Sanofi

Summary

Sanofi, a health care company, researches, develops, manufactures, and markets therapeutic solutions. The group benefits from its presence in various therapeutic areas and is well diversified geographically, including the U.S. (43% of sales), Europe (23%), and internationally. Sanofi was founded in 1973 and is headquartered in Paris, France. Its operations are divided into three principal activities: pharmaceuticals (sales of €30.7 billion in 2022); vaccines (€7.3 billion); and consumer health care (€5.1 billion).

S&P Global Ratings’ ESG Evaluation of 87 reflects our assessment of Sanofi’s innovation capacity, which we think will help drive the industry forward, as well as the concrete steps it has already taken in implementing its strategy. The group’s Play to Win strategy sets a framework for growth, mainly through research and development (R&D) and operating efficiency improvements.

We gave Sanofi a high environmental profile score because we view the health care sector as having relatively low exposure to environmental factors. It also surpasses health care peers in terms of environmental performance. Sanofi has ambitious targets and applies a value-chain approach to minimizing its environmental impact. Our assessment of Sanofi’s social impact reflects that access to medicine is complex and goes beyond pricing. We view Sanofi as an industry innovator. The company helps improve quality of life and brings medicines to patients worldwide. In our view, one of its leading differentiators is its nonprofit unit that aims to improve global health, operating in 40 of the poorest countries and in fields including diabetes, cardiovascular, and oncology. We view Sanofi’s board as well equipped to guide the company, reflected in its excellent performance on environmental and social issues.

The board has taken decisive actions such as increasing investment in disruptive technologies (like messenger RNA [mRNA]). We believe this agility will help it accelerate its innovation and remain competitive.

ESG Profile Components (figures subject to rounding)

<table>
<thead>
<tr>
<th>Entity-specific assessment</th>
<th>Sector/region analysis</th>
<th>Achieved and attainable scores</th>
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<tbody>
<tr>
<td>E (30%)</td>
<td>E (30%)</td>
<td>E</td>
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<tr>
<td>S (30%)</td>
<td>G (40%)</td>
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<td>G (40%)</td>
<td></td>
<td>G</td>
</tr>
</tbody>
</table>

Entity within its primary sector/region

Entity’s sectors/regions versus all sectors/regions

Min and max scores possible given sectors/regions. The gray line represents performance in line with industry standards.

A higher score indicates better sustainability. Figures subject to rounding.
Component Scores

<table>
<thead>
<tr>
<th>Environmental Profile</th>
<th>Social Profile</th>
<th>Governance Profile</th>
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<tbody>
<tr>
<td><strong>Sector/Region Score</strong></td>
<td>41/50</td>
<td>35/50</td>
</tr>
<tr>
<td>Greenhouse gas emissions</td>
<td>Strong</td>
<td></td>
</tr>
<tr>
<td>Waste and pollution</td>
<td>Strong</td>
<td>Safety management</td>
</tr>
<tr>
<td>Water use</td>
<td>Strong</td>
<td>Customer engagement</td>
</tr>
<tr>
<td>Land use and biodiversity</td>
<td>Strong</td>
<td>Communities</td>
</tr>
<tr>
<td>General factors (optional)</td>
<td>None</td>
<td>General factors (optional)</td>
</tr>
</tbody>
</table>

- **Entity-Specific Score**: 40/50
- **E-Profile (30%)**: 81/100
- **S-Profile (30%)**: 77/100
- **G-Profile (40%)**: 82/100

- **ESG Profile** (including any adjustments): 81/100

**Preparedness Summary**

Sanofi is well prepared to protect and reinforce its position as one of the innovators in the pharmaceutical sector. We view Sanofi’s awareness of risks and opportunities as excellent given that it has identified many long-term structural trends shaping its industry including new technologies (such as mRNA to develop treatments for other diseases beyond COVID-19, and genomic medicine) and the surge in digital and analytics. The excellent assessment score reflects Sanofi’s comprehensive risk management tools, which cover financial and nonfinancial risks over the short (up to three years) and long (up to 10 years) terms. Furthermore, Sanofi has strong sustainability focuses on the affordability of medicines, protecting the environment, and promoting the wellbeing of its workforce.

**Preparedness Opinion (Scoring Impact)**

Strong (+6)

**ESG Evaluation**

87

Note: Figures are subject to rounding.
Environmental Profile

Sector/Region Score (41/50)

The industry is exposed to environmental risks from greenhouse gas (GHG) emissions linked to energy-intensive manufacturing processes, the handling and disposal of hazardous and toxic medical waste, and the treatment of wastewater. The industry wants to increase its adoption of green chemistry and eco-design products. In addition, the pharma sector has low exposure to land use and biodiversity.

Entity-Specific Score (40/50)

Note: Figures are subject to rounding.

Sanofi’s Planet Care and supplier engagement programs set out strategies and targets to minimize its environmental impact, covering its entire value chain. Most of Sanofi’s GHG emissions are scope 3 (about 90%). To mitigate this risk, it engages with its suppliers to help them decrease their emissions through energy-efficiency measures, greener transportation, and access to renewable electricity through power purchase agreements (PPAs). Sanofi’s supplier engagement program requires suppliers to commit to carbon neutrality by 2030 and align with 1.5°C science-based targets, in line with the big pharma players. Planet Care, its new environmental sustainability program, is even more ambitious than its earlier program, with net zero (all scopes) SBTi validated targets by 2045, five years earlier than the previous target. Sanofi expects to achieve carbon neutrality by 2030 by using carbon offsets for residual emissions, which we view as in line with larger pharma companies. Its scopes 1 and 2 GHG intensities (per million dollars of revenue) are higher than pharma sector peers, which Sanofi is addressing by increasing its eco-friendly vehicle fleet and share of renewable energy.

Sanofi’s robust waste management practices are further supported by Planet Care’s ambitious targets and initiatives. The new program has introduced targets for eco-design packaging (blister free and biodegradable cold chain packs) and expects to achieve 10% of its 2025 target (100% of new products eco-designed) by end of 2023. We view Sanofi’s waste management practices, which include initiatives such as minimizing the use of solvents at the early stages of product development, increasing its use of eco-design packaging, and being landfill-free by 2025 as standout features. While its hazardous waste generation and waste intensity are slightly higher than advanced branded peers, it has shown a steady decline over the last five years. Sanofi’s 2022 recycling rate was one of the highest among its peers and we think that, via its initiatives, it will continue to improve in this area.

The company has a strong track record of water use, with a specific focus on areas of water scarcity. Sanofi requires all its industrial sites to have a water management plan, including water-conservation initiatives and water-related risk assessments, and had implemented such plans at 13.5% of its sites as of 2022. Sanofi’s water consumption intensity has been decreasing over the past five years; it had reduced water withdrawals by 13% in 2022 from its 2019 baseline. The company has now set a higher target of 15% water withdrawal reduction by 2030, from 2019.

Sanofi has strong policies and targets to manage risks related to biopiracy, animal use for R&D, and the sustainable sourcing of raw materials. We view initiatives, such as impact assessments of ecosystems during the manufacturing of its top-selling drugs and its commitment to developing alternative approaches for animal use, as stronger than common industry practice.
Social Profile

Sector/Region Score (35/50)
Sanofi is exposed to a broad spectrum of social risks, including access to medicines and pricing, making customer engagement the most material factor for it and other pharma companies. Companies in this sector are also competing to attract and retain top talent.

Entity-Specific Score (42/50)
Note: Figures are subject to rounding.

- Workforce and diversity: Strong
- Safety management: Strong
- Customer engagement: Strong
- Communities: Leading
- General factors: None

Sanofi’s R&D is in line with advanced global pharma peers. In August 2023 its pipeline included 78 clinical-stage projects, 23 of which are in phase 3 or have been submitted to regulatory authorities for approval. Its portfolio also includes nine blockbusters; these medicines appear to have the capacity to address large unmet needs. The group has invested in R&D consistently to improve the efficiency of new molecular entity (NME) discoveries. As a result, in 2022 the company launched two new molecular entities, Xenpozyme to treat Acid Sphingomyelinase Deficiency (ASMD) and Enjaymo for Cold Agglutinin Disease. Sanofi also maintains its strong market position by bringing innovative drugs to market, including ALTUVIIIO—the first and only hemophilia A treatment. The FDA designated it a breakthrough therapy in May 2022.

Sanofi follows a principles-based pricing strategy and aims to achieve higher pricing by increasing added value for patients. To determine price, the group considers the clinical value and benefit delivered to patients as well as economic and social value. It also considers affordability and similar treatment options. Although major regional price differences are structural in the pharmaceutical industry, we view positively that Sanofi’s portfolio is diversified across therapies and geographies because it demonstrates the group’s willingness and flexibility to adjust to patient needs in lower-income countries.

Sanofi is an industry leader in helping the world’s most vulnerable groups by providing rare disease treatments and making donations. Through Sanofi Global Health Unit (GHU), it offers 30 essential medicines to 40 of the world’s poorest countries for no profit. Sanofi also commits to provide, free of charge, 100,000 vials of medicine for treatments each year to 1,000 patients living with rare diseases around the world. We also highlight its commitment to eliminating infectious diseases such as polio and sleeping sickness. In 2022 it launched Foundation S, a philanthropic organization that supports communities in low- and middle-income countries (LMICs), as well as helping climate refugees and supporting children and families affected by childhood cancer, among others. That year, Foundation S donated medicines equivalent to 45 million daily treatments to 22 million patients, which makes Sanofi stand out among peers.

The group’s safety management practices compare well with peers. Through its quality management system, Sanofi ensures the quality of products throughout their lifecycle from R&D to manufacturing, distribution, and sometimes discontinuation. This has resulted in no regulatory action, including no US FDA Warning Letter or GMP certificate withdrawal in the past three years.

Sanofi’s workplace diversity management is above industry average, with effective multi-stakeholder partnerships to integrate R&D teams and improve gender balance and employee development. In 2022 Sanofi launched the Career Development Journey for Women program, among three other initiatives, which supports employee development and the target to achieve 40% women in executive teams by 2025 (37.2% currently). As of today, 49% of employees are women, which is slightly above the industry median (48%). Like strong peers, Sanofi is in the list of companies that scored 100% in the Disability Equality Index (DEI).
Governance Profile

Sector/Region Score (30/35)
Sanofi is headquartered in France, which has high governance standards. It also operates in the U.S. (43% of sales), where governance risks are slightly higher, and we factor this into our overall risk assessment.

Entity-Specific Score (52/65)
Note: Figures are subject to rounding.

Structure and oversight  Code and values  Transparency and reporting  Financial and operational risks  General factors
Strong  Strong  Strong  Neutral  None

Sanofi’s board structure and composition are fit for purpose and ensure effective oversight, supported by high director diversity and relevant committees. After this year’s annual general meeting, the board now has 16 members, including two directors representing employees. Sanofi has also appointed a new chair, Frédéric Oudéa, who was previously appointed as a non-voting member to ensure he was smoothly onboarded to his new role. The directors have relevant skillsets and backgrounds including finance, M&A activities, health care, and scientific expertise. Almost half of the board are non-French directors, which allows a solid understanding of international markets such as the U.S., Germany, and China, and its gender representation (43%) is in line with advanced peers. The chair and CEO are separate roles, which we view as a strong feature. The share of independent directors is about 80%, according to the AFEP MEDEF code definition of independence, which is higher than average for French companies. There are five board committees (Audit; Compensation; Appointments, Governance and CSR; Strategy; and Scientific), all chaired by independent directors. The board’s robust level of oversight is, in our view, a key enabler of Sanofi’s solid performance across environmental and social factors.

Sanofi has established an effective pharmacovigilance process, which is responsible for monitoring the safety of medicines and assessing the benefits and risks of therapies. This process is important given the inherent nature of the pharmaceutical industry in which any drug can come with adverse side effects. Sanofi’s Code of Conduct defines the standards of ethical conduct for its employees, supported by relevant training. The company also has a whistleblowing mechanism for its employees and third parties working with Sanofi. In addition, in 2020 it signed its first two sustainability-linked revolving credit facilities totaling €8 billion and set up a sustainability-linked bond framework in December 2021, demonstrating its environmental and social values. It priced an inaugural sustainability-linked bond, indexed on access to medicines, in March 2022. Sanofi’s remuneration policy is in line with international practices. CEO remuneration consists of about 15% fixed and 85% variable compensation. The latter is subject to conditions related to financial performance as well as specific individual objectives including the reduction of scopes 1 and 2 emissions and providing essential medicines to noncommunicable diseases patients through Sanofi Global Health.

Sanofi’s reporting practices are strong. It provides detailed disclosures of its ESG and financial performance. The company follows Global Reporting Initiative (GRI) standards and provides a separate Task Force on Climate-Related Financial Disclosures (TCFD) report. Relevant to its industry, Sanofi endorses the Pharmaceutical Research and Manufacturers of America (PhRMA) and The European Federation of Pharmaceutical Industries and Associations (EFPIA) Principles for Responsible Sharing of Clinical Trial Data and publicly shares information on clinical trials.
Sanofi is well prepared to protect and reinforce its position as one of the innovators in the pharmaceutical sector. We view Sanofi’s awareness of risks and opportunities as excellent because it has identified many long-term structural trends shaping its industry, including in new technologies (such as mRNA to develop treatments for diseases beyond COVID-19, and genomic medicine) and digital and analytics transformations. Our assessment also reflects Sanofi’s comprehensive risk management tools, which cover financial and nonfinancial risks over the short (up to three year) and long (up to 10 year) terms. The group unveiled its Play to Win strategy in December 2019, which sets a framework for growth mainly through a focus on R&D and operating efficiency improvements. Through this strategy, Sanofi aims to remain one of the top performers in an industry where R&D is a long and costly process, and the competition is stiff. We view innovation as an essential part of sustainability in the pharmaceutical sector because it drives accessibility and affordability of medical therapies. Sanofi also emphasizes sustainability, including issues around environmental protection and the wellbeing of its workforce.

Sanofi has been refining its consistent and substantial investment in R&D to improve the efficiency of NME discoveries and clinical trials, as well as bring innovative drugs to market at scale and in a timely fashion. Historically, the group has spent about €6.0 billion on R&D per year, increasing to €6.7 billion in 2022. This represented 15.6% of total sales in 2022 (15.3% in 2020) and is in line with the most advanced peers in the industry. We view Sanofi’s decision to discontinue investments in diabetes and cardiovascular--historically top therapies for the group--as reflecting management’s ability to make difficult decisions and act when needed. Sanofi’s failure to bring a COVID-19 vaccine to market during the early days of the pandemic was a disappointment. Nevertheless, management promptly decided to invest in mRNA technology through the acquisition of TranslateBio for $3.2 billion and the launch of a dedicated vaccines mRNA center of excellence. Sanofi obtained a proof of concept for its COVID-19 mRNA vaccine but decided not to proceed given the dominance of Pfizer/BioNTech and Moderna. That said, it intends to leverage the technology beyond the pandemic.

Sanofi has historically relied on M&A and partnerships (Regeneron for example) to advance its R&D. It shifted its approach recently by focusing on small bolt-ons with innovative technological platforms instead of larger deals. Notable examples are Genzyme, for $20 billion in 2011, and Bioverativ for $11.6 billion in 2018.

Sanofi emphasizes the importance of its digital transformation to reinforce its R&D and has developed a digital roadmap to complement its business strategy. The company is planning to leverage data and analytics in R&D cycles, use machine learning to replace certain experiments, and harness digital technologies to improve manufacturing efficiency and patient recruitment for clinical trials. For example, in January 2022, Sanofi established a strategic research collaboration with Exscientia, an artificial intelligence (AI)-driven pharmatech company, to potentially develop 15 molecules in experimental oncology and immunology therapies. Exscientia uses an AI drug design platform that enables the integration of human tissue samples into early target and discovery research, which provides higher accuracy compared to conventional mouse models and therefore has the potential to create higher-quality medicines faster.

Sanofi is contributing to the prevention of future health care crises, including via an access-to-medicine strategy that is integrated within its overall corporate strategy. The company expects to grow its vaccines business through differentiated products and will notably leverage on the
Preparedness

innovative mRNA technology beyond the pandemic for routine use with diseases that have not yet attracted much attention. It is developing its own vaccines against diseases including respiratory syncytial virus (RSV), pneumococcal infections, meningitis B, and yellow fever.
Appendix

Sector And Region Risk

<table>
<thead>
<tr>
<th>Primary sector(s)</th>
<th>Healthcare</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary operating region(s)</td>
<td>France</td>
</tr>
</tbody>
</table>

Sector Risk Summary

Environmental exposure

The health care sector includes health care providers (for profit and not-for-profit), pharmaceuticals, biotech, and suppliers of health care equipment and devices. Although generally well-managed, health care companies have exposure to environmental risks related to energy use, water use, and waste discharge. The industry uses a lot of water and energy, particularly pharmaceuticals and health care providers. However, compared with other industries, health care companies are not heavy users of land or fossil fuels, and greenhouse gas emissions are relatively low. Proper handling and disposal of toxic materials, whether bio-hazardous materials generated at hospitals and health care centers or toxic materials used in the manufacture of pharmaceuticals, life science products, and medical devices, is key. Climate events can represent risks, but are mainly opportunities. For pharmaceutical and medical equipment companies, opportunities exist in the development of medicines and treatments to cure new climate-related diseases. However, for providers, there could be some risks from climate and environment-related diseases should the costs and demands of treating those illnesses exceed operational and financial capacity.

Social exposure

Social risk is the most important component of the ESG framework for the health care industry given its critical role in society. Pressure is mounting on issues such as the growing gap in access, pricing transparency, cost control, and the focus on increasing safety and quality of care. Longer term, demographic changes, such as aging populations in developed countries, will further increase the societal need for health care. Access to affordable medical care and medications are major themes, including companies’ pricing and claims payment policies. In many geographies and segments of the population, access to affordable, quality care is difficult to obtain. In countries where the health system has diverse payors and organizational structures, some organizations provide health care and related services without compensation or for very low, often unprofitable rates. An organization's commitment to continue providing these services, for the good of the local community, will increasingly come under pressure given expected rising demand and costs. Safety is also a major risk given that medical errors--including product recalls, misuse, and failure--could lead to public health issues, an erosion of public trust, and litigation. This could weaken a company's reputation and financial position, as highlighted by the recent opioid crisis. Pandemics pose another social risk in terms of the ability of health care systems to manage and treat large volumes of patients while assuring the health and safety of workers and patients. Given the health care industry's reliance on highly qualified personnel, and the shortages of physicians leading to competition for physicians between subsectors, human capital management (such as promoting good working conditions, protecting employee health and safety and retaining talents) is an important consideration.
Regional Risk Summary

France

France has strong institutions and rule of law, with free flows of information throughout society and open debate on policy decisions. Checks and balances between institutions are generally effective. Overall, corporate governance is in line with advanced economies’ standards. In addition to the EU Non-Financial Reporting Directive’s recommendations requiring the disclosure of ESG data, French companies must also disclose the social and environmental consequences of their activities under domestic law (Grenelle Act), the financial risks they face from climate change, and their remediation strategies (Energy Transition Law). Under the 2019 law Pacte, companies must consider environmental and social issues when developing their strategy. The strong regulatory framework is complemented by the Afep-Medef Code, the corporate governance recommendations from AFG (French Asset Management Association), and recommendations from the Financial Markets Authority. All three provide non-binding guidance for best practice on governance and pay. Despite waves of privatization, the state remains an important player in the French capital markets as a shareholder of several large, listed companies. On diversity, the Copé-Zimmermann Law has required listed companies to reach at least 40% female board membership since 2017. France ranks 22 of 180 on Transparency International’s 2021 Corruption Perceptions Index.

United States

With robust institutions and rule-of-law standards, the U.S. demonstrates many strong characteristics but lags several other countries with respect to ESG regulations. Governance is characterized by a very stable political system, a strong rule of law, a powerful judiciary, and effective checks and balances. Conditions of doing business are generally very good. The U.S. follows a rules-based approach to corporate governance focused on mandatory compliance with requirements from the major exchanges (NYSE and NASDAQ) as well as legislation. State corporate law is also a key source of corporate governance, particularly Delaware where over half over all U.S. listed companies and close to 70% of Fortune 500 companies are incorporated. Exchanges mandate high standards of corporate governance. The NYSE requires companies listing on its exchange to have boards made up of a majority of independent directors, with separate remuneration and nomination committees. However, formal requirements on ESG reporting are not as established as they are in European countries. While a growing number of companies have an independent chair, the combination of CEO and chair roles is still popular. Remuneration continues to be a contentious point because U.S. executive pay dwarves global pay levels. The U.S. ranks 27 of 180 on Transparency International’s 2021 Corruption Perception Index.

Germany

Germany has strong institutional and governance effectiveness. Rule of law is strong, the judiciary is independent, and corruption is viewed as a minor issue. Germany ranks 10 of 180 on Transparency International’s 2021 Corruption Perceptions Index. The German Corporate Governance Code (Kodex) is the reference document for best practices and works on a comply-or-explain basis. Its last iteration came into effect in 2020 when the EU Shareholder Rights Directive II was transposed into German law. Notable improvements include recommendations on board independence and board oversight of related-party transactions and executive pay, with a shareholder vote on the remuneration report becoming mandatory in 2022. While the recommendations are less specific than most European codes, companies exhibit strong governance practices. Companies are typically governed by a two-tier board system: a management board overseen by a supervisory board comprising non-executives including shareholder and employee representatives. The 2021 Act on Strengthening Financial Market Integrity (FSG) is an important milestone aimed at strengthening financial oversight at German
Appendix

companies. Besides requiring a minimum number of financial experts on boards, since January 2022 all listed companies must also form an audit committee.

China

The Chinese Central Government's recent push to reform state-owned enterprise structures in line with good governance practices is a major development. In 2018, China revised its Code of Corporate Governance for listed companies, accounting for OECD requirements and particularly focusing on ESG disclosure and board diversity. Draft amendments to Chinese Company Law were published in January 2022, aimed at improving corporate governance at companies including state-owned enterprises. Notable changes were made on related-party transactions regulation, companies' capital structures, and provisions clarifying directors' duties. These changes follow the issuance in 2021 by the China Banking and Insurance Regulatory Commission of a new Corporate Governance Rules of Banking and Insurance Institutions, which consolidates existing guidance. Official corruption has lessened over the past few years due to the central government's anti-corruption drive. This effort has also been extended to government-related companies and financial institutions. Still, corruption among private enterprises remains an issue. Although judicial reforms are ongoing, the private sector has yet to trust that the rule of law is significantly improving. The country ranks 66 of 180 on Transparency International's 2021 Corruption Perceptions Index.
Appendix

Related Research

- Environmental, Social, And Governance Evaluation: Analytical Approach, Sept. 20, 2022
- The ESG Risk Atlas: Sector And Regional Rationales And Scores, July 22, 2020
- How We Apply Our ESG Evaluation Analytical Approach: Part 2, June 17, 2020

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