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## TDC A/S

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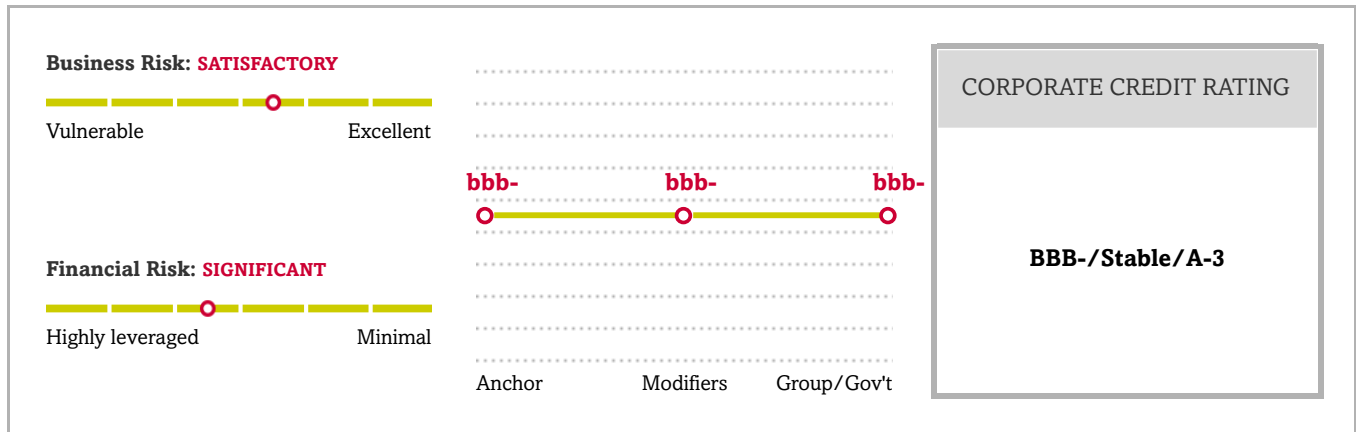
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# TDC A/S



## Rationale

Business Risk: Satisfactory	Financial Risk: Significant
<ul style="list-style-type: none"> <li>• Leading operator in the Danish fixed-line, cable, and mobile telecommunications markets.</li> <li>• High-speed 4G mobile network and ownership of the leading copper and cable networks in Denmark.</li> <li>• Growth opportunities in the less competitive Norwegian market after the acquisition cable operator Get.</li> <li>• Fierce competition in the domestic market resulting in strong pressure on Danish revenues and EBITDA.</li> <li>• Relatively tight regulation in Denmark.</li> <li>• Limited scale and international diversification.</li> </ul>	<ul style="list-style-type: none"> <li>• Significant leverage as a result of the acquisition of Get in 2014 and pressure on domestic EBITDA.</li> <li>• Meaningful free operating cash flow generation.</li> <li>• Positive forecast discretionary cash flow, supported by committed reductions of dividend payments.</li> </ul>

**Outlook: Stable**

The stable outlook on Danish telecom network operator TDC A/S reflects Standard & Poor's Ratings Services' view that the difficult market conditions in Denmark will stabilize in the next 18 months and that market prices will not further deteriorate materially from current levels. We think that this will allow TDC to achieve broadly flat EBITDA in 2017 compared with 2016. This, coupled with committed reductions in dividend payments, will enable it to maintain adjusted debt to EBITDA at or below 3.5x, funds from operations (FFO) to debt sustainably above 20%, and free operating cash flow (FOCF) to debt at about 8%-10%.

**Downside scenario**

We could consider a downgrade if TDC's operating performance deteriorates more than we currently expect, for example by materially deviating from the path to achieving stable EBITDA in 2017, causing Standard & Poor's-adjusted debt to EBITDA to rise sustainably above 3.5x, FFO to debt to fall below 20%, or FOCF to debt to weaken to less than 8% over a protracted period.

**Upside scenario**

We think that rating upside is limited at this stage. We could consider upgrading TDC if domestic market conditions and operations improve more rapidly and significantly than we currently expect, combined with a financial policy that targets Standard & Poor's-adjusted debt to EBITDA of sustainably less than 3.0x and FOCF to debt sustainably above 10%.

**Standard & Poor's Base-Case Scenario**

For 2016, our base-case scenario expects a continuation of pronounced declines of domestic revenue and EBITDA as a result of the competitive conditions in Denmark which is only partly offset by growth at Get and TDC Sweden. However, we think that the suspension of dividend payments in 2016 mitigates the resulting impact on credit metrics in the near term. We subsequently expect TDC to generate approximately stable EBITDA and maintain adjusted debt to EBITDA of about 3.5x in 2017, thanks to the competitive environment in Denmark gradually stabilizing over the next 18 months, coupled with more moderate shareholder pay-outs relative to historical levels.

Assumptions	Key Metrics			
<ul style="list-style-type: none"> <li>Revenue decline of 5%-6% in 2016, mainly driven by the business-to-business (B2B) and business-to-consumer (B2C) divisions in Denmark, followed by approximately flat revenues in 2017 as domestic revenue pressures lessen and Get continues to deliver solid growth.</li> <li>Adjusted EBITDA margins narrowing by about 2-3 percentage points to about 38%-41% in 2016 and 2017, triggered by EBITDA declines in TDC's Danish operations.</li> <li>Capital expenditures (capex), including payments for mobile licenses, of about Danish kronor (DKK)4.5 billion–DKK4.9 billion (€600 million–€660 million) in 2016, then decreasing moderately in 2017.</li> <li>No dividend payments in 2016 and shareholder pay-outs of about DKK0.8 billion in 2017, in line with TDC's guidance.</li> <li>Small amounts of spending for bolt-on mergers and acquisitions.</li> </ul>		<b>2015A</b>	<b>2016E</b>	<b>2017E</b>
	EBITDA margin* (%)	41.6	38-41	38-41
	Funds from operations to debt* (%)	23.3	21–23	21–24
	Debt to EBITDA* (x)	3.4	3.4-3.6	3.4-3.6
	FOCF to debt* (%)	10.9	7-8	8-9
	<p>*Fully adjusted by Standard &amp; Poor's. FOCF—Free operating cash flow. A--Actual. E--Estimate.</p>			

## Company Description

TDC is the leading telecom network operator in Denmark, providing fixed-line and mobile telephony, broadband, and TV services to consumers and business customers. TDC also provides cable TV and broadband in Norway through its acquisition of cable operator Get in 2014 and offers connectivity services for businesses in Norway and Sweden. At the end of 2015 and excluding wholesale, TDC had approximately 3.1 million mobile subscribers, about 1.6 million broadband, and 0.8 million fixed-line telephony subscribers, as well as 1.8 million TV customers.

## Business Risk: Satisfactory

Our view of TDC's business risk profile is supported by its position as the leading telecom operator in Denmark, its well-invested mobile network, and its ownership of Norwegian cable operator Get. At the same time, we consider intense competition in the Danish telecoms market, tight regulation, and moderate scale as the main constraints from a business risk perspective.

Although TDC's market shares for certain services have decreased in recent years, as of year-end 2015, TDC continued to enjoy relatively high market shares in Denmark for fixed-line telephony services (64%), fixed-line broadband (56%), mobile services (41%), and pay-TV (54%), according to company estimates. We also regard TDC's ownership of both the leading domestic copper and cable networks as an advantage, given that these represent alternative infrastructure for provision of TV, broadband, and fixed-line telephony services. For example, as

communicated as part of the revised strategy for 2016–2018, this will allow TDC to focus future investments on one infrastructure and avoid duplicate spending in areas where both networks overlap. Moreover, TDC's competitive positioning benefits from its well-invested 4G mobile network, in our opinion. Thanks to investments in recent years, TDC's 4G coverage extended to 99% of the Danish population at the end of 2015. Furthermore, we think that TDC's ownership of cable operator Get, the second-largest provider of fixed-line broadband and TV in Norway, provides it with additional growth opportunities in the less competitive Norwegian telecoms market. Capitalizing on its high speed cable network, Get managed to successfully sell broadband to its TV customer base in 2015, achieving 9% growth in broadband subscribers and modestly raising average revenues per user (ARPU). As of June 30, 2015, Get's market shares in broadband and TV amounted to 17% and 19%, respectively.

TDC's exposure to the challenging market conditions in Denmark represents a key weakness in our assessment of its business risk. The company continues to face fierce competition in its business-to-business (B2B) division as well as in the business-to-consumer (B2C) segment, in particular for mobile services. This has recently led to a sharp decrease in revenues and EBITDA. In 2015, TDC's B2C and B2B EBITDA declined by about 6% and about 17%, respectively. TDC and a number of other operators recently raised selected mobile price points in the market, but these are still at a lower level than prices charged to a material share of TDC's client base. As a result, we think ARPU will further decline from current levels and we do not expect a material stabilization of market conditions until 2017. In addition, we observe headwinds in other selected sub-segments, such as fixed line broadband for public, enterprise, and small and midsize business customers where intense competition also continues to weigh on ARPU.

Furthermore, TDC is subject to relatively tight regulation in the domestic market, in our view. In addition to the obligation to provide wholesale access to its fixed line copper network, which is common for EU-based incumbent telecom operators, as of 2016, TDC has also committed to make available a new broadband wholesale product based on its cable network. We see a risk that this measure could lead to increased competition for fixed broadband. Compared with larger European telecom peers, TDC is also characterized by relatively limited scale and geographic diversification.

### S&P Base-Case Operating Scenario

- We expect a revenue decline of 5%-6% in 2016, driven by a combination of revenue pressure in mobile, ongoing decline for traditional landline services, and some drag from new regulatory measures for roaming. We assume some incremental downside in fixed broadband due to moderately increasing competition.
- Important for our 2017 revenue forecast is the assumption that, over the next 18 months, mobile prices in Denmark will stabilize around levels currently offered to new subscribers. A substantial part of the remaining decline of mobile revenues in our model is attributable to back-book repricing of the existing customer base. The completion of this process, together with generally easing domestic competitive conditions, as well as sustained solid growth in Norway and Sweden, supports our expectation of stable revenues in 2017.
- Organic mid-single-digit revenue growth at Get in 2016, accelerating to high-single-digit growth from 2017, fueled by footprint expansion, successful upselling, and the launch of Get's mobile offering.
- Decline in adjusted EBITDA margins to about 38%-41% in 2016 and 2017 as additional cost savings fail to offset declining revenues.
- Capex (including spectrum costs) of DKK4.5 billion–DKK4.9 billion in 2016 and DKK4.3 billion–DKK4.7 billion in 2017. Our forecast of meaningful capex derives from our expectation that TDC will invest in a number of strategic initiatives in line with its recent strategic realignment as well as in footprint expansion at Get. At the same time, we think that spending on planned fixed network upgrades in Denmark will be balanced by lower investment needs in mobile given the advanced stage of 4G roll-out.

### Peer comparison

Table 1

TDC A/S -- Peer Comparison				
Industry Sector: Diversified Telecom				
	TDC A/S	Koninklijke KPN N.V.	Elisa Corp.	TeliaSonera AB
Rating on April 6, 2016	BBB-/Stable/A-3	BBB-/Stable/A-3	BBB+/Stable/A-2	A-/Stable/A-2
(Mil. €)	--Fiscal year ended Dec. 31, 2015--		--Fiscal year ended Dec. 31, 2014--	
Revenues	3,265.6	7,006.0	1,569.5	10,658.9
EBITDA	1,359.4	2,485.0	562.3	4,079.2
Funds from operations (FFO)	1,074.1	2,005.7	480.0	3,386.8
Net income from cont. oper.	(308.4)	503.0	243.1	1,529.5
Cash flow from operations	1,105.2	2,102.7	481.5	3,287.1
Capital expenditures	603.4	1,304.0	194.5	1,701.4
Free operating cash flow	501.9	798.7	287.0	1,585.8
Discretionary cash flow	287.0	303.7	76.7	95.2
Cash and short-term investments	48.6	1,446.0	29.1	3,030.7
Debt	4,614.0	8,606.1	1,079.4	8,998.6
Equity	2,355.8	4,963.5	925.9	12,273.1
Adjusted ratios				
EBITDA margin (%)	41.6	35.5	35.8	38.2
Return on capital (%)	7.4	6.5	16.2	13.2
EBITDA interest coverage (x)	7.3	4.2	19.1	9.8

**Table 1**

TDC A/S -- Peer Comparison (cont.)				
FFO cash int. cov. (X)	6.2	5.4	21.4	11.0
Debt/EBITDA (x)	3.4	3.5	1.9	2.2
FFO/debt (%)	23.3	23.3	44.5	37.6
Cash flow from operations/debt (%)	24.0	24.4	44.6	36.5
Free operating cash flow/debt (%)	10.9	9.3	26.6	17.6
Discretionary cash flow/debt (%)	6.2	3.5	7.1	1.0

## Financial Risk: Significant

We derive our assessment of TDC's financial risk profile primarily from the company's increased debt burden after the acquisition of Get, and from expected steep declines in EBITDA and free cash flow in the near term as a result of the current weakness in TDC's domestic market. Nevertheless, in our base case, we forecast that committed cuts in shareholder distributions to zero in 2016 and to about DKK 0.8 billion in 2017 will help to stabilize debt to EBITDA, as adjusted by Standard & Poor's, at about 3.5x in 2016 and 2017. We project that these measures will also support relatively robust discretionary cash flow (DCF) generation, with adjusted DCF to debt of 4%-8% in the next 24 months.

### S&P Base-Case Cash Flow And Capital Structure Scenario

- No dividends paid in 2016 and about DKK0.8 billion of pay-outs in 2017, as guided by TDC.
- DKK0.2 billion in annual coupon payments on TDC's hybrid debt.
- We project TDC to apply part of the cash preserved as a result of its revised dividend policy toward debt reduction, which should translate into decreasing interest expenses from 2016.
- Foreign exchange rates of about 0.8 for both NOK/DKK and SEK/DKK.
- Forecast reported FOCF of DKK2.1 billion–DKK2.3 billion in 2016–2017.
- Forecast reported DCF of about DKK1.7 billion–DKK1.9 billion in 2016 and DKK0.9 billion–DKK1.2 billion in 2017.

## Financial summary

**Table 2**

TDC A/S -- Financial Summary					
Industry Sector: Diversified Telecom					
	--Fiscal year ended Dec. 31--				
(Mil. DKK)	2015	2014	2013	2012	2011
Revenues	24,366.0	23,344.0	24,605.0	26,116.0	26,304.0
EBITDA	10,142.5	9,862.5	10,014.5	10,289.0	10,440.0
Funds from operations (FFO)	8,013.8	7,936.4	7,441.0	7,517.7	8,774.5
Net income from continuing operations	(2,301)	2,463.0	3,119.0	3,593.0	2,813.0
Cash flow from operations	8,246.3	7,623.4	7,710.0	8,223.7	7,704.5
Capital expenditures	4,502.0	3,853.0	3,779.0	3,606.0	3,481.0
Free operating cash flow	3,744.3	3,770.4	3,931.0	4,617.7	4,223.5

Table 2

TDC A/S -- Financial Summary (cont.)					
Industry Sector: Diversified Telecom					
(Mil. DKK)	--Fiscal year ended Dec. 31--				
	2015	2014	2013	2012	2011
Discretionary cash flow	2,141.3	809.4	895.0	1,025.7	2,443.5
Cash and short-term investments	363.0	4,746.0	1,172.0	973.0	1,489.0
Debt	34,427.6	38,789.2	27,133.4	27,074.5	27,064.2
Equity	17,578.0	18,647.0	20,384.0	21,513.0	22,244.0
<b>Adjusted ratios</b>					
EBITDA margin (%)	41.6	42.2	40.7	39.4	39.7
Return on capital (%)	7.4	8.4	8.5	10.3	8.6
EBITDA interest coverage (x)	7.3	7.2	7.3	7.0	6.7
FFO cash int. cov. (x)	6.2	5.9	5.5	4.9	7.6
Debt/EBITDA (x)	3.4	3.9	2.7	2.6	2.6
FFO/debt (%)	23.3	20.5	27.4	27.8	32.4
Cash flow from operations/debt (%)	24.0	19.7	28.4	30.4	28.5
Free operating cash flow/debt (%)	10.9	9.7	14.5	17.1	15.6
Discretionary cash flow/debt (%)	6.2	2.1	3.3	3.8	9.0

DKK-Danish krone.

## Liquidity: Adequate

The short-term rating is 'A-3'. We assess TDC's liquidity as adequate because we expect that liquidity sources will cover uses at least by 1.2x over the 12 months from Jan. 1, 2016. We think that TDC's risk management aims at ensuring (what we assess as) adequate, though not necessarily strong liquidity at all times.

Principal Liquidity Sources	Principal Liquidity Uses
<p>As of Jan. 1, 2016, principal liquidity sources over the ensuing 12 months include:</p> <ul style="list-style-type: none"> <li>• Cash balances of DKK360 million.</li> <li>• An undrawn committed unsecured revolving credit facility of €500 million (about DKK3.7 billion) due September 2020, and availability under other committed lines of about €175 million (about DKK1.3 billion).</li> <li>• Annual FFO of DKK6.6 billion–DKK6.9 billion.</li> </ul>	<p>As of Jan. 1, 2016, principal liquidity uses over the ensuing 12 months include:</p> <ul style="list-style-type: none"> <li>• Annual capex of about DKK4.5 billion–DKK4.9 billion.</li> <li>• Coupon payments on TDC's hybrid debt of about DKK200 million.</li> </ul> <p>We note a large upcoming debt maturity of about DKK6.0 billion in February 2018.</p>

### Debt maturities\*

- 2018: €800 million
- 2019: €400 million



- 2020: €350 million
- 2022: €500 million
- 2023: £550 million
- 2027: €800 million

\*Excluding TDC's hybrid debt.

## Covenant Analysis

TDC's backup facilities include a maintenance financial covenant that would be activated only if the long-term corporate credit rating was lowered to below 'BBB-'. Even if this covenant was triggered, we estimate adequate headroom of at least 15% in 2016-2017.

## Other Credit Considerations

Under our criteria, there are two possible anchor outcomes ('bbb-' or 'bb+') for our combination of the satisfactory business risk and significant financial risk profile assessments. We assess TDC's anchor at 'bbb-', based on our view that the company's business risk profile is above average within the satisfactory category.

## Ratings Score Snapshot

### Corporate Credit Rating

BBB-/Stable/A-3

### Business risk: Satisfactory

- **Country risk:** Very low
- **Industry risk:** Intermediate
- **Competitive position:** Satisfactory

### Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: bbb-

### Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

## Reconciliation

We do not apply a haircut to TDC's reported cash balances as all cash is pooled at the parent level and fully accessible. In arriving at Standard & Poor's adjusted EBITDA, we deduct about DKK480 million of restructuring and redundancy costs that we consider to be operating costs.

**Table 3**

### Reconciliation Of TDC A/S Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. DKK)

--Fiscal year ended Dec. 31, 2015--

<b>TDC A/S reported amounts</b>							
	<b>Debt</b>	<b>Shareholders' equity</b>	<b>EBITDA</b>	<b>Operating income</b>	<b>Interest expense</b>	<b>EBITDA</b>	<b>Cash flow from operations</b>
Reported	27,598.0	20,327.0	9,809.0	4,498.0	991.0	9,809.0	7,819.0
<b>Standard &amp; Poor's adjustments</b>							
Interest expense (reported)	--	--	--	--	--	(991.0)	--
Interest income (reported)	--	--	--	--	--	27.0	--
Current tax expense (reported)	--	--	--	--	--	(859.0)	--
Operating leases	4,484.7	--	743.5	319.1	319.1	424.4	424.4
Intermediate hybrids reported as equity	2,776.0	(2,776.0)	--	--	82.5	(82.5)	--
Postretirement benefit obligations/ deferred compensation	--	--	9.0	9.0	--	99.4	(4.6)
Surplus cash	(363.0)	--	--	--	--	--	--
Share-based compensation expense	--	--	66.0	--	--	66.0	--
Dividends received from equity investments	--	--	1.0	--	--	1.0	--
Asset retirement obligations	159.9	--	--	--	(5.0)	5.5	6.5
Non-operating income (expense)	--	--	--	28.0	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	1.0
Non-controlling Interest/Minority interest	--	27.0	--	--	--	--	--
Debt - Accrued interest not included in reported debt	700.0	--	--	--	--	--	--
Debt - Derivatives	(928.0)	--	--	--	--	--	--
EBITDA - Gain/(Loss) on disposals of PP&E	--	--	(5.0)	(5.0)	--	(5.0)	--
EBITDA - Restructuring costs	--	--	(481.0)	(481.0)	--	(481.0)	--
Total adjustments	6,829.6	(2,749.0)	333.5	(129.9)	396.6	(1,795.2)	427.3
<b>Standard &amp; Poor's adjusted amounts</b>							
	<b>Debt</b>	<b>Equity</b>	<b>EBITDA</b>	<b>EBIT</b>	<b>Interest expense</b>	<b>Funds from operations</b>	<b>Cash flow from operations</b>
Adjusted	34,427.6	17,578.0	10,142.5	4,368.1	1,387.6	8,013.8	8,246.3

**Table 3****Reconciliation Of TDC A/S Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. DKK) (cont.)**

DKK--Danish krone.

**Related Criteria And Research****Related Criteria**

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology And Assumptions: Assigning Equity Content To Corporate Entity And North American Insurance Holding Company Hybrid Capital Instruments, April 1, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

**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
<b>Satisfactory</b>	a/a-	bbb+	bbb/bbb-	<b>bbb-/bb+</b>	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 April 6, 2016)****TDC A/S**

Corporate Credit Rating	BBB-/Stable/A-3
Junior Subordinated	BB
Senior Unsecured	BBB-

**Corporate Credit Ratings History**

27-Nov-2015	BBB-/Stable/A-3
19-Sep-2014	BBB/Negative/A-2

**Ratings Detail (As Of April 6, 2016) (cont.)**

18-Mar-2014	BBB/Stable/A-2
16-Mar-2012	BBB/Positive/A-2

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's 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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