.0	(317.4)	(25.5)	359.9
Cash and short-term investments	83.4	106.3	72.3	229.1	762.4
Gross available cash	83.4	106.3	72.3	229.1	762.4
Debt	2,610.4	2,322.0	2,273.0	1,680.6	1,529.8
Equity	6,426.2	6,457.8	6,436.1	6,381.9	6,514.4
Adjusted ratios					
EBITDA margin (%)	19.0	19.2	18.2	22.1	18.8
Return on capital (%)	8.6	10.3	14.1	16.9	18.4
EBITDA interest coverage (x)	27.5	30.5	25.7	25.5	17.9
FFO cash interest coverage (x)	33.9	30.8	27.5	24.9	19.2
Debt/EBITDA (x)	2.0	1.5	1.5	1.0	1.1
FFO/debt (%)	51.1	55.5	57.9	80.8	78.8
Cash flow from operations/debt (%)	59.7	64.6	46.8	71.1	74.3
FOCF/debt (%)	35.5	46.7	30.0	43.2	51.3
DCF/debt (%)	24.0	11.1	(14.0)	(1.5)	23.5

Reconciliation

Table 3

Borealis AG--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)								
--Fiscal year ended Dec. 31, 2020--								
Borealis AG reported amounts								
	Debt	Shareholders' equity	EBITDA	Operating income	Interest expense	S&P Global Ratings' adjusted EBITDA	Cash flow from operations	Capital expenditure
Reported	1,721.9	6,417.2	819.5	355.9	35.1	1,297.8	1,083.0	675.3

Table 3

Borealis AG--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)

S&P Global Ratings' adjustments								
Cash taxes paid	--	--	--	--	--	76.5	--	--
Cash interest paid	--	--	--	--	--	(35.5)	--	--
Trade receivables securitizations	259.8	--	--	--	--	--	9.8	--
Reported lease liabilities	194.8	--	--	--	--	--	--	--
Postretirement benefit obligations/ deferred compensation	383.3	--	6.7	6.7	7.1	--	--	--
Accessible cash and liquid investments	(33.4)	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	5.1	(5.1)	(5.1)	(5.1)
Capitalized development costs	--	--	(38.5)	(18.5)	--	--	(38.5)	(38.5)
Dividends received from equity investments	--	--	510.1	--	--	--	--	--
Asset-retirement obligations	35.5	--	--	--	--	--	--	--
Nonoperating income (expense)	--	--	--	396.9	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	510.1	--
Noncontrolling interest/minority interest	--	9.0	--	--	--	--	--	--
Debt: Guarantees	48.3	--	--	--	--	--	--	--
Depreciation and amortization: Impairment charges/(reversals)	--	--	--	22.1	--	--	--	--
Total adjustments	888.4	9.0	478.4	407.2	12.1	36.0	476.3	(43.6)
S&P Global Ratings' adjusted amounts								
	Debt	Equity	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Capital expenditure
Adjusted	2,610.4	6,426.2	1,297.8	763.1	47.2	1,333.8	1,559.4	631.7

Liquidity: Strong

We view Borealis' liquidity as strong, based on our expectation that during the next 12-24 months, liquidity sources will exceed uses by more than 1.5x in 12 months and 1.0x in 24 months. Our assessment is underpinned by the comfortable and long-dated debt maturity profile and availability of €1 billion syndicated revolving credit facility (RCF). It also reflects our view of the group's generally high standing in credit markets, well-established bank relationships, and our expectation that the group will have sufficient covenant headroom.

Principal liquidity sources

Principal liquidity uses

Liquidity sources for the 12 months started June 30, 2021, include:

- Undrawn committed facilities of €1 billion.
- Cash on balance sheet of €215 million.
- Our estimate of cash FFO of about €2 billion.

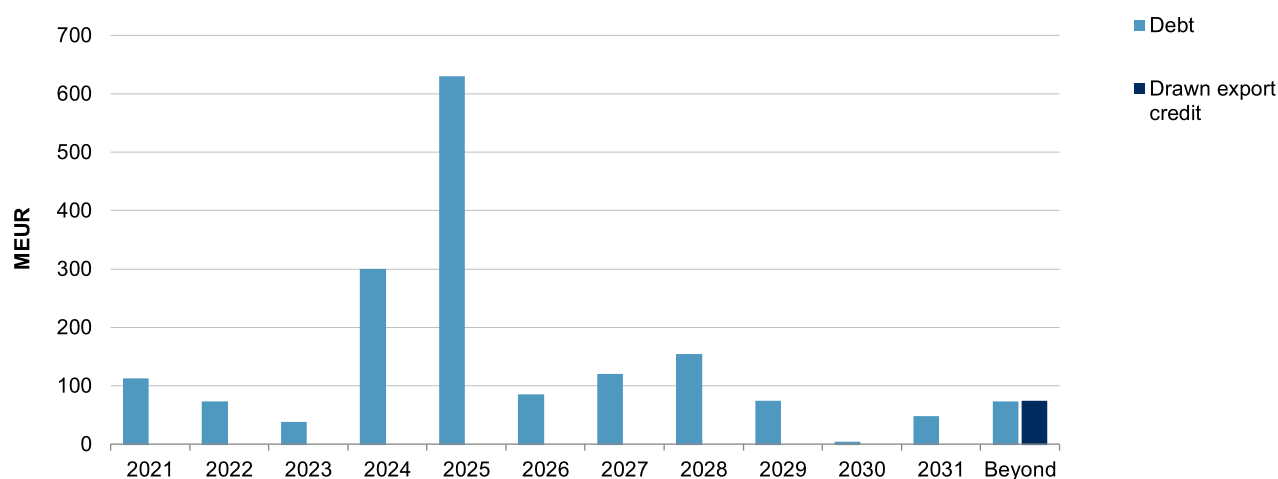
For the same period, we expect liquidity uses to include:

- Debt maturities of about €206 million.
- Capex of about €700 million-€800 million.
- About €800 million of dividends to Borealis' shareholders, expected to be paid in 2022.
- Working capital outflows in the second half of 2021 and potential inflows in 2022.

Debt maturities

Chart 3

Maturity Profile Per June 30, 2021 Excl. IFRS 16 Financial Leases



IFRA--International financial reporting standards. Source: S&P Global Ratings.

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Environmental, Social, And Governance

Like its petrochemical industry peers, Borealis' operations are energy-intensive and emit large quantities of CO₂. At the same time, Borealis is well positioned for tighter regulations and increased consumer scrutiny as it has invested in plastics circularity and recycling. For example, it fully acquired two post-consumer recyclers for polyolefins (MTM Plastics in 2016 and Ecoplast in 2018) and a minority stake in Renasci to develop recycling solutions, as well as partnered with TOMRA to open an advanced mechanical recycling demo plant. These initiatives should support the company's ambition to quadruple its recycled plastics volumes and to bring 350 kilotons of recycled polyolefins into circulation by 2025. Governance factors are a moderately negative consideration, essentially because of limited disclosure. This is largely due to it being a private company with two shareholders, OMV (75%) and Mubadala (25%).

Group Influence

Borealis is 25% owned by Mubadala and 75% by OMV (unrated), which is in turn 25% owned by Mubadala. We consider that Mubadala directly and indirectly owns 44% of Borealis, making it an influencing shareholder.

We therefore continue to view Borealis as moderately strategic entity to Mubadala (even following the recent 39% stake transfer in 2020), because we believe the parent is likely to provide support, if needed. This also reflects Borealis significant stake in Borouge (40%), one of the Abu Dhabi government's strategic petrochemical projects, and integrated with the refinery of ADNOC. We expect Borealis' stake in Borouge to remain unchanged given the technology and chemicals license it brings to Borouge's operations.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of June 30, 2021, Borealis' capital structure primarily comprised total gross debt of €1.8 billion, with term loans of about €1,389 million, senior bonds of €298 million, utilized uncommitted facilities of €7 million, and export credits of €73 million.

Analytical conclusions

Our 'BBB+' issue ratings on the €300 million senior unsecured seven-year bonds maturing in 2025 are unchanged. The debt ratings are in line with the issuer credit rating, reflecting our view of Borealis' overall low leverage, negligible secured debt, and priority debt in the structure. The rated instruments are issued and guaranteed by Borealis AG, and rank at the same seniority as other instruments in the structure, mostly term loans.

Ratings Score Snapshot

Issuer Credit Rating

BBB+/Stable/--

Business risk: Satisfactory

- **Country risk:** Intermediate
- **Industry risk:** Moderately high
- **Competitive position:** Satisfactory

Financial risk: Intermediate

- **Cash flow/leverage:** Intermediate

Anchor: bbb

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Fair (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

- **Group credit profile:** aa
- **Entity status within group:** Moderately strategic (+1 notch from SACP)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of November 18, 2021)*

Borealis AG

Issuer Credit Rating	BBB+/Stable/--
Senior Unsecured	BBB+

Issuer Credit Ratings History

02-Oct-2020	BBB+/Stable/--
25-Mar-2020	BBB+/Watch Neg/--
09-Nov-2018	BBB+/Stable/--

Related Entities

CEPSA

Issuer Credit Rating	BBB-/Stable/A-3
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Mamoura Diversified Global Holding PJSC

Issuer Credit Rating	AA/Stable/A-1+
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NOVA Chemicals Corp.

Issuer Credit Rating	BB-/Stable/--
Senior Unsecured	BB-

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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