

Environmental, Social, And Governance (ESG) Evaluation

Másmóvil Ibercom S.A.

Executive Summary

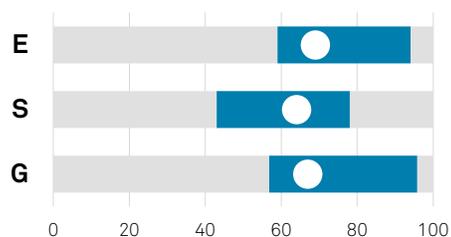
Masmovil is Spain's fourth-largest telecom operator, providing fixed and mobile voice and internet services to business and retail customers. The group generated revenue of €1.451 billion and served 7.8 million subscribers through its brands Yoigo, Masmovil, Pepephone, Llamaya, and Lebara, as of Dec. 31, 2018. Over the last 10 years, the group has managed to significantly expand its network coverage, size, and service offering, mainly through acquisitions, maintaining a sustained expansion strategy. Growth accelerated in recent years with its listing on the Madrid Stock Exchange in 2017, and the acquisitions of Pepephone and Yoigo in 2016, Llamaya in 2017, and Lebara in 2018.

Masmovil's ESG evaluation score of 67 reflects its relatively recent but growing awareness and commitment to sustainability, the company's adequate preparedness for strategic risks, and the medium exposure of the telecoms sector to environmental and social risks. The company has prioritized the formalization of a robust governance framework in order to accompany and structure its rapid expansion over the past years. It has also consistently put customer engagement at the core of its strategy, secured multiple long-term roaming agreements, and more recently focused on data protection, cybersecurity, and talent management. However, the company has yet to formalize other aspects of its sustainability strategy, such as how it assesses ESG risks stemming from its contractors, tracks and reports ESG metrics on a more regular and consistent basis, and completes the integration of the information systems of its recent acquisitions.

| | |
|--------------------------------------|---|
| Entity | Másmóvil Ibercom, S.A. |
| Location (HQ) | Madrid, Spain |
| Primary Operation Location(s) | Spain |
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Profile Score

67/100



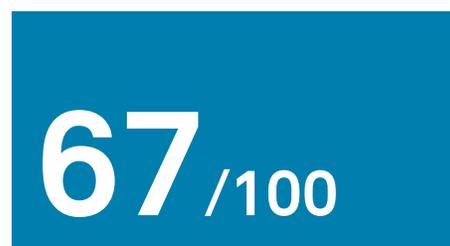
Entity-specific attainable and actual scores

Preparedness Opinion

Adequate

| | |
|------------------|-------------|
| Awareness: | Good |
| Assessment: | Good |
| Action: | Good |
| Culture: | Good |
| Decision-making: | Good |

ESG Evaluation



A higher score indicates better sustainability

Component Scores

| Environmental Performance | | | Social Performance | | | Governance Standards | | |
|--|----------------|--|--|----------------|--|--|-------------------|--|
| Sector/Region Risk Level | 44/50 | | Sector/Region Risk Level | 28/50 | | Sector/Region Risk Level | 20/35 | |
|  Greenhouse Gases | Good | |  Workforce and Diversity | Good | |  Structure and Oversight | Good | |
|  Waste | Lagging | |  Safety Management | Lagging | |  Code and Values | Good | |
|  Water | Lagging | |  Customer Engagement | Strong | |  Transparency and Reporting | Developing | |
|  Land Use | Good | |  Communities | Good | |  Cyberrisks and Systems | Good | |
|  General Factors (optional) | None | |  General Factors (optional) | +6 | |  General Factors (optional) | None | |
| E Profile (30%) | 69 | | S Profile (30%) | 64 | | G Profile (40%) | 67 | |
| ESG Profile (incl. any adjustments) | | | | | | 67/100 | | |

Preparedness Summary

Our assessment of Masmovil's preparedness as adequate reflects our view that the company's board and management have demonstrated their ability to manage strategic risks and strengthen the company's future strategic resilience. The company has transitioned from a small virtual to an integrated fixed and mobile network operator over the past three years, by securing access to an extended mobile and fixed network and putting customer satisfaction and transparent pricing at the core of its growth strategy. On the other hand, our assessment is limited by our view that Masmovil is still implementing its action plans for some of its strategic risks and places limited emphasis on its potential emerging and strategic risks beyond its five-year action plan, which may differ from some more established and mature companies.

Preparedness Opinion

Adequate

ESG Evaluation

| | |
|-----------------------------|-----------------|
| ESG Profile | 67/100 |
| Preparedness Opinion | Adequate |
| Further Adjustment (if any) | N/A |

67 /100

ESG Profile

67/100

Overview

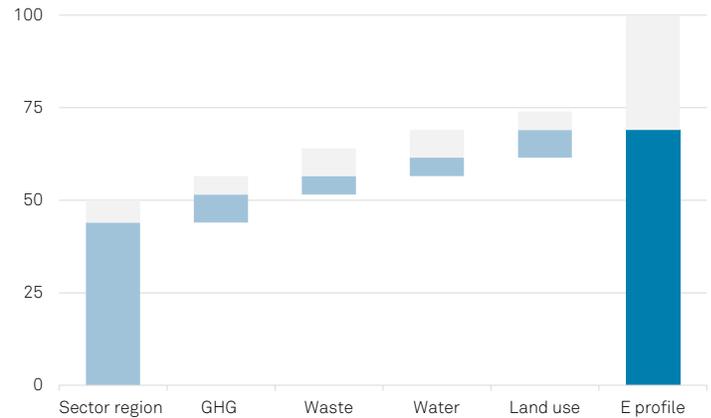
Masmovil's E profile score of 69 is primarily supported by our view of the sector's relatively low exposure to environmental risks. On the other hand, it is somewhat negatively affected by the overall lack of formalization of the company's environmental policies and the absence of regular tracking of environmental metrics compared with some of its global peers. In particular, the company has not yet put in place any initiatives around management of e-waste, which we believe is its most material environmental risk.

Unlike its E profile score, Masmovil's S profile score of 64 is constrained by the sector's comparatively high exposure to social risks such as data protection, relations with local communities, and safety. This high sector exposure is partly offset by the company's excellent track record on customer satisfaction and engagement with local communities, as well as our view of the management's strong commitments on data privacy and investment in tech and talent. We also apply a positive adjustment to reflect the company's strong commitment on customer engagement at the board, management and employee levels, which we see as its most material social risk. However, the company's lack of reporting on safety metrics and limited engagement on issues such as online security and electromagnetic frequency radiation, compared to some global peers, weigh negatively in our assessment.

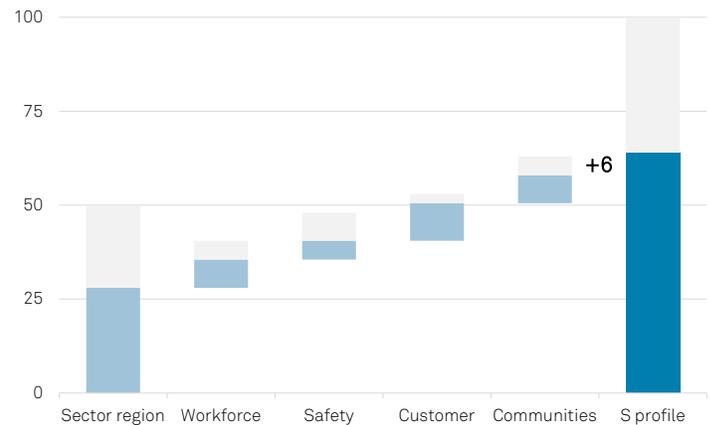
Masmovil's G profile score of 67 reflects our view of the company's ability to strengthen its governance structure and systems over the past years, including on cybersecurity. The company has put a code of conduct and standard governance policies in place, and developed a robust risk-management framework of cyber risks over the past two years, in line with its global peers. We also see the board as relatively independent, with a diversified skills mix, and see ongoing progress on gender diversity. However, Masmovil's G profile score is somewhat negatively affected by the company's limited disclosure on sustainability compared to global peers, in particular the absence of regularly reported ESG metrics in recent years.

■ Component score (incl. adjustments) ■ Potential score ■ Profile score

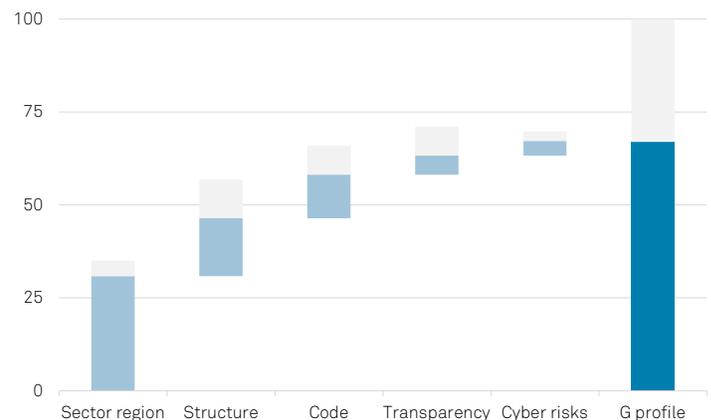
Environmental Profile (30%)



Social Profile (30%)



Governance Profile (40%)



Environmental Factor Analysis



Greenhouse Gas Emissions

Good

- As with industry peers, Masmovil's greenhouse emissions (GHG) are mostly associated with its electricity consumption (scope 2). Electricity is used to power the company's network -including its radio base stations, exchanges and data centres, and support growing mobile traffic.
- While Masmovil has not yet formalized a broader strategy to manage its scope 2 emissions, it reports some energy-efficiency measures implemented over the past two years, including the reduction of energy consumption on its mobile network with the use of energy-efficient active equipments. We believe these type of measures are relatively common practice in the industry.
- Masmovil does not track any carbon and energy metrics on a regular basis, which may challenge the company's ability to demonstrate progress over time. While some of its most-advanced global peers have robust carbon and energy reporting, we note that carbon reporting is still relatively limited in the rest of the industry.



Waste

Lagging

- We see management of electrical and electronic waste (e-waste) as the most material environmental factor for telecom companies.
- Masmovil has identified those risks in its sustainability policy and included a commitment to minimize the generation of waste and contribute to a circular economy. However, its policy does not include some important components, such as responsibilities to implement the policy, remediation process in case of a policy breach, and review of suppliers' practices.
- In addition, the company does not track any waste-related metrics, unlike some of its global peers. We note that most-advanced peers have also established mobile recycling and donation programs, and set commitments to increase recycling of minerals from e-waste.



Water

Lagging

- Masmovil uses water to cool its two data centers. Growing water stress in many regions in Spain could have an impact on telecom companies' ability to purchase or withdraw water for cooling data centres.
- Unlike most of its global peers, the company does not track any water metrics such as water consumption and exposure to water stress.



Land Use

Good

- Spain is one of the most exposed European countries to biodiversity risks. Local biodiversity could be negatively affected by Masmovil's operations, in particular the construction of new network infrastructure and the expansion of existing infrastructure. Those activities are mostly conducted by contractors of Masmovil, hence represent an indirect risk for the company.
- While Masmovil has an environmental policy that covers biodiversity, the company does not engage with its contractors on this topic. Most of the company's global peers also report limited information on biodiversity.
- Masmovil is implementing a project to optimize its mobile telecom infrastructure, thereby reducing its land use. This project consists in sharing the passive infrastructure with other operators and limiting duplication of networks. While we view this as an environmental-friendly initiative, we believe this is a common practice in the industry as it also reduces costs.



General Factors (None)

We have not made any adjustments to the environmental profile.

Social Factor Analysis



Workforce and Diversity

Good

- Masmovil has an 'equal opportunity' policy on workforce and diversity, which is complemented by oversight at board and executive levels. Masmovil is focused on integrating the workforce of the companies it has recently acquired, mostly through training and career development. The company's management conducts regular and comprehensive employee surveys to track satisfaction across its organization. While those surveys show an overall high degree of engagement of its staff, it also highlights employees' expectations for improved recognition and talent retention.
- 28% of the company's employees are women, broadly in line with global peers. However, the company does not have any women in its executive team and does not have any publicly disclosed targets or commitments to further improve gender diversity of its workforce.



Safety Management

Lagging

- The company's most material safety risks stem from its contractors, who construct and maintain its network infrastructure. Although the company reports that it assesses its contractors' safety practices, it provides limited information on the scope, frequency, and results of those assessments.
- Masmovil has a safety policy in place for its direct operations, complemented by oversight at board and executive levels. However, the company has not tracked any safety metrics over the past years that could demonstrate the effectiveness of its safety policies over time, unlike most of its industry peers.



Customer Engagement

Strong

- Customer satisfaction and service quality are at the core of Masmovil's strategy and business expansion. The company has achieved above-average NPS® over the past two years according to an independent study (26 for MasMovil vs -6 in average in the Spanish telecom industry in 2019), through enhanced digitalization, simplification of services and processes, pricing transparency, and a Spain-based client resolution service available 7 days/24 hours. Masmovil conducts quarterly surveys to measure customer satisfaction using multiple indicators and has set a target to reduce reported customer incidents by 50% this year. The compensation of the executive team includes customer acquisition and satisfaction targets.
- Similarly to its global peers, Masmovil recognizes that protection of customer data is one of its most material risks. The company has a privacy policy in place, a commitment to train employees, and recently appointed a data privacy officer. Similarly to most of its global peers, Masmovil has successfully implemented the new General Data Protection Regulation (GDPR) and trained its employees on the new regulation.
- We could revise our assessment to good from strong if we observed a rapid deterioration in customer satisfaction compared to peers, an increase in customer incidents, or the company's inability to manage growing exposure to potential data breaches.



Communities

Good

- Masmovil has developed initiatives to support local employment and entrepreneurship. Unlike some of its global peers, the company decided to maintain its client resolution service in Spain, contributing to job creation in the country. The company also created a startup accelerator "Masventures", which offers local startups the chance to integrate their products and services within the group. In addition, Masmovil has dedicated a sizable amount of the marketing budget of its Yoigo brand to the creation of "pienso, luego actuo," a platform showcasing projects with a positive social impact from Spanish entrepreneurs and their alignment with the United Nations Sustainable Development Goals.
- On the other hand, we believe Masmovil has undertaken limited initiatives to address rising concerns of local communities on topics such as cyberbullying and health impacts of electromagnetic frequency radiation; though we acknowledge that only a small number of companies in the industry are proactively interacting on these topics. Some initiatives undertaken by most-advanced companies include providing support to customers on cyberbullying and online safety - especially for younger customers, as well as engaging with local stakeholders on potential health effects of electromagnetic waves.



General Factors (+6)

We apply a general adjustment of +6 to reflect the greater materiality of customer engagement as a social risk telecom operators face, in our view, and an area in which Masmovil has its strongest comparative assessment. The company has demonstrated it can maintain high levels of customer satisfaction and has embedded this objective across all board, management, and employee levels. Our adjustment is also informed by the company's initiatives in favor of local employment and entrepreneurship, which supports our view of the communities assessment being at the upper end of good.

Governance Factor Analysis



Structure and Oversight

Good

- Masmovil's good score reflects the company's efforts to formalize and strengthen its governance practices since 2017, in order to support and structure its rapid growth. In particular, the company has adopted a policy to select board members that stipulates transparency, diversity, nondiscrimination, and expertise requirements, as well as a purchasing policy, for instance.
- The board has 12 members, including the CEO, a member of the executive committee, an independent chairman with extensive financial, media and ESG expertise, and four other independent directors. The company has established two committees: the Audit Committee and the Appointments and Remuneration Committee. Both committees have a majority of independent members, including the Chairman.
- We see the board as relatively diversified with two women, three non-Spanish members and an adequate mix of skills - a majority of board members have a financial background, while the rest bring experience from the media and telecom industries. It has short tenure - less than three years - which we believe reflects the recent changes in the group's capital structure and shareholder base.



Code and Values

Good

- Masmovil published in June 2017 a Corporate Social Responsibility Policy, which lays out its commitment to create value in a sustainable manner, fairly reward all those who contribute to the firm's success, and take social returns into account. The company also approved its code of ethics, highlighting its commitment to non-discrimination, fundamental rights to equal opportunities, and more generally its focus on human rights. Employees have received training on these policies and are encouraged to report any breaches.
- Masmovil's decision to link the ratchet of its revolving credit facility (RCF) and capex facility to an ESG assessment illustrates the company's commitment to improving its sustainability profile over time, in our view, and further supports our good assessment.
- There is a short vesting period of three years and overall limited long-term incentives in executive compensation, including on ESG topics. This partly reflects the recent formation of Masmovil Group and the company's focus on achieving its shorter-term objectives to sustain its growth trajectory in the long run.



Transparency and Reporting

Developing

- We assess Masmovil as developing on transparency and reporting score because the company discloses less information than its global peers on its environmental and social practices. In particular, the company often discloses sustainability metrics for one year only, limiting the tracking of progress over time. Most of the company's disclosures are only in Spanish.
- That said, we note that Masmovil reports publicly information on its governance, including the group's key stakeholders, the current status of non-financial risk management, as well as some key performance indicators (KPIs) such as gender pay gap at managerial and employee-levels, and customer complaints.
- We may revise our assessment to good from developing as Masmovil formalizes its sustainability strategy over time and strengthens its non-financial reporting.



Cyberrisks and Systems

Good

- Masmovil recognizes cyberrisk as a material and growing risk for its business. The company significantly ramped up its efforts on cybersecurity over the past two years: it has adopted a Cybersecurity and Personal Data Protection Policy at board-level, rolled out a mandatory training plan for all its employees, and created a dedicated cybersecurity operations centre to prevent potential attacks. Those initiatives are overseen by the company's Cybersecurity and Privacy committee. The company has also undertaken projects on targeted topics such as protection of data centers and mobile data traffic.
- In our view, those practices are aligned with industry standards.



General Factors (No numeric adjustment made)

We will monitor changes to Masmovil's ownership structure as the company continues to grow. In the short term, we expect Providence Equity Partners -- one of its strategic shareholders -- to retain one seat on the board compared with two currently, thus being more in line with its modest 8% ownership stake. We expect the available seat will be given to an independent director.

Preparedness Opinion

| Preparedness | Low | Emerging | Adequate | Strong | Best-in-class |
|-----------------|------------|----------|-----------|--------|---------------|
| Awareness | Developing | Good | Excellent | | |
| Assessment | Developing | Good | Excellent | | |
| Action | Developing | Good | Excellent | | |
| Culture | Developing | Good | Excellent | | |
| Decision-Making | Developing | Good | Excellent | | |

Summary Opinion

Our assessment of Masmovil's preparedness as adequate reflects our view that the company's board and management have demonstrated their ability to manage strategic risks, and make decisions to strengthen the company's future resilience during its transformational growth phase. The company has transitioned from a small virtual to the no. 4 Spanish integrated fixed and mobile network operator over the past three years, by securing access to an extended mobile and fixed network and putting customer satisfaction and transparent pricing at the core of its growth strategy. On the other hand, our assessment is limited by our view that Masmovil is still implementing its action plans on some of its strategic risks such as resilience, consistency, and integration of information systems across its recently acquired businesses. We also see limited emphasis by the company on its emerging and strategic risks beyond its five-year action plan, such as changes in the competitive or regulatory environment, 5G deployment or tech-related disruptions, which may differ from some more established and mature companies.

| Awareness | Developing | Good | Excellent |
|-----------|------------|------|-----------|
| | | | |

We assess Masmovil's awareness as good because the company is aware of its most material strategic risks and is monitoring their evolution on a regular basis. The board and members of the executive committee are able to articulate the nature and dynamics of most strategic financial and nonfinancial risks faced by the company. Key strategic financial risks include goodwill combined with future recovery of its sizable deferred tax asset, and the sustainability of its debt structure. Key nonfinancial risks include cybersecurity, protection of customer data, 'internet of things', network availability, dependence on suppliers, failure to integrate acquired companies and their respective systems of information, as well as talent management and retention, notably in IT and new technologies. Strategic financial risks are identified and evaluated by the chief risk officer and reported to the audit committee at least annually. Strategic nonfinancial risks are identified and evaluated by the chief strategic officer, the chief compliance officer, and the unit controllers, and reported at least annually to the board and at least twice per year to the appointment and remuneration committee and the audit committee.

The executive team and board members focus on potential risks that could affect the company's five-year action plan, which may differ from some more established and mature companies that examine potential risks and opportunities over a longer-term horizon--including potential changes in competitive or regulatory environments, 5G deployment, or tech-related disruptions.

Assessment

Developing

Good

Excellent

We see Masmovil's assessment as good because it has put in place the policies and tools to assess its strategic risks, and has defined the processes to report the findings to the board of directors. The company assesses the likelihood and impact of financial and nonfinancial risks as part of its risk management process under a base-, best- and worst-case scenarios. Although we have limited visibility on the assumptions used to develop each of those scenarios, we understand the outcomes of those scenarios are regularly discussed and monitored at board-level. Exposure to nonfinancial risks is typically assessed qualitatively, for example through questionnaires. The company also uses consultants when necessary.

We limit the assessment to good because Masmovil has not developed comprehensive scenario analysis to explore how its strategy could be affected under multiple plausible scenarios.

Action

Developing

Good

Excellent

Masmovil's action plan is good because the company has demonstrated its ability to manage its strategic and emerging risks in the past years. We believe Masmovil's capacity to expand its network through company and asset acquisitions, third-party roaming, and network leasing agreements have strengthened its ability to deliver on its future strategic objectives. In particular, the company has managed to negotiate mobile roaming agreements with all existing Spanish mobile network operators, as well as fixed network sharing and fiber co-development agreements with Orange and Telefonica. We believe those initiatives have given Masmovil access to a nationwide mobile network -- completing its own network that reaches 85% of the Spanish population, and provided flexibility to switch provider in case of network disruption. In parallel, the company has accelerated the development of its fixed broadband activities, giving Masmovil's access to a larger number of households, while developing its own fibre network -- which covered 25% of the population in 2018.

We limit our assessment to good because we believe the company is still implementing action plans to manage some of its strategic risks, such as resilience, consistency, and integration of information systems across its recently acquired businesses, as well as talent retention. Our assessment is also constrained by our limited visibility into the company's risk tolerance thresholds for some of its strategic risks.

Culture

Developing

Good

Excellent

We assess Masmovil's culture as good because its focus on customer satisfaction at all levels of the organization is aligned with its long-term strategic objectives. In our view, the company's recent growth demonstrates that its focus on customers has been relatively well understood by employees and well embedded in the company's culture.

In our view, forming a consistent corporate culture across the recently formed Masmovil Group may take time. The company recognizes the challenges associated with integrating people from its recent acquisitions, and has put in place initiatives to reinforce employee awareness and engagement across its subsidiaries: the top management communicates the strategy to existing employees through training and quarterly sessions with the CEO, and to new employees through immersion plans. In the most recent employee survey, the large majority of employees expressed high satisfaction rates on their work, team environment, and the company's strategy. Overall, we believe recent integrations, including that of Yoigo, have been well implemented due to a clear group strategy but also its multi-brand approach, allowing integrated companies to retain their

specificities. We may revise our assessment to excellent from good as the company continues to demonstrate a consistent corporate culture, improves employee feedback on talent retention and shows how this is leveraged to meet its strategic objectives.

We also note that Masmovil actively attempts to preserve its start-up and entrepreneurial culture. The company wants to maintain agility and innovative thinking in its workforce. For example, its start-up accelerator MasVentures supports local projects that could help the company to improve customer experience and use new technologies such as block chain and machine learning. It also has an innovation mailbox that can be used by all employees. We believe keeping an entrepreneurial culture may become more challenging as the company pursues its growth and further formalizes its policies and procedures.

Decision-making

Developing

Good

Excellent

Decision-making is good because the CEO and the board have demonstrated their involvement and commitment to the company's long-term and sustainable success. The objective to turn Masmovil into the no. 4 telecom operator has been successful due to, among other things, the board's decision to take advantage of the Orange-Jazztel merger--resulting in the acquisition of fiber business units and the access to an ADSL network--negotiate additional network-access agreements, and acquire Yoigo in 2016. The board and management have also proved their ability to anticipate technological shifts, for example by acquiring 5G spectrum at a cost-competitive price ahead of the official auctions, thereby strategically positioning the company for 5G rollout.

We view the company's use of an ESG-linked ratchet of its RFC and capex facility as a strong incentive for top management to consider sustainability factors in its strategic and financial decisions over time. We also view positively the inclusion of a target to maintain high customer satisfaction as part of executive compensation, which supports the alignment of executive decisions with Masmovil's long-term strategy. The appointments and remuneration committee and board of directors may incorporate other sustainability objectives in executive compensation based on a qualitative assessment of the company's progress.

Sector/Region Risk

| | |
|-----------------------------|---------|
| Primary Sector(s) | Telecom |
| Primary Operating Region(s) | Spain |

Sector Risk Summary

Environmental exposure

Environmental risks for the telecom sector reflect low direct and indirect use of water and its relatively low contribution to waste, pollution, and toxicity. Because the sector uses energy to power its communication networks, data centers, and operations (such as truck rolls, IT systems, call centers, and points of distribution), the sector contributes to GHG emissions. In addition, the sector has exposure to climate change risks because a notable portion of its operating infrastructure (as well as customers) is exposed to extreme weather conditions like hurricanes, tornadoes, ice storms, or flooding.

Social exposure

Consumer behavior is a moderately high risk for telecom, given shifting demand toward innovative services such as broadband-based and over-the-top products. Demand shifts could create significant capital allocation challenges and affect return on capital given the sector's long-life assets. Further contributors to our social risk assessment are the sector's expansive reach and visibility, its systems stability, as well as consumer confidence in industry actions on privacy, community engagement, equity, and corporate citizenship. Debate over the societal impact of excessive social media use (particularly among younger demographics) and the effects of misinformation could increase social pressure to reduce or change usage patterns. Health concerns around potential radiation from telecom equipment and devices are a small but notable factor that could affect consumer usage of telecom services. Telecom companies are large employers, typically with a significant unionized workforce, so human capital management is another key social risk. Given the sector's large and ethnically diverse customer base, community relationships and sensitivity form low but important social cohesion risks. Safety management risks stem from the industry's technicians and personnel building and maintaining the telecom infrastructure, including towers and data centers.

Sector/Region Risk

Regional Risk Summary

Spain has a strong rule of law and institutions, despite undergoing important internal political challenges including from regional independence movements. Spain's corporate governance framework for listed companies has two components: binding provisions from the company law and voluntary recommendations from the Spanish code of good governance (the code), published in 2015. The code followed significant legal reforms such as the Law 31/2014, which included binding votes on remuneration policy, stricter regulations on directors' classification, and new ownership thresholds for shareholders' rights. By law, Spanish boards must establish committees such as audit, remuneration, and nomination. Companies must disclose an annual corporate governance report. While the stock exchange doesn't have specific ESG requirements in its listing rules, companies of over 500 employees are implementing the EU Non-Financial Reporting Directive's recommendations, which mandate disclosing ESG (including diversity) risk. Regarding board diversity, Spanish companies must have 30% women on their boards. However, the quota isn't mandatory and is on a comply-or-explain basis only. Spain ranks worse than other Western European countries on corruption, currently 41 of 180 on Transparency International 2018 Corruption Perception Index.

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