

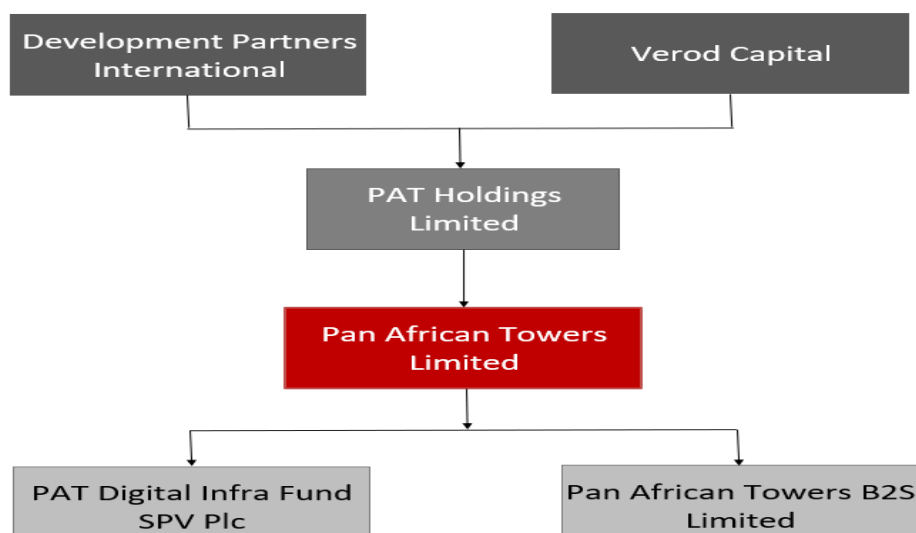
## Pan African Towers Limited

Rated entity	Rating class	Rating scale	Rating	Outlook
Pan African Towers Limited	Long-term issuer	National	BBB <sub>(NG)</sub>	Stable
	Short-term issuer	National	A3 <sub>(NG)</sub>	

### Analytical entity: Pan African Towers Limited

Pan African Towers Limited (PAT or the company) was incorporated on 4 March 2013 to offer telecommunication infrastructure services in Nigeria. These include hosting of third-party telecommunication equipment on its own towers (i.e., colocation); sharing telecom infrastructure with third parties; importing, building, and installing towers and other telecom equipment, as well as managing of third-party telecom infrastructure. The company was subsequently licenced in 2017 by the Nigerian Communications Commission (NCC) and commenced operations in July 2018. Following the exit of Chapel Hill Advisory Partners Limited as shareholders, PAT's corporate structure is now organised under a non-operating holding company, PAT Holdings Limited, owning 100% of its shares on behalf of the new ultimate owners, namely, Development Partners International (67%) and Verod Capital Management Limited (32%). PAT Digital Infra SPV Plc was incorporated solely by PAT for the purpose of raising funds from the capital market, while Pan African Towers B2S Limited have yet to commence operational activity. The consolidated financial statements for PAT Holdings are not yet available as the acquisition and the Holdco structure are still relatively new. We have therefore maintained the standalone analytical approach to the ratings of PAT.

### Exhibit 1: Current shareholding structure



### Credit profile summary

#### Strengths

- Annuity-type lease income underpinned by long-term contracts
- Strong earnings growth trajectory and higher colocation rate
- Long term debt maturity profile and strong shareholders' funding support

## Weaknesses

- Small sized company compared to its competitors
- High concentration to two main customers
- High leverage and volatile cash flow

## Rating summary

The ratings of PAT reflect GCR's expectations of stronger earnings progression and the long weighted average debt maturity and strong liquidity coverage. Conversely, the ratings are constrained by a limited, albeit entrenched market position, the company's high cost of funding, and free cash flow volatility. Margin pressures have also persisted because of higher diesel costs, while the declining tower count further weakens the already modest market position.

## Outlook statement

The Stable Outlook reflects our expectation of relative earnings stability and a well-managed liquidity coverage. We also expect that debt would gradually unwind as planned, supporting better gearing metrics.

## Rating triggers

A rating upgrade could follow sustained improvement in the colocation rate which supports higher earnings margin towards the 45%-60% range reported by peers. In addition, interest coverage metrics above 5.0x, OCF to debt above 20% and net debt to EBITDA below 2.0x on a sustained basis would be positively viewed.

Conversely, the ratings could be downgraded if debt materially escalates or if earnings lag targets, leading to a deterioration in interest coverage below 1.5x or net debt to EBITDA returns to above 4.0x. Market risks arising from commodity price, interest or exchange rate movements could curtail cash flows and elevate repayment risks, especially if there are no adequate provisions for committed refinancing facilities.

## Risk score summary

Rating components & factors	Risk scores
<b>Operating environment</b>	<b>7.00</b>
Country risk score	3.50
Sector risk score	3.50
<b>Business profile</b>	<b>(0.50)</b>
Competitive position	(0.50)
Sustainability	0.00
<b>Financial profile</b>	<b>(0.75)</b>
Earnings	0.50
Leverage and capital structure	(1.75)
Liquidity	0.75
<b>Comparative profile</b>	<b>0.00</b>
Group support	0.00
Peer comparison	0.00
<b>Total risk score</b>	<b>6.00</b>

## Analytical contacts

**Primary analyst**  
Lagos, NG

Samuel Popoola  
Samuel@GCRratings.com

Sector Head: Public Finance Ratings  
+234 1 904 9462

**Committee chair**  
Johannesburg, ZA

Patricia Zvarayi  
PatriciaZ@GCRratings.com

Senior Analyst: Financial Institutions  
+27 11 784 1771

## Related criteria and research

Criteria for the GCR Ratings Framework, May 2024  
Criteria for Rating Corporate Entities, May 2024  
GCR Rating Scales, Symbols and Definitions, May 2023  
GCR Country Risk Scores, August 2024  
GCR Nigeria Corporate Sector Risk Scores, June 2024

## Ratings history

Pan African Towers Limited					
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long term Issuer	Initial	National	BBB <sub>(NG)</sub>	Stable Outlook	October 2020
Short term Issuer	Initial	National	A3 <sub>(NG)</sub>		
Long term Issuer	Last	National	BBB <sub>(NG)</sub>	Stable Outlook	October 2024
Short term Issuer	Last	National	A3 <sub>(NG)</sub>		

## Operating environment

### Country risk

PAT's country risk assessment reflects its full exposure to the Nigerian operating environment where its operations and assets are domiciled, and earnings generated. Nigeria's country risk score of '3.50' balances a well-diversified economic base and low debt levels against the recent compression in USD GDP per capita, variability in policy direction, and weak human development indicators. Although the economy is diversified, Nigeria remains vulnerable to commodity price volatility and geopolitical disruptions that impact productivity, as crude oil remains the dominant source of foreign currency inflows. The country has adopted key structural reforms with mixed fortunes. Changes that included (amongst others) removing fuel subsidies were followed by major reversals, such as food support from state grain reserves, fertilizer subsidies, and the removal of VAT on diesel. Although relaxation of some austerity measures was made to relieve pressure on both rural and urban communities, this could push out the timeline for attainment of a balanced budget. We expect fiscal uncertainty to continue to be compounded by variability in global food and raw material prices, increasing potential for imported inflation. With additional pressure likely to come from civil service wage increases, we consider ongoing efforts to increase economic inclusion and sustain higher government revenues will only be sustainable when due consideration is paid to unintended consequences. Higher productivity and alleviation of fiscal pressures will also be contingent on investment as opposed to debt and consumption-driven growth. Details of the discrete country risk scores are outlined in GCR's Country Risk Score report published in August 2024, available for download at <https://gcratings.com/wp-content/uploads/2024/08/20240827-Country-Risk-publication.pdf>

### Sector risk

PAT operates in the telecommunications infrastructure segment of the broader telecommunications sector. We have applied the telecommunication sector risk score of 3.50 to PAT given the inextricable linkage of its operations to those of the major mobile network operators, and its direct exposure to the overall health and outlook of the sector. GCR considers the Nigerian telecommunication sector to exhibit low cyclicality, given the strong demand for connectivity across all segments of the populations. The sector's strength is further underscored by its high growth rate (8.9% in 2023 vs 2.7% growth rate on the national output); as well as contribution to Nigeria's gross domestic product (11% in 2023, 10.6% in Q1 2024). However, the sector faces ESG impact risks, particularly regulatory risks in the form of compliance issues, as well as anti-trust policies which constrain business decisions such as pricing and occasionally, customer acquisitions. Furthermore, the sector is prone to cyberattacks, and there are public concerns about the potential health effects of electromagnetic fields and radiation from telecommunication equipment, such as towers.

The industry is oligopolistic in nature, the three large players control around 94% and are highly profitable. Nonetheless, the presence of many over-the-top players and e-services demand ongoing innovation because the usage of telecommunications services and sources of income are constantly shifting. Currency risk is high, since companies need

to maintain high quality, modern telecommunication infrastructures are typically incurred in or indexed to the USD and cannot be hedged out. In addition, most of the industry's tower lease contracts are denominated in USD, resulting in significant foreign exchange losses for most players. In a bid to address this concern, Telcos are renegotiating lease contracts with their service providers, aiming to align contracts settlement more closely with the naira earnings.

Notwithstanding the large foreign exchange losses, GCR expects the telecommunications sector to remain resilient over the economic cycle, with strong margins but weak profitability. Favourable demographics, a strong subscriber base and rising technological advancement should continue to underpin strong prospects for the industry. Moreover, the adopted remote working culture and the deepening broadband penetration have highlighted the need and benefits of strong telecommunications capabilities. Details of the discrete sector risk scores are outlined in GCR Corporate Sector Risk Score report published in June 2024, available for download at <https://gcratings.com/wp-content/uploads/2024/06/Nigeria-Corporate-Sector-Risk-Scores-Publication-June-2024.pdf>.

## Business profile

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### Competitive position

PAT's competitive position remains constrained by its limited market share, with the company accounting for less than 5% of the national tower count and industry revenue as of 2023. Despite improvements in the colocation rate to 1.7x in 2023 and M8 2024, it lags those of much larger leading peers registering above 2x, translating to a comparably lower margin trajectory relative to peers. In addition to this, the total active site count reduced by about 100 towers between 2022 and August 2024, reducing the geographical footprint. We note the industry growth potential given the significant telecommunications tower infrastructure deficit, which could bode well for PAT's expansionary prospects. However, attracting and fulfilling substantial tower contracts is a function of the expansion plans of the major mobile network operators, PAT's scale and competitiveness and the availability of funding.

On the other hand, we have taken cognisance of the defensiveness of PAT's niche position in the Nigerian telecommunications infrastructure industry, underpinned by long-term colocation contracts, embedded early termination penalties and regulatory insulation in terms of the maximum distribution of tower sites per geographic area. Notwithstanding the mitigating factors, we believe that PAT will remain a small market participant despite the plan to substantially increase the tower count in the next 12 months.

The revenue streams are also concentrated to lease rentals, industry wide. These are earned on tower infrastructural services in addition to revenues from build-to-suite contracts for clients. Reflecting the industry structure, where four MNOs dominate the telecom space, diversification of revenue per customer base is necessarily skewed to three tenants (MTN, Airtel Nigeria and 9Mobile), with MTN dominating the portfolio. However, these are strong counterparties, with a good history of performance.

### Sustainability

PAT's corporate governance and sustainability assessment is neutral to the ratings. The operating structure is clear with well-defined board committee roles. Given the new ownership, there are ongoing changes to the board composition, but we expect the quality of the board to remain largely strong.

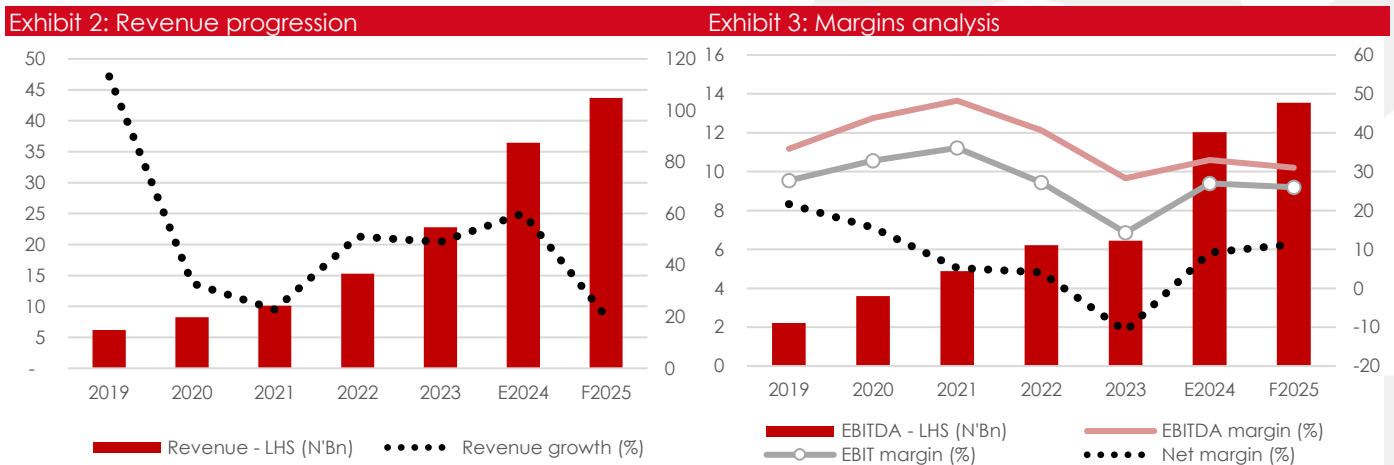
## Financial profile

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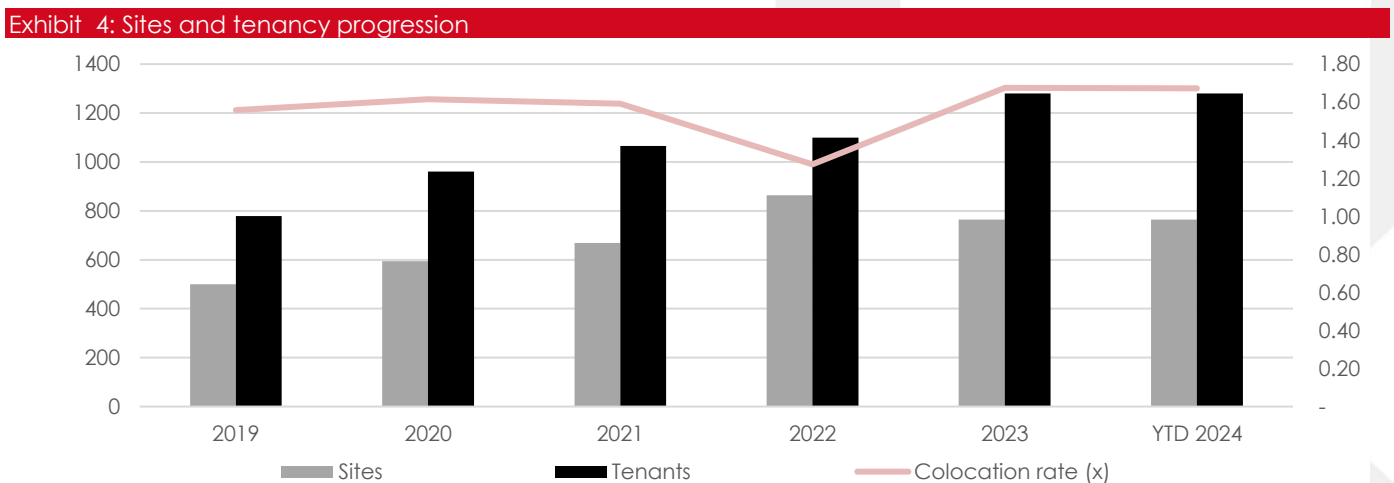
### Earnings

Earnings is a positive rating factor, reflecting the sound revenue progression over the cycle, leading to a five year CAGR of 39% in the financial year ending 31 December 2023 (financial 2023). The revenue grew further by an annualised 68% in 31 August 2024 (M8 2024), following a 49% growth in 2023, driven by the embedded contractual lease amendments indexed to movements in diesel price coupled with an increase in the colocation rate. The earnings quality is further enhanced by the annuity-type income and the long term contracts with strong counterparties, which offsets earnings

concentration to two major customers. While we estimate the strong revenue trajectory to be sustained for the full year 2024, we project a less aggressive growth of around 20% in 2025, on the back of annual lease escalation.



Conversely, margins have been pressured since 2022 because of the persistent spike in diesel price (86% of cost of sales) and the impact of inflation on other operating expenses, with EBITDA margin tapering by over 20 percentage points between financial 2021 and 2023. We expect the EBITDA margin at about 30%-33% in 2024 and 2025 barring further spike in energy cost. The company has made some efforts towards diversifying into more efficient energy sources, with some small tower sites powered by solar and some connected to on-grid power supply. However, the proportion of tower assets being powered by these remain small in the overall context and would not lead to margin enhancements in the near term.



The increase in colocation rate in the recent periods reflects the reduction in the active tower count combined with higher tenancy, which implies a more efficient use of the assets. We forecast the colocation rate to remain largely stable over the outlook period as we expect growth in tenancy to outpace the anticipated increase in active sites.

### Leverage and cash flow

Leverage remains ratings negative, although we take cognisance of the recent improvements in the gearing metrics on the back of moderation in gross debt, reduced pressure on the working capital cycle, and higher core earnings. The reduction in debt followed scheduled repayments and the conversion of shareholder loan notes of NGN729 million to deposit for shares in 2023 and M8 2024. We expect further decline in debt over the outlook period given the shareholders' commitments to support future capital spending with equity injection, with sizable inflows of nearly NGN22Bn already received between 2023 and August 2024. Coupled with strong earnings uplift, we expect the more conservative debt outlook to sustain the recent improvement in net debt to EBITDA around the 2x-2.2x range for the full year 2024 and

further below 2x expected in 2025. Net interest coverage plummeted to 1.1x in 2023 due to the spike in lending rates following consecutive increases in MPR by CBN. The coverage appears better during 8M 2024 on the back of higher earnings but is forecast at 2.4x in 2024 and 3x in 2025, given the projected reduction in gross debt and increase in earnings.

Exhibit 5: Debt profile

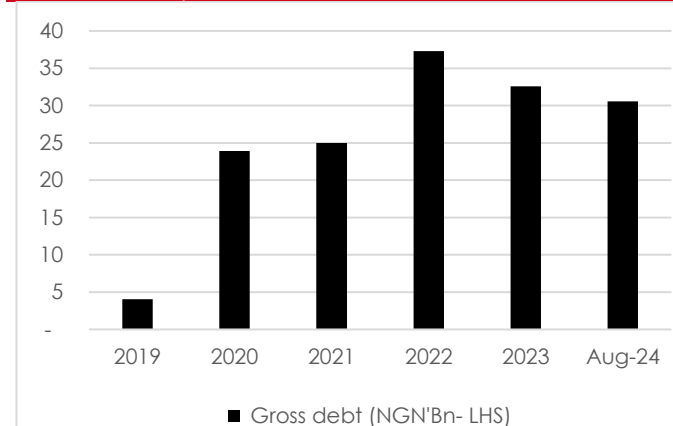
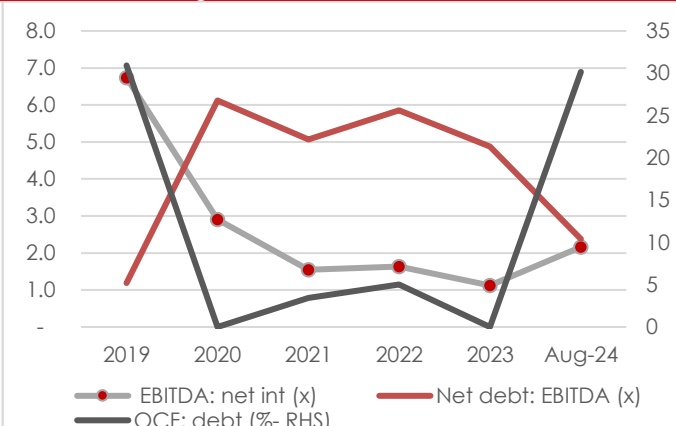


Exhibit 6: Leverage and cash flow metrics



Although cash generation is typically robust, OCF has been mainly weak, due to advances paid to contractors for the construction of masts, as well as an increase in non-trade short-dated receivables. Interest payments have also been high on account of the loan amendments to reflect prevailing lending rates as most of the debt are based on floating interest rates. However, OCF coverage of debt has improved in line with our projections, reaching a review period high of 30% in M8 2024. We expect additional finance charges to be accounted for towards year end, which would reduce the cash flow leverage to around 20% in 2024 and above 30% in 2025. The capital structure balances the medium-term weighted average debt maturity of over six years against the floating interest rates on most loans, the effect of which is already observed over the past three years, with debt service increasing with movements in the benchmark rate. There is no currency risk as all debt is Naira-denominated.

## Liquidity

Liquidity is positive to the ratings, reflected by the sources versus uses liquidity coverage of approximately 1.5x over the 15-month period to 31 December 2025. Cash holdings amounted to NGN1.3Bn and was sufficiently to meet maturing short term debt repayment of NGN834 million as of 31 August 2024. We do not expect any significant capex spend in 2024 as the company has fully utilised the inflow from the shareholders which were earmarked for capital investment. The inflow of NGN8.3Bn for deposit for shares equated the total capital spending of NGN8.5Bn as of end-August 2024. For 2025, we project capital spending of NGN3.7Bn to be funded by equity injection, while debt redemption of about NGN3.5Bn would be serviced from operating cash flows.

## Comparative profile

### Peer analysis

The peer analysis is neutral to the ratings.

### Group support

Group support is not applicable to the ratings.

## Rating adjustment factors

### Structural adjustments

No structural adjustments have been made to the anchor credit evaluation in arriving at the final ratings.

### Instrument ratings

No adjustments for instrument ratings are applicable.

## Glossary

Annuity	A contract that provides a series of payments for a specified period of time which may or may not be contingent on the survival of the annuitant.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Corporate Governance	Refers to the mechanisms, processes and relations by which corporations are controlled and directed, and is used to ensure the effectiveness, accountability and transparency of an entity to its stakeholders.
Country Risk	The range of risks emerging from the political, legal, economic and social conditions of a country that have adverse consequences affecting investors and creditors with exposure to the country and may also include negative effects on financial institutions and borrowers in the country.
Currency Risk	The potential for losses arising from adverse movements in exchange rates.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
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
Financial Year	The year used for accounting purposes by a company or government. It can be a calendar year or it can cover a different period, often starting in April, July or October. It can also be referred to as the fiscal year.
Floating Interest	An interest rate that changes as the repo or reference rate changes.
Gearing	Gearing (or leverage) refers to the extent to which a company is funded by debt and can be calculated by dividing its debt by shareholders' funds or by EBITDA.
Hedge	A form of risk management aimed at mitigating financial loss or other adverse circumstances. May include taking an offsetting position in addition to an existing position. The correlation between the existing and offsetting position is negative.
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.
Lease	Conveyance of land, buildings, equipment or other assets from one person (lessor) to another (lessee) for a specific period of time for monetary or other consideration, usually in the form of rent.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Receivables	Any outstanding debts, current or not, due to be paid to a company in cash.
Redemption	The repurchase of a bond at maturity by the issuer.
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Repayment	Payment made to honour obligations in regard to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt.
Short Term	Current; ordinarily less than one year.
Upgrade	The rating has been raised on its specific scale.
Weighted Average	An average resulting from the multiplication of each component by a factor reflecting its importance or, relative size to a pool of assets or liabilities.
Working Capital	Working capital usually refers to the resources that a company uses to finance day-to-day operations. Changes in working capital are assessed to explain movements in debt and cash balances.

## 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 ratings have been disclosed to the rated entity.

The rating above was solicited by, or on behalf of, the rated entity.

The rated entity participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- 2023 audited annual financial statement, and prior four years annual financial statements;
- Management accounts for the eight months ended 31 August 2024;
- Industry comparative data and regulatory framework and a breakdown of facilities available and related counterparties;
- Information specific to the rated entity and/or industry; and
- Exchange rate sourced from Central Bank of Nigeria | Exchange Rate ([cbn.gov.ng](http://cbn.gov.ng)).

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