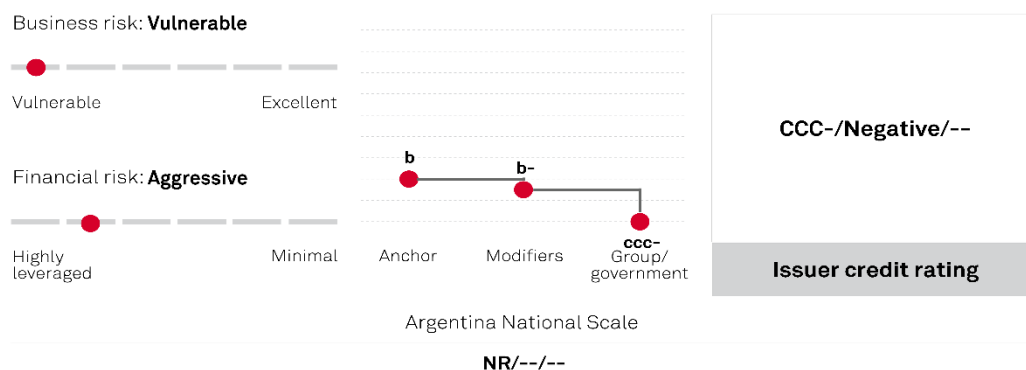


# Compania General de Combustibles S.A.

October 2, 2023

## Ratings Score Snapshot



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## Credit Highlights

### Overview

Key strengths	Key risks
Argentina's seventh-largest upstream producer, with the second-largest gas transportation infrastructure in the country.	Exposure to significant macroeconomic, regulatory, and transfer and convertibility risks as an Argentina-based company.
Low average interest-expense rate, providing coverage cushion.	Smaller scale and lower diversification than those of higher-rated international peers.
	Projected negative free operating cash flow for the next two years.
	Exposure to oil and gas price volatility.

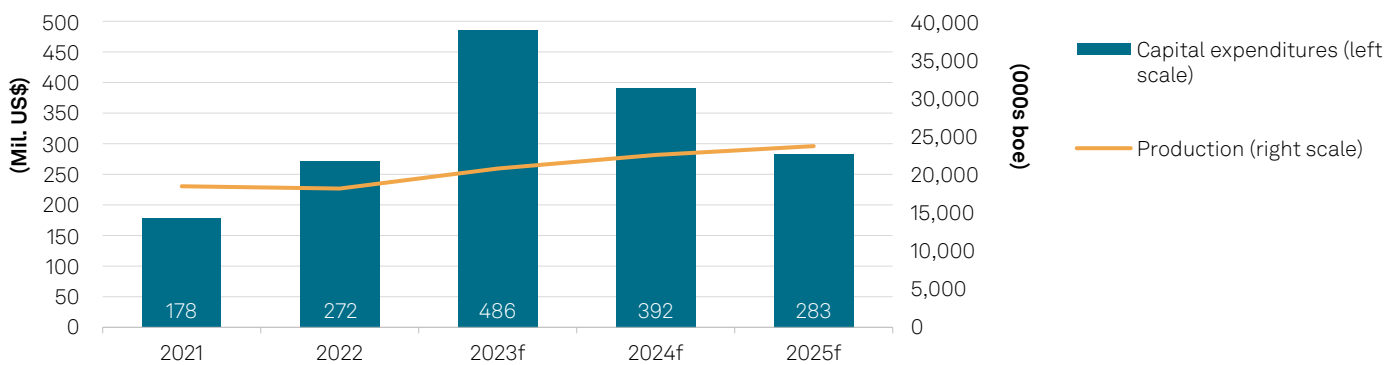
**A high level of capital expenditures is resulting in negative free operating cash flow and increasing leverage.** Compania General de Combustibles S.A. (CGC) has been investing heavily in machinery and equipment, as well as in the development of wells. Capex jumped last year to

## Compania General de Combustibles S.A.

\$295 million from \$182 million in 2021, and we expect capex of about \$485 million in 2023 and close to \$400 million in 2024. Higher capex resulted in negative free operating cash flow (FOCF) in 2022.

During the first half of 2023, CGC drilled 47 wells (six of which were exploratory) in the San Jorge and Austral basins, with a total success rate of 89%. Total daily average production reached 61.8 million barrels of oil equivalent (boe) during the second quarter. Although we expect higher production levels because of increased investment, we project negative FOCF in both 2023 and 2024. Moreover, the company partially financed capex with financial debt, and we now project that leverage will rise above 4.0x in 2023, from 3.3x in 2022 and 1.9x in 2021.

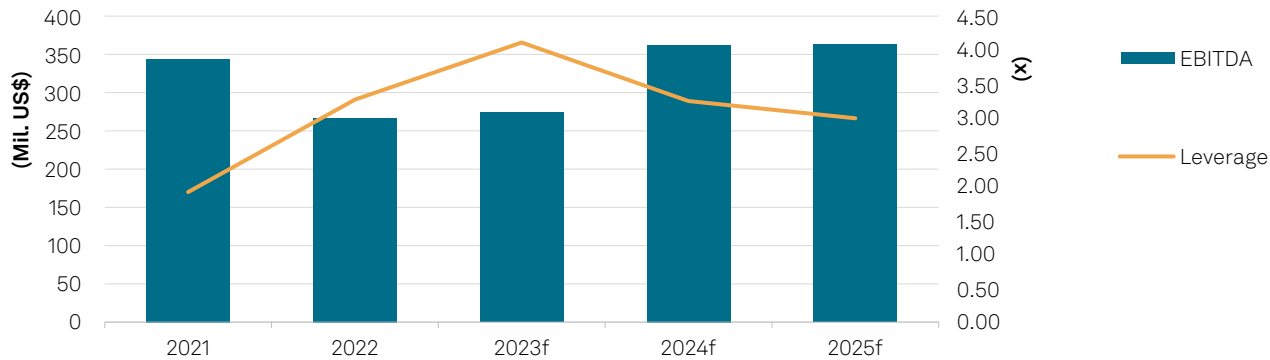
### Evolution of capital expenditures and production



boe--Barrels of oil equivalent. f--S&P Global Ratings' forecast. Sources: Company filings and S&P Global Ratings.

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## Leverage versus EBITDA



f--S&P Global Ratings' forecast. Sources: Company filings and S&P Global Ratings.

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**CGC's recent management of its liabilities improved its liquidity and its capital structure.** In July 2023, CGC issued \$200 million in convertible notes that were fully subscribed by The Dow Chemical Co.'s Argentine subsidiary. CGC used the proceeds to refinance financial liabilities with shorter maturities. By doing this, CGC extended the average life of its financial debt to 2.93 years and reduced its cost of capital to an average annual rate of 2.55%. As a result, we expect interest coverage of 7.9x in 2023 and 9.0x-9.5x in 2024-2025.

**Our ratings continue to incorporate CGC's exposure to high volatility and country-related risks.** The 'CCC-' rating on CGC is lower than its 'b-' stand-alone credit profile (SACP) because we cap our ratings on CGC at our 'CCC-' transfer and convertibility (T&C) assessment of Argentina. The company remains vulnerable to Argentina's volatile regulatory and business conditions. Oil exports are only 6% of total production; obtaining export permits, converting export revenue into local currency, and paying export duties are all part of the process of exporting oil. Domestic gas sales (around 60% of total production) depend on regulated tariffs, and local crude oil sales (around 30% of total production) depend on regulated fuel prices at gas stations.

Our 'CCC-' rating on CGC also continues to reflect the company's high exposure, amid macroeconomic volatility, to both Argentina (CCC-/Negative/C) and the central bank's restrictions on accessing foreign currency and transferring funds abroad. Nevertheless, as of June 2023, the company does not have debt that would need to be refinanced under the central bank's current regulations.

## Outlook

The negative outlook reflects the potential in the near future for harsher restrictions on accessing or transferring funds abroad, including limitations on imports or additional central bank regulations forcing Argentine entities to unilaterally push forward payments in foreign-currency debt--a situation that we typically view as being tantamount to default.

The negative outlook also reflects the chances of a deeper recession, along with increasing inflation and a sharp depreciation of the Argentine peso (ARS). They could take a toll on the company's operations and cash flows.

### Downside scenario

We could lower the ratings in the next six to 12 months if restrictions on accessing the foreign exchange market are tightened or extended and if we revise downward our T&C assessment of Argentina. We could also revise our assessment of CGC's SACP downward and eventually lower our ratings if liquidity is eroded, for example, because of weaker profitability, higher capex, or sharp drops in oil or gas prices. We could also revise our assessment of the SACP downward if debt to EBITDA rises above 6.0x.

### Upside scenario

We could raise our ratings on CGC if we were to revise our T&C assessment of Argentina upward in the next 12 months. We could revise our assessment of CGC's SACP upward to 'b' in the next 12 months if, for example, debt to EBITDA is consistently below 1.5x across the oil and gas price cycle.

## Our Base-Case Scenario

### Assumptions

- GDP contraction in Argentina of 2.0% in 2023, followed by GDP growth of 0.5% in 2024 and 2.0% in 2025.
- Average inflation in Argentina of 121% in 2023, 125% in 2024, and 75% in 2025.
- Average foreign exchange rate of ARS275 per \$1 in 2023, ARS605 per \$1 in 2024, and ARS1,025 per \$1 in 2025.
- Average Brent crude oil price of \$82 per barrel in 2023 and \$85 per barrel in 2024-2025.
- Average realized gas prices of about \$4.8 per million Btu in 2023 and \$5.0-\$6.0 per million Btu in 2024-2025, which include benefits related to the government's gas incentive programs.
- Total crude oil production of 20,200 boe per day in 2023 and 23,900 boe per day in 2024-2025.
- Total gas production of 5.5 million cubic meters per day in 2023, 6.0 million cubic meters per day in 2024, and 6.5 million cubic meters per day in 2025.
- Annual dividends from midstream assets of \$5 million-\$7 million in 2023-2025.
- Dividend distribution of \$5 million-\$7 million in 2023-2025, aligned with dividends received from midstream assets.
- Annual maintenance and expansion capex of about \$485 million in 2023, \$390 million in 2024, and \$285 million in 2025.

## Key metrics

### Compania General de Combustibles S.A.--Forecast summary

Industry sector: Oil and gas exploration and production

(Mil. ARS)	2021a	2022a	2023e	2024f	2025f
Revenue	72,857	147,291	359,581	894,860	1,414,901
Adjusted EBITDA	34,575	43,600	105,459	289,819	453,787
Funds from operations (FFO)	27,807	24,085	91,440	259,195	367,941
Interest expense	6,062	8,988	13,375	30,587	51,182
Cash flow from operations (CFO)	15,530	13,948	93,371	250,978	361,852
Capital expenditures	18,313	48,234	186,982	313,201	353,725
Free operating cash flow (FOCF)	(2,783)	(34,286)	(93,611)	(62,223)	8,126
Dividends	1,166	860	2,695	4,000	6,250
Discretionary cash flow (DCF)	(3,949)	(35,147)	(96,306)	(66,223)	1,876
Debt	66,132	142,665	433,645	942,259	1,360,338
Cash and short-term investments, reported	18,524	31,315	68,104	65,392	65,392
<b>Adjusted ratios</b>					
Debt/EBITDA (x)	1.9	3.3	4.1	3.3	3.0
FFO/debt (%)	42.0	16.9	21.1	27.5	27.0
EBITDA interest coverage (x)	5.7	4.9	7.9	9.5	8.9
CFO/debt (%)	23.5	9.8	21.5	26.6	26.6
FOCF/debt (%)	(4.2)	(24.0)	(21.6)	(6.6)	0.6
DCF/debt (%)	(6.0)	(24.6)	(22.2)	(7.0)	0.1
EBITDA margin (%)	47.5	29.6	29.3	32.4	32.1

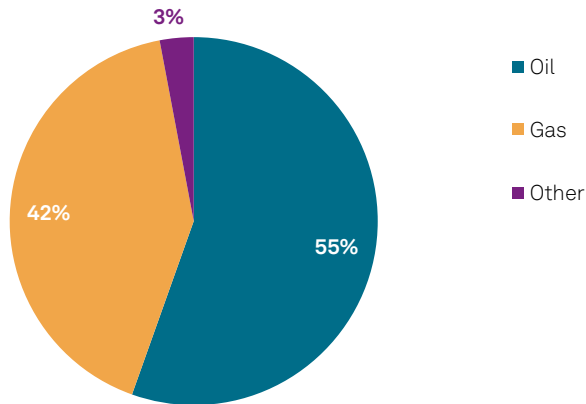
All figures are adjusted by S&P Global Ratings unless stated as reported. ARS--Argentine pesos. a--Actual. e--Estimate. f--Forecast.

## Company Description

CGC is an Argentina-based oil and gas exploration and production company. About 60% of CGC's oil and gas production comes from the Austral Basin and 39% comes from the San Jorge Basin; both are in southern Argentina. Gas represents about 60% of total production, and approximately 65% of that amount is from unconventional sources. Proven reserves total about 145 million boe. Oil and gas production totals about 50,000 boe per day.

The company also operates in the midstream segment through stakes in three gas transportation pipelines: a 28% indirect stake in Transportadora de Gas del Norte (TGN), a 40% indirect stake in Gasoducto GasAndes, and a 16% indirect stake in Transportadora de Gas del Mercosur, with 18.7 billion cubic meters of gas being transported by TGN in 2022. Corporacion America International S.A.R.L. (not rated) ultimately controls CGC through a 70% stake and holds, either directly or indirectly, controlling interests in various other businesses mainly related to airport operations. Despite our belief that CGC is important to the group's growth strategy, we don't incorporate any rating impact under our group rating methodology.

## Revenue by segment for the first half of 2023



Source: Company filings.

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## Peer Comparison

### Compania General de Combustibles S.A.--Peer comparison

	Compania General de Combustibles S.A.	YPF S.A.	Pampa Energia S.A.	CAPEX S.A.	GeoPark Ltd.
Foreign currency issuer credit rating	CCC-/Negative/--	CCC-/Negative/--	CCC-/Negative/--	CCC-/Negative/--	B+/Stable/--
Local currency issuer credit rating	CCC-/Negative/--	CCC-/Negative/--	CCC-/Negative/--	CCC-/Negative/--	B+/Stable/--
Period	Annual	Annual	Annual	Annual	Annual
Period ending	44,926	44,926	44,926	45,046	44,926
Mil.	ARS	ARS	ARS	ARS	ARS
Revenue	147,291	2,526,466	242,182	90,829	185,904
EBITDA	43,600	698,789	109,552	41,480	100,274
Funds from operations (FFO)	24,085	572,832	87,472	36,102	86,034
Interest	8,988	97,661	30,565	8,708	7,508
Cash interest paid	6,819	73,123	21,633	4,587	6,467
Operating cash flow (OCF)	13,948	663,537	60,804	24,738	76,332
Capital expenditure	48,234	532,128	55,535	36,294	29,900
Free operating cash flow (FOCF)	(34,286)	131,409	5,269	(11,556)	46,433
Discretionary cash flow (DCF)	(35,147)	127,166	2,988	(28,908)	35,708

Compania General de Combustibles S.A.--Peer comparison

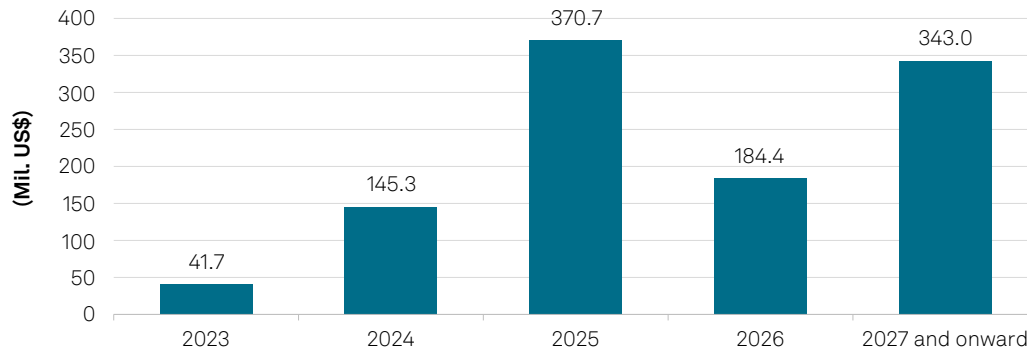
	Compania General de Combustibles S.A.	YPF S.A.	Pampa Energia S.A.	CAPEX S.A.	GeoPark Ltd.
Cash and short-term investments	31,315	193,363	123,970	2,809	22,821
Gross available cash	31,315	193,363	123,970	2,809	22,821
Debt	142,665	1,589,496	295,019	78,949	99,837
Equity	67,084	1,868,304	404,620	97,409	20,473
EBITDA margin (%)	29.6	27.7	45.2	45.7	53.9
Return on capital (%)	10.4	15.4	17.5	32.9	62.0
EBITDA interest coverage (x)	4.9	7.2	3.6	4.8	13.4
FFO cash interest coverage (x)	4.5	8.8	5.0	8.9	14.3
Debt/EBITDA (x)	3.3	2.3	2.7	1.9	1.0
FFO/debt (%)	16.9	36.0	29.6	45.7	86.2
OCF/debt (%)	9.8	41.7	20.6	31.3	76.5
FOCF/debt (%)	(24.0)	8.3	1.8	(14.6)	46.5
DCF/debt (%)	(24.6)	8.0	1.0	(36.6)	35.8

## Financial Risk

The following is the schedule for CGC's principal debt maturities as of July 31, 2023.

### Debt maturities

#### Debt maturities as of July 31, 2023



Source: Company filings.

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## Compania General de Combustibles S.A.--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.)	ARS	ARS	ARS	ARS	ARS	ARS
Revenues	4,898	17,709	30,881	31,286	72,857	147,291
EBITDA	1,265	9,150	18,478	19,220	34,575	43,600
Funds from operations (FFO)	631	7,453	14,887	14,414	27,807	24,085
Interest expense	521	1,536	2,579	4,001	6,062	8,988
Cash interest paid	567	1,262	2,472	4,431	5,208	6,819
Operating cash flow (OCF)	692	4,616	15,936	10,731	15,530	13,948
Capital expenditure	2,484	5,925	10,965	6,837	18,313	48,234
Free operating cash flow (FOCF)	(1,792)	(1,309)	4,971	3,895	(2,783)	(34,286)
Discretionary cash flow (DCF)	(1,792)	(1,461)	4,732	3,546	(3,949)	(35,147)
Cash and short-term investments	425	1,360	5,856	7,409	18,524	31,315
Gross available cash	425	1,360	5,856	7,409	18,524	31,315
Debt	7,517	17,791	28,687	38,969	66,132	142,665
Common equity	767	9,853	19,220	24,064	31,386	67,084
<b>Adjusted ratios</b>						
EBITDA margin (%)	25.8	51.7	59.8	61.4	47.5	29.6
Return on capital (%)	7.6	33.1	33.0	18.1	22.7	10.4
EBITDA interest coverage (x)	2.4	6.0	7.2	4.8	5.7	4.9
FFO cash interest coverage (x)	2.1	6.9	7.0	4.3	6.3	4.5
Debt/EBITDA (x)	5.9	1.9	1.6	2.0	1.9	3.3
FFO/debt (%)	8.4	41.9	51.9	37.0	42.0	16.9
OCF/debt (%)	9.2	25.9	55.6	27.5	23.5	9.8
FOCF/debt (%)	(23.8)	(7.4)	17.3	10.0	(4.2)	(24.0)
DCF/debt (%)	(23.8)	(8.2)	16.5	9.1	(6.0)	(24.6)

## Reconciliation Of Compania General de Combustibles S.A. Reported Amounts With S&amp;P Global Adjusted Amounts (Mil. ARS)

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		130,297	67,084	147,291	43,712	16,381	8,988	43,600	18,970	860	48,234
Cash taxes paid		-	-	-	-	-	-	(12,696)	-	-	-
Cash interest paid		-	-	-	-	-	-	(6,819)	-	-	-



## Reconciliation Of Compania General de Combustibles S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. ARS)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Lease liabilities	5,567	-	-	-	-	-	-	-	-	-
Dividends from equity investments	-	-	-	1,796	-	-	-	-	-	-
Asset-retirement obligations	6,801	-	-	-	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	1,450	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(5,023)	-	-
EBITDA: other income/ (expense)	-	-	-	(1,908)	(1,908)	-	-	-	-	-
Total adjustments	12,367	-	-	(112)	(458)	-	(19,515)	(5,023)	-	-
<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>
	142,665	67,084	147,291	43,600	15,923	8,988	24,085	13,948	860	48,234

## Liquidity

We assess CGC's liquidity as being less than adequate. We expect sources of liquidity to cover uses by about 1.1x in the next 12 months, and we believe CGC's ability to absorb high-impact and low-probability events is limited by its small size and scale. However, the company benefits from long-standing relationships with various domestic banks, as seen in several syndicated loan agreements and loans obtained to refinance short-term debt. Moreover, we think CGC can raise considerable funds in the domestic bond market even in volatile economic conditions, and we think it could engage in refinancing in the future.

### Principal liquidity sources

- Cash and liquid investments of ARS44 billion as of June 30, 2023; and
- Funds from operations of about ARS180 billion for the next 12 months.

### Principal liquidity uses

- Short-term debt of ARS41 billion as of June 30, 2023;
- Working capital outflows of about ARS6 billion for the next 12 months;
- Maintenance capex of about ARS150 billion for the next 12 months; and
- Dividend payments of about ARS4 billion in the next 12 months.

## Covenant Analysis

## Requirements

CGC is subject to financial covenants that limit its ability to incur new debt if its EBITDA interest coverage ratio is below 2.5x and if its net-debt-to-EBITDA ratio is above 3.0x.

## Compliance expectations

For the purposes of the covenants, debt is measured on a net debt basis, while EBITDA includes dividends from midstream assets. We believe the company will be able to comply with these covenants in the next two years. However, we expect there to be very little headroom, especially in 2023.

## Environmental, Social, And Governance

Environmental factors are a negative consideration in our credit rating analysis of CGC, consistent with our analyses of its sector peers. This reflects industry risks due to climate change and the transition to renewable energy sources.

Governance factors are a moderately negative consideration given that the company generates its EBITDA in Argentina, a jurisdiction with weak legal and regulatory frameworks, and this introduces operating and financial uncertainties. For instance, CGC's revenue relies heavily on government incentive plans and tariff-setting mechanisms that are generally short term in nature. Additionally, the central bank's tight exchange controls have forced most domestic corporations to pursue debt restructurings and have severely curtailed their access to capital markets.

## Rating Above The Sovereign

Our rating on CGC is capped by our 'CCC-' T&C assessment of Argentina because the bulk of the company's revenue and cash flow is generated domestically, as only 10% of production comes from exports. (We don't believe that percentage would be enough to fully cover foreign currency obligations if the sovereign were to further restrict access to foreign exchange markets.) Nevertheless, as of June 2023, the company does not have debt that would need to be refinanced under the central bank's current regulations. However, given the government's delicate situation on the external front, there could be harsher restrictions in the near future on accessing or transferring funds abroad, including additional central bank regulations forcing Argentine entities to unilaterally push forward payments in foreign-currency debt--a situation that we typically view as being tantamount to default.

## Issue Ratings--Subordination Risk Analysis

### Capital structure

CGC's current capital structure mainly consists of \$595 million amortizing local bonds, \$200 million convertible notes due 2028, \$150 million amortizing senior unsecured notes due 2025, and \$125 million in bank loans. About 18% of the debt is short term, and all of it is denominated in dollars.

### Analytical conclusions

We rate CGC's senior unsecured notes at the same level as the issuer credit rating because we don't believe there are material financial obligations that would rank ahead of the company's

unsecured debt by way of structural or contractual subordination in a default scenario. CGC doesn't hold secured debt, nor does it hold debt at the level of the operating subsidiaries.

### Rating Component Scores

<b>Foreign currency issuer credit rating</b>	<b>CCC-/Negative/--</b>
<b>Local currency issuer credit rating</b>	<b>CCC-/Negative/--</b>
<b>Business risk</b>	<b>Vulnerable</b>
Country risk	Very High
Industry risk	Moderately High
Competitive position	Vulnerable
<b>Financial risk</b>	<b>Aggressive</b>
Cash flow/leverage	Aggressive
<b>Anchor</b>	<b>b</b>
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Less than Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Negative (-1 notch)
<b>Stand-alone credit profile</b>	<b>b-</b>

### Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- 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: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013

## Compania General de Combustibles S.A.

- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

Not applicable

### Ratings Detail (as of October 02, 2023)\*

#### Compania General de Combustibles S.A.

Issuer Credit Rating	CCC-/Negative/--
<i>Argentina National Scale</i>	NR/--/--
Senior Unsecured	CCC-

#### Issuer Credit Ratings History

30-Mar-2023		CCC-/Negative/--
07-Oct-2021		CCC+/Stable/--
06-Jul-2021		CCC/Watch Pos/--
18-Sep-2020		CCC/Negative/--
08-Sep-2020		CCC+/Stable/--
08-May-2020		CCC+/Negative/--
18-Mar-2020		B-/Watch Neg/--
20-Aug-2019		B-/Negative/--
26-Jul-2019		B-/Watch Pos/--
26-Feb-2019		B-/Stable/--
07-Sep-2000	<i>Argentina National Scale</i>	NR/--/--
11-May-1999		raCC/Watch Neg/--
31-Dec-1998		raA/Watch Dev/--

\*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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