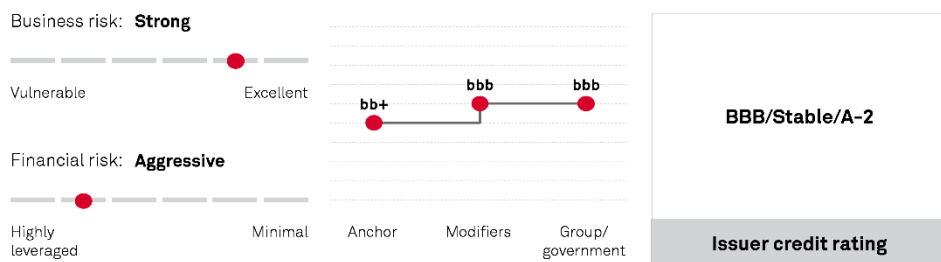


Wellington International Airport Ltd.

October 16, 2022

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths

Strong position serving New Zealand's capital city, seat of government, and second-largest urban area.

Revenue diversity, although modest compared with peers' due to its relatively small landholding.

High exposure to domestic traffic, which is currently recovering strongly, and low exposure to international traffic.

Key risks

Risk of slower-than-forecast recovery in traffic due to economic headwinds or return of unexpected pandemic-related restrictions.

Ramp up in capex above our expectations over the next few years.

Interest rate increases may restrain recovery in FFO to debt to around 9.5% in fiscal years 2024 and 2025.

We expect Wellington International Airport Ltd.'s (WIAL) strong position in the domestic market to support a robust recovery in passenger traffic over the next few years. WIAL is the sole airport in New Zealand's capital city, Wellington, which is also the seat of the country's government. For WIAL, the recovery in domestic passengers is important given it has typically represented about 85% of total passengers. Although domestic passenger traffic was affected in fiscal 2022 (ended March 31, 2022) due to lockdowns in New Zealand, it has since recovered strongly with the removal of local restrictions. In July 2022, domestic traffic recovered to 91%

of pre-COVID levels. We believe the risks of future lockdowns and border restrictions has fallen given the high level of vaccination rates in New Zealand (90% for those aged 12+). We expect domestic passengers at WIAL to fully recover to pre-COVID-19 levels by fiscal 2025 but note that this could occur earlier if recent passenger traffic trends persist.

International passenger traffic recovery has lagged the domestic passenger recovery but has been steadily improving. Like the domestic market, international travel was hit by border closures in fiscal 2022. However, international passenger traffic has been recovering since April 2022 and is likely to continue with borders now fully open. In July 2022, international traffic reached 61% of pre-COVID levels. We expect international passengers at WIAL to fully recover to pre-COVID-19 levels by fiscal 2026.

We expect that credit metrics will improve with funds from operations (FFO) to debt trending toward 9% in fiscal 2023 and above 9% from fiscal 2024 onward. This considers management guidance for capital expenditure (capex) of about NZ\$35 million in fiscal 2023 and our expectation that capex will step up from fiscal 2024 onward. This will allow the company to invest in major projects that had been planned earlier but were delayed due to the pandemic. However, we believe there is some flexibility to capex spending and the company may reduce it if the passenger recovery is below expectations. In addition, we have not factored dividend and subvention payments in our base case for fiscal 2023. However, if passenger traffic trends toward the upper range of our forecasts, there is the possibility of a small dividend and subvention payment in fiscal 2023. We expect dividend and subvention payments to return to normal levels from fiscal 2024 onward.

The airport's management and board remain committed to the 'BBB' rating. During the pandemic, management reduced both operating costs and capex. WIAL's shareholders also provided support in the form of \$75.8 million in redeemable preference shares (the funds were not called by WIAL and the drawdown option expired on June 30, 2022). We expect management would act to restore metrics back to above the downside trigger of 9% if the passenger recovery is slower than anticipated.

Outlook

The stable outlook primarily reflects our expectation of a robust recovery of passenger traffic, led by domestic passengers over the next 12-24 months. On the back of improved passenger traffic, we expect WIAL's FFO to debt to trend toward 9% in fiscal 2023 and above 9% over the subsequent one to two years.

Downside scenario

We could lower the rating if we believe WIAL's FFO to debt is unlikely to trend above 9% on a sustained basis. This could happen if:

- The pace of passenger traffic recovery is materially slower than our estimates due to a reimposition of travel restrictions or weaker-than-anticipated economic conditions impacting financial metrics;
- Management undertakes higher capex than our current expectations; or
- Shareholder returns exceed our expectations.

Upside scenario

We view an upgrade as less likely given the current trajectory in financial metrics based on our current forecasts. That said, we could raise the ratings if WIAL can maintain its FFO to debt with some buffer at above 13% on a sustained basis, supported by deleveraging and financial policies that favor a higher rating.

Our Base-Case Scenario

Assumptions

- Given the impact on travel from the pandemic, we do not believe that passenger recovery will correlate with New Zealand or passenger origin country GDP growth over the next several years.
- The current passenger traffic recovery is being led by domestic passengers with a recovery in international passengers lagging. The recovery in international passengers is supported by the full reopening of New Zealand borders since August 2022.
- Revenues from retail, car parking, and hotel to remain subdued (relative to pre-covid levels) and broadly linked to passenger numbers.
- Property income is forecast to continue to increase over the next several years.
- Operating expenditure to step up in fiscal 2023 to reflect recovery in passenger traffic and broader inflationary pressures.
- Capex spending to increase to about NZ\$35 million in fiscal 2023, NZ\$75 million in fiscal 2024, and NZ\$90 million thereafter.
- Assume no dividends to be paid in fiscal 2023 and return to normal levels thereafter.
- All-in effective interest costs of 4.4% in fiscal 2023 and increasing over the forecast period as debt maturities are refinanced.

Key metrics

Wellington International Airport Ltd-- Key Metrics*

Mil. NZ\$	2021a	2022a	2023e	2024f	2025f
New Zealand GDP (%)	0.5	4.4	2.8	3.1	2.6
New Zealand Inflation (%)	2.3	4.4	4.9	2.6	2.5
Operational stats					
Domestic Passengers (Mil)	3.0	3.5	4.4-4.7	4.9-5.2	5.2-5.5
International Passengers (Mil)	0.0	0.0	0.4-0.5	0.6-0.7	0.8
Total Passengers (Mil)	3.0	3.5	4.8-5.2	5.5-5.9	6.0-6.3
Key financials stats					
EBITDA	35.3	55.7	75-85	95-105	105-115
EBITDA margin (%)	51.3	58.3	60-65	65-70	65-70
Capital expenditure	35.0	17.8	30-35	70-75	85-90
Dividends (adjusted for subvention)	35.5	0.0	0.0	15-25	30-40
Debt	606.7	587.2	560-590	600-630	655-685

Wellington International Airport Ltd.

FFO to debt (%)	NM	5.0	7-9	9-10	9-10
FFO interest coverage (x)	0.7	2.1	2.5-3.0	2.7-3.2	2.7-3.2

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. GDP -- Gross domestic product. FFO -- Funds from operations. NM -- Not Meaningful.

Revenue, except for property, will continue to be predominantly driven by the recovery in passenger traffic. Aero and retail revenues are closely linked to passenger numbers. Unlike larger airports, WIAL has a lower exposure to international travel. We expect WIAL's revenue from smaller retail tenants to recover broadly in line with domestic passengers while a recovery in duty-free continues to lag. Similarly, car-parking revenue should track the recovery in domestic passengers.

Aero agreements provide visibility until the end of fiscal 2024. Aero revenue per passenger stepped up from April 1, 2021, following two years of flat pricing due to the pandemic. WIAL has set a concessionary price path targeting an average \$15 per passenger charge at the end of PSE4 (fiscal 2024).

Company Description

WIAL owns and operates Wellington Airport, the third-largest airport in New Zealand. The airport benefits from its location, which services New Zealand's capital city. Although passenger numbers increased to 3.5 million in fiscal 2022 from 2.97 million in fiscal 2021, it remains well below pre-COVID levels of 6.4 million in fiscal 2019.

The airport is 34% owned by Wellington City Council (AA+/Stable/A-1+) and the remainder by NZ Airports Ltd., a wholly owned subsidiary of New Zealand-based infrastructure fund Infratil Ltd.

Peer Comparison

We consider WIAL's closest peers to be other rated airports in Australia, including Brisbane and Adelaide airports; and in New Zealand, Christchurch and Auckland airports. All airports except Auckland have similar business risk profiles to Wellington.

Both WIAL and Christchurch International Airport Ltd. (CIAL) have benefitted from a robust recovery in domestic travel since local restriction were lifted from September 2021. The rating on Christchurch Airport also reflects the potential for extraordinary support from its 75% shareholder, Christchurch City Holdings Ltd.

In comparison, Auckland International Airport Ltd. continues to have a stronger business risk profile and dominant competitive position as it is the main international gateway to New Zealand. Supporting this is its large size and coverage of the largest populated area. Auckland's financial position is also stronger than that of WIAL. However, its larger exposure to international passengers may weigh on its passenger traffic recovery path in comparison to WIAL and CIAL.

Adelaide Airport Ltd. and Brisbane Airport Corp. Pty Ltd. have strong service areas as the major gateways into their respective states in Australia. Like the airports in New Zealand, the airports in Australia have also experienced a strong recovery with the easing of local restrictions. In addition, Brisbane has benefited from mining-related intrastate travel.

Wellington International Airport Ltd.--Peer Comparisons

	Wellington International Airport Ltd.	Brisbane Airport Corp. Pty Ltd.	Adelaide Airport Ltd.	Christchurch International Airport Ltd.	Auckland International Airport Ltd.
Foreign currency issuer credit rating	BBB/Stable/A-2	BBB/Stable/NR	BBB/Stable/--	BBB+/Positive/A-2	A-/Stable/A-2
Local currency issuer credit rating	BBB/Stable/A-2	BBB/Stable/NR	BBB/Stable/--	BBB+/Positive/A-2	A-/Stable/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2022-03-31	2021-06-30	2021-06-30	2022-06-30	2022-06-30
Mil.	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$
Revenue	96	480	124	139	300
EBITDA	56	235	73	70	155
Funds from operations (FFO)	29	88	39	45	96
Interest	27	149	53	25	62
Cash interest paid	26	144	28	24	60
Operating cash flow (OCF)	29	136	42	46	96
Capital expenditure	18	62	63	28	265
Free operating cash flow (FOCF)	12	74	(20)	18	(168)
Discretionary cash flow (DCF)	12	74	(20)	11	(168)
Cash and short-term investments	42	79	82	4	25
Gross available cash	42	79	82	4	25
Debt	587	3,471	973	569	1,460
Equity	751	2,071	267	1,386	8,151
EBITDA margin (%)	58.3	48.9	58.6	50.2	51.7
Return on capital (%)	2.5	0.9	3.6	1.6	2.4
EBITDA interest coverage (x)	2.1	1.6	1.4	2.8	2.5
FFO cash interest coverage (x)	2.1	1.6	2.4	2.8	2.6
Debt/EBITDA (x)	10.5	14.8	13.4	8.2	9.4
FFO/debt (%)	5.0	2.5	4.0	7.9	6.5
OCF/debt (%)	5.0	3.9	4.3	8.2	6.6
FOCF/debt (%)	2.0	2.1	(2.1)	3.2	(11.5)
DCF/debt (%)	2.0	2.1	(2.1)	2.0	(11.5)

Business Risk

The airport has a strong position as the sole gateway to the country's second-largest urban area. Wellington is also the seat of the central government and headquarters for large corporations in New Zealand's capital city. In addition, air travel is critical for New Zealand, given its location and lack of meaningful alternative modes of transport. For WIAL, domestic travel typically constitutes 85% of passengers, and more than 80% of international traffic is by travelers residing in Australia and New Zealand.

We expect domestic passenger traffic to remain resilient given high COVID vaccination rates in New Zealand (90% for ages 12+). Since September 2021, domestic passenger traffic in WIAL has recovered strongly and reached 78% of pre-COVID levels in the June 2022 quarter. In July 2022, domestic traffic reached 91% of pre-COVID levels. Supporting the recovery is a large portion of business-

related and VFR (visiting friends and relatives) traffic, with lower exposure to international tourism. Pent up demand from the VFR segment will continue to support travel to Wellington, while we expect business travel to lag somewhat.

We expect international traffic to continue to steadily recovery, albeit lagging domestic travel. We believe the high vaccination rates reduce the risk of reimposition of border controls. If the recovery in international traffic is slower than our current expectations, the impact on WIAL's credit metrics is not likely to be significant given international passenger has typically contributed about 15% of total passenger traffic.

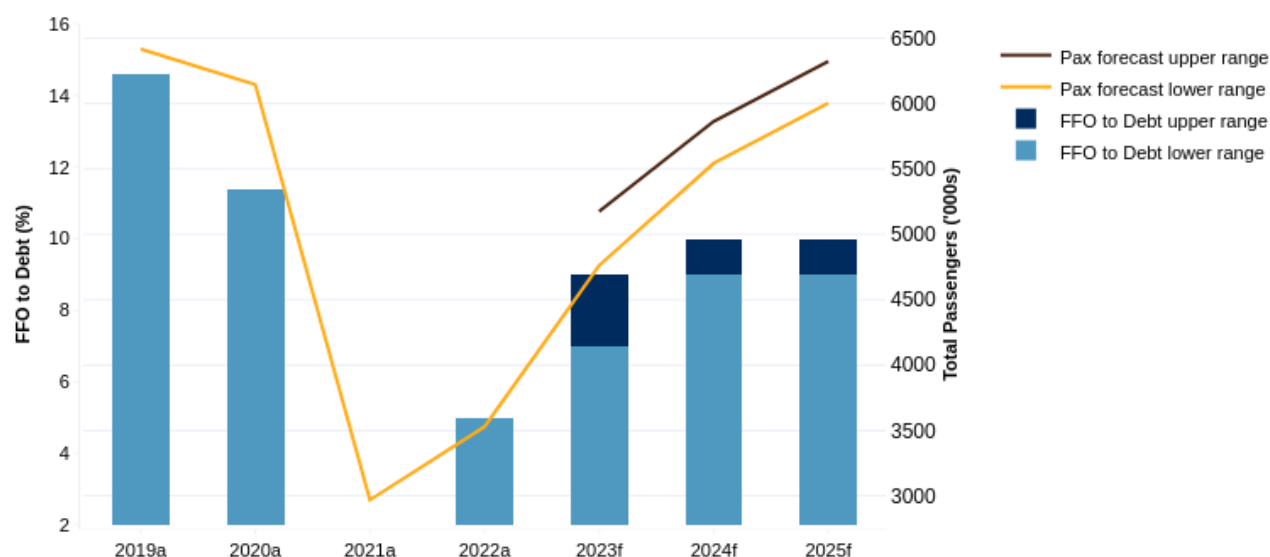
Like its peers, WIAL benefits from the light-handed regulatory regime for airports in New Zealand. The current aeronautical pricing period (PSE4) commenced in April 2021 and is applicable for the period until March 2024. Somewhat weakening WIAL's strong business position is the airport's lower revenue diversity compared to regional peers', and some operational constraints. WIAL's property investment opportunities are limited by its relatively small landbank.

WIAL's main operational constraint is its shorter runway, which limits its ability to handle wide-body long-haul aircraft. In the long-term, WIAL plans for a runway extension but will be required to obtain relevant approvals. WIAL also expects contributions from the city council and other public funding sources for this expansion.

Financial Risk

We expect WIAL's financial metrics to continue to recover from fiscal 2023. Based on the range of our passenger forecasts, we expect FFO to debt to be in the range of 7%-9% in fiscal 2023, before trending above 9% thereafter. Our base case estimates EBITDA of NZ\$75 million-NZ\$85 million in fiscal 2023.

Recovery In FFO To Debt To Track Passengers



a--Actual, f--Forecast. Source: S&P Global Ratings.

Wellington International Airport Ltd.

We expect operating expenses to increase in fiscal 2023 due to broader inflationary pressures (council rates, utility costs, insurance, labor) and recovery in passenger traffic. As passenger traffic continues to improve, WIAL will benefit from operating leverage and we expect its EBITDA margin to revert closer to historical levels in the outer years of our forecast period.

We expect capex to increase over the next few years as the company invests in major projects that were delayed due to the pandemic. However, we believe management will prudently manage capex spending in an environment where passenger recovery is slower than expectations.

We currently assume no dividends will be paid in fiscal 2023, and resume from fiscal 2024 onward with a level of payment dependent on operational performance and financial position.

The airport's management and board remain committed to the 'BBB' rating.

Debt maturities

Table 4

Wellington International Airport Ltd.—Debt Maturities*	
Year ending Mar 31,	Amount (Mil. NZ\$)
2023	0.0
2024	75.0
2025	60.0
2026	70.0
2027	225.0
Thereafter	199.8
Total	629.8

* Data as of March 31, 2022

Wellington International Airport Ltd.--Financial Summary

Period ending	Mar-31-2017	Mar-31-2018	Mar-31-2019	Mar-31-2020	Mar-31-2021	Mar-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$
Revenues	120	129	138	146	69	96
EBITDA	91	96	102	103	35	56
Funds from operations (FFO)	53	63	67	60	(8)	29
Interest expense	25	24	24	27	28	27
Cash interest paid	22	19	19	25	28	26
Operating cash flow (OCF)	57	65	60	62	(9)	29
Capital expenditure	80	84	72	81	35	18
Free operating cash flow (FOCF)	(24)	(19)	(12)	(19)	(44)	12
Discretionary cash flow (DCF)	(59)	(55)	(49)	(59)	(80)	12

Wellington International Airport Ltd.--Financial Summary

Cash and short-term investments	68	22	20	16	81	42
Gross available cash	68	22	20	16	81	42
Debt	354	409	459	529	607	587
Common equity	513	585	604	641	673	751
Adjusted ratios						
EBITDA margin (%)	75.9	74.9	74.2	70.3	51.3	58.3
Return on capital (%)	8.4	9.1	8.1	5.7	1.3	2.5
EBITDA interest coverage (x)	3.6	4.1	4.2	3.8	1.2	2.1
FFO cash interest coverage (x)	3.4	4.3	4.5	3.4	0.7	2.1
Debt/EBITDA (x)	3.9	4.3	4.5	5.1	17.2	10.5
FFO/debt (%)	15.1	15.3	14.6	11.4	(1.3)	5.0
OCF/debt (%)	16.0	15.9	13.2	11.7	(1.5)	5.0
FOCF/debt (%)	(6.7)	(4.7)	(2.6)	(3.5)	(7.3)	2.0
DCF/debt (%)	(16.8)	(13.3)	(10.7)	(11.2)	(13.1)	2.0

Reconciliation Of Wellington International Airport Ltd. Reported Amounts With S&P Global Adjusted Amounts (Mil. NZ\$)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Mar-31-2022									
Company reported amounts	622	751	96	56	32	26	56	30	-	18
Cash interest paid	-	-	-	-	-	-	(26)	-	-	-
Lease liabilities	10	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(42)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	1	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(1)	-	-
Debt: Foreign currency hedges	(2)	-	-	-	-	-	-	-	-	-
Total adjustments	(34)	-	-	-	0	1	(26)	(1)	-	-
S&P Global Ratings adjusted	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from Operations	Operating cash flow	Dividends	Capital expenditure

Reconciliation Of Wellington International Airport Ltd. Reported Amounts With S&P Global Adjusted Amounts (Mil. NZ\$)

	Shareholder Debt	Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
	587	751	96	56	32	27	29	29	-	18

Liquidity

We assess WIAL's liquidity as adequate. The short-term rating on WIAL is 'A-2', which reflects the long-term issuer credit rating and our view of the airport's adequate liquidity. We expect WIAL's sources of liquidity to well exceed estimated uses by 1.2x over the next 12 months, and sources to remain above uses, even if WIAL's EBITDA were to drop by 15%.

WIAL has been compliant with its debt covenants, and we expect this to continue to be the case over the next 12 to 24 months. In our view, WIAL has strong relationships with its banking syndicate and a prudent risk management framework. WIAL's debt facilities U.S. private placement notes are subject to covenants, which include maintaining its EBITDA interest coverage above 1.8x and gearing below 60%. We believe that WIAL will continue to be compliant with its debt covenants over the next 12-24 months.

Principal liquidity sources

- Cash and liquid investments of about NZ\$40 million as of March 31, 2022;
- Undrawn bank lines of NZ\$100 million maturing beyond 12 months; and
- Cash flow from operations of about NZ\$40 million.

Principal liquidity uses

- Debt maturities of NZ\$75 million over the next 12 months; and
- Capex of about NZ\$30 million-NZ\$35 million over the next 12 months.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
- N/A					- Health and safety					- N/A				

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Social factors are a moderately negative consideration in our credit rating analysis of WIAL. The pandemic is still impacting passenger traffic at Wellington International Airport, like most airports globally. However, with the recent lifting of domestic and international travel restrictions in New Zealand, recent traffic reports show a robust recovery in passenger traffic, led by domestic travel, which is important for Wellington International Airport given domestic passenger volumes represented about 85% of total passengers before COVID. We believe the pandemic is an extraordinary event that is unlikely to bring secular change to the industry.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of March 31, 2022, WIAL's capital structure mainly comprised senior unsecured bonds of NZ\$530 million issued in New Zealand dollars, a U.S. private placement (USPP) note issuance of US\$72 million, and undrawn senior unsecured bank facilities of NZ\$100 million.

Analytical conclusions

We rate NZ\$70 million of WIAL's senior unsecured bonds at 'BBB' in line with the issuer credit rating, because no element of subordination risk is present in the capital structure.

Rating Component Scores

Foreign currency issuer credit rating	BBB/Stable/A-2
Local currency issuer credit rating	BBB/Stable/A-2
Business risk	Strong
Country risk	Low
Industry risk	Low
Competitive position	Strong
Financial risk	Aggressive
Cash flow/leverage	Aggressive
Anchor	bb+
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Positive (+1 notch)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile	bbb

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013

Wellington International Airport Ltd.

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of October 11, 2022)*

Wellington International Airport Ltd.

Issuer Credit Rating	BBB/Stable/A-2
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Commercial Paper	
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Local Currency	
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A-2

Senior Unsecured	
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BBB

Issuer Credit Ratings History

21-Jun-2021	BBB/Stable/A-2
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15-Jun-2020	BBB/Negative/A-2
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19-Mar-2020	BBB+/Watch Neg/A-2
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*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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