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N.V. Luchthaven Schiphol

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N.V. Luchthaven Schiphol

Major Rating Factors

Strengths:

- Strong competitive position as a European hub airport.
- Supportive regulatory environment.
- Well-diversified revenue base with solid aviation, real estate, and retail operations.
- Flexibility to delay capital expenditures in a weaker economic environment.

Corporate Credit Rating

A/Stable/A-1

Weaknesses:

- High level of transfer passengers and dependence on dominant customer Air France-KLM.
- Significant financial risk profile with several large debt maturities in the nearest three years.
- Business risk profile could be diluted due to the potential for unmitigated growth in non-regulated activities to form a significantly higher proportion of profits.

Rationale

The 'A' ratings on N.V. Luchthaven Schiphol and Schiphol Nederland B.V. (collectively, Schiphol group) are based on the group's stand-alone credit profile (SACP), which Standard & Poor's Ratings Services assesses at 'a-', as well as on our opinion that there is a "moderate" likelihood that the Dutch government would provide timely and sufficient extraordinary support to Schiphol group in the event of financial distress.

In accordance with our criteria for government-related entities (GREs), our view of a "moderate" likelihood of extraordinary government support is based on our assessment of the group's:

- "Important" role, based on our view on the essential infrastructure nature of the group's main asset, Amsterdam Airport Schiphol (Schiphol airport); and
- "Limited" link with the Dutch government. The State of The Netherlands (AAA/Stable/A-1+) has limited input into Schiphol group's strategic decisions and no involvement in the group's day-to-day operations.

The SACP on Schiphol group reflects our view that Schiphol airport will maintain a strong competitive position as a European hub airport. The airport operates within a supportive regulatory environment and historically its successful retail and real estate operations have supported its strong operational track record.

These strengths are partially offset by a relatively high level of transfer passengers (41.5% in 2010); the dependence on a dominant customer, Air France-KLM; and the potential for unmitigated growth in non-regulated activities, which could dilute the group's business risk profile. Over the long term, we believe that Schiphol group's capacity could also be affected by environmental constraints related to the number of air traffic movements (ATMs) and noise restrictions.

Key business and profitability developments

Schiphol Group showed very strong 2010 results, despite a number of industry-wide setbacks such as the volcanic ash cloud, which had a negative effect of €15 million on the operating result, and the unusually snowy winter. By

year-end 2010, passenger numbers at Schiphol airport increased by 3.5%, above our forecast of 1%-3% growth for the year.

The strong increase in passengers was the result of a 7% increase in the number of origin-destination (O&D) passengers (passengers flying direct between two airports), which make up about 58% of total passengers at Schiphol airport. The number of transfer passengers decreased by 0.6% in the same period.

This strong growth in passenger numbers was sustained in the seven months to July 31, 2011, with 12.0% year-on-year growth.

We anticipate that Schiphol will see passenger numbers growing at a slower pace for the rest of 2011 due to the recent Europe-wide economic slowdown and macroeconomic uncertainty. Despite this, we now anticipate overall passenger numbers to grow by roughly 7% at year-end, rather than by 3%-6% as previously projected.

Total revenues increased by 2.3% in 2010 and by 10.8% year-on-year in the first half of 2011. In 2010, EBITDA, adjusted for changes in fair value and restructuring costs, grew by 3.6%. The first six months of 2011 saw Aviation revenues increase by 12.1% due to growing passenger numbers and a slight increase in airport charges (+0.6% as of April 2011). Consumer revenues grew 14.3% despite the 2.3% drop in spend per passenger due to the refurbishment of lounges.

Key cash flow and capital-structure developments

Standard & Poor's-adjusted FFO to debt improved to 16.8% and adjusted FFO interest coverage to 3.9x in the first six months of 2011. Debt-to-EBITDA improved to 4.2x in 2010 from 4.9x, and stood at 3.8x at June 30, 2011. The significant improvement was partly driven by Schiphol's early repayment of an EMTN bond. Funds from operations (FFO) totaled €339.5 million, higher than previously anticipated. We anticipate that adjusted FFO to debt and adjusted FFO interest coverage will improve to 18% and 4.1x, respectively, by the end of 2011.

In 2010, the company used €169 million of excess cash to repay bonds under the EMTN program maturing in 2014. In April 2011, a new bond of €438 million was placed (maturing in 10 years) in order to finance an additional payback of €403 million in existing bonds. These repayments are helpful, in our opinion, in cutting the 2013 and 2014 maturity peaks and reducing future liquidity risk.

Liquidity

We view Schiphol group's liquidity as adequate. On June 30, 2011, the group had €310.6 million in cash and marketable securities. In addition, it had access to €175 million of undrawn committed credit lines and to the remaining €170 million of the €350 million European Investment Bank (EIB; AAA/Stable/A-1+) facility (€180 million has been drawn in the first half of 2011). The €175 million credit line matures in mid-2012. If drawn, the facility has an extension period of one year. The EIB facility matures in 20 years, however drawdowns are only possible until the start of 2013.

Schiphol group has €111 million and €44 million of debt maturing in second-half 2011 and 2012, respectively, and a more significant €215 million coming due in 2013, at which point its existing credit lines would have expired. We anticipate that Schiphol group will be cash flow negative (after capital expenditures [capex] and dividend payments) in 2011 and 2012. This is due higher capital expenditures on the back of increasing passenger volumes, management's focus on improving Schiphol's competitive position, and its goal to improve service to its key customer, Air France-KLM.

In 2011 and 2012, the sources of liquidity leave some headroom to cover the expected call on cash, with the expected sources-to-uses ratios being 1.86x and 1.43x, respectively. To maintain adequate liquidity into 2013, Schiphol will need to extend current bank facilities or increase cash holdings due to the increasing debt maturities. Schiphol has another large portion of debt, €381 million, coming due in 2014.

We also note that the €350 million EIB loan can be accelerated if the rating on Schiphol group drops below 'BBB' and no suitable guarantor is found.

In addition, the €120 million of notes issued under the group's €1 billion medium-term note program, due 2038, have an early redemption option that would be triggered by a downgrade by either Standard & Poor's or Moody's Corp. (BBB+/Stable/A-2) to speculative-grade from investment-grade, or by the withdrawal by both rating agencies of the long-term senior unsecured debt rating.

We believe that exposure to margin calls on derivative instruments should be limited.

Outlook

The stable outlook on Schiphol group reflects our assumptions that the group's adjusted FFO to debt will migrate toward the upper end of the 15%-20% range from 2011, and that the airport will remain one of the two key hubs for Air France-KLM.

We could lower the ratings if Schiphol group's adjusted FFO to debt drops below 15%; if passenger volumes were weaker than we anticipated; or if other negative developments affected the group's business risk profile--for example, significant aggressive growth in the group's real estate business.

We could upgrade Schiphol group if it demonstrated an improved financial risk profile, for example, if FFO to debt were to increase to more than 20% on a sustainable basis, all else being equal.

Business Description

Schiphol group is the operator of Schiphol airport, which is the main airport in The Netherlands and one of Air France-KLM's two major hubs. In 2010, Schiphol airport handled 45.2 million passengers.

In addition, the group owns and operates Lelystad Airport, Rotterdam Airport, and 51% of Eindhoven Airport. The group's international operations include an 8% stake in Aeroports de Paris (AdP, AA-/Negative/--), a managing contract for Terminal 4 of John F. Kennedy Airport in the U.S., and an 18.7% stake in Brisbane Airport Corp. Pty Ltd. (BBB/Stable/--) in Australia.

Government Support And GRE Methodology

As Schiphol group is 69.8% owned by the Dutch government, we apply our GRE criteria to the group. There are other shareholders that are also government-linked: The City of Amsterdam owns 20% and the City of Rotterdam 2.2%. The group's only private shareholder is AdP, which owns 8% of the group.

In our view, the likelihood of extraordinary government support--at a time when Schiphol group is under financial stress--is "moderate", based on our assessment of the group's:

- "Important" role, based on our view on the essential infrastructure nature of the group's main asset, Schiphol airport, as a key element of The Netherlands' open and service-oriented economy. In our view, there is a clear need for the airport to continue to operate without disruption, as any interruption of its operations would hurt the international reputation of The Netherlands; and
- "Limited" link with the Dutch government. In our view, Schiphol group is managed as a stand-alone entity with limited government interference. Its directors are appointed by a supervisory board that is not controlled by government-linked members. The Dutch government also has a limited track record of supporting entities of this nature.

We will, however, continue to monitor the link between the government and the group--especially as we feel that Schiphol group is likely to remain under government control--and could change our assessment if positive signs of support were to emerge. Such signs would include further public statements of support for Schiphol group, state support provided to other infrastructure-related assets, or the government's closer involvement in Schiphol group's key decisions.

Business Risk Profile: Excellent; Based On Solid Operations, Supportive Regulation, And High Profitability

The key supporting factors for the group's excellent business risk profile are:

- Its strong competitive position and leading market share in the Dutch market. Schiphol is the fifth-largest airport in Europe in terms of passenger numbers, after London Heathrow, Paris Charles de Gaulle, Frankfurt, and Madrid; and it is the third-largest in terms of cargo transport. Its catchment area covers approximately 34 million people living within 200 kilometers of the airport. However, at the outer edges of this catchment area, Schiphol airport is competing for customers with major airports such as Frankfurt.
- The well-diversified revenue base. The group's excellent business risk profile is supported primarily by its regulated aviation operations, which contributed 58% of the group's revenue (about 40% of EBITDA) in 2010. The non-aviation income is well-balanced and represented about 42% of total revenues (60% of EBITDA) in 2010.
- Our view of consumer revenues as the strongest among the group's non-aviation revenues, as they benefit from the captive audience of passengers in the airport. We consider the real estate division to be a strong business because Schiphol airport's location is in demand. However, in our opinion, the success of these operations is tied to the success of Schiphol group's aviation business.
- The supportive regulatory regime at the airport. Schiphol group generates revenues under a dual-till framework with predictable rates set for the cost of capital on its aviation assets. In 2010, the weighted average cost of capital (WACC) in aviation operations decreased slightly to 5.34%. We expect the WACC to decline somewhat, due to the low interest rate environment. Schiphol group operates under a license that is granted for an indefinite period of time.
- Sufficient environmental capacity to accommodate traffic growth in the medium term. The airport had 386,316 ATMs in 2010, a decline of 1.3% compared to the previous year. The current framework provides for long-term growth of up to 510,000 ATMs in 2020. However, in order to support ATM growth, Schiphol group needs to continue to make capital investments in its aviation infrastructure.
- Schiphol group's profitability, as measured by EBITDA margin and return on capital, is in line with that of larger peers, such as AdP. In 2010, Schiphol group had an adjusted EBITDA margin of 40.2% and return on capital of

6.9%, which compares with 34.5% and 9.1%, respectively, for AdP; and 28.9% and 5.8%, respectively, for Dublin Airport Authority PLC. (BBB/Negative/A-3).

- Air France-KLM's assurance to the Dutch government that it will operate a dual-hub system for the combined airline group until 2012, an arrangement that has worked well so far. In addition, we view the cross-shareholding of Schiphol group and AdP as further evidence that the two nations value a long-term relationship, not only between KLM and Air France, but also between the airports. We believe that Schiphol group's acquisition of the JFK Terminal 4 management company is beneficial for the relationship.

These factors are partially offset by:

- Schiphol group's exposure to concentration risk from its major customer, Air France-KLM, which, together with other SkyTeam Alliance members, carried 64% of the airport's total passenger traffic in 2010. Schiphol group depends to an extent on the success of Air France-KLM's strategy. Although concentration in one airline is typical for hub airports, it is nevertheless a rating concern.
- Schiphol airport's attractiveness to Air France-KLM, which will, in the long term, be determined by its ability to provide a high-quality business and an operating environment that supports high levels of transfer traffic (41.5% in 2010). Should it fall behind competing airports, this could lead to the decision by Air France-KLM to gradually move operations out of Schiphol airport.
- Strong competition for transfer traffic from the other main European hubs, mainly Paris Charles de Gaulle, owned by AdP; London Heathrow, owned by BAA Ltd.; Fraport AG Frankfurt Airport Services Worldwide, the operator of Frankfurt Airport; and AENA, which operates Madrid airport. Moreover, in our view, competition from other, smaller airports that host "no frills" carriers, in particular from across the German border or Brussels, could take some O&D traffic away from Schiphol airport. Star Alliance plans to push more traffic to Africa through Brussels, potentially placing Schiphol under more competitive pressure.
- The potential for unmitigated growth in nonregulated activities to form a significantly higher proportion of profits. This could dilute Schiphol's business risk profile because we consider nonregulated aviation revenues to be of lower quality than regulated ones.

Financial Risk Profile: Significant; Due To Weak Financial Performance Over The Past 12 Months

The main weaknesses of the group's significant financial risk profile are:

- Its aggressive financial ratios. Adjusted FFO to debt was 15.7% in 2010 and adjusted FFO interest coverage was 4.1x in the same period. However, we forecast these ratios to improve by the end of 2011 to about 18% and 4.1x, respectively. We foresee some improvement in credit metrics although this is subject to the investment levels the company is currently considering.
- A high dividend payout ratio. Schiphol group's policy is to pay out 50% of post-tax income (excluding fair value gains) in dividends. This payout ratio was 40% in 2008, and 30% in 2006. On the positive side, we note that Schiphol group continued to follow this policy in 2009 and in 2010, leading to a reduction in the overall dividend payment as net profits declined.
- Significant capex needs over the medium term. We anticipate that Schiphol group will spend just under €2 billion in capex between 2011-2015 to maintain the airport's competitive position, increase facilities for growth, deliver real estate improvements, and to invest in alliances. This is somewhat mitigated by the group's flexibility to

postpone planned investments in response to difficult market conditions, as indicated by actions taken during the crisis in 2009.

- The group's anticipated negative discretionary cash flow each year over the next four to five years. If this were to occur, we believe that the group may need to access the debt markets for additional funding unless it alters its dividend policy.

These risks are partially mitigated by:

- Management's stated financial risk policies being in line with a significant financial risk profile. We therefore anticipate that management will be committed to improving the group's credit ratios should they drop below the levels outlined in its policies. Under our analysis, both adjusted FFO to debt and adjusted FFO to interest coverage should already improve by the end of 2011, and continue improving thereafter.
- An adequate liquidity position with significant cash balances that should allow Schiphol group to mitigate refinancing risks and operational underperformance in the next two years. On June 30, 2011, the group had €310.6 million in cash and marketable securities as well as access to €175 million of undrawn credit lines. Until 2013, the company can also draw on the remaining €170 million of the €350 million EIB facility, and improve liquidity further.
- The indication from Schiphol group's main shareholder, the Dutch government, that it is not looking to request additional dividends unless the group's financial profile can support an 'A' rating after dividend payments.
- Management's focus on maintaining a balanced debt maturity profile. In 2011, management cut the maturity peaks of 2013 and 2014 through early buybacks of bonds (€403 million and €169 million). The 2014 maturity now totals €381 million, down from over €800 million.

Financial Statistics/Adjustments

Schiphol group prepares audited financial statements annually in accordance with International Financial Reporting Standards. We adjust reported EBITDA by stripping out the gain on property sales and fair value gains and losses on property included in operating income (net €12.9 million loss in 2010; see table 1). We also subtract an amount of €19.3 million from the interest expense, which represents the compensation for the difference between market and coupon interest rates over the remaining term of the 2014 EMTN bond (which Schiphol repaid early).

We add to debt €96.4 million of various contingent liabilities, including payment commitments for motorway and road works, as well as other guarantees and bank guarantees.

Table 1

Reconciliation Of N.V. Luchthaven Schiphol Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. €)

--Fiscal year ended Dec. 31, 2010--

N.V. Luchthaven Schiphol reported amounts

	Debt	Shareholders' equity	Revenues	EBITDA	Operating income	Interest expense	Cash flow from operations	Cash flow from operations	Dividends paid	Capital expenditures
Reported	1,845.7	3,088.1	1,180.1	483.0	296.7	123.9	350.6	350.6	64.7	247.9
Standard & Poor's adjustments										
Operating leases	35.4	--	--	2.6	2.6	2.6	6.4	6.4	--	--

Table 1

Reconciliation Of N.V. Luchthaven Schiphol Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. €) (cont.)										
Postretirement benefit obligations	35.3	(2.5)	--	2.1	2.1	2.5	(4.5)	(4.5)	--	--
Surplus cash and near cash investments	(113.1)	--	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	8.1	(8.1)	(8.1)	--	(8.1)
Reclassification of nonoperating income (expenses)	--	--	--	--	68.2	--	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	(36.2)	--	--
Minority interests	--	21.3	--	--	--	--	--	--	--	--
Debt - Accrued interest not included in reported debt	63.4	--	--	--	--	--	--	--	--	--
Debt - Guarantees	96.4	--	--	--	--	--	--	--	--	--
Reversal of fair value adjustments on group's real estate assets	--	--	--	(22.0)	(22.0)	--	--	--	--	--
Reversal of restructuring charges	--	--	--	9.1	9.1	--	--	--	--	--
Adjustment to interest costs due to one-off impact of premium paid as part of bond buyback	--	--	--	--	--	(19.3)	--	--	--	--
Total adjustments	117.5	18.8	0.0	(8.1)	60.1	(6.1)	(6.2)	(42.3)	0.0	(8.1)

Standard & Poor's adjusted amounts

	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Adjusted	1,963.2	3,106.9	1,180.1	474.9	356.8	117.8	344.4	308.2	64.7	239.8

Table 2**N.V. Luchthaven Schiphol -- Peer Comparison -- FY2010***

Industry Sector: Airport	N.V. Luchthaven Schiphol	Aeroports de Paris	Copenhagen Airports Holdings ApS	Denmark Holdings ApS	Dublin Airport Authority PLC
Business Risk Profile	Excellent	Excellent		Strong	Strong

Table 2

N.V. Luchthaven Schiphol -- Peer Comparison -- FY2010* (cont.)				
Financial Risk Profile	Significant	Intermediate	Significant	Significant
Rating as of July 28, 2011	A/Stable/A-1	A+/Stable/(A-1)	BBB-/Stable/--	BBB/Negative/A-3
--Fiscal year ended Dec. 31, 2010--				
(Mil. €)	€	€	€**	€
Revenues	1,180.1	2,739.0	434.6	558.2
EBITDA	474.9	944.9	225.0	161.6
Net income from cont. oper.	169.0	300.1	122.0	33.1
Funds from operations (FFO)	308.2	733.5	117.0	118.2
Capital expenditures	239.8	500.8	100.8	227.9
Free operating cash flow	104.6	187.8	8.1	(109.4)
Discretionary cash flow	39.9	51.8	(86.5)	(111.0)
Cash and short-term investments	191.1	163.3	0.0	0.0
Debt	1,963.2	2,936.0	1,073.4	790.4
Equity	3,106.9	3,431.9	467.1	1,024.4
Adjusted ratios				
EBITDA margin (%)	40.2	34.5	51.8	28.9
EBITDA interest coverage (x)	4.0	7.7	3.2	2.1
EBIT interest coverage (x)	3.0	4.7	2.9	1.3
Return on capital (%)	6.9	9.1	12.1	5.8
FFO/debt (%)	15.7	25.0	10.9	14.9
Free operating cash flow/debt (%)	5.3	6.4	0.8	(13.8)
Debt/EBITDA (x)	4.1	3.1	4.8	4.9
Total debt/debt plus equity (%)	38.7	46.1	69.7	43.6

*Fully adjusted (including retirement obligations). Excess cash and investments netted against debt. **Converted from DEK to EUR

Table 3

N.V. Luchthaven Schiphol -- Financial Summary					
Industry Sector: Airport					
--Fiscal year ended Dec. 31--					
	2010	2009	2008	2007	2006
Rating history	A/Stable/A-1	A/Stable/A-1	A/Negative/A-1	AA-/Negative/--	AA-/Negative/--
(Mil. €)					
Revenues	1,180.1	1,153.8	1,154.0	1,146.2	1,036.7
EBITDA	474.9	458.5	447.7	477.5	440.4
EBIT	356.8	300.3	302.0	327.3	304.6
Net income from continuing operations	169.0	132.1	186.9	315.8	526.9
Funds from operations (FFO)	308.2	368.4	342.7	313.6	347.7
Capital expenditures	239.8	216.3	344.7	349.1	241.4
Free operating cash flow	104.6	103.8	70.8	(41.5)	117.1
Discretionary cash flow	39.9	34.6	(522.4)	(120.7)	61.6

Table 3

N.V. Luchthaven Schiphol -- Financial Summary (cont.)					
Cash and short-term investments	191.1	524.4	398.4	141.8	257.1
Debt	1,963.2	2,249.6	2,102.5	1,096.3	1,091.3
Equity	3,106.9	2,971.9	2,886.4	2,955.1	2,720.9
Adjusted ratios					
EBITDA margin (%)	40.2	39.7	38.8	41.7	42.5
EBITDA interest coverage (x)	4.0	4.0	6.7	8.3	7.3
EBIT interest coverage (x)	3.0	2.6	4.5	5.7	5.1
Return on capital (%)	6.9	5.9	6.7	8.3	8.5
FFO/debt (%)	15.7	16.4	16.3	28.6	31.9
Free operating cash flow/debt (%)	5.3	4.6	3.4	(3.8)	10.7
Debt/EBITDA (x)	4.1	4.9	4.7	2.3	2.5
Debt/debt and equity (%)	38.7	43.1	42.1	27.1	28.6

N.M. - Not Meaningful.

Ratings Detail (As Of October 3, 2011)***N.V. Luchthaven Schiphol**

Corporate Credit Rating	A/Stable/A-1
Commercial Paper	
<i>Local Currency</i>	A-1
Senior Unsecured (9 Issues)	A

Corporate Credit Ratings History

14-Sep-2009	A/Stable/A-1
24-Oct-2008	A/Negative/A-1
18-Apr-2008	A/Stable/--
02-Apr-2008	AA-/Watch Neg/--

Business Risk Profile

Excellent

Financial Risk Profile

Significant

Debt Maturities

2011H2: €111 mil.
 2012: €44 mil.
 2013: €215 mil.
 2014: €381 mil.
 2015: €10
 Thereafter: €1172 mil.

Related Entities**Schiphol Nederland B.V.**

Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
<i>Local Currency</i>	A-1
Senior Unsecured (2 Issues)	A

*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.

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