

Research

Berkshire Hathaway Inc.

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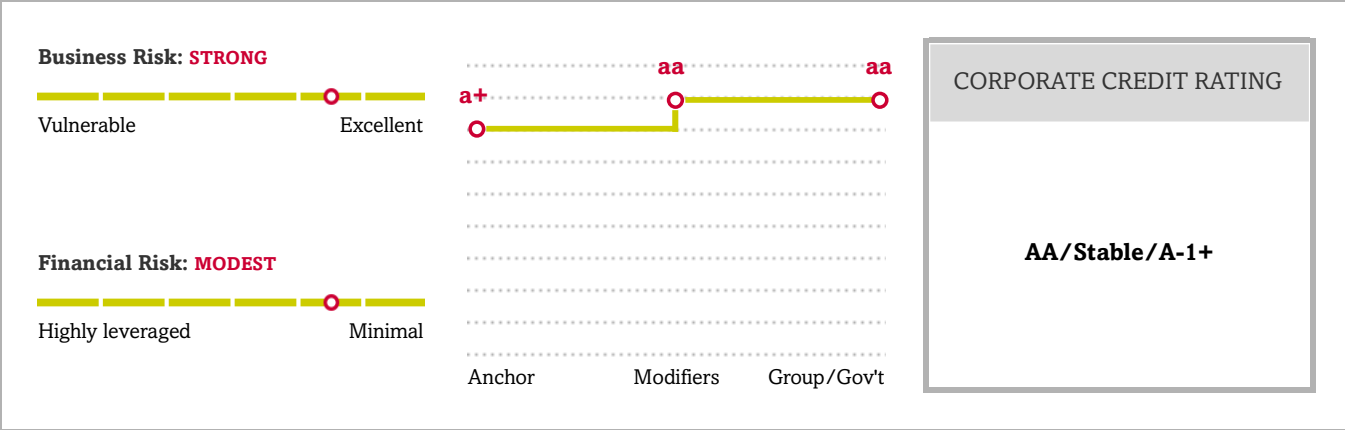
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Berkshire Hathaway Inc.



Rationale

Business Risk: Strong

- Solid competitive position based on strong and excellent positions in a number of business segments
- Significant product and geographic diversity through a combination of insurance and noninsurance operations
- Excellent consolidated profitability
- Low industry and country risk, albeit with varying degrees of volatility, cyclicity, regulatory risk, and correlation among the various business segments

Financial Risk: Modest

- Modest financial risk profile expected to remain relatively stable over the next two years
- Exceptional liquidity supported by large cash balances
- No dividend payments to shareholders and little to no share repurchases
- Significant appetite for acquisitions

Other Factors

Our assessment of BRK's business risk profile (BRP) as strong and financial risk profile (FRP) as modest leads to an initial dual ratings anchor of 'a+ / a'; we choose the higher to reflect our view that the BRP is in the higher end of the strong assessment level. BRK is a highly diversified conglomerate with multiple business segments with relatively low correlation. As a result, we give the group rating a two-notch uplift from the initial anchor based on its significant diversification.

Outlook: Stable

The stable outlook on Berkshire Hathaway Inc. (BRK) reflects S&P Global Ratings' expectation that the group will continue to report solid profitability metrics, significant cash flow generation, and strong EBITDA margins--in line with our favorable view of the group's strong competitive position in its various business segments and management's strategic focus on operating profitability. We also expect BRK to maintain a supportive financial policy.

Downside scenario

We could lower our ratings if BRK's FRP deteriorates either due to a large acquisition or a change in financial policy, with debt to EBITDA becoming and remaining greater than 2x or funds from operations (FFO) to debt falling below 45% on a sustained basis.

Upside scenario

We are unlikely to raise our ratings over the next 24 months since we consider it unlikely that we will improve our view of the group's BRP from the current strong during that time, as well as our opinion that there are some operating and execution risks related to BRK's acquisitive profile.

Our Base-Case Scenario

| Assumptions | Key Metrics | | | |
|---|-------------------------------|--------------|--------------|---------|
| <ul style="list-style-type: none"> Real U.S. GDP growth of 2.4% in 2017 Mid-single-digit organic revenue growth complemented by a moderate annual level of acquisitions Adjusted EBITDA margins of 20%-24% in 2017-2018 Debt to EBITDA of 1.7x-2.0x and FFO to debt of 45%-50% in 2017-2018 No meaningful share repurchases or dividends to shareholders | 2016A | 2017E | 2018E | |
| | Debt to EBITDA (x) | 1.9 | 1.7-2.0 | 1.7-2.0 |
| | FFO to debt (%) | 44.6 | 45-50 | 45-50 |
| | Free operating cash flow/debt | 33.1 | 25-33 | 25-33 |
| A--Actual. E--Estimated. FFO--Funds from operations. | | | | |

Company Description

U.S.-based BRK is a unique holding company that owns a large number of insurance and noninsurance subsidiaries. In addition to its extensive insurance and reinsurance operations, BRK operates in a variety of sectors including utilities and energy, freight railroad transportation, consumer and business finance, manufacturing, retailing, and business services.

BRK's insurance and reinsurance businesses include a number of well-known brands, including GEICO, General Re Group, and National Indemnity. Prominent noninsurance affiliates (based on earnings contributions to the group) include Burlington Northern Santa Fe LLC (BNSF), Berkshire Hathaway Energy Co., Clayton Homes Inc., Marmon Holdings Inc., and McLane Co. Inc.

Through a combination of large acquisitions and organic growth, BRK has significantly boosted the proportion of its noninsurance operations relative to the group over the past five years. At year-end 2016, insurance represented about one-fourth of the group's reported pretax earnings while accounting for half of tangible assets.

Although we expect insurance to remain a core part of BRK's operations, we believe its overall contribution to the group is likely to continue to gradually decline as the group boosts its presence in other sectors, as seen with its recent acquisitions of Precision Castparts Corp., Van Tuyl Group (renamed Berkshire Hathaway Automotive), and the Duracell battery business.

Business Risk: Strong

Our assessment of the group's BRP as strong reflects our view that BRK benefits from a solid competitive position and low industry and country risk on a consolidated basis. Our assessment of BRK's competitive position is supported by our view that it benefits from a combination of strong and excellent competitive positions among its business segments. We believe BRK benefits from leadership positions in global reinsurance and U.S. personal auto insurance, a well-diversified platform of insurance and reinsurance products, and significant scale. It's also largely a direct writer of insurance and reinsurance business, affording it a competitive advantage that enables it to maintain better expense margins and higher-quality data to use in pricing and underwriting vis-à-vis peers that mostly use brokers. BRK has also shown strong discipline through the property/casualty (P/C) industry's underwriting cycles, where its consistently good underwriting results demonstrate its competitive advantages.

BRK also has solid positions in its noninsurance operations. BNSF operates the largest freight railroad in North America (based on freight revenues) and is one of two large freight railroads serving the western U.S. BNSF's traffic base is well diversified comprising consumer products, industrial products, coal, and agricultural products. BHE, a diversified energy company (BRK owns about 90%), benefits from operational diversity and significant geographical and regulatory diversity. The group has a growing and diversified position in manufacturing, a significant part of which is under unrated Marmon Holdings.

We view BRK's profitability as excellent, reflecting above-average EBITDA margins and relatively low profit volatility. BRK's unadjusted EBITDA margins are skewed by large reported revenues from its McLane subsidiary, which, in our view, don't fully reflect the scope of this operations and related margins. Excluding McLane, we view BRK's consolidated EBITDA margins as above average in the 20% area. BRK's consolidated performance is supported by above-average profitability in several business segments, including its insurance operations, BNSF, and Precision Castparts.

The relatively low volatility in operating margins also reflects BRK's highly diversified sources of earnings. Although its (re)insurance operations are exposed to potential volatility from property/catastrophe losses, this is offset by

significant earnings from uncorrelated noninsurance businesses.

We view BRK's consolidated industry and country risk as low, incorporating our view of its insurance and noninsurance industry and country risk, although its many business units are exposed to varying degrees of volatility, cyclicality, regulatory risk, and correlation among its various segments.

Financial Risk: Modest

BRK's modest FRP is supported by our view that debt to adjusted EBITDA will remain around 1.7x-2.0x and FFO will slightly improve from 2016 levels to 45%-50% in 2017-2018. (Our calculation includes partial credit for estimated surplus cash and includes adjustments for operating leases and pension obligations.) BRK's debt maturity is manageable considering its cash flow levels and weighted average maturity of about five years. The group also has relatively modest pension and other postretirement benefit obligations relative to total adjusted debt obligations.

We view BRK's financial policy as neutral. Although the group has a history of acquisitions, it has generally funded them through its strong cash flow generation. Except for a large acquisition, we don't expect the group to significantly increase leverage in the next few years. BRK's historical policy of retaining earnings rather than paying dividends to shareholders or engaging in share repurchases greatly assists in financing acquisitions with largely internal funds. Although BRK has recently said it may engage in certain share repurchases, we don't believe this will be significant (there were no such repurchases in 2016 or 2015).

Financial summary

Table 1

| Berkshire Hathaway Inc. -- Financial Summary | | | | | |
|--|-------------------------------|----------------------|----------------|------------------|-------------------|
| Industry sector: Conglomerate | | | | | |
| | --Fiscal year ended Dec. 31-- | | | | |
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| Rating history | AA/Stable/A-1+ | AA/Watch Neg/A-1+ | AA/Stable/A-1+ | AA/Negative/A-1+ | AA+/Negative/A-1+ |
| (Mil. \$) | | | | | |
| Revenues | 209,120.0 | 193,729.0 | 184,134.0 | 169,069.0 | 150,196.0 |
| EBITDA | 31,931.0 | 30,449.0 | 29,410.0 | 26,377.5 | 22,945.5 |
| Funds from operations (FFO) | 27,500.0 | 27,778.0 | 28,830.0 | 24,249.1 | 20,906.6 |
| Net income from continuing operations | 24,074.0 | 24,083.0 | 19,872.0 | 19,476.0 | 14,824.0 |
| Cash flow from operations | 33,393.0 | 32,269.0 | 32,807.0 | 28,522.1 | 21,839.6 |
| Capital expenditures | 12,954.0 | 16,082.0 | 15,185.0 | 11,087.0 | 9,775.0 |
| Free operating cash flow | 20,439.0 | 16,187.0 | 17,622.0 | 17,435.1 | 12,064.6 |
| Discretionary cash flow | 20,439.0 | 16,187.0 | 17,622.0 | 17,435.1 | 12,064.6 |
| Cash and short-term investments | 36,012.0 | 25,498.0 | 18,039.0 | 13,144.0 | 18,064.0 |
| Debt | 61,689.9 | 47,560.0 | 53,969.4 | 50,556.3 | 39,581.1 |
| Equity | 286,359.0 | 258,627.0 | 243,027.0 | 224,485.0 | 191,588.0 |

Table 1**Berkshire Hathaway Inc. -- Financial Summary (cont.)**

| Adjusted ratios | | | | | |
|------------------------------------|------|------|------|------|------|
| EBITDA margin (%) | 15.3 | 15.7 | 16.0 | 15.6 | 15.3 |
| Return on capital (%) | 9.2 | 10.4 | 9.0 | 9.7 | 9.0 |
| EBITDA interest coverage (x) | 7.8 | 7.5 | 7.8 | 7.9 | 6.8 |
| FFO cash interest coverage (x) | 8.5 | 9.2 | 9.8 | 9.6 | 8.7 |
| Debt/EBITDA (x) | 1.9 | 1.6 | 1.8 | 1.9 | 1.7 |
| FFO/debt (%) | 44.6 | 58.4 | 53.4 | 48.0 | 52.8 |
| Cash flow from operations/debt (%) | 54.1 | 67.8 | 60.8 | 56.4 | 55.2 |
| Free operating cash flow/debt (%) | 33.1 | 34.0 | 32.7 | 34.5 | 30.5 |
| Discretionary cash flow/debt (%) | 33.1 | 34.0 | 32.7 | 34.5 | 30.5 |

Liquidity: Exceptional

We assess BRK's liquidity as exceptional, supported by its large cash balances. We expect sources of liquidity to exceed uses by 2x over the next 12-24 months and for net sources to remain positive even if EBITDA were to decline by 50%.

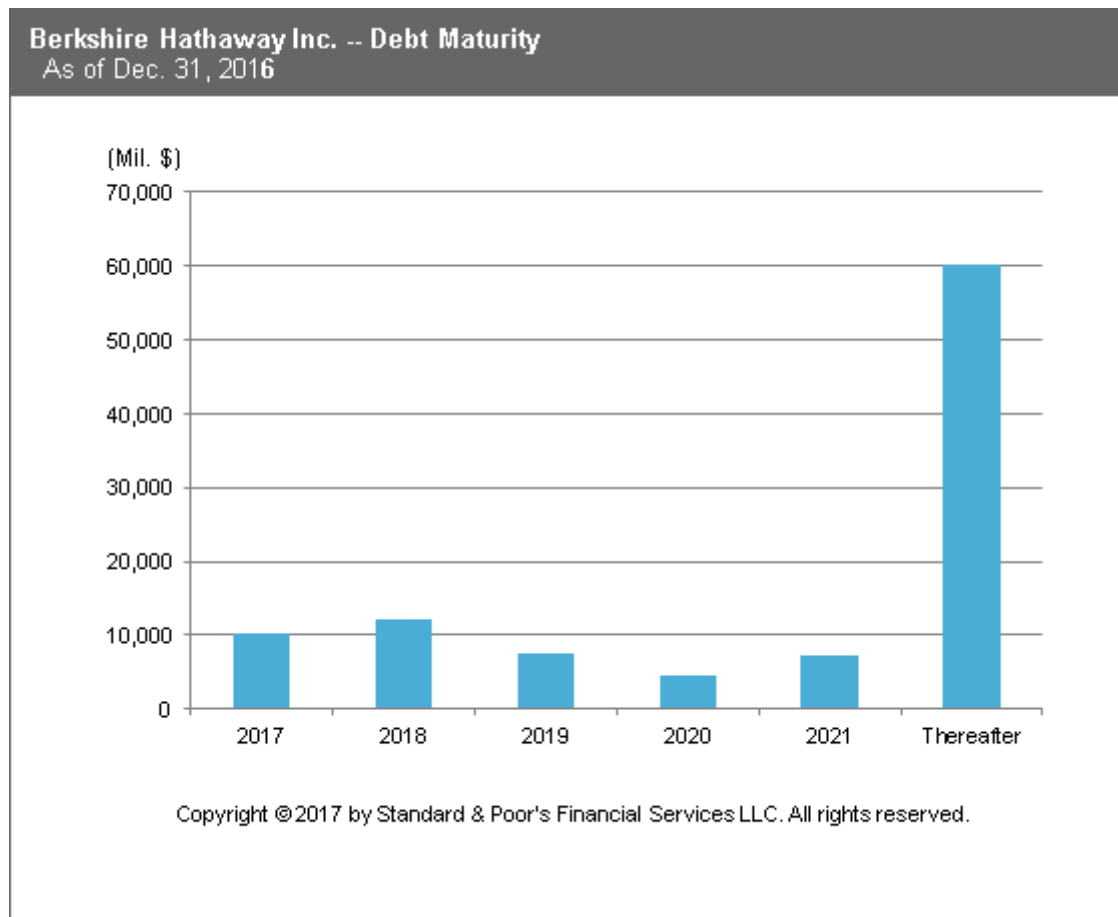
Principal liquidity sources:

- Unrestricted cash and liquid investments of about \$45 billion-\$50 billion
- FFO of roughly \$20 billion-\$30 billion annually
- Modest working capital inflows of \$5 billion-\$10 billion

Principal liquidity uses:

- Capital expenditures of about \$15 billion-\$20 billion annually
- No meaningful share repurchases or dividend payments
- Moderate annual spending of \$5 billion-\$10 billion on acquisitions

Debt maturities



Other Assessments

Management and Governance

We view BRK's management and governance as satisfactory. It has a track record of diligent strategic planning, consistent strategy, and strong execution abilities. Although BRK's subsidiaries are largely decentralized, they share the common goal of putting a strong focus on long-term profitability. BRK has a long history of making successful acquisitions that drive consolidated operating performance. But this highlights possible problems with key-man risk and management succession at the ultimate parent level.

Other Credit Considerations

We analyze BRK as a conglomerate under our corporate criteria. When analyzing BRK's competitive position and industry and country risk, we account for the proportion of each of its business segments based on a 50/50 blend of their EBITDA and tangible assets contribution to the consolidated organization, since we believe this better represents their overall contributions to BRK.

BRK's insurance operations are regulated businesses, subject to regulatory restrictions, including maximum annual

allowable dividend payments from these subsidiaries to the ultimate parent. In our calculations for surplus cash and liquidity per our criteria, we only provide partial credit for cash and cash equivalents on the balance sheets of its insurance operating subsidiaries to reflect regulatory restrictions on BRK's ability to upstream those funds to the ultimate parent. In 2017, the maximum allowable amount of dividends from BRK's insurance operations to the ultimate parent before regulatory approval is \$13 billion.

Ratings Score Snapshot

Corporate Credit Rating

AA/Stable/A-1+

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Low
- **Competitive position:** Strong

Financial risk: Modest

- **Cash flow/Leverage:** Modest

Anchor: a+

Modifiers

- **Diversification/Portfolio effect:** Significant (+2 notches)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Exceptional (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Reconciliation

Table 2

Reconciliation Of Berkshire Hathaway Inc. Reported Amounts With S&P Global Ratings' Adjusted Amounts

(Mil. \$)

--Fiscal year ended Dec. 31, 2016--

Berkshire Hathaway Inc. reported amounts

| | Debt | EBITDA | Operating income | Interest expense | EBITDA | Cash flow from operations |
|----------|---------|--------|------------------|------------------|--------|---------------------------|
| Reported | 101,644 | 30,658 | 21,757 | 3,497 | 30,658 | 32,535 |

S&P Global Ratings' adjustments

| | | | | | | |
|-----------------------------|----|----|----|----|------------|----|
| Interest expense (reported) | -- | -- | -- | -- | (3,497.00) | -- |
| Interest income (reported) | -- | -- | -- | -- | 6,180.00 | -- |

Table 2

| Reconciliation Of Berkshire Hathaway Inc. Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.) | | | | | | |
|--|-------------|---------------|-------------|-------------------------|------------------------------|----------------------------------|
| Current tax expense (reported) | -- | -- | -- | -- | (6,565.00) | -- |
| Operating leases | 6,027.83 | 1,342.00 | 430.99 | 430.99 | 911.01 | 911.01 |
| Postretirement benefit obligations/deferred compensation | 1,529.45 | (69.00) | (69.00) | 146.54 | (187.00) | (53.00) |
| Surplus cash | (47,511.40) | -- | -- | -- | -- | -- |
| Nonoperating income (expense) | -- | -- | 14,656.00 | -- | -- | -- |
| Total adjustments | (39,954.12) | 1,273.00 | 15,017.99 | 577.52 | (3,157.98) | 858.02 |
| S&P Global Ratings' adjusted amounts | | | | | | |
| | Debt | EBITDA | EBIT | Interest expense | Funds from operations | Cash flow from operations |
| Adjusted | 61,689.88 | 31,931.00 | 36,774.99 | 4,074.52 | 27,500.02 | 33,393.02 |

Related Criteria And Research

- Methodology And Assumptions: Liquidity Descriptors for Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Key Credit Factors For The Business And Consumer Services Industry, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

| Business Risk Profile | Financial Risk Profile | | | | | |
|-----------------------|------------------------|-------------|--------------|-------------|------------|------------------|
| | Minimal | Modest | Intermediate | Significant | Aggressive | Highly leveraged |
| Excellent | aaa/aa+ | aa | a+/a | a- | bbb | bbb-/bb+ |
| Strong | aa/aa- | a+/a | a-/bbb+ | bbb | bb+ | bb |
| Satisfactory | a/a- | bbb+ | bbb/bbb- | bbb-/bb+ | bb | b+ |
| Fair | bbb/bbb- | bbb- | bb+ | bb | bb- | b |
| Weak | bb+ | bb+ | bb | bb- | b+ | b/b- |
| Vulnerable | bb- | bb- | bb-/b+ | b+ | b | b- |

Ratings Detail (As Of May 19, 2017)

Berkshire Hathaway Inc.

Corporate Credit Rating

AA/Stable/A-1+

Ratings Detail (As Of May 19, 2017) (cont.)

| | |
|--|-------------------|
| Senior Unsecured | AA |
| Corporate Credit Ratings History | |
| 19-Feb-2016 <i>Foreign Currency</i> | AA/Stable/A-1+ |
| 19-Feb-2016 <i>Local Currency</i> | AA/Stable/A-1+ |
| 11-Aug-2015 | AA/Watch Neg/A-1+ |
| 23-Jun-2014 | AA/Stable/A-1+ |
| 16-May-2013 | AA/Negative/A-1+ |
| Related Entities | |
| Berkshire Hathaway Assurance Corp. | |
| Financial Strength Rating | |
| <i>Local Currency</i> | AA+/Stable/-- |
| Issuer Credit Rating | |
| <i>Local Currency</i> | AA+/Stable/-- |
| Financial Enhancement Rating | |
| <i>Local Currency</i> | AA+/Stable/-- |
| Berkshire Hathaway Energy Company | |
| Issuer Credit Rating | A/Stable/A-1 |
| Commercial Paper | |
| <i>Local Currency</i> | A-1 |
| Senior Unsecured | A- |
| Berkshire Hathaway Finance Corp. | |
| Senior Unsecured | AA |
| Berkshire Hathaway Homestate Insurance Company | |
| Financial Strength Rating | |
| <i>Local Currency</i> | AA+/Stable/-- |
| Issuer Credit Rating | |
| <i>Local Currency</i> | AA+/Stable/-- |
| Berkshire Hathaway International Insurance Ltd. | |
| Financial Strength Rating | |
| <i>Local Currency</i> | AA+/Stable/-- |
| Issuer Credit Rating | |
| <i>Local Currency</i> | AA+/Stable/A-1+ |
| Berkshire Hathaway Life Insurance Co. of NE | |
| Financial Strength Rating | |
| <i>Local Currency</i> | AA+/Stable/-- |
| Issuer Credit Rating | |
| <i>Local Currency</i> | AA+/Stable/-- |
| Financial Enhancement Rating | |
| <i>Local Currency</i> | AA+/Stable/-- |
| Berkshire Hathaway Specialty Insurance Company | |
| Financial Strength Rating | |
| <i>Local Currency</i> | AA+/Stable/-- |
| Issuer Credit Rating | |
| <i>Local Currency</i> | AA+/Stable/-- |

Ratings Detail (As Of May 19, 2017) (cont.)

Burlington Northern Santa Fe LLC

Issuer Credit Rating A/Stable/NR

Senior Unsecured A

Central States Indemnity Co. of Omaha

Financial Strength Rating

Local Currency AA/Stable/--

Issuer Credit Rating

Local Currency AA/Stable/--**Columbia Insurance Co.**

Financial Strength Rating

Local Currency AA+/Stable/--

Issuer Credit Rating

Local Currency AA+/Stable/--

Financial Enhancement Rating

Local Currency AA+/Stable/--**Continental Divide Insurance Co.**

Financial Strength Rating

Local Currency AA+/Stable/--

Issuer Credit Rating

Local Currency AA+/Stable/--**CSI Life Insurance Co.**

Financial Strength Rating

Local Currency AA/Stable/--

Issuer Credit Rating

Local Currency AA/Stable/--**Cypress Insurance Co. (CA)**

Financial Strength Rating

Local Currency AA+/Stable/--

Issuer Credit Rating

Local Currency AA+/Stable/--**Finial Holdings Inc.**

Issuer Credit Rating

Local Currency BBB/Stable/--

Senior Unsecured

BBB

GEICO Casualty Co.

Financial Strength Rating

Local Currency AA+/Stable/--

Issuer Credit Rating

Local Currency AA+/Stable/--**GEICO Corp.**

Issuer Credit Rating

Local Currency AA/Stable/--

Senior Unsecured

AA

Ratings Detail (As Of May 19, 2017) (cont.)

GEICO General Insurance Co.

Financial Strength Rating

Local Currency

AA+/Stable/--

Issuer Credit Rating

Local Currency

AA+/Stable/--

GEICO Indemnity Co.

Financial Strength Rating

Local Currency

AA+/Stable/--

Issuer Credit Rating

Local Currency

AA+/Stable/--

General Re Corp.

Issuer Credit Rating

Local Currency

AA/Stable/A-1+

General Re Financial Products Corp.

Issuer Credit Rating

Local Currency

AA/Stable/--

General Reinsurance Africa Ltd.

Financial Strength Rating

Local Currency

AA-/Negative/--

General Reinsurance AG

Financial Strength Rating

Local Currency

AA+/Stable/--

Issuer Credit Rating

Local Currency

AA+/Stable/--

General Reinsurance Australia Ltd.

Financial Strength Rating

Local Currency

AA+/Stable/--

Issuer Credit Rating

Local Currency

AA+/Stable/--

General Reinsurance Corp.

Financial Strength Rating

Local Currency

AA+/Stable/--

Issuer Credit Rating

Local Currency

AA+/Stable/--

General Reinsurance Life Australia Ltd.

Financial Strength Rating

Local Currency

AA+/Stable/--

Issuer Credit Rating

Local Currency

AA+/Stable/--

General Re Life Corp.

Financial Strength Rating

Local Currency

AA+/Stable/--

Ratings Detail (As Of May 19, 2017) (cont.)

General Star Indemnity Co.

Financial Strength Rating

Local Currency

AA+/Stable/--

Issuer Credit Rating

Local Currency

AA+/Stable/--

General Star National Insurance Co.

Financial Strength Rating

Local Currency

AA+/Stable/--

Issuer Credit Rating

Local Currency

AA+/Stable/--

Genesis Insurance Co.

Financial Strength Rating

Local Currency

AA+/Stable/--

Issuer Credit Rating

Local Currency

AA+/Stable/--

Government Employees Insurance Co.

Financial Strength Rating

Local Currency

AA+/Stable/--

Issuer Credit Rating

Local Currency

AA+/Stable/--

Medical Protective Co.

Financial Strength Rating

Local Currency

AA+/Stable/--

Issuer Credit Rating

Local Currency

AA+/Stable/--

National Fire & Marine Insurance Co.

Financial Strength Rating

Local Currency

AA+/Stable/--

Issuer Credit Rating

Local Currency

AA+/Stable/--

Financial Enhancement Rating

Local Currency

AA+/Stable/--

National Indemnity Co.

Financial Strength Rating

Local Currency

AA+/Stable/--

Issuer Credit Rating

Local Currency

AA+/Stable/--

National Indemnity Co. of Mid-America

Financial Strength Rating

Local Currency

AA+/Stable/--

Issuer Credit Rating

Local Currency

AA+/Stable/--

Ratings Detail (As Of May 19, 2017) (cont.)**National Indemnity Co. of the South**

Financial Strength Rating

Local Currency

AA+/Stable/--

Issuer Credit Rating

Local Currency

AA+/Stable/--

National Liability & Fire Insurance Co.

Financial Strength Rating

Local Currency

AA+/Stable/--

Issuer Credit Rating

Local Currency

AA+/Stable/--

Precision Castparts Corp.

Issuer Credit Rating

AA-/Stable/A-1+

Senior Unsecured

AA-

Redwood Fire & Casualty Insurance Co.

Financial Strength Rating

Local Currency

AA+/Stable/--

Issuer Credit Rating

Local Currency

AA+/Stable/--

UTLX Co.

Issuer Credit Rating

AA-/Stable/--

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