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PTT Public Co. Ltd.

Primary Credit Analyst:

Xavier Jean, Singapore (65) 6239-6346; xavier.jean@standardandpoors.com

Secondary Contact:

Bertrand P Jabouley, CFA, Singapore (65) 6239-6303; bertrand.jabouley@standardandpoors.com

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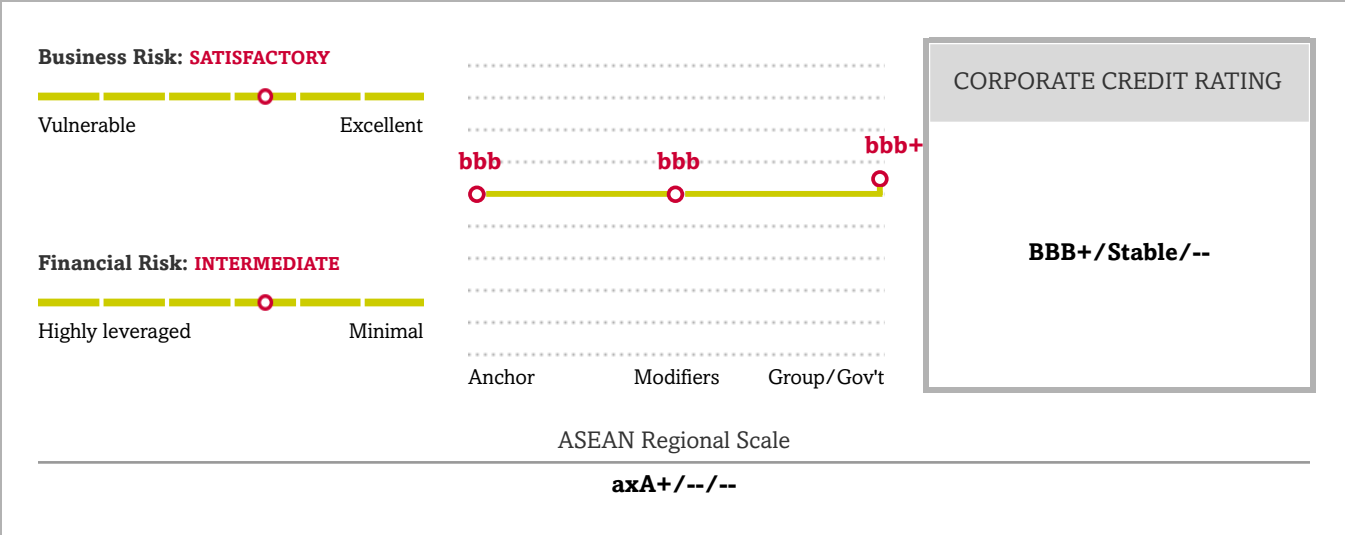
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PTT Public Co. Ltd.



Rationale

Business Risk: Satisfactory	Financial Risk: Intermediate
<ul style="list-style-type: none"> • High and sustainable domestic position across its core oil and gas businesses. • Integrated operations across the domestic oil and gas value chain. • Exposure to volatile and capital intensive sectors. • Concentration of sales to Thailand. 	<ul style="list-style-type: none"> • Solid cash flows across a product pricing cycle. • Conservative financial policies. • Aggressive growth plans and capital spending but with some flexibility.

Outlook: Stable

The stable outlook mirrors that on the sovereign credit rating on the Kingdom of Thailand (foreign currency BBB+/Stable/A-2; local currency A-/Stable/A-2; axAA/axA-1) and our expectation that PTT will maintain sound cash flow adequacy over the next two years.

Downside scenario

We could downgrade PTT if:

- We lower the local currency sovereign credit rating on Thailand by two notches or we lower the foreign currency sovereign credit rating on Thailand by one notch;
- We lower the likelihood of support by more than two categories to "moderately high." This could occur if the Ministry of Finance's shareholding in PTT falls below 50% or the government shifts its energy policy significantly and liberalizes the gas industry, thereby eroding PTT's market share; or
- PTT's stand-alone credit profile (SACP) weakens by more than four notches, which we consider highly unlikely.

We could revise downwards PTT's SACP if the company's consolidated financial risk profile weakens, with a consolidated debt to EBITDA approaching 3.0x (under the company's new scope of consolidation).

Upside scenario

We could upgrade PTT if we raise the local and foreign currency sovereign credit ratings by at least a notch, and the company maintains or improves its SACP.

We could raise PTT's SACP if the company's consolidated financial risk profile improves materially and sustainably. A consolidated debt to EBITDA comfortably below 2.0x (under the new scope of consolidation) and the generation of sizable and sustainable positive free operating cash flows would indicate this improvement.

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics			
<ul style="list-style-type: none"> Oil and gas production of 340,000-345,000 barrels of oil equivalent per day in 2015 and 2016. Production will gradually decline after that, given the natural depletion and the lack of new major projects. Brent crude price is US\$55 per barrel in 2015, US\$65 in 2016, and US\$75 in 2017. Consolidated capital expenditure of THB190 billion-THB210 billion in 2015, reducing to about THB160 billion-THB180 billion in 2016. A dividend payout of at least 40% of net income at PTT. The subsidiaries and associates will maintain dividend payouts consistent with their historical levels, including at least 40% at PTT Exploration and Production Public Co. Ltd. (PTTEP), PTT Global Chemical Public Co. Ltd., and Thai Oil Public Co. Ltd. 				
		2014A	2015E	2016E
	FFO/debt (%) *	46.5	About 35	About 35
	Debt/EBITDA (x) *	1.5	About 2.5	2.2-2.5
	EBITDA/interest (x) *	11.3	7.5-8.0	8.5-9.0
	FOCF/debt (%) *	27.2	0-5	7.5-12.5
DCF/debt (%) *	15.6	Marginally negative	About 5	
<p>A—Actual. E—Estimate. FFO—Funds from operations. FOCF—Free operating cash flow. DCF—Discretionary cash flows. *Leverage and coverage ratios mainly include adjustments for surplus cash, hybrid securities, asset retirement obligations, pension liabilities and operating leases. Actual figures for 2014 are based on PTT's previous scope of accounting consolidation. Our projections for 2015 and 2016 reflect PTT's new consolidation scope applicable from Jan. 1, 2015.</p>				

Company Description

PTT is an integrated oil, gas and energy company domiciled and operating mostly in Thailand. The company is involved in upstream oil and gas production, gas transportation and supply domestically, trading and marketing of oil, refined and petrochemical products. It is also involved in refining and petrochemical operations through its associates IRPC Public Co. Ltd., PTT Global, and Thai Oil. The Ministry of Finance owns the majority of PTT.

Business Risk: Satisfactory

PTT's strong and sustainable market position in Thailand across the oil and gas value chain underpins the company's business risk profile. It is the sole operator of Thailand's gas pipeline network and it is the largest domestic producer of oil and gas. On the basis of a refinery capacity of about 1.1 million of barrels a day of capacity, we estimate that PTT controls close to 60% of the country's refining capacity. For our estimate, we aggregate the nameplate capacity of PTT's associates: Thai Oil (about 275,000 barrels per day, or kboe), IRPC (about 215 kboe), and PTT Global (about 145kboe). PTT is also the sole producer of certain chemical products. The company's marketing network is also the largest in the country, with a market share of about 40% of the domestic market by volumes sold through service stations. While PTT's cash flows and profitability are sensitive to fluctuations in oil prices, the company's high integration and stable cash flows from the regulated midstream operations provide a good level of stability through a pricing cycle. Because of these considerations, we view PTT to be at the stronger end of our "satisfactory" business

risk profile.

The outlook for PTT's operations through 2016 is mixed. Lower selling prices will likely impede the profitability of the company's upstream operations, through subsidiary PTTEP. We expect PTTEP's EBITDA to fall to US\$3.9 billion-US\$4.1 billion annually in 2015 and 2016 from about US\$5.6 billion in 2014. We also expect weaker profitability in PTT's own operations as lower end-product prices affect the profitability of its trading operations and gas separation plants, and more than offset the subsidy reduction for liquefied petroleum gas effective February 2015. We expect a modest improvement in the operating performance of the company's downstream refinery and petrochemical operations, given better refining margins and still-favorable pricing for olefins and polyolefins.

PTT's announced in January 2015 that it would fully consolidate some large associates, including PTT Global, IRPC, and Thai Oil, which were historically equity-accounted. PTT will also use equity accounting for a few joint ventures. The modification of PTT's scope of accounting consolidation does not modify our view of the company's economic substance or business risk profile. PTT's reported EBITDA and margins will be more volatile under the new scope of consolidation because of the higher volatility of profitability in the newly consolidated associates. That said, the high integration between PTT and its large associates will not change, and our "satisfactory" business risk profile already captures the more volatile operations and margins of PTT's large associates.

We project PTT's EBITDA (under the new scope of consolidation) at Thai baht (THB) 240 billion-THB260 billion in 2015. The company's reported EBITDA for the quarter ended March 31, 2015, was about THB71.7 billion and represented about 28% of our full-year expectation for 2015. We forecast consolidated EBITDA will grow to THB250 billion-THB270 billion in 2016 on a modest recovery in the prices of crude oil, refined petroleum, and other petrochemical products.

S&P Base-Case Operating Scenario

- Thailand's GDP growth of 3.9% in 2015 and 4.0% in 2016, resulting in resilient growth in gas demand with a low single-digit growth in gas volumes sold through 2016.
- A still-favorable operating environment for olefins and polyolefin spreads, challenging for aromatics products, and a modest improvement in gross refining margins.
- Brent prices in line with our price deck.

Peer comparison

PTT has high levels of integration like Indonesia-based integrated oil and gas producer PT Pertamina (Persero) (BB+/Positive/--; axBBB+/--). PTT also has a dominant market position across the oil and gas value chain in its domestic market, similar to PT Pertamina. We view PTT's downstream operations as more robust than those of PT Pertamina, which has ageing and less complex refinery assets and limited integration into petrochemicals. However, the reserve life of PT Pertamina's upstream oil and gas assets is much longer than that of PTT. Malaysia-based Petroliaam Nasional Bhd. (Petronas; foreign currency A-/Stable--; local currency A/Stable/--; axAAA/--) is also highly integrated vertically and has a strong domestic position in Malaysia. Nevertheless, Petronas' upstream operations are sizably larger, and its reserve life, in excess of 20 years, is much bigger than PTT's reserve life of about six years.

All three companies have sizable gas operations, which make their profitability more stable than companies with greater focus on liquids. PTT's margins and return on capital are commensurate with those of PT Pertamina, but Petronas' large scale, higher quality upstream assets, profitable LNG operations and lower proportion of marketing and trading allow the company to generate margins that are two to three time higher than those of PTT.

PTT's financial risk profile is stronger than that of PT Pertamina, which has a higher debt load and weaker cash flow adequacy ratios. Petronas' financial policies are very conservative, with minimal debt levels.

Table 1.

PTT Public Co. Ltd. -- Peer Comparison			
	PTT Public Co. Ltd.	PT Pertamina (Persero)	Petroliam Nasional Bhd.
	--Average of past three fiscal years--		
(Mil. Mix curr.)	(THB)	(\$)	(MYR)
Revenues	2,823,751.10	70,891.60	305,841.30
EBITDA	252,960.50	6,837.30	120,986.30
Funds from operations (FFO)	182,274.20	4,357.40	88,983.50
Net income from cont. oper.	85,018.50	2,442.30	47,024.70
Capital expenditures	113,437.30	3,619.70	55,353.60
Free operating cash flow	75,591.80	(971)	36,383.20
Discretionary cash flow	29,754.00	(1,766.9)	(829.8)
Adjusted ratios			
EBITDA margin (%)	9	9.6	39.6
EBITDA interest coverage (x)	11.7	9.3	31.1
Debt/EBITDA (x)	1.7	2.1	0
FFO/debt (%)	42.6	30	N.M.
Free operating cash flow/debt (%)	17.6	(6.7)	N.M.
Discretionary cash flow/debt (%)	6.9	(12.2)	N.M.

N.M. - Not Meaningful. Petronas is in a net cash position.

Financial Risk: Intermediate

Our assessment of PTT's cash flow adequacy and leverage does not change materially following its new scope of accounting consolidation. Under the revised reporting, we forecast the company's consolidated debt-to-EBITDA ratio at 2.2x-2.5x over the next three years and the consolidated ratio of funds from operations (FFO) to debt to average about 35%. Both ratios are well within our expectations for an "intermediate" financial risk profile. These levels are marginally weaker than our earlier forecasts because of the consolidation of IRPC and Thai Oil, which adds substantial gross debt to the consolidated group but modest EBITDA.

Under the revised reporting, we forecast PTT's discretionary cash flows, after capital spending and dividends, to be negative THB20 billion-THB40 billion in 2015 because of a still-elevated capital spending at its upstream and midstream operations and sustained dividend payments. Still, we anticipate no increase in consolidated reported debt levels. We expect consolidated cash balances and short-term investments of THB352 billion as of March 31, 2015, will

amply finance the shortfall between internal accruals and capital spending. We also expect all major subsidiaries and associates, with the exception of IRPC, to finance their own capital spending internally without recourse to additional debt.

We expect discretionary cash flows to turn positive in 2016 in our base-case assumption of higher operating cash flows stemming from higher oil prices and reduced capital spending.

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

- Solid operating cash flows over the next two years despite reduced average selling prices in PTT's upstream operations.
- A pick-up in capital spending in 2015 because of higher spending at the parent company level and sustained spending in upstream and downstream operations, tapering off in 2016.
- Steady dividend payments to shareholders and non-controlling interests of about THB30 billion-THB35 billion.
- We assume minimum cash holdings of 40% of the company's consolidated cash balance and short-term investments and use the remainder to net off debt.

Financial summary

Table 2.

PTT Public Co. Ltd. -- Financial Summary					
--Fiscal year ended Dec. 31--					
	2014	2013	2012	2011	2010
(Mil. THB)					
Revenues	2,834,732.20	2,842,688.00	2,793,833.10	2,428,126.10	1,898,682.20
EBITDA	271,229.30	247,486.20	240,166.00	226,652.30	184,419.60
Funds from operations (FFO)	195,159.00	179,560.80	172,102.90	161,818.90	121,168.70
Net income from continuing operations	55,794.90	94,652.30	104,608.40	106,260.30	83,992.10
Capital expenditures	114,376.30	111,898.50	114,037.30	106,892.60	102,999.80
Free operating cash flow	114,208.10	58,535.10	54,032.30	71,478.40	49,987.30
Discretionary cash flow	65,370.60	12,167.50	11,723.90	30,376.50	18,232.60
Adjusted ratios					
EBITDA margin (%)	9.6	8.7	8.6	9.3	9.7
Return on capital (%)	11.9	14.6	17.4	19.7	16.6
EBITDA interest coverage (x)	11.3	12.1	11.9	11.8	9.4
Debt/EBITDA (x)	1.5	1.8	1.8	1.7	1.8
FFO/debt (%)	46.5	40.8	40.5	42.3	35.9
Free operating cash flow/debt (%)	27.2	13.3	12.7	18.7	14.8
Discretionary cash flow/debt (%)	15.6	2.8	2.8	7.9	5.4

N.M. - Not Meaningful.

Liquidity: Adequate

We assess PTT's liquidity as "adequate." We expect the company's consolidated liquidity sources to exceed its consolidated liquidity uses by more than 1.2x over the next 12 months and liquidity sources to exceed uses over the subsequent 12 months. As the largest state-owned company in Thailand, PTT has well-established and solid relationships with domestic banks, which support its financial flexibility. The company also has a good reputation and name recognition in the domestic and international capital markets.

Liquidity at the parent company and major subsidiaries and associates is also at least "adequate," except at IRPC, which we view as having a "less-than-adequate" liquidity. That said, we view IRPC as a strategically important entity within the PTT group of companies and do not expect the company in itself to materially weaken the group's liquidity.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> Consolidated cash balance and current investments of THB352 billion as of March 31, 2015. Consolidated cash flows, before changes in working capital, that we estimate at THB200 billion-THB220 billion over the next 12 months. 	<ul style="list-style-type: none"> Consolidated debt of about THB121 billion maturing over the next 12 months, including accrued interest. Consolidated capital spending that we project at about THB200 billion over the next 12 months. Dividends, including dividends to minority shareholders of subsidiaries and associates, of about THB35 billion over the next 12 months. Modest working capital requirements.

Debt maturities

(bil. THB)	2015	2016	2017	2018	2019	2020 and beyond	Total
Financial debt – parent company	28	36	22	34	27	134	281
Financial debt – consolidated*	94	48	90	72	61	316	681

*Consolidated debt as of March 31, 2015, is based on PTT's scope of consolidation as of Jan. 1, 2015. Excludes short-term working capital debts.

Covenant Analysis

The parent company and upstream subsidiary PTTEP have no financial covenants for their debts. Associates PTT Global and Thai Oil have comfortable headroom under their own debt covenants. IRPC has more debt and substantially less headroom under its covenants, even though we believe the company will manage to obtain waivers given its affiliation with PTT and well-established banking relationships.

Other Credit Considerations

We expect PTT's priority liabilities as a proportion of total assets to be about 30% over the next two years, higher than our 20% threshold. However, we do not notch down the issue rating on the company's senior unsecured notes because a large proportion of consolidated assets, about 40% as of March 31, 2015, are at the parent company level. We also

consider PTT as having a good level of operating diversity, with operations across the oil and gas value chain with imperfectly correlated performance.

Government Influence

In our view, PTT benefits from its status as a government-related entity. We see an "extremely high" likelihood that the government of Thailand will provide sufficient and timely extraordinary support to PTT in the event of financial distress. Our assessment is based on the following company characteristics:

- Its critical role as the only integrated energy company in Thailand and in developing a long-term natural gas supply for the country. PTT implements Thailand's energy policies and plays an essential role in maintaining the country's electric power supplies; and
- Its very strong link with the Thai government through the Ministry of Finance's 51.1% ownership. The ministry has considerable influence on PTT's policies and direction through a strong representation on the company's board. Government-supported equity fund Vayupak owns 15.3% of PTT, taking total government ownership to 66.4%.

Ratings Score Snapshot

Corporate Credit Rating

BBB+/Stable/--

Business risk: Satisfactory

- **Country risk:** Moderately high
- **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:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

- **Group credit profile:** bbb+

- **Likelihood of government support:** Extremely high (+1 notch from SACP)

Reconciliation

Table 3.

Reconciliation Of PTT Public Co. Ltd. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. THB)								
--Fiscal year ended Dec. 31, 2014--								
PTT Public Co. Ltd. reported amounts								
	Debt	Shareholders' equity	EBITDA	Operating income	Interest expense	EBITDA	Cash flow from operations	Capital expenditures
Reported	475,805.40	697,578.40	238,641.10	130,300.40	21,463.10	238,641.10	235,367.50	115,703.30
Standard & Poor's adjustments								
Interest expense (reported)	--	--	--	--	--	(21,463.10)	--	--
Interest income (reported)	--	--	--	--	--	2,918.40	--	--
Current tax expense (reported)	--	--	--	--	--	(44,449.50)	--	--
Operating leases	6,689.80	--	2,537.50	513.70	513.70	2,023.80	2,023.80	--
Intermediate hybrids reported as equity	18,594.30	(18,594.30)	--	--	437.60	(437.60)	--	--
Postretirement benefit obligations/ deferred compensation	6,598.10	--	1,713.20	1,713.20	343.10	1,741.40	(689.60)	--
Surplus cash	(134,856.90)	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	1,327.00	(1,327.00)	(1,327.00)	(1,327.00)
Dividends received from equity investments	--	--	11,533.80	--	--	11,533.80	--	--
Asset retirement obligations	46,757.40	--	--	--	--	--	--	--
Exploration costs	--	--	10,826.10	--	--	--	--	--
Non-operating income (expense)	--	--	--	19,159.20	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	(7,098.10)	--
Non-controlling interest/Minority interest	--	169,763.70	--	--	--	--	--	--
EBITDA - Other	--	--	5,977.50	5,977.50	--	5,977.50	--	--
Working capital - Other	--	--	--	--	--	--	307.80	--
Total adjustments	(56,217.30)	151,169.50	32,588.10	27,363.60	2,621.40	(43,482.20)	(6,783.20)	(1,327.00)

Table 3.**Reconciliation Of PTT Public Co. Ltd. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. THB) (cont.)**

Standard & Poor's adjusted amounts								
	Debt	Equity	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Capital expenditures
Adjusted	419,588.20	848,747.90	271,229.30	157,664.00	24,084.40	195,159.00	228,584.30	114,376.30

Related Criteria And Research

Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Standard & Poor's National And Regional Scale Mapping Tables, Sept. 30, 2014
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Industrials: Key Credit Factors For The Midstream Energy Industry, Dec. 19, 2013
- Industrials: Key Credit Factors For The Oil And Gas Exploration And Production Industry, Dec. 12, 2013
- Group Rating Methodology, Nov. 19, 2013
- Methodology For Crude Oil And Natural Gas Price Assumptions For Corporates And Sovereigns, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Related Research

- PTT Global 'BBB' Rating Affirmed On Sustained Parent Support, Steady Financial Performance; Outlook Stable, May 25, 2015
- PTTEP 'BBB+' Rating Affirmed On Sustained Parental Support; Outlook Stable, April 30, 2015
- IRPC Public Co. Ltd. 'BB+' And 'axBBB+' Ratings Affirmed; Outlook Stable, April 30, 2015
- Thai Oil 'BBB' Rating Affirmed With Stable Outlook On Sustained Parent Company Support, April 28, 2015

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 June 5, 2015)

PTT Public Co. Ltd.

Corporate Credit Rating	BBB+/Stable/--
<i>ASEAN Regional Scale</i>	axA+/--/--
Senior Unsecured	BBB+

Corporate Credit Ratings History

10-Dec-2010	<i>Foreign Currency</i>	BBB+/Stable/--
01-Dec-2008		BBB+/Negative/--
31-Oct-2006		BBB+/Stable/--
10-Dec-2010	<i>Local Currency</i>	BBB+/Stable/--
14-Apr-2009		BBB+/Negative/--
01-Dec-2008		A-/Negative/--
22-Nov-2012	<i>ASEAN Regional Scale</i>	axA+/--/--

Related Entities

IRPC Public Co. Ltd.

Issuer Credit Rating	BB+/Stable/--
<i>ASEAN Regional Scale</i>	axBBB+/--/--
Senior Unsecured	BB+

PTT Exploration and Production Public Co. Ltd.

Issuer Credit Rating	BBB+/Stable/--
<i>ASEAN Regional Scale</i>	axA+/--/--
Senior Unsecured	BBB+
Subordinated	BBB-

PTT Global Chemical Public Co. Ltd.

Issuer Credit Rating	BBB/Stable/--
<i>ASEAN Regional Scale</i>	axA/--/--
Senior Unsecured	BBB

Thai Oil Public Co. Ltd.

Issuer Credit Rating	BBB/Stable/--
<i>ASEAN Regional Scale</i>	axA/--/--
Senior Unsecured	BBB

*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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