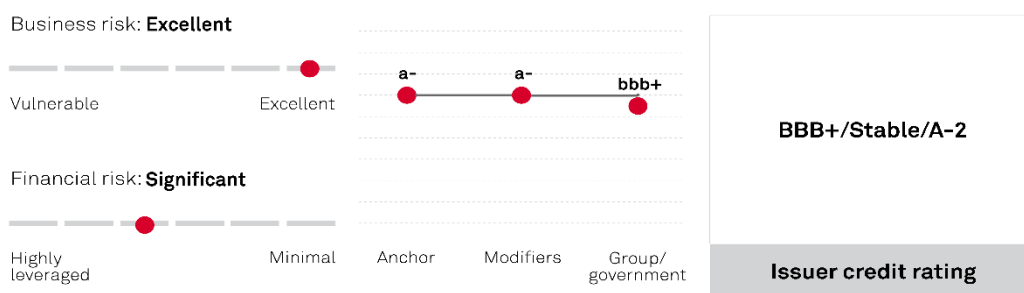


Northern Ireland Electricity Networks Ltd.

November 1, 2023

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths

Monopoly market position as the sole transmission and distribution system owner and operator in Northern Ireland.

Stable and predictable earnings derived from low risk regulated network operations within the current 2017-2025 regulatory period.

The Northern Ireland Authority for Utility Regulation (Utility Regulator; UR) provides good cash flow visibility under a supportive regulatory framework.

Key risks

Challenging current price control with a weighted average cost of capital of 3.18%--one of the lowest returns relative to previous periods --although cost efficiency plans will preserve EBITDA margins.

Possibility of ratings pressure if parent (Electricity Supply Board; ESB) credit quality deteriorates, although the outlook on the rating on ESB is currently stable. The rating on NIE Networks is constrained by ESB's 'bbb+' stand-alone credit profile (SACP), versus NIE Networks' 'a-' SACP.

Sizable capital expenditure (capex) program will lower rating headroom by end-2025 with an increase of debt to £290-£300 million over the period from £151 million in 2022.

Northern Ireland Electricity Networks Ltd.'s (NIE Networks') current price control period was extended by a year. The UR lengthened the regulatory period (RP6) by a year to March 31, 2025, from April 1, 2024, to allow for adequate preparation time for the next price control period (RP7), which will be critical to the delivery of Northern Ireland's net zero ambitions. NIE Networks submitted its business plan for RP7, which will run from April 2025 to March 2031, to the regulator in March this year. The UR will publish its draft determinations in November 2023 and final determinations in October 2024.

NIE Networks' debt-funded capex will lower rating headroom, but metrics remain above our downside threshold through 2025. Annual adjusted capex will ramp up significantly by the end of RP6 to £290 million-£300 million, relative to £151 million in 2022. Debt will increase to partly finance these investments, leading us to anticipate a gradual erosion of rating headroom over the next three years. We project that funds from operations (FFO) to net debt will gradually decline toward 13.0% by end-2025 from 15.8% at end-2022, but remain above our 12% downside threshold for the 'a-' stand-alone credit profile (SACP). Over 2023-2032, NIE Networks plans to invest over £3 billion to deliver on Northern Ireland's net zero goals and maintain network resilience. The bulk of these investments, £2.6 billion, will take place during the RP7 price control period.

The energy transition will provide an opportunity for NIE Networks to accelerate capital investments by increasing connections to low carbon energy sources. Northern Ireland's energy strategy targets net zero carbon emissions by 2050, and the Climate Change Act has set a target that 80% of electricity consumption be sourced from renewable energy by 2030. During 2022, 51% of electricity consumed was from renewable sources representing further investment opportunities for NIE Networks. As of end 2022, the company had connected 1.8 gigawatts (GW) of renewable energy to the grid, with a commitment to connect a further 0.5 GW of capacity.

The North/South Interconnector project will be another important capex driver from 2025. The project will be the second connection between Northern Ireland and the Republic of Ireland's electricity grids, allowing a more efficient operation in the all-island network and for greater security of supply. The project is expected to start in 2025 and will take several years, with a full estimated construction cost of about £200 million.

Our rating on NIE Networks is constrained by ESB's credit quality. Although NIE Networks is a core entity of the ESB group, and the parent supports NIE Networks' financing activities, the parent's 'bbb+' SACP constrains the issuer credit rating on NIE Networks despite its 'a-' SACP. NIE Networks is a modest contributor to ESB's earnings. However, it remains an important entity within the group given its geographic importance and role as a monopoly electricity transmission and distribution operator in a fully regulated market.

Outlook

The stable outlook on the rating on NIE Networks mirrors the stable outlook on the rating on ESB, its parent. We anticipate the ratings on NIE Networks will move in tandem with ESB's SACP if NIE Networks remains a core member of ESB. Even in the case of a downward revision of NIE Networks' SACP, we would not expect this to affect the rating as long as the rating on the parent remains unchanged. We expect ESB to maintain S&P Global Ratings-adjusted FFO to debt at about 17%, based on its regulated network's stable contribution, and despite the sizable capex required for the transformation of its generation portfolio.

The stable outlook on ESB mirrors that on Ireland (AA/Stable/A-1+).

Downside scenario

We could lower the rating on NIE Networks if we lower that on ESB. Similarly, we would lower the ratings on ESB if we lower the sovereign credit rating on Ireland.

Northern Ireland Electricity Networks Ltd.

A downgrade of ESB would also result if we revised down its SACP. This could occur if its earnings became more volatile, if the group's profitability weakened, or if its debt increased without a simultaneous increase in FFO.

We could revise down our SACP on NIE Networks from 'a-' if it is unable to achieve adjusted FFO to debt of more than 12%. Even if we revise down NIE Networks' SACP, we do not expect this to affect the rating if ESB's group credit profile (GCP) assessment does not change.

Upside scenario

An upgrade of NIE Networks would depend on us raising our ratings on ESB. If we raise the rating on Ireland by one notch, we would also raise the rating on ESB, all else being equal. We are unlikely to revise ESB's SACP upward over our three-year rating horizon, mainly because of the group's forecast metrics, which are affected by its sizable and partly debt-financed capex program. We cap our ratings on NIE Networks at ESB's SACP of 'bbb+'.

Our Base-Case Scenario

Assumptions

- Current regulatory period runs until March 2025, updated price determination for the next period expected in October 2024.
- Retail price index (RPI) and consumer price index including owner occupiers' housing costs (CPIH) as per our in-house projections. We forecast average RPI in the U.K. of 4.2% and 2.4% for the financial years ending March 2024, and March 2025, respectively.
- Continued regulatory visibility and high predictability of earnings from its regulated networks business.
- We expect a maximum dividend pay-out of 60% of profit after tax in 2023 and following years in line with the stated financial policy.
- Annual net capex to increase to nearly £300 million by the end of 2025.

Key metrics

Northern Ireland Electricity Networks Ltd.--

Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025
(Mil. GBP)	2020a	2021a	2022a	2023e	2024f	2025f
EBITDA	199	196	192	200-220	230-250	250-270
Funds from operations (FFO)	147	144	143	140-150	145-160	155-170
Debt	823	793	906	975-1000	1000-1150	1250-1300
Capex (adjusted)	97	121	151	185-190	200-260	290-300
Adjusted ratios						
Debt/EBITDA (x)	4.1	4.0	4.7	4.3-4.5	4.5-4.9	4.7-5.1
FFO/debt (%)	17.8	18.1	15.8	14.5-15.0	14.0-14.5	13-13.5

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. GBP--pound sterling.

NIE Networks will show steady EBITDA margins over the remainder of RP6, averaging 70% between 2023-2025. NIE Networks' revenues are stable and predictable given its regulated status as the owner and sole operator of the electricity transmission and distribution system in Northern Ireland. We expect relatively stable revenue growth on average until the end of RP6. RP6 includes themes, such as the implementation of cost-efficiency plans, that will allow NIE Networks' EBITDA margin to remain stable. FFO to debt will decline to 14%-15% during 2023-2024 and toward 13% by 2025 as the company contracts more debt to finance capex.

NIE Networks' dividend policy of up to a maximum of 60% of profit after tax is moderate, given its flexibility. The company's dividend policy is underpinned by maintaining credit metrics above the thresholds corresponding to the 'a-' SACP. In this sense, we expect the utility to continue to support credit metrics in line with the SACP. While we expect negative discretionary cash flow to debt over our forecast period, this is due to sizable capex planned for the increase in transmission system capacity and the North South Interconnector project.

Company Description

NIE Networks is a wholly owned subsidiary of Electricity Supply Board (ESB; A-/Stable/A-2). NIE Networks is the only electricity transmission asset owner and electricity distribution network owner and operator in Northern Ireland. ESB owns the Irish transmission grid and owns and operates the distribution network in Ireland. Irish state-owned transmission operator Eirgrid PLC and subsidiary SONI Ltd. operate the transmission grids in Ireland and Northern Ireland, respectively.

NIE Networks serves over 910,000 consumers via a number of substations. In 2022, an estimated 7.3 terawatt-hours (TWh) of electricity was transmitted and distributed to consumers in Northern Ireland (compared with 7.5 TWh in 2021). The utility's assets comprise a 2,300 kilometer (km) transmission grid, 47,000 km of distribution lines, and 340 major substations. NIE Networks' transmission system is connected to that of Ireland through a 275 kilovolt interconnector and to that in Scotland via the Moyle interconnector. In addition to its core network activities, NIE Networks facilitates connections to the network, provides meters to consumers, and takes meter readings.

Peer Comparison

We compare NIE Networks with other transmission system operators in Europe. All peers have similar business profiles characterized either by monopolistic market positions and/or operating in almost purely regulated transmission networks with supportive and transparent regulatory frameworks. However, financially, NIE Networks is significantly smaller than peers. It also has one of the lowest weighted average cost of capitals (WACCs) in the peer group.

Additionally, we believe NIE Networks' financial policy is supportive of the rating, and it has a relatively similar dividend policy to that of its peer group.

Northern Ireland Electricity Networks Ltd.--Peer Comparisons

	Northern Ireland Electricity Networks Ltd.	Elia Group SA/NV	National Grid PLC	Terna SpA	RTE Réseau de Transport d'Electricité
Foreign currency issuer credit rating	BBB+/Stable/A-2	BBB+/Negative/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	A/Stable/A-1

Northern Ireland Electricity Networks Ltd.--Peer Comparisons

Local currency issuer credit rating	BBB+/Stable/A-2	BBB+/Negative/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	A/Stable/A-1
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-03-31	2022-12-31	2022-12-31
Mil.	GBP	GBP	GBP	GBP	GBP
Revenue	283	3,437	18,562	2,623	4,369
EBITDA	192	791	5,929	1,830	1,616
Funds from operations (FFO)	143	549	4,375	1,373	1,237
Interest	39	134	1,198	131	178
Cash interest paid	36	127	1,015	119	197
Operating cash flow (OCF)	122	1,292	4,681	2,107	3,223
Capital expenditure	151	1,394	5,544	1,512	1,366
Free operating cash flow (FOCF)	(29)	(101)	(863)	595	1,857
Discretionary cash flow (DCF)	(66)	(239)	(1,826)	58	1,505
Cash and short-term investments	248	1,077	2,151	2,237	2,754
Gross available cash	248	1,077	2,151	2,237	2,754
Debt	906	6,966	43,746	7,965	11,009
Equity	549	4,795	24,883	5,033	5,652
EBITDA margin (%)	68.1	23.0	31.9	69.7	37.0
Return on capital (%)	7.3	3.0	6.7	9.3	4.0
EBITDA interest coverage (x)	4.9	5.9	4.9	13.9	9.1
FFO cash interest coverage (x)	5.0	5.3	5.3	12.5	7.3
Debt/EBITDA (x)	4.7	8.8	7.4	4.4	6.8
FFO/debt (%)	15.8	7.9	10.0	17.2	11.2
OCF/debt (%)	13.4	18.6	10.7	26.5	29.3
FOCF/debt (%)	(3.2)	(1.5)	(2.0)	7.5	16.9
DCF/debt (%)	(7.3)	(3.4)	(4.2)	0.7	13.7

Business Risk

NIE Networks' business risk profile reflects our view that the regulatory framework in Northern Ireland is transparent and supportive, showed in the stability and predictability of its regulated revenues from its transmission and distribution system ownership, and operational monopoly in its service area of Northern Ireland.

The current 7.5-year RP6 in Northern Ireland follows the key principles of the regulatory frameworks applicable to U.K. regulated utility businesses, which we assess as credit supportive. While we view the most recent regulatory determination as tough given one of the lowest WACCs we have seen (3.18%), we note that the price control includes an adjustment mechanism to WACC for new debt raised during RP6 to reference the market rate at the time of issuance.

NIE Networks' current regulatory period runs from Oct. 1, 2017, to March 31, 2025. So far, the company has performed well under the challenging circumstances, with strong regulatory indicators, and has facilitated the opening of the Connections market to competition.

Northern Ireland Electricity Networks Ltd.

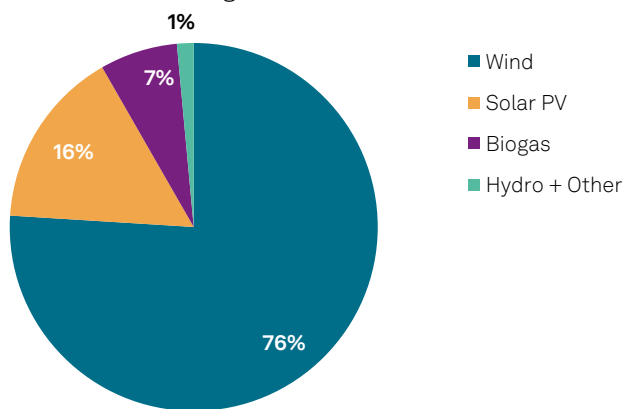
RP6 is dominated by a few key themes including implementing cost-efficiency plans to address the gap in RP6 allowances; meeting higher customer service standards; and securing regulatory funding for growth projects and innovation.

NIE Networks has a strong market position in its service areas, with the transmission and distribution monopoly businesses operating under license. The license may not be terminated by less than 25 years' notice given by the Department of Enterprise Trade and Investment.

NIE Networks has a relatively diverse range of customers as the monopoly distribution network operator in Northern Ireland. Although NIE Networks only has exposure to a single regulatory regime, we do not view this as a negative given that the regulatory advantage is strong. Connecting the grid to renewable energy is part of NIE Networks' responsibility as the owner of the transmission network. Wind is by far the largest contributor of renewables to the system.

Renewable energy mix (MW)

Sizable connection to wind generation



MW--Megawatt. PV--Photovoltaic. Source: S&P Global Ratings.

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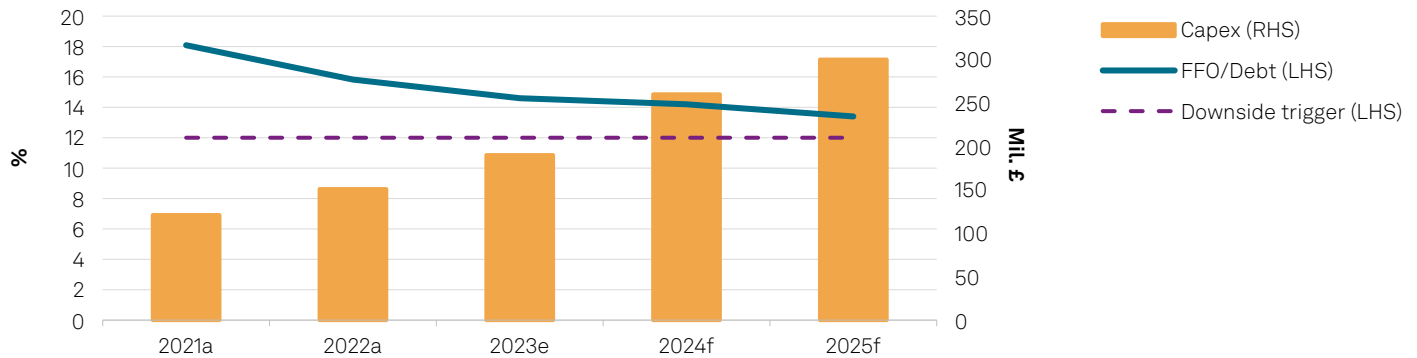
Financial Risk

Our assessment of NIE Networks' financial risk reflects that adjusted FFO to debt will likely fall to an average of about 14% over the three-year outlook horizon, below the 2021-2022 average of 17%, because of increased capex-related debt. The utility generates most of its earnings under a regulatory regime we view as low risk.

At year-end 2022, the company was on track with its investment program for RP6, having achieved 81% of outputs for the original price control period and 66% of capex investment, as well as fully achieving the customer minutes lost incentive in the first five years of RP6. It had also connected 1.8 GW of renewable energy to the grid with a commitment to connect a further 0.5 GW of capacity.

NIE Networks' credit metrics

FFO to debt above downside threshold



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

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Debt maturities

Northern Ireland Electricity Networks Ltd.--Financial summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	GBP	GBP	GBP	GBP	GBP	GBP
Revenues	246	259	258	282	278	283
EBITDA	156	177	176	199	196	192
Funds from operations (FFO)	111	128	130	147	144	143
Interest expense	42	41	37	37	36	39
Cash interest paid	39	40	36	35	35	36
Operating cash flow (OCF)	48	93	114	135	113	122
Capital expenditure	122	109	114	97	121	151
Free operating cash flow (FOCF)	(73)	(16)	0	38	(9)	(29)
Discretionary cash flow (DCF)	(91)	(38)	(24)	20	(48)	(66)
Cash and short-term investments	11	30	9	22	11	248
Gross available cash	11	30	9	22	11	248
Debt	813	808	841	823	793	906
Common equity	327	374	391	425	491	549
Adjusted ratios						
EBITDA margin (%)	63.5	68.2	68.0	70.4	70.7	68.1
Return on capital (%)	7.7	8.7	7.8	9.0	8.4	7.3

Northern Ireland Electricity Networks Ltd.--Financial summary

EBITDA interest coverage (x)	3.7	4.3	4.7	5.4	5.4	4.9
FFO cash interest coverage (x)	3.8	4.2	4.6	5.2	5.1	5.0
Debt/EBITDA (x)	5.2	4.6	4.8	4.1	4.0	4.7
FFO/debt (%)	13.7	15.8	15.5	17.8	18.1	15.8
OCF/debt (%)	6.0	11.5	13.6	16.4	14.2	13.4
FOCF/debt (%)	(9.0)	(2.0)	0.0	4.7	(1.1)	(3.2)
DCF/debt (%)	(11.2)	(4.7)	(2.8)	2.5	(6.0)	(7.3)

Reconciliation of Northern Ireland Electricity Networks Ltd. reported amounts with S&P Global adjusted amounts (mil. GBP)

Financial year	Dec-31-2022	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Company reported amounts		1,114	549	303	210	117	39	192	122	37	184
Cash taxes paid		-	-	-	-	-	-	(13)	-	-	-
Cash interest paid		-	-	-	-	-	-	(36)	-	-	-
Lease liabilities		17	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/deferred compensation		-	-	-	2	2	-	-	-	-	-
Accessible cash and liquid investments		(248)	-	-	-	-	-	-	-	-	-
Asset-retirement obligations		23	-	-	-	-	-	-	-	-	-
Nonoperating income (expense)		-	-	-	-	1	-	-	-	-	-
Revenue: other		-	-	(20)	(20)	(20)	-	-	-	-	-
Capex: customer contributions		-	-	-	-	-	-	-	-	-	(33)
Total adjustments		(208)	-	(20)	(18)	(17)	-	(49)	-	-	(33)
S&P Global Ratings adjusted		906	549	283	192	100	39	143	122	37	151

Liquidity

We assess NIE Networks' liquidity position as strong, supported by our view that its liquidity sources will exceed its funding needs by more than 1.5x in the next 12 months and 1.0x in the next 24 months. Our assessment is further supported by the ESB group's ongoing and proactive

liquidity and debt management, and ample and proven access to capital markets, even under challenging market conditions. We also take comfort from the revolving credit facility provided by NIE Networks' parent ESB. The revolving credit facility with ESB is set to expire by December 2025 but, as it has been renewed several times in the past, we think it highly likely that it will be extended again.

Principal liquidity sources

For the 12 months from Sept. 30, 2023, we estimate that NIE Networks' liquidity sources will be:

- Unrestricted cash balance of about £192 million;
- Undrawn bank facilities of £100 million maturing in December 2025; and
- Annual FFO of about £150 million.

Principal liquidity uses

For the 12 months from Sept. 30, 2023, we estimate that NIE Networks' liquidity uses will be:

- Dividend payment of about £35 million-£40 million;
- Working capital outflows assumed as neutral;
- Capex of about £235 million; and
- No debt maturities.

Environmental, Social, And Governance

NIE Network's environmental policy commits to protecting the environment and mitigating the impact of its activities on the environment. The utility has connected 1.8 GW of renewable generation to the grid as of end-2022. It expects to evolve from a distribution network operator to a distribution system operator, encompassing the incorporation of advanced technologies in the network, and capacity for the two-way transfer of electricity, all of which will facilitate transition to a low carbon network for Northern Ireland. The group is also continually reducing its energy usage across its operational sites.

NIE Networks provides an important social service as the operator of the distribution network. It must maintain high quality networks as set by the regulator, and at an affordable level.

Group Influence

We view NIE Networks as a core entity within the ESB group since its activities are aligned with the group's strategic focus on regulated networks. Although we assess NIE Networks' SACP at 'a-', we do not consider it insulated from the credit quality of its parent ESB because of the high integration and financing dependencies between the parent and subsidiary. Therefore, we rate NIE Networks at the level of ESB's unsupported GCP. We continue to assess ESB's GCP as 'bbb+', based on the consolidated cash flows and debt at ESB. We do not expect the government of the Republic of Ireland to extend support to NIE Networks' and as a result, the rating on NIE Networks' is capped at the SACP of ESB.

Issue Ratings--Subordination Risk Analysis

Capital structure

NIE Networks' debt structure consists of senior unsecured debt issued by NIE Finance PLC.

Analytical conclusions

We rate NIE Networks' debt at 'BBB+', the same as the issuer credit rating, because no significant elements of subordination risk are 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	Excellent
Country risk	Low
Industry risk	Very Low
Competitive position	Strong
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	a-
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	a-

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- 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 13, 2023)*

Northern Ireland Electricity Networks Ltd.

Issuer Credit Rating

BBB+/Stable/A-2

Ratings Detail (as of October 13, 2023)*

Issuer Credit Ratings History

13-Feb-2013	BBB+/Stable/A-2
17-Jan-2012	BBB+/Negative/A-2
08-Dec-2011	BBB+/Watch Neg/A-2

Related Entities

Electricity Supply Board

Issuer Credit Rating	A-/Stable/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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