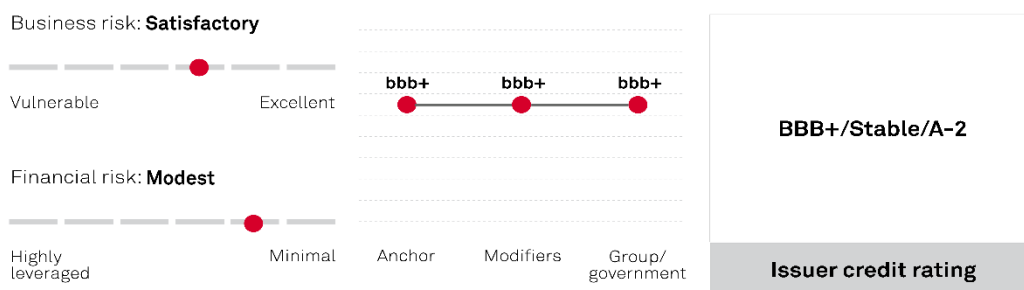


# Elisa Oyj

April 12, 2024

## Ratings Score Snapshot



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## Credit Highlights

### Overview

#### Key strengths

Leading telecommunications operator in Finland, with a 39% subscriber market share in mobile and 28% in fixed broadband. No. 2 operator in Estonia with a 35% market share in mobile and 23% in fixed broadband (all by number of subscriptions).

Overall stable competitive environment in the three-player Finnish and Estonian telecom markets.

Well-invested networks and expansion toward digital services spur revenue growth.

Conservative financial policy, targeting net debt to EBITDA of 1.5x–2.0x, translating into S&P Global Ratings-adjusted debt to EBITDA of less than 2.0x.

Relatively low capital expenditure (capex), of about 12%-13% of sales, supporting strong free operating cash flow (FOCF) generation and FOCF to debt of about 25%.

#### Key risks

Limited scale and geographical presence versus many European peers, with annual EBITDA of about €758 million in 2023, predominantly generated in Finland.

Intense competition in certain parts of the residential broadband and business-to-business (B2B) segments.

Commercial paper maturing in less than 12 months typically constituting 12%-14% of total debt.

**Elisa Oyj (Elisa) maintains a No. 1 position in the mobile segment in Finland and a No. 2 position in Estonia; both markets are competitive, but market shares remain relatively stable.**

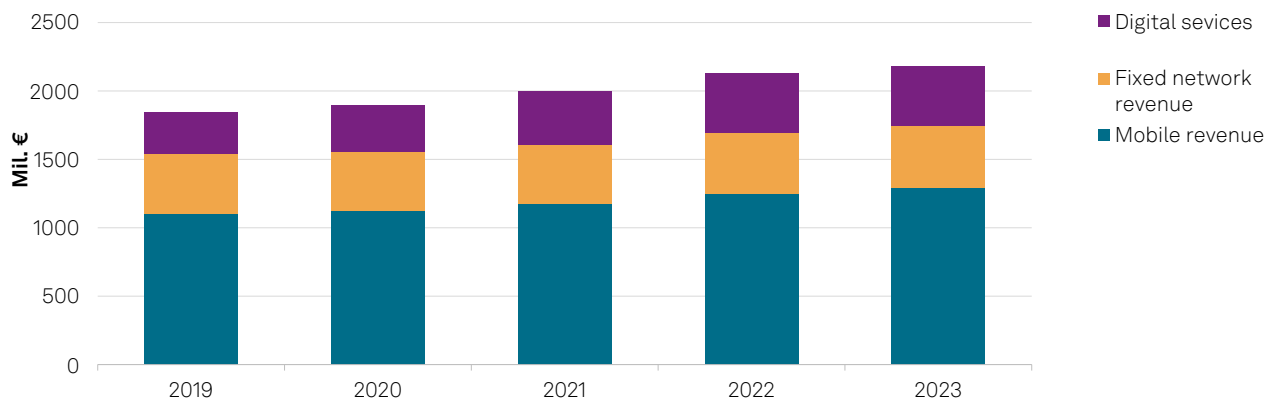
Based on June 2023 data by the Finnish Transport and Communications Agency (Traficom), in Finland, Elisa holds a leading 39% mobile subscriber market share, ahead of Telia, and DNA (owned by Telenor). It is also No. 2 in fixed services (28%) behind DNA (34%). Market share by revenues is not officially reported by the regulator but according to Elisa, they are the leading provider in mobile (with about 40% of the total market revenues) and fixed services (with almost half), given the strong presence in B2B. In Estonia, where Elisa generates about 10% of its revenue, it is No. 2 (35% in mobile services and 23% in fixed broadband) behind the leading player Telia (43% in mobile services and 53% in fixed broadband).

The Finnish mobile market, and Elisa in particular, has good quality networks, and Finland is a global leader in the use of mobile data. According to the regulator Traficom, in 2022 the volume of data transferred via the mobile network per capita and month was nearly 66 gigabytes (GB) in Finland (compared to 58 GB in 2021). The three operators hold close amounts of spectrum in all key bands; however, Elisa has the widest spectrum availability among the three peers. The increase in the offered data transfer subscriptions and the improved coverage of 5G networks also support further growth in data use volumes.

Growth prospects in Estonia are possible with only limited investment needs due to population density, the high spectrum available, and the opportunities to monetize data-consumption increases in the stable three-player market.

**Development of 5G services and customers' migration to higher speed underpin Elisa's solid competitive position.** Elisa was one of the first companies in the world to launch a commercial 5G network, at the beginning of 2019, and the first in Finland to adopt a strategy of unlimited data with speed tiers. In 2023, Elisa phased out 3G in Finland while it's 5G network coverage exceeded 92% of the Finnish population and 75% in Estonia. Upselling to higher speeds continues, driving the revenue growth.

**Mobile data drives revenue**



Source: Elisa and S&P Global Ratings  
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**We expect Elisa to report solid 2024 metrics and sustain profitability despite inflationary pressure on margins.**

We forecast that Elisa's mobile service revenue (excluding equipment sales, roaming, and interconnection) will likely expand 4%-5% in 2024 compared with 3% in

2023, mainly boosted by 5G services. We therefore expect consolidated revenue to expand by about 3% in 2024 while the EBITDA margin will stay flat at 35% due to continuing inflationary pressure on operating expenditure (opex).

Besides traditional telecom services, Elisa offers a wide range of digital services including TV production, manufacturing software, and network automation. Elisa executes its growth strategy in the segment through international acquisitions, however, the company has also sold some noncore assets. In 2023, the partial divestment of Videra, a video conferencing service, and delays in projects by customers because of the current economic environment, reduced revenues by 2%. However, we forecast a double-digit growth of digital services in 2024, supported by recovering demand in the fourth quarter of 2023.

**Elisa maintains a conservative financial policy and solid FOCF generation.** The company has a publicly defined net leverage (net debt to EBITDA) target of 1.5x-2.0x, which translates to S&P Global Ratings-adjusted leverage of 1.5x-2.0x. We continue to anticipate relatively low capex of about 12%-13% of revenue. This remains lower than that of most European peers, which often exhibit 17% on average; this is possible because Elisa commenced its 5G rollout earlier and needs only moderate investments. Elisa's relatively lower capex to revenue and neutral working capital flows over the medium term result in structurally solid annual FOCF. We forecast that the group will generate FOCF of about €350 million in 2022 and €360 million in 2023, gradually expanding thereafter.

## Outlook

The stable outlook reflects our expectation that Elisa will report stable adjusted EBITDA margins of about 35% and revenue growth of about 4% in the next 12 months, mainly thanks to higher revenue from mobile and new digital services. We further anticipate that adjusted debt to EBITDA will be below 2.0x and FOCF to debt of about 25%.

### Downside scenario

We could lower our ratings if Elisa's EBITDA or FOCF weakens, for example, if intense competition causes a pronounced revenue decline or weaker margins, or if unexpected competitive developments force the company to significantly step up its capex. We could also downgrade Elisa if its adjusted debt to EBITDA increases to 2.0x or higher, or adjusted FOCF to debt decreases toward 20% for a prolonged period, for instance, due to debt-financed acquisitions or high shareholder returns.

### Upside scenario

Rating upside is remote, given Elisa's limited scale, diversification, and financial policy, under which it targets net debt to EBITDA of 1.5x-2.0x.

## Our Base-Case Scenario

### Assumptions

- Forecast real GDP growth of 1.3% in 2024 and 1.5% in 2025 after a muted 2023 year.
- About 2%-3% annual revenue growth over 2024 and 2025, supported by strong 5G momentum, expanding fixed and digital services, and mobile revenues.

- S&P Global Ratings-adjusted EBITDA margins will stay flat at about 35%-36%, on the back of inflationary headwinds and pressure on opex. However, we expect Elisa's quality improvement measures should support efficiency and help mitigate pressure from high inflation.
- Capex to sales of approximately 12%-13% (excluding spectrum and one-offs) in 2024-2025, the same as 2023, in line with management guidance.
- A dividend payout ratio of about 95% in 2024-2025, in the upper range of Elisa's stated financial policy of distributing 80%-100% of net profit.
- About €50 million cash outflow per year in 2024-2025 for potential small acquisitions.

## Key metrics

Period ending	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. EUR)	2021a	2022a	2023a	2024e	2025f	2026f
Revenue	1,998	2,130	2,181	2,244	2,308	2,349
Gross profit	1,234	2,130	2,181	783	826	841
EBITDA (reported)	697	733	756	783	826	841
Plus/(less): Other	(0)	6	2	3	3	3
EBITDA	697	739	758	786	829	844
Less: Cash interest paid	(17)	(13)	(24)	(30)	(29)	(31)
Less: Cash taxes paid	(76)	(85)	(82)	(95)	(103)	(105)
Funds from operations (FFO)	604	642	653	660	697	708
EBIT	424	464	479	499	536	546
Interest expense	16	16	30	30	30	31
Cash flow from operations (CFO)	589	584	639	631	667	679
Capital expenditure (capex)	252	263	296	291	278	291
Free operating cash flow (FOCF)	337	321	343	341	389	388
Dividends	311	328	344	361	361	390
Discretionary cash flow (DCF)	26	(7)	(0)	(20)	28	(2)
Debt (reported)	1,242	1,270	1,279	1,368	1,412	1,487
Plus: Lease liabilities debt	92	91	89	89	89	89
Plus: Pension and other postretirement debt	11	10	7	7	7	7
Less: Accessible cash and liquid Investments	(114)	(85)	(63)	(60)	(60)	(60)
Plus/(less): Other	5	5	2	2	2	2
Debt	1,235	1,291	1,313	1,406	1,450	1,524
Equity	1,204	1,252	1,294	1,329	1,393	1,437
FOCF (adjusted for lease capex)	319	295	320	318	367	366
<b>Adjusted ratios</b>						
Debt/EBITDA (x)	1.8	1.7	1.7	1.8	1.7	1.8
FFO/debt (%)	48.9	49.7	49.7	47.0	48.1	46.5
FFO cash interest coverage (x)	35.7	51.9	28.2	22.9	24.8	24.1
EBITDA interest coverage (x)	44.4	46.5	25.3	25.9	28.0	27.2
FOCF/debt (%)	27.3	24.9	26.1	24.2	26.9	25.4

DCF/debt (%)	2.1	(0.6)	(0.0)	(1.4)	1.9	(0.2)
Lease capex-adjusted FOCF/debt (%)	25.8	22.9	24.4	22.7	25.3	24.0
Annual revenue growth (%)	5.5	6.6	2.4	2.9	2.9	1.8
EBITDA margin (%)	34.9	34.7	34.8	35.0	35.9	35.9

## Company Description

Elisa is an incumbent operator in Finland, where it provides fixed and mobile telecom services to consumers (61% of revenue in 2023) and corporate customers (39%), as well as information and communications technology and digital services in adjacent segments, such as information technology (IT) security for enterprise clients or internet protocol TV (IPTV) for consumers. In terms of 5G network coverage, by end-2023, Elisa already covered over 92% of Finns and 75% of Estonians and is primarily represented on international markets through its digital services segment. In 2023, it reported revenue of about €2.2 billion and employed 5,700 people in more than 20 countries, with Finland and Estonia being core markets. At year-end 2023, Elisa had about 5.16 million mobile subscribers, of which about 92% were postpaid, and approximately 1.36 million fixed-line subscriptions, including about 655,000 in broadband and more than 625,000 in cable TV.

Elisa is listed on the Nasdaq Helsinki Large Cap with a market capitalization of approximately €7.1 billion, at end-2023. Its largest shareholder is the Finnish government with a 10% stake.

## Peer Comparison

### Elisa Oyj--Peer Comparisons

	Elisa Oyj	Telenor ASA	Telia Co. AB	Tele 2
Foreign currency issuer credit rating	BBB+/Stable/A-2	A-/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/A-2
Local currency issuer credit rating	BBB+/Stable/A-2	A-/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/A-2
Period	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2022-12-31
Mil.	EUR	EUR	EUR	EUR
Revenue	2,181	7,178	7,987	2,523
EBITDA	758	3,205	2,567	1,003
Funds from operations (FFO)	653	2,763	2,069	857
Interest	30	318	355	54
Cash interest paid	24	259	381	37
Operating cash flow (OCF)	639	2,598	2,206	741
Capital expenditure	296	1,314	1,377	321
Free operating cash flow (FOCF)	343	1,284	828	419

**Elisa Oyj--Peer Comparisons**

Discretionary cash flow (DCF)	(0)	(121)	255	(804)
Cash and short-term investments	63	1,736	1,687	114
Gross available cash	63	1,736	2,174	114
Debt	1,313	7,855	6,971	2,870
Equity	1,294	6,284	5,974	2,126
EBITDA margin (%)	34.8	44.7	32.1	39.8
Return on capital (%)	18.6	10.7	6.5	11.2
EBITDA interest coverage (x)	25.3	10.1	7.2	18.7
FFO cash interest coverage (x)	28.2	11.7	6.4	24.4
Debt/EBITDA (x)	1.7	2.5	2.7	2.9
FFO/debt (%)	49.7	35.2	29.7	29.9
OCF/debt (%)	48.7	33.1	31.6	25.8
FOCF/debt (%)	26.1	16.3	11.9	14.6
DCF/debt (%)	(0.0)	(1.5)	3.7	(28.0)

## Business Risk

The Finnish mobile and broadband markets have relatively stable structures, but competition is intermittently intense with price campaigns. Networks in the Finnish mobile market are of good quality and mobile subscriptions as a proportion of the population are the highest in the EU, at 150%.

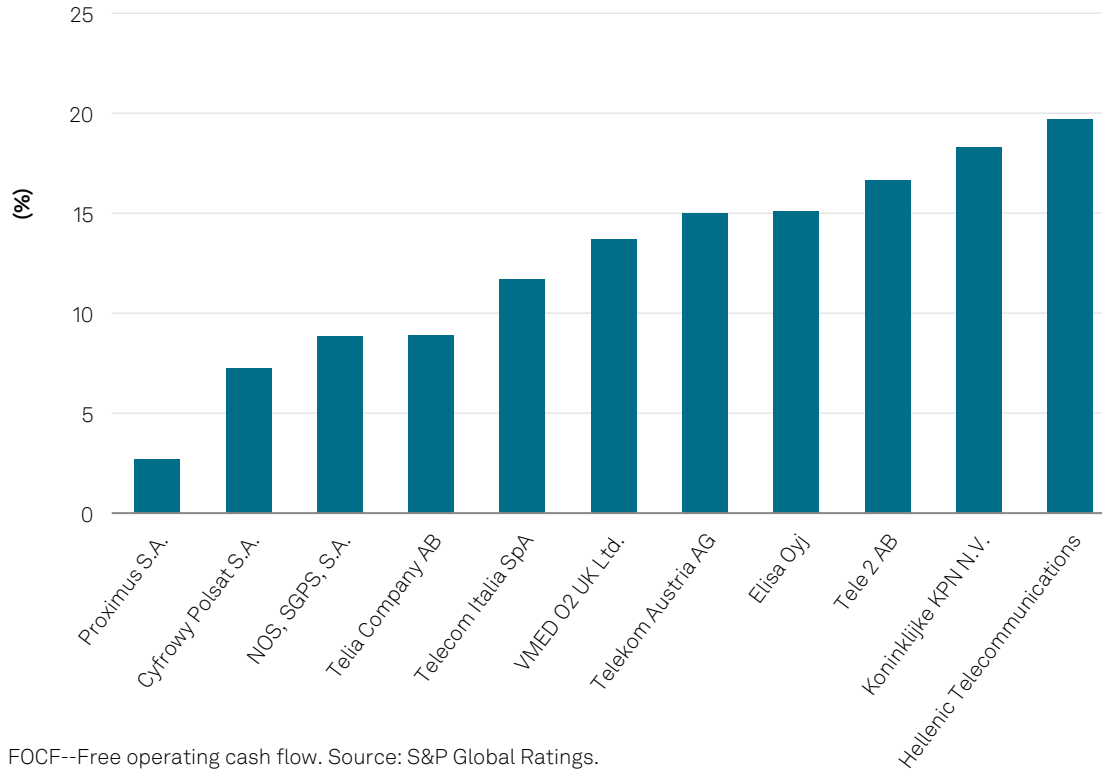
Elisa maintains a leading position in the Finnish three-player mobile market. Its 5G expansion has reached 92% of the Finnish population in over 200 municipalities. Annualized churn fluctuates at 18%-20%, which is at the higher end for European peers. The company is No. 2 in the more fragmented broadband market behind DNA, with Telia coming in third place. Competition remains intense, especially in certain pockets, such as for multi-dwelling units. However, because Elisa is more focused on B2B customers than DNA, it ranks No. 1 in terms of revenues. Elisa also maintains a No. 2 position in the same segments in Estonia.

In addition to telecom, Elisa provides several other digital services, such as IPTV, cloud-based IT, and internet of things. Elisa is actively expanding its portfolio of adjacent products via international acquisitions because these are an important contributor to growth.

## Financial Risk

In our view, Elisa displays a conservative leverage policy with net debt to EBITDA of 1.5x-2.0x and solid FOCF generation. Elisa's capex pattern has been fairly stable for many years, with a moderate risk of unexpected and significant deviations from its medium-term target capex-to-sales ratio of 12%-13%, which the company forecasts for 2024-2025. This supports healthy FOCF generation, which compares favorably to that of Western European telecom peers with similar business risk profiles.

**Elisa's S&P Global Ratings-adjusted FOCF to revenue is solid compared with peers**



FOCF--Free operating cash flow. Source: S&P Global Ratings. Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

**Debt maturities**

As of Dec. 31, 2023:

- 2025: €100 million
- 2026: €300 million
- 2027: €300 million
- Thereafter: €300 million

Figures exclude finance leases, commercial paper, and revolving credit facilities (RCFs).

**Elisa Oyj--Financial Summary**

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	1,832	1,844	1,895	1,998	2,130	2,181

## Elisa Oyj--Financial Summary

EBITDA	670	663	684	697	739	758
Funds from operations (FFO)	576	570	598	604	642	653
Interest expense	30	23	20	16	16	30
Cash interest paid	26	24	18	17	13	24
Operating cash flow (OCF)	529	547	592	589	584	639
Capital expenditure	227	225	241	252	263	296
Free operating cash flow (FOCF)	302	322	351	337	321	343
Discretionary cash flow (DCF)	39	43	55	26	(7)	(0)
Cash and short-term investments	81	52	220	114	85	63
Gross available cash	81	52	220	114	85	63
Debt	1,160	1,211	1,229	1,235	1,291	1,313
Common equity	1,127	1,150	1,184	1,204	1,252	1,294
<b>Adjusted ratios</b>						
EBITDA margin (%)	36.6	36.0	36.1	34.9	34.7	34.8
Return on capital (%)	17.6	17.2	17.2	17.5	18.6	18.6
EBITDA interest coverage (x)	22.2	29.0	34.7	44.4	46.5	25.3
FFO cash interest coverage (x)	23.3	24.3	34.6	35.7	51.9	28.2
Debt/EBITDA (x)	1.7	1.8	1.8	1.8	1.7	1.7
FFO/debt (%)	49.7	47.0	48.7	48.9	49.7	49.7
OCF/debt (%)	45.6	45.2	48.2	47.7	45.2	48.7
FOCF/debt (%)	26.0	26.6	28.5	27.3	24.9	26.1
DCF/debt (%)	3.3	3.5	4.5	2.1	(0.6)	(0.0)

## Reconciliation Of Elisa Oyj Reported Amounts With S&amp;P Global Adjusted Amounts (Mil. EUR)

Financial year	Dec-31-2023	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Company reported amounts		1,279	1,290	2,181	756	482	30	758	648	344	305
Cash taxes paid		-	-	-	-	-	-	(82)	-	-	-
Cash interest paid		-	-	-	-	-	-	(24)	-	-	-
Lease liabilities		89	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/deferred compensation		7	-	-	0	0	0	-	-	-	-
Accessible cash and liquid investments		(63)	-	-	-	-	-	-	-	-	-
Capitalized development costs		-	-	-	(9)	(9)	-	-	(9)	-	(9)



## Reconciliation Of Elisa Oyj Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Shareholder Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Share-based compensation expense	-	-	-	15	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	5	-	-	-	-	-
Noncontrolling/minority interest	-	3	-	-	-	-	-	-	-	-
Debt: Guarantees	1	-	-	-	-	-	-	-	-	-
Debt: Contingent considerations	1	-	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	(4)	(4)	-	-	-	-	-
D&A: Impairment charges/ (reversals)	-	-	-	-	6	-	-	-	-	-
Total adjustments	34	3	-	2	(3)	0	(106)	(9)	-	(9)
<b>S&amp;P Global Ratings adjusted</b>	<b>Debt</b>	<b>Equity</b>	<b>Revenue</b>	<b>EBITDA</b>	<b>EBIT</b>	<b>Interest expense</b>	<b>Funds from Operations</b>	<b>Operating cash flow</b>	<b>Dividends</b>	<b>Capital expenditure</b>
	1,313	1,294	2,181	758	479	30	653	639	344	296

## Liquidity

We assess liquidity as 'adequate' because we expect its sources of liquidity will cover uses by at least 1.2x over the 12 months from Dec 31, 2023. We note that a significant portion of Elisa's funding frequently consists of commercial paper with terms shorter than 12 months. We think that Elisa has solid relationships with banks and benefits from a generally satisfactory standing in credit markets.

### Principal liquidity sources

- Cash and liquid investments of about €63 million;
- €300 million available under undrawn long-term RCFs maturing in May 2028 and September 2028;
- Cash funds from operations (FFO) of approximately €600 million-€620 million; and
- Additional facility of €70 million (drawn in the first quarter of 2024 to partly address the bond maturity in March 2024).

### Principal liquidity uses

- Debt maturities of about €283 million (of which bonds of €248 million due in March 2024 were redeemed);
- Annual committed and maintenance capex requirement of about €200 million; and
- Dividend payments of 95%.

## Environmental, Social, And Governance

ESG factors are an overall neutral consideration in our credit rating analysis of Elisa. The company achieved carbon neutrality in 2020, making it the first carbon-neutral Nordic telecom

operator. Elisa committed to become one of the first Finnish companies to reduce its emissions in line with the 1.5-degree climate target by 2025 (Science Based Targets). Elisa’s carbon footprint (both scope 1 and 2) decreased more than 82% in 2021 compared with 2016 (fully met target). The company’s updated sustainability targets for 2022-2024 focus on the availability of fast connections, cybersecurity, increasing its carbon handprint (actions that have a positive impact), the energy efficiency of the mobile network, innovations, and promoting equality.

## Issue Ratings--Subordination Risk Analysis

### Capital structure

At the end of December 2023, except for about €91 million in lease liabilities, Elisa’s capital structure of €1,282.5 million consisted entirely of senior unsecured debt, of which €1148 million is bonds, €100 million is loans from financial institutions, and €34.5 million is commercial paper. We assess the subordination risk for group-level creditors as limited and rate Elisa’s senior unsecured debt at the same level as the issuer credit rating.

### Rating Component Scores

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

## Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

## Elisa Oyj

- 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

### Ratings Detail (as of April 12, 2024)\*

#### Elisa Oyj

Issuer Credit Rating BBB+/Stable/A-2

#### Issuer Credit Ratings History

18-Mar-2015	BBB+/Stable/A-2
17-Mar-2014	BBB/Positive/A-2
26-Oct-2006	BBB/Stable/A-2

\*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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