

Dangote Industries Funding Plc's Series 1 Tranches A & B Bonds

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
N10.46bn Series 1 Tranche A Bonds	Long Term Issue	National	AA+(NG)	Stable Outlook
N177.12bn Series 1 Tranche B Bonds	Long Term Issue	National	AA+(NG)	Stable Outlook

Rating Rationale

The ratings assigned to Dangote Industries Funding Plc's N10.46bn Series 1 Tranche A and N177.12bn Series 1 Tranche B Senior Unsecured Bonds reflects the long-term rating of the Sponsor, Dangote Industries Limited, a leading conglomerate in Africa. GCR assigned a national scale long-term Issuer rating of AA+(NG) to the Sponsor with a Stable Outlook in April 2022. The rating weighs the Sponsor's strong competitive position due to its size, the systemic importance of its ongoing projects, the leading market positions held by its major subsidiaries and relatively diversified business lines, which have translated into a sound earnings trajectory. This is somewhat offset by elevated debt and the currently high foreign currency ("FCY") exposure. Please see our [webpage](#) for more details on the rating action.

The Issuer, Dangote Industries Funding Plc has registered a N300bn Bond Issuance Programme ("the Programme") with Securities and Exchange Commission, under which it has raised N10.46bn in Series 1 Tranche A and N177.12bn in Series 1 Tranche B. The Tranche A Bonds has a coupon rate of 12.75% and a tenor of seven years maturing in July 2029. Similarly, the Tranche B Bonds have a coupon rate of 13.5% and a tenor of 10 years maturing in July 2032. The principal redemption on the Series 1 Tranches A & B Bonds will be payable in full upon maturity, unless earlier redeemed pursuant to Condition 5 (Schedule 1) of the respective Series Trust Deeds. The coupon payments will accrue from the issue date and be due and payable semi-annually in arrears, up to the maturity dates.

The Series 1 Tranches A & B Bonds constitute direct, unconditional, senior, unsubordinated, and unsecured obligations of the Issuer and will rank *pari passu* among themselves and rank at least *pari passu* with all other unsecured and unsubordinated obligations assumed by the Issuer other than those mandatorily preferred by law and are of general application to companies. The Issuer may at any time and from time to time purchase the Series 1 Tranches A & B Bonds through the market or by tender (available to all Series 1 Tranches A & B Bondholders alike) but not otherwise, provided that any Bonds purchased will be cancelled and will not be available for re-issue in accordance with the Programme Trust Deed.

Dangote Industries Limited, Dangote Oil Refining Company Limited, and Dangote Fertiliser Limited (jointly 'Co-Obligors'), the Issuer and the Bond Trustees shall enter an undertaking, pursuant to which the Co-Obligors, absolutely, irrevocably, and unconditionally guarantees the prompt and full payment of all debt and obligations owed by the Issuer under the Programme. Pursuant to a Deed of Undertaking, the Co-Obligors or any single Co-Obligor undertakes that if the Issuer does not pay any of the obligations, it will immediately perform the payment obligations of the Issuer as if it were the principal Co-Obligor and payments shall be in accordance with the Trust Deeds. The Co-obligors are jointly and severally liable for the repayment obligation of the Programme.

*The last rating announcement was on 28 April 2022. The indicative rating is expected to be reviewed within 90 days and final ratings will be accorded upon receipt of satisfactorily signed and executed final transaction documents.

Given that the Sponsor offers timely and full coverage of all payments due to the bondholders, under the Series 1 Tranches A & B Senior Unsecured Bonds through the Deed of Undertaking, the Bonds bear the same default risk as its Sponsor and would reflect similar recovery prospects to senior unsecured creditors in the event of a default. As such, the long-term rating for the Series 1 Tranches A & B Bonds is equivalent to the Sponsor's long term senior unsecured rating. Accordingly, any change in the Sponsor's long-term credit rating would impact the issue rating.

Outlook Statement

The Stable Outlook reflects GCR's expectation that DIL's oil refinery project will be commissioned according to schedule, and that strong earnings and cash flow projections will materialise as forecast. This will allow for the debt balance to be reduced over the rating horizon and mitigate the foreign currency mismatch.

Rating Triggers

A rating upgrade is contingent upon the successful completion of the refinery project, which translates to significant earnings growth, and a meaningful reduction in debt and FCY exposure. Specifically, upward migration to the ratings could follow a reduction in the net debt to EBITDA below 1.5x, interest coverage strengthening to 10x-15x and OCF to debt registering around 50%-60%.

A downward rating movement could result from the inability to timeously complete the ongoing project, leading to lower-than-expected earnings and cash flows, and potentially an escalation in debt. Any adverse foreign currency movement that results in escalation of debt balance would also be negative to the ratings. In addition, aggressive dividend decision amid the large capex and investment commitments could constrain the liquidity assessment and result in a rating downgrade. Any factors that impact the performance of Dangote Cement could also impact the broader group, given that it underpins current earnings.

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Related Criteria and Research

Criteria for the GCR Ratings Framework, January 2022
Criteria for Rating Corporate Entities, January 2022
GCR Ratings Scales, Symbols & Definitions, May 2022
GCR's Country Risk Score report, June 2022
GCR Nigeria Corporate Sector Risk Scores, April 2022
Dangote Industries Limited Rating Announcement, April 2022

Ratings History

Dangote Industries Funding Plc's Series 1 Tranches A & B Bonds					
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term Issue	Initial/last	National	AA+(NG)	Stable	July 2022

Rating analysis

N300bn Bond Issuance Programme

Dangote Industries Funding Plc is in the process of issuing bonds into the Nigerian capital market under a N300bn Bond Issuance Programme ("the Programme" or "BIP"). The board of directors of DIL Funding Plc authorised the BIP on 8 March 2022 and the Issuer has filed an application with the Securities and Exchange Commission.

Under the Programme, bonds may be issued in Series by way of an offer for subscription or private placement through a book building process, auction or any of the other methods described in the relevant Pricing Supplement. Furthermore, the board of directors of Dangote Industries Limited ("DIL" or "the Sponsor") passed a resolution on 24 January 2022, to support and/or sponsor the establishment of the capital raising programme and the issuance of Bonds by the Issuer under the Programme (as primary obligor, not merely as surety) in accordance with the terms of the relevant Trust Deeds. The Issuer will issue the Bonds for the sole purpose of being transferred to the Sponsor who will apply the proceeds towards the financing of the projects being undertaken by Dangote Oil Refining Company Limited or such other projects within the Group.

The Bonds to be issued under the BIP will be constituted by and issued on the terms and conditions of the Programme Trust Deed ("PTD") between the Issuer, the Sponsor and the Bond Trustees and supplemented by the Series 1 Tranches A and B Trust Deeds. The Bonds will be issued in Nigerian Naira.

The PTD contains various covenants binding the Issuer to repay the bond, pay interest and comply with the provisions of the PTD and all applicable laws. Events of default ("EOD") and the various remedies are also stated in the PTD. The Trustees will hold the payment obligations and other covenants of the Issuer in Trust for the benefit of the Bondholders, and perform the duties contained in the PTD.

Series 1 Tranches A and B Bonds

The Series 1 Tranches A & B Bonds will constitute direct, unconditional, senior, unsubordinated, and unsecured obligations of the Issuer and will rank *pari passu* among themselves and rank at least *pari passu* with all other unsecured and unsubordinated obligations assumed by the Issuer other than those mandatorily preferred by law and are of general application to companies. The Issuer may at any time and from time to time purchase the Series 1 Tranches A & B Bonds through the market or by tender (available to all Series 1 Tranches A & B Bondholders alike) but not otherwise, provided that any Bonds purchased will be cancelled and will not be available for re-issue in accordance with the Programme Trust Deed.

Negative pledge

In accordance with the Programme Trust Deed, for as long as any of the Bonds are outstanding, the Issuer shall not, create any security interest upon the whole or any part of its present or future undertaking, business or assets to secure any financial indebtedness unless the Issuer's obligations under the Bonds are secured equally and rateably therewith or have the benefit of such other security, guarantee, indemnity or other arrangement which is deemed to be materially less beneficial to the Bondholders.

Events of default

Per clause 5.2 of the PTD, the following events, *inter alia*, will constitute a default:

- i) Payment default: if the Issuer or the Co-obligors do not pay any amount in respect of any of the Bonds issued under the relevant Series, within 10 business days of the due payment date.
- ii) Breach of other obligations: if the Issuer or the Co-obligors do not comply with other obligations under the Programme Trust Deed or in respect of the Bonds of any Series and, if the non-compliance can be remedied,

does not remedy the non-compliance within 30 days after written notice requiring such default to be remedied has been delivered to the Issuer by a Bondholder.

- iii) Cross default: if any indebtedness in excess of N45bn (or its equivalent in any other currency) of any Co-obligor in respect of money borrowed or raised is not paid within 10 business days of i) its due date or, ii) the end of any applicable period of grace, whichever is the later; or if the indebtedness of any Co-obligor of a value exceeding N45bn (or its equivalent in other currency) in aggregate is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described) and such event shall be certified in writing by the Trustees to be in their opinion materially prejudicial to the interest of the Bondholders of the relevant Series.
- iv) Enforcement proceedings: if a distress, attachment, execution, or other legal process is levied, enforced or surd out on or against any substantial part of the property, assets, or revenues of any Co-obligor and is not discharged or stayed within 60 days of it.
- v) Change of control: if there is a change of control of the Issuer or any Co-obligors without notification to the Trustees.
- vi) Force Majeure: the occurrence of a force majeure event that affects the ability of the Issuer or any Co-obligor to perform its respective obligations under the Programme Trust Deed, which continues for a period of 12 months.
- vii) Termination of the Deed of Undertaking: if the Deed of Undertaking is terminated for whatsoever reason.
- viii) Obligations unenforceable: if any of the Bonds or the Trust Deeds is or becomes wholly or partly void, voidable, or unenforceable to materially prejudice the interest of the Bondholders.
- ix) Cessation of business: pursuant to Clause 12.26 of the PTD, save for the Sponsor, if any Co-obligor ceases to conduct all or substantially all its business as is now conducted or changes all or substantially all of the nature of such business or merges or consolidates with any other entity without the prior written consent of the Trustees (such consent not to be unreasonable withheld, conditioned or delayed).
- x) Insolvency: if an insolvency event occurs in respect of the Issuer or any Co-obligor.
- xi) Material adverse effect.

Following the occurrence (and continuity) of any of the events of default, the Trustees at their discretion may, and if so requested in writing by the registered Holders of at least one-fifth of the nominal amount of the Bonds for the time being outstanding or upon being so directed by an Extraordinary Resolution by notice in writing to the Issuer, declare the Bonds to have become immediately repayable provided that the Bonds shall not be declared immediately payable unless:

- on the occurrence of any event specified in sub-clauses (i), (ii), (iii), (iv), and (vii) of clause 5.2, the Trustees shall have first served on the Co-obligors, a preliminary notice requiring the Issuer and/or Co-obligor(s) to pay the principal or interest in arrears or to remove, discharge or pay out to the satisfaction of the Trustees such distress, execution or process or to perform and observe the covenant or provisions the contravention of which has been committed or threatened and the Issuer and/or Co-obligors shall have failed or neglected for a period of 10 business days to comply with such notice; and
- in the case of any event specified in sub-clauses (vi), (viii), (x) and (xi) of clause 5.2, the Trustees shall have certified in writing to the Issuer that the Event of Default is, in its opinion, materially prejudicial to the interests of the Bondholders of the relevant Series.

Coupon and principal repayment

The coupon payments shall be payable semi-annually in arrears on the Principal Amount on each coupon payment date up to and including the final maturity date. The coupon rate payable in respect of each Series 1 Tranches A and B Bonds shall be at a fixed rate. The Tranche A Bonds will have a tenor of seven years from the issue date, with the final maturity date of 19 July 2029; while the Tranche B Bonds will have a tenor of 10 years from the issue date, with the final maturity date of 19 July 2032. The principal redemption on the Series 1 Tranches A & B Bonds will be payable upon maturity, while coupon payments will accrue from the individual issue dates and be due and payable semi-annually in arrears, up to the maturity dates.

Use of net proceeds

Pursuant to Appendix C of Series 1 Tranche A and Series 1 Tranche B Pricing Supplements, the net issue proceeds of the Bonds will be made available by the Issuer to the Sponsor towards the financing of the projects undertaken by Dangote Oil Refining Company Limited or such other projects within the Group.

Issuer: Dangote Industries Funding Plc

Dangote Industries Funding Plc was incorporated as a Special Purpose Vehicle ("SPV"), to provide funding to the Sponsor, through the issuance of Bonds to the public. The Issuer has no business operations, other than borrowing and passing through to as well as receiving funds from Dangote Industries Limited.

Sponsor: Dangote Industries Limited

Dangote Industries Limited was incorporated in Nigeria in April 1985 as a private limited liability company and commenced operations in July 1999. The shares are held by Greenview International Corporation (Cayman Islands) and Dangote Nigeria Limited (0.01%), but Mr. Aliko Dangote is the ultimate controlling party. DIL has 85.80% shareholding in Dangote Cement Plc ("DCP"), 68% in Dangote Sugar Refinery Plc ("DSR") and 62.19% in NASCON Allied Industries Plc ("NASCON"), with significant shareholding in 16 other entities², and non-controlling interests in two entities³. During FY20, DIL consolidated the two project companies, namely, Dangote Oil Refining Company Limited ("DORC") and Dangote Fertiliser Limited ("DFL"), in which it has 9.5% and 9.8% shareholding respectively. This was based on DIL's status as the key controlling entity, overseeing the development, and funding of the projects. Furthermore, the DCP subgroup includes 11 other subsidiaries across the African continent.

Other key transaction parties

Issuing Houses

The Issuing House function is being rendered by Standard Chartered Capital & Advisory Nigeria Limited (as the Lead Issuing House) while the Joint Issuing House function is being jointly rendered by Stanbic IBTC Capital Limited, Vetiva Capital Management Limited, Meristem Capital Limited, Absa Capital Markets Nigeria Limited, Afrinvest Capital Limited, Coronation Merchant Bank Limited, Ecobank Development Company Limited, FBNQuest Merchant Bank Limited, FCMB Capital Markets Limited, Greenwich Merchant Bank Limited, Rand Merchant Bank Nigeria Limited, Quantum Zenith Capital & Investment Limited and United Capital Plc.

² Including, *inter alia*, Dancom Technologies Limited (79%), Dangote Sinotruck West Africa Limited (65%), DIL Power Limited (98%), Dangote Global Services Limited (100%), Dangote Aviation Services Limited (80%), WAEP Cooperative (90%), Integrated Steel Plc (99%), Dangote Agrosack Limited (99%), Dangote Rice Limited (99%) and AG-Dangote Construction Limited (100%).

³ Namely, Dangote Oil and Gas Limited (20%) and Greenview Development Nigeria Limited (48.75%).

Trustees

ARM Trustees Limited, Quantum Zenith Trustees & Investments Limited, FBNQuest Trustees Limited, and Coronation Trustees Limited, have been appointed to jointly monitor compliance with the various clauses and covenants as stipulated in the Programme Trust Deed, and the Series 1 Tranche A and Series 1 Tranche B Trust Deeds.

Solicitors

Banwo & Ighodalo has been appointed as the solicitor to the Issuer, while Olaniwun Ajayi LP has been appointed as the solicitors to the Transaction.

Rating considerations for the Series 1 Tranches A and B Bonds

Given that Dangote Industries Limited offers timely and full coverage of all payments due to the bondholders under the Series 1 Tranches A and B Bonds through the Deed of Undertaking, the Bonds bear the same default risk as its Sponsor and would reflect similar recovery prospects to senior unsecured creditors in the event of a default. As such, the national scale long term Issue rating for the Series 1 Tranches A and B Bonds is equivalent to the Sponsor's national scale long term corporate rating. Accordingly, GCR has accorded a national scale long term Issue rating of AA⁺_(NG) to the Series 1 Tranches A and B Bonds in line with Dangote Industries Limited's corporate credit rating. Any change in the rating assigned to the Sponsor will directly affect the Bond rating.

Disclaimer

Note that GCR is not a legal, tax or financial adviser, and only provides a credit opinion of the rated securities. For example, a rating does not cover a potential change in laws, nor can it be regarded as an audit. Moreover, GCR is not a party to the transaction documents. Users of GCR's credit ratings should familiarise themselves with the transaction (including the legal opinion) and should form their own views in this respect. Users should not rely on GCR for legal, tax or financial advice, and are encouraged to contact relevant advisers.

Glossary

Bond	A long-term debt instrument issued by either a company, institution, or the government to raise funds.
Bondholder	Investor of capital market securities
Borrower	The party indebted or the person making repayments for its borrowings.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Claim	1. A request for payment of a loss, which may come under the terms of an insurance contract (insurance). 2. A formal request or demand (corporate finance).
Coupon	The interest paid on a bond expressed as a percentage of the face value. If a bond carries a fixed coupon, the interest is usually paid on an annual or semi-annual basis. The term also refers to the detachable certificate entitling the bearer to the interest payment.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Enforcement	To make sure people do what is required by a law or rule et cetera.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Issuer	The party indebted or the person making repayments for its borrowings.
Legal Opinion	An opinion regarding the validity and enforceability of a transaction's legal documents.

Lender	A credit provider that is owed debt obligations by a debtor.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Rating Horizon	The rating outlook period
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Security	One of various instruments used in the capital market to raise funds.
Senior	A security that has a higher repayment priority than junior securities.
Surveillance	Process of monitoring a transaction according to triggers, covenants and key performance indicators.
Transaction	A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.
Trust	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Trustee	An individual or firm that holds or administers property or assets for the benefit of a third party.

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit rating has been disclosed to Dangote Industries Funding Plc. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

Dangote Industries Funding Plc and the Transaction Arranger participated in the rating process via tele-conferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Dangote Industries Funding Plc and other reliable third parties to accord the credit rating included the final and signed copies of:

- Series 1 Tranche A Trust Deed
- Series 1 Tranche B Trust Deed
- Programme Trust Deed
- Deed of Undertaking
- Series 1 Pricing Supplement
- Shelf Prospectus.

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