

EUROFIMA European Company for the Financing of Railroad Rolling Stock

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Major Rating Factors

Strengths:

- Extensive coverage of loan assets by collateral and top-rated sovereign guarantees.
- Joint shareholders' guarantee against any loan default not covered by the above layers of protection and exceeding EUROFIMA's fund for general risks and reserves.
- Prudent risk management policies.

Weaknesses:

- Gradual weakening of EUROFIMA's capitalization and liquidity ratios over the years, along with its already high leverage, which is increasingly diverging from its 'AAA' rated peers.

Counterparty Credit Rating

Foreign Currency
AAA/Negative/A-1+

Rationale

The ratings on EUROFIMA are based principally upon its strong asset quality, reflecting extensive coverage of secured loan assets by top-rated sovereign guarantees. The quality of the asset base and associated collateral and pledges, along with its modest profitability, have allowed EUROFIMA to operate successfully despite much higher balance-sheet leverage than other highly rated multilateral lending institutions. Its balance sheet position, however, has slowly deteriorated over the years, with total gross debt net of liquid assets representing almost 12x adjusted shareholders' equity and 'AAA' callable capital at year-end 2008, compared to about 11x in 2007 and 8.5x in 2004. It is noteworthy that EUROFIMA's subscribed capital has not been increased since 1997, and despite consistently positive net income, internal capital generation has not kept up with the institution's asset growth in recent years. The company's very high leverage, in turn, increases the importance of the credit quality of the loans portfolio for its own creditworthiness. We note that our change in the rating outlook in September of this year is unrelated to the global financial turbulence since 2008, which has had no material negative impact on EUROFIMA's financial performance.

EUROFIMA is a joint-stock company owned by the national railways of 25 continental European countries. As of June 2009, railways based in countries with 'AAA' sovereign ratings hold 62% of EUROFIMA shares, and those in investment-grade countries more than 97%. With total assets of Swiss franc (CHF) 40.4 billion (US\$38.0 billion) at year-end 2008, EUROFIMA's primary activity consists of financing acquisitions of railroad rolling stock by on-lending borrowed funds to shareholders. The company's ordinary equipment financing contracts (EFCs) secure its loan assets with title to the equipment or with equivalent pledges, which EUROFIMA holds until full repayment of on-lent funds. Moreover, under the terms of the company's founding convention, member states must also either be directly liable for or guarantee the obligations of their national railways under EUROFIMA financing contracts. The railways' governments must meet all the obligations of any defaulting shareholder that are not recoverable from the underlying collateral, are not met by its government, and exceed EUROFIMA's country risk fund for general

risks and reserves, with proportionate liabilities capped at the value of shareholdings.

As of June 2009, EUROFIMA's 10 largest country exposures account for more than 90% of total EFCs, and all of the 10 corresponding sovereigns are rated in the 'A', 'AA', and 'AAA' categories. EUROFIMA has never experienced a loan loss or required immediate payment under a government guarantee, and the most recent non-technical overdue claims (on the Community of Yugoslav Railways) were cleared in 2001.

Outlook

The negative outlook reflects the gradual decrease in EUROFIMA'S capitalization and liquidity ratios, and still very high and increasing leverage. If EUROFIMA's management, with clear support of its members, takes steps that reverse these trends, this could stabilize the rating at the 'AAA' level. In the absence of an improvement, the rating could be lowered within the next 18 to 24 months.

A privatization of one of the major shareholder's railways and its departure from EUROFIMA membership could also put pressure on the ratings, as would an unexpected deterioration of EUROFIMA's asset quality. However, we consider the likelihood of such events to be very low over the coming years.

Table 1

EUROFIMA Selected Financial Information					
(Mil. CHF)	2008	2007	2006	2005	2004
Assets					
Cash and cash equivalents	627	849	1,679	1,070	1,555
Financial investments	1,911	1,935	928	1,079	909
Equipment financing contracts	35,453	34,164	28,787	28,433	23,921
Derivative financial instruments	2,439	1,539	N/A	N/A	N/A
Other assets	6	6	869	840	739
Accrued income and prepaid expenses	7	8	N/A	N/A	N/A
Fixed assets	0	0	N/A	N/A	N/A
Total assets	40,444	38,500	32,264	31,421	27,124
Liabilities					
Amounts due to credit institutions and customers	4,591	4,332	4,316	4,775	4,280
Portion due in less than one year	162	104	140	242	477
Debt evidenced by certificates	29,271	27,424	25,805	24,568	20,876
Portion due in less than one year	3,501	2,419	3,352	1,854	1,865
Derivative financial instruments	5,254	5,413	N/A	N/A	N/A
Other liabilities	21	44	871	830	749
Accrued expenses and deferred income	1	1	N/A	N/A	N/A
Total liabilities	39,138	37,213	30,992	30,174	25,905
Equity					
Subscribed share capital	2,600	2,600	2,600	2,600	2,600
Callable Share Capital (Unpaid subscribed share capital)	(2,080)	(2,080)	(2,080)	(2,080)	(2,080)
Statutory Reserves	501	477	452	427	403
Fund for general risks (previously under provisions for losses)	249	249	253	253	251

Table 1

EUROFIMA Selected Financial Information (cont.)					
Surplus to be distributed	74	71	47	48	44
Other Value Adjustments	(38)	(30)	0	0	0
Total Equity	1,306	1,287	1,272	1,247	1,219
Other items					
AAA callable capital	1,399	1,399	1,441	1,445	1,445
Interest and similar charges	2,075	2,031	1,536	1,372	1,322
General administrative expenses	9	8	7	7	7
Net profit for the financial year	48	44	45	47	43
Undisbursed loans, equity investments	0	0	0	0	0
Nonaccrual loans	0	0	0	0	0
Exchange rate: Year end (US\$/CHF)	0.9401	0.8885	0.8195	0.7609	0.8837
Exchange rate: Annual average (US\$/CHF)	0.9233	0.8331	0.7976	0.8031	0.8042

CHF--Swiss franc. N/A--Not applicable.

Structure And Operations: Collateral And Guarantees Underpin Financing Activity

EUROFIMA was established in 1956 as a joint-stock company under Swiss law, pursuant to an international convention originally agreed to by 14 of continental Europe's national governments, or "state parties". It is governed, in a subsidiary manner only, by Swiss law. At present, there are 25 states party to the convention (and 26 shareholders, as one member state is represented by two shareholder railways). The German railways (Deutsche Bahn AG; AA/Stable/A-1+) and the French railways (Société Nationale des Chemins de Fer Français; AAA/Negative/A-1+) own 22.6% each of the total share capital. All of the shareholders are wholly state owned. The convention, which stipulates all the activities, status, and guarantees relating to EUROFIMA, has been extended to 2056. All member states have approved this extension.

EUROFIMA's principal activity is the financing of acquisitions of rolling stock by shareholder railways. Financing instruments usually take the form of an EFC between EUROFIMA and the railway investing in rolling stock. Under the terms of EFCs, EUROFIMA holds title to the purchased equipment or equivalent pledges until the loan's full reimbursement. The company also arranges equipment financing through leases via third parties, structured to secure its own loan assets, with pledges effectively equivalent to property title. Lease transactions have recently declined, however.

EUROFIMA finances up to 95% of the value of each equipment purchase, and funds the EFCs by borrowing on international capital markets, matching the currency and maturity composition of its assets and liabilities as far as possible. Payments due to EUROFIMA under EFCs, which are mainly annual or semiannual, must cover principal, interest, and other costs incurred by EUROFIMA while obtaining funds for onlending to shareholder railways. Since June 2004, a board decision has also allowed EUROFIMA to use a small proportion of equity (currently up to CHF245 million) to fund EFC lending. Use of this option reached CHF231.3 million in 2008; it has since been almost entirely discontinued, although the CHF245 million allowance remains valid.

The strength of EUROFIMA's asset quality is derived from collateral on its loans provided by title to rolling stock and equivalent pledges, and from comprehensive sovereign guarantees covering all shareholders' financial

obligations to the company. In addition to debt obligations incurred through EFCs and finance leases by the shareholder railways, the railways' respective member states undertake a further obligation to EUROFIMA in the form of a joint (not several) shareholders' guarantee against any loan default not recoverable from the underlying collateral, not met by the defaulting railway's member state, and exceeding EUROFIMA's fund for general risks and reserves. The global value of the joint guarantee is capped at the value of total shareowners' subscribed capital.

Were a member state to terminate its adherence to the convention (which has never occurred), that party's existing guarantees to EUROFIMA would remain in force over the life of the guaranteed obligations. This factor dampens the impact on EUROFIMA of decisions by governments to cap the amount of their guarantees on new rolling stock financing transactions. Standard & Poor's Ratings Services considers that such cessations of new guarantees above a fixed amount are unlikely materially to affect EUROFIMA's creditworthiness. Nevertheless, in the long term, caps on the issuance of new guarantees by European governments for financing rolling stock could limit EUROFIMA's lending activity. In light of the convention signed by these governments, however, we do not expect such a situation to affect EUROFIMA's creditworthiness.

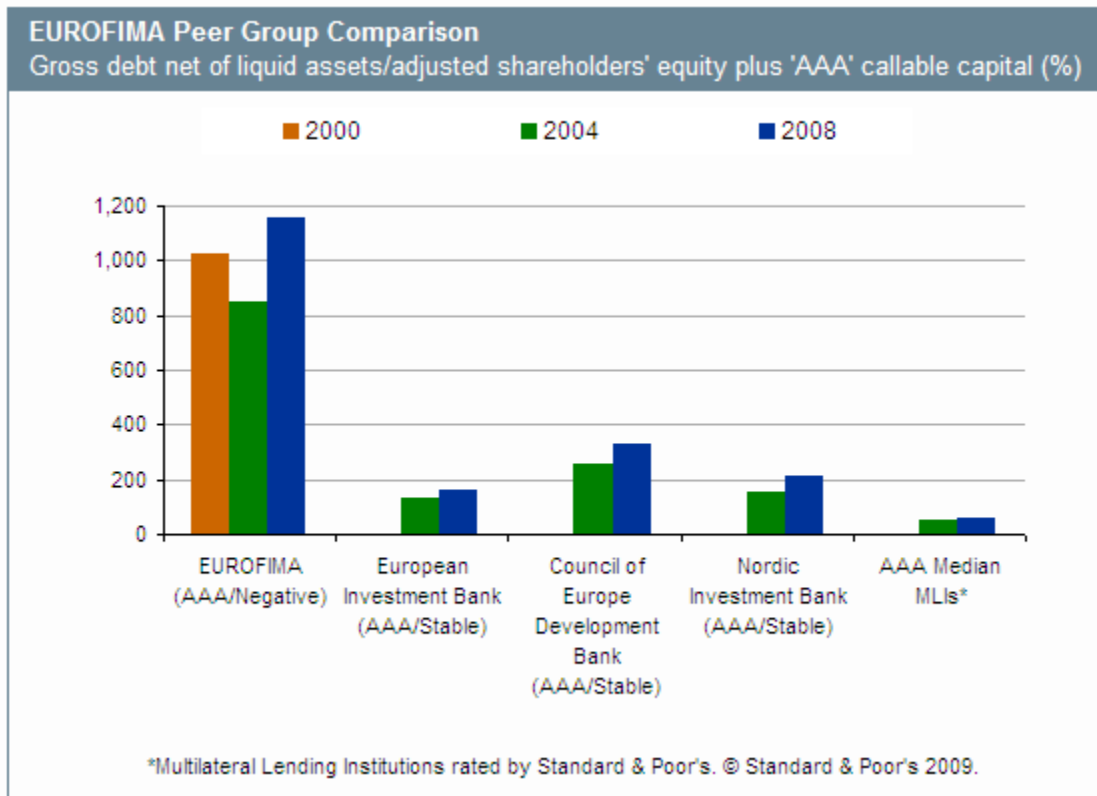
The EU authorities have never launched any investigation into EUROFIMA's membership support and guarantee structure. In the unlikely event that such an investigation took place, the debt previously issued by EUROFIMA would not be affected, because any EU ruling on this matter would not be retroactively applied. The credit quality of debt previously issued by EUROFIMA would not, therefore, be negatively affected by any EU ruling.

Until each EFC or finance lease agreed between EUROFIMA and a shareholder railway reaches maturity, the railway is responsible for the maintenance and repair of the purchased equipment and for its replacement in the event of irreparable damage. Overdue payments incur interest penalties, and when payment delays continue beyond three months, EUROFIMA can repossess rolling stock without restitution of installments received. No such repossession has ever occurred, nor has EUROFIMA had to require immediate payment under the state guarantee backing up a direct claim on a shareholder. The company has accumulated funds for general risks to cover the credit risk inherent to the EFCs (see section headed "Finances" below).

Shareholders' Support: Slow Decrease In Capitalization

EUROFIMA's shareholders support is mainly based on their capital allocation and via the mechanism of individual and joint guarantee set in the Convention. It is noteworthy that EUROFIMA's subscribed capital has not been increased since 1997, and despite consistently positive net income, internal capital generation has not kept up with the institution's asset and debt growth in recent years. As a result, the balance sheet position has slowly deteriorated over recent years, with total gross debt net of liquid assets representing almost 12 times adjusted shareholders' equity and 'AAA' callable capital at year-end 2008, compared to about 10x in 2007 and 8.5x in 2004. This compares to a current median level of around 0.5 times for 'AAA' rated multilateral financing institution (MLI) peers (see chart 1).

Chart 1



Shareholder railway operators are entitled, but not obliged, to fund investments through EUROFIMA. Nor is EUROFIMA obliged to grant financing to shareholders. As of June 30, 2009, only two of the 26 shareholders--the Norwegian and Turkish railways--have no outstanding loans from EUROFIMA. The company targets proportionality between asset distribution and shareholdings. Although this is applied flexibly, it results in limited lending to railways of lower-rated countries, since these also have small shareholdings. Achievement of the desired asset composition depends on EUROFIMA's ability to offer attractive financing options to a number of railways--notably those guaranteed by top-rated sovereigns--that can tap numerous competing sources of loan capital. The global shareholders' guarantee is capped at a low level in relation to total loan assets and does not entail several, as well as joint, liability, and as a result, much of EUROFIMA's credit strength depends on maintaining an asset composition consistent with extensive coverage by loan-specific 'AAA' rated guarantees. Management, therefore, does not take the company's market position for granted, and has increasingly oriented its strategy toward competitive financing for all member clients, so as to maintain the asset portfolio's very high quality. This strategic orientation is reflected in recent innovations in lending policies.

Finances: Good Asset Quality Mostly Offsets High Leverage

Table 2

EUROFIMA Selected Financial Information					
(%)	2008	2007	2006	2005	2004
Gearing					
DRE/total assets + guarantees (x)	88	89	89	90	88
Adjusted shareholders' equity/adjusted total assets	3	3	4	4	4
Provisions for losses + adjusted shareholders' equity/gross loans + equity investments + guarantees	4	4	4	4	5
Provisions for losses + adjusted shareholders' equity + 'AAA' callable capital/gross loans + equity investments + guarantees	8	8	9	9	11
Leverage					
Gross debt/adjusted shareholders' equity	2,593	2,468	2,368	2,353	2,064
Gross debt/adjusted shareholders' equity + 'AAA' callable capital	1,252	1,182	1,110	1,090	944
Gross debt net of liquid assets/adjusted shareholders' equity	2,399	2,251	2,163	2,181	1,862
Gross debt net of liquid assets/adjusted shareholders' equity + 'AAA' callable capital	1,158	1,079	1,014	1,010	852
Liquidity					
Liquid assets/total assets	6	7	8	7	9
Liquid assets/gross debt	7	9	9	7	10
Liquid assets/undisbursed loans + one-year debt service	44	61	52	62	67
Profitability					
Operating income (Mil. US\$)	45	37	36	38	35
Administrative expense/average gross loans + equity investments	0	0	0	0	0
Operating income/average adjusted shareholders' equity	4	3	4	4	4
Other credit indicators					
Loans, equity investments, and guarantees in five countries of largest exposure/adjusted shareholders' equity	1,511	1,490	1,427	1,442	1,274
Nonaccrual loans/gross disbursed loans	0	0	0	0	0

N/A--Not applicable.

Asset quality

In each of EUROFIMA's equipment-financing transactions, the borrowing railway assumes all foreign-exchange risk and EUROFIMA fully hedges market risks associated with any of its debt issues that cannot be perfectly matched against assets. Owing to its protection by collateral and high-quality guarantees, the company does not build reserves specifically against loan losses, although management has followed a policy of reserve accumulation for loan losses for non-investment grade exposures.

In order to cover the cost of unlikely but overdue maturities on its loans to railway companies, EUROFIMA disposes of two kinds of provisioning. Over and above the possibility of increasing the fund for general risks, a special guarantee reserve is built up from the appropriation of surplus under article 30 of the statutes and can be called upon in the event of default by a railway. The yearly allocation to the guarantee reserve corresponds to the balance of the net annual profit, after allocation to the ordinary reserve of 5% of the net profit and the payment of a dividend, statutorily fixed at a maximum of 4% of the paid-in share capital. The company aims to keep the ratio between the fund for general risks and the guarantee reserve, on the one hand, and capital exposure to members from speculative-grade or not rated states, on the other, above 100%.

Until the end of February 1999, normal debt service had been re-established for all the successor states of the former Yugoslavia. After the eruption of the Kosovo crisis in March 1999, however, JZ (from the Federal Republic of Yugoslavia, FRY) maintained only partial debt service. Since February 2001, all arrears have been cleared and the railway is now servicing its debt. The Railways of the Former Yugoslav Republic of Macedonia (CFARYM) has had several overdue payments over the years, but each time the payment delay was temporary, and involved minor amounts in relation to net repayments.

After appropriation of the surplus, at the end of June 2009, the fund for general risks amounted to CHF274.7 million, the ordinary reserves to CHF64.4 million, and the guarantee reserve to CHF464.0 million. This brought reserve coverage of total outstanding loans to railways in not rated or speculative-grade states to 383.3%. However, it should be noted that these reserves are part of equity, and therefore do not constitute risk-bearing capacity additional to the institution's capital cushion (as provisions for losses would).

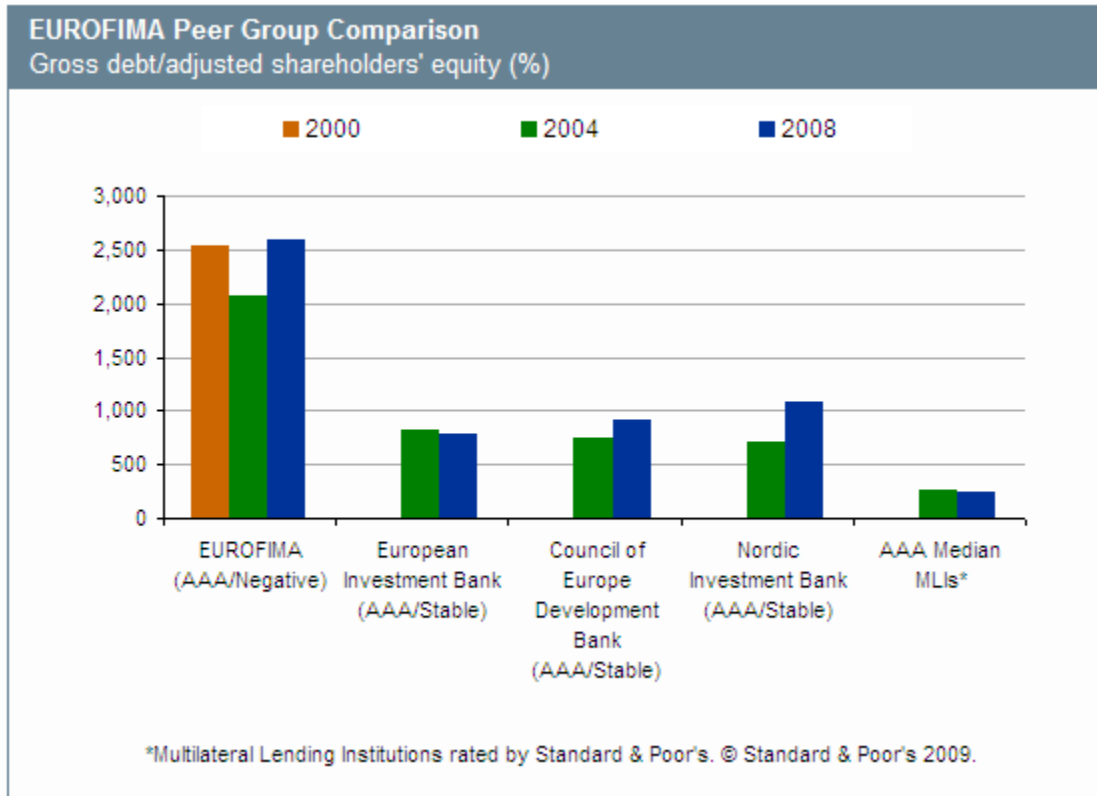
Regarding swap counterparty risk, EUROFIMA relies increasingly on unilateral Credit Support Annexes, which reduce swap counterparty risk through collateral.

Capital adequacy

In 1997, EUROFIMA's shareholders increased subscribed capital by CHF500 million. Of the total, CHF100 million was paid in by means of a conversion from reserves to the capital base. This measure brought total subscribed capital to CHF2.6 billion, with the paid-in share remaining at 20%. EUROFIMA is not subject to statutory or regulatory capital ratio requirements. However, the general assembly has limited the ratio of borrowings to subscribed share capital and reserves (see "Borrowings" section below). Following the change in the reporting policy introduced in 2008, EUROFIMA is calculating an indicative capital adequacy ratio following the Basel II requirements. As of June 30, 2009, the ratio calculated on tier I capital (there is no tier II capital), and taking into account the credit risks (97% of the risks) and operational and market risks, stood at 38.6%.

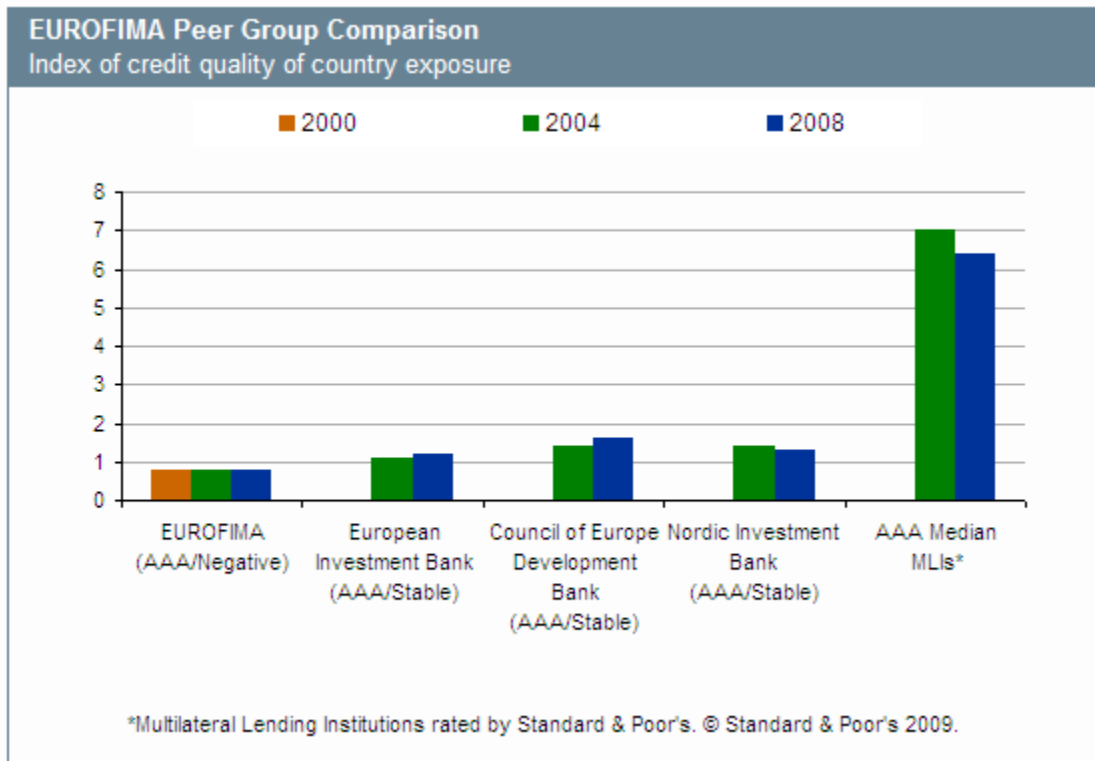
EUROFIMA's leverage ratios exceed those of all other rated MLIs. Debt outstanding at year-end 2008 reached almost 26x shareholders' equity (adjusted) against 25x in 2007 and 21x in 2004 (see chart 2). It should be mentioned, however, that in 2004 this ratio had decreased from a high level of 25x in 2000.

Chart 2



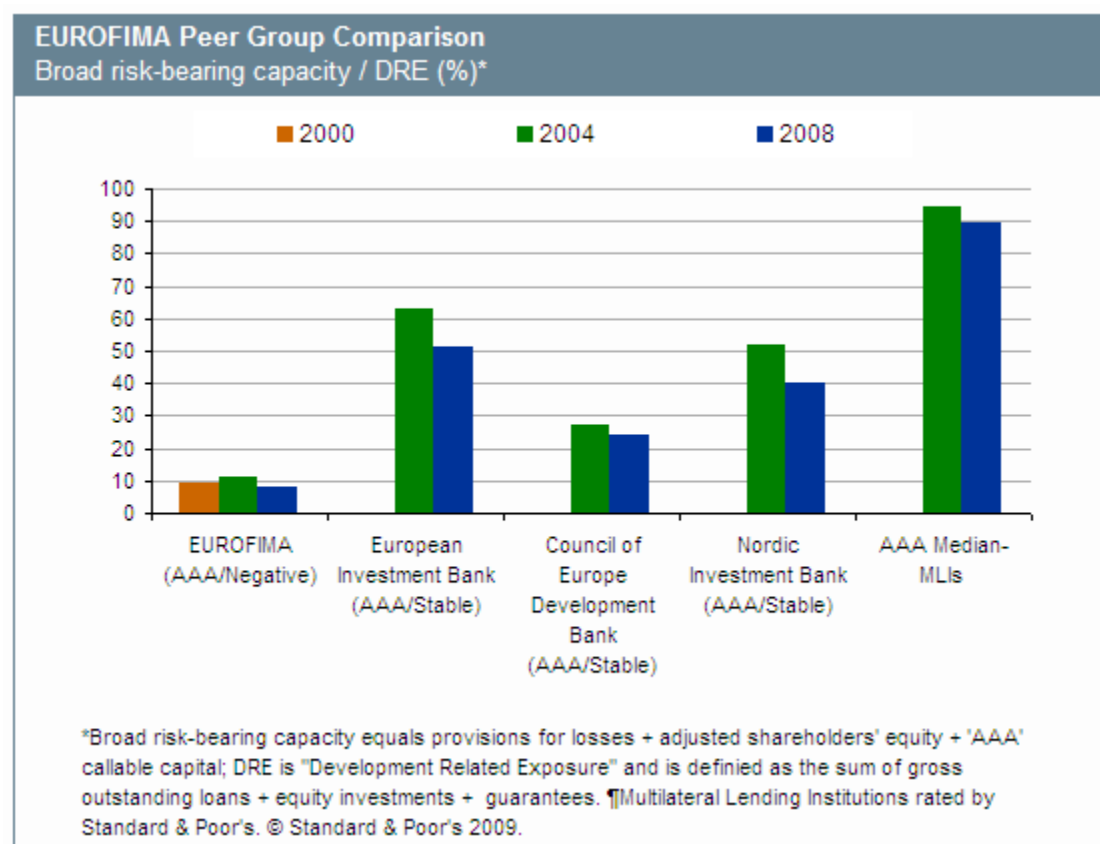
The indicator, also, must be viewed against the backdrop of EUROFIMA's very high asset quality and cautious risk management. Chart 3 compares the quality of the loan books using our index of credit of country exposure, and shows that EUROFIMA's quality of the loan book compares very favorably (that is, it has a lower index) to other 'AAA' rated peers (see chart 3).

Chart 3



The general assembly has limited the ratio of borrowings to subscribed share capital and reserves to a maximum of 15x (9.8x in June 2009). Our measures of risk-bearing capacity only take into account paid-in capital and (for broad risk-bearing capacity) 'AAA' callable capital, thereby excluding some of EUROFIMA's subscribed share capital. The broad risk-bearing capacity ratio of EUROFIMA has also deteriorated in the past few years, with a ratio of provisions for losses plus adjusted shareholders equity plus 'AAA' callable capital representing in 2008 only 7.6% of gross loans, equity investments, and guarantees, against 7.9% in 2007, 11% in 2004, and 9.3% in 2000 (see chart 4).

Chart 4



Liquidity

EUROFIMA runs a matched asset liability management. No significant funding mismatch exists between assets and liabilities. This is especially the case for the commercial paper (CP) program, where the cash outflows from maturing commercial paper are matched with the cash inflows from maturing short-term assets. However, being dependent on the capital markets for funding, it has set strict liquidity management rules to ensure that in the case of both difficulty in accessing the market and maturing weaker assets not being paid back, EUROFIMA will have enough liquidity to face all its obligations in the short term.

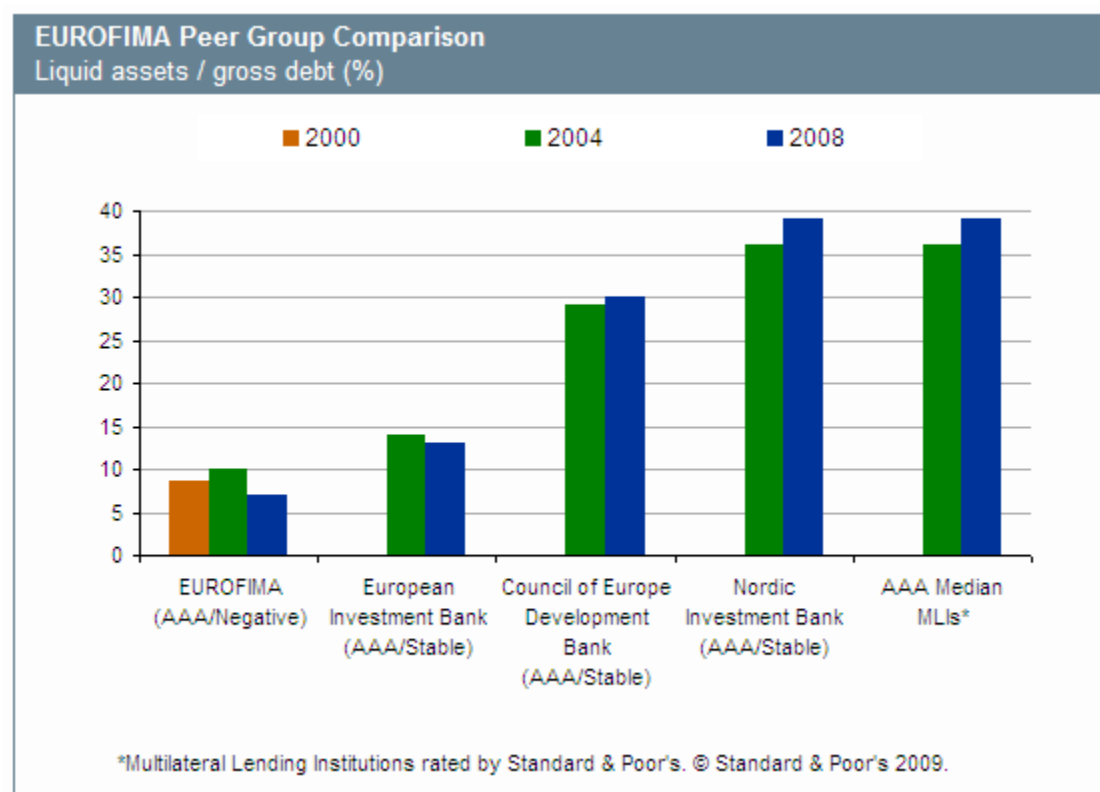
According to EUROFIMA's internal liquidity guideline, level 1 liquidity--consisting of cash and third-party securities rated at least 'A-1' and classified as "trading" or "available for sale"--must exceed the peak of net capital outflows over the next 12 months, based on the assumptions that: no repayments will be received from not rated or speculative-grade counterparties; and there is a total loss of access to the capital and credit markets. EUROFIMA has consistently held liquidity stock well in excess of this requirement. Presently EUROFIMA estimates to have--through excess cash or unencumbered securities--net liquidity that exceeds by CHF1.4 billion the liquidity requirement under such a distressed scenario for the next 12 months. The value of the securities is calculated based on current market prices and after the deduction of a haircut.

EUROFIMA currently have credit lines available with 14 banks for an overall amount of CHF2.2 billion, representing 73% of the maximum amount of the CP program. However such lines are not established formally and as such cannot be taken into account in our assessment of EUROFIMA's liquidity. Standard & Poor's believes that

it is likely that informal credit lines would quickly be withdrawn should EUROFIMA ever actually need them when getting into a challenging liquidity situation.

The ratio of total liquid assets to the sum of undisbursed loans and next year's debt service equaled 44.2% in 2008, down from 61.1% in 2007 (this figure was due to a specifically high 1-year debt service to bondholders in 2009). After a peak of CHF5.1 billion in 2001, yearly repayments expected until 2014 range between CHF5.2 billion (2009) and CHF3.2 billion (2013). EUROFIMA's ratio of liquid assets to total debt, at 7.5% in 2008, is much lower than that of other rated MLIs (see chart 5). The ratio is comparable with that of the European Investment Bank (foreign currency AAA/Stable/A-1+), however, which benefits from similarly strong asset quality.

Chart 5



Borrowings

The authorized annual limit on gross new debt issues stands at €4 billion (CHF6.0 billion). In 1996, the ceiling on treasury borrowings was increased to \$1.0 billion (CHF1.7 billion) from \$444.4 million (CHF750.0 million); this was converted to €1 billion in 2004. In March 2003, an additional \$300 million line was established for warehousing purposes--which had so far been financed through the treasury line. This was increased in two steps to €1 billion in 2004. The easing of the treasury restriction has accommodated expanding liquidity and hedging requirements, and the establishment of a separate line for warehousing purposes endowed EUROFIMA with greater capacity and flexibility to take advantage of attractive funding opportunities in financial markets when they arise, even in the absence of immediate funding needs. In addition to short-term borrowings, treasury funds comprise paid-in capital, reserves, and fund for general risks.

Lending and profitability

As a special funding facility that lends to shareholders at low cost, EUROFIMA does not target earnings growth, and management strategy focuses chiefly on sustaining the organization's competitiveness, rather than on profitability. Commission rates have been revised since 1996, replacing the previous uniform 7.5 basis point (bp) rate with a sliding scale modulated according to the borrower's credit rating. This has been revised further in March 2009 in order to have a scale reflecting more closely the current market spreads. 'AAA' rated rail authorities can now obtain standard equipment financing with loan commissions of 5.0 bps, 10 bps for 'AA', 25bps for 'A', and 50.0 bps for 'BBB' and lower ratings.

EUROFIMA's consistently positive, although modest, net income mainly derives from returns on its lending, in combination with minimal operating costs. After unusual jumps in operating expenditure in 1997 and 2000 (25% and 11% growth, respectively), which were mainly caused by higher legal fees related to lease transactions, the company reduced operating expenses in 2001 and until 2006 had maintained that expenditure level. In 2007 and 2008, the increases of 9.3% and 14.1% respectively were due to a change in accounting policy and to extraordinary expenses in connection with the introduction of a new accounting information system and higher personal costs.

Net interest and commissions income remains the most important source of revenue, contributing 95.6% of net operating income. "Income from other financial operations" (income from securities transactions and upfront commissions on leasing transactions) accounts for the remainder of net operating income, but also constitutes the most volatile source of income. This item underperformed against budget in 2008 and the first half of 2009 due to the turbulent market conditions.

Overall, EUROFIMA's income and expenses are stable, and operating income per average shareholders' equity (adjusted) in 2008, at 4.6%, was in line with historical levels. Active internal cost control is expected to be pursued further.

Ratings Detail (As Of November 2, 2009)*

EUROFIMA European Company for the Financing of Railroad Rolling Stock

Counterparty Credit Rating	
<i>Foreign Currency</i>	AAA/Negative/A-1+
Commercial Paper	
<i>Foreign Currency</i>	A-1+
Senior Unsecured (66 Issues)	AAA
Short-Term Debt (2 Issues)	A-1+

Counterparty Credit Ratings History

10-Sep-2009	<i>Foreign Currency</i>	AAA/Negative/A-1+
12-Dec-1989		AAA/Stable/A-1+
22-Feb-1988		AAA/--/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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