

Climate Transition Assessment

Companhia de Saneamento Básico do Estado de São Paulo (SABESP)

June 18, 2025

Location: Brazil

Sector: Water and Wastewater Utility

Primary contact

Victor Hazell Laudisio
São Paulo
victor.laudisio
@spglobal.com

Future Shade For Foreseeable Future

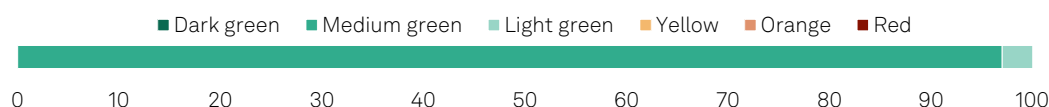
Climate Transition Summary

SABESP'S Climate Transition Assessment (CTA) future shade of Medium green reflects the clear environmental benefits of its business. SABESP generates revenue from its water and wastewater services for various clients. Most activities are assigned a Medium green shade due to the environmental benefits of its sewage collection, which addresses a significant regional deficiency. This expansion prevents untreated sewage pollution. Additionally, we consider SABESP's water delivery as low carbon as it relies heavily on renewable energy. We expect SABESP to maintain a Medium green business in the foreseeable future.

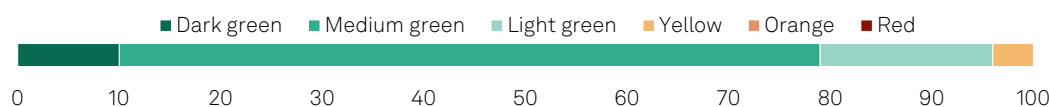
SABESP's emphasis on achieving universalization for water supply and sewage collection, and treatment services by 2029 offers clear environmental benefits. While these goals do not directly reduce greenhouse gas emissions, they do address pollution risks that benefit the environment and water bodies of the state of São Paulo. Furthermore, the universalization goal (supplying all population of the municipalities where it operates with water and wastewater treatment) includes significant spending on mitigating water loss. This brings environmental benefits by alleviating pressure on freshwater demand in the natural environment.

SABESP has an effective strategy to achieve its universalization goals. The company has detailed plans and initiatives, along with improved resource mobilization through new contracts and governance models. Tariff and regulatory incentives will help expand water supply and sewage services to underserved regions, enhancing the organization's positive impact.

Current activity: Revenue 2024 (% of total)



Investments: Operational expenditures (opex) 2024 (% of total)



Medium green

A Climate Transition Assessment shows the expected alignment of a company's activities with a low carbon climate resilient future once its planned transition changes are realized, considering implementation actions and risks.



Strengths

Since qualifying for the B3 Green Equity Designation in 2024, SABESP has improved its sustainability governance. This includes updating its sustainability strategy to reflect the acceleration of universalization targets, launching pilot projects to engage key suppliers and improving its scope 3 reporting.

We view SABESP as a pure play green entity. Its activities are essential for water pollution prevention and control and water supply resilience.

Weaknesses

SABESP does not have a specified greenhouse gas emissions target. Instead, it relies on reducing emissions in line with improvement measures, which reduces the visibility of its systematic reduction strategies.

Areas to watch

SABESP's exposure to physical climate risks. The company faces flood risks. The construction of flood prevention infrastructure generates emissions. However, it is working to mitigate such risks and partnering with construction companies to enhance carbon footprint awareness.

SABESP's investment plans may rely on external financing. The substantial capital needs for universalization will require the diversification of funding sources.

A Climate Transition Assessment (CTA) provides a point-in-time opinion, reflecting the information provided to us at the time the CTA was created and published, and is not surveilled. We assume no obligation to update or supplement the CTA to reflect any facts or circumstances that may come to our attention in the future. A CTA is not a credit rating and does not consider credit quality or factor into our credit ratings. Most accounting systems do typically not provide a breakdown of revenue and investments by environmental impact, and the analysis may therefore not be directly comparable with annual reporting. See our [Analytical Approach: Climate Transition Assessment](#) and our [Analytical Approach: Shades of Green](#).

Company Description

SABESP is a Brazil-based water and wastewater utility. Established in 1973, the company supplies water to 28.1 million people and provides sewage collection services to 25.1 million people. The company operates water and sewage systems in 375 municipalities in the state of São Paulo. SABESP provides services to residential, commercial, and industrial private customers, as well as for public services.

Following its privatization in 2024, 67% of its shares are now free floating on the Brazilian (B3) and New York stock exchanges. The state of São Paulo has an 18% stake, and Equatorial owns the remaining stakes (15%). SABESP has been awarded the designation B3 Ações Verdes (Brazilian Green Equity Designation) since 2024.

Current Activity

2024 activity by shade (% of total)

Shade	Revenue (%)	Opex (%)	Capex (%)
<div></div> Dark green	0	10	53
Activities: Opex: Renewable electricity. Capex: Expanding sewage collection, renewable power generation or energy efficiency projects and water loss reduction.			
<div></div> Medium green	97	69	44
Activities: Revenue: Construction revenue for water and wastewater facilities, water supply and wastewater collection and treatment to residential, commercial, and wholesale and public sector. Opex: Salaries, general supplies, construction costs for water and wastewater facilities, tax, and other expenses. Capex: Water smart metering, biogas generation or other byproduct development, modernization of existing water treatment system, new water treatment facilities and water supply connections, urban water drainage, maintenance of existing wastewater treatment plant, IT, administrative, and other.			
<div></div> Light green	3	17	0
Activities: Revenue: Water supply and wastewater collection and treatment to industries. Opex: Services and construction costs not directly related to water.			
<div></div> Yellow	0	4	3
Activities: Opex: Acquisition of first-generation biofuels and lubricants, water treatment supplies (chemicals), and fossil fueled electricity. Capex: new water intake points and flex vehicles.			
<div></div> Orange	0	0	0
N/A			
<div></div> Red	0	0	0
N/A			

Opex--operational expenditure. Capex--Capital expenditure. Source: S&P Global Ratings.

We assign 97% of SABESP's revenue a Medium green shade, with 3% Light green. Almost all the company's water and wastewater services are assigned a Medium green shade. We differentiate the shade of water and wastewater services by the type of end customer. The only end customers that have a different shade are industrial sectors, which generally have higher emissions. These are assigned a Light green.

The Medium green shade for SABESP wastewater services derives from the environmental benefit of avoiding the pollution of water streams. SABESP collects and treats sewage that would otherwise be improperly disposed in the state of São Paulo. Although the company still does not have any significant methane recovery capacity, SABESP has procedures to control methane emissions from sewage treatment. For its water treatment and supply services, the Medium green shade derives from its systems that are primarily electrified with renewable power. SABESP's water systems improve the quantity of water supply to meet local regulatory requirements. Overall, SABESP has been improving the management of the environmental and climate effects of water and wastewater infrastructure construction and maintenance.

We categorize SABESP's revenue exposure by sector using billed volumes. Billed volumes may not directly correlate with revenue representation for each sector, as different tariffs are applied to each sector. In 2024, the distribution of billed volumes was as follows: residential sector (86%), commercial and wholesale (10%), industrial (3%), and public (1%). In addition to revenue from customers, SABESP has construction revenue. Construction revenue is recognized in accordance with accounting standards, and we do not consider it an operational activity or segment. We have therefore assigned a Medium green shade in line with our view of SABESP's water and wastewater treatment activities. We incorporate risks related to infrastructure construction within the shading of water and wastewater treatment activities.

We assign 69% of operational expenditures (opex) a Medium green shade, 17% Light green, 10% Dark green, and 4% Yellow. The company's opex costs consists of construction; administrative, such as labor; marketing expenses; services; electricity; and chemical supplies (for water and wastewater treatment). We have not considered recorded expenses related to depreciation and amortization, nor allowance for doubtful account. We assign most opex (construction and administrative costs, and general supplies) a Medium green due to its support in providing water and wastewater services.

We assign service costs Light green because they include vegetation suppression and other services that, while necessary for the delivery of SABESP's services, have associated environmental risks. Conversely, we assign expenditures on renewable electricity (10% of opex in 2024) Dark green. The remaining opex pertains to first-generation biofuel, lubricants, and fossil-fueled electricity expenses, which--despite supporting green services--we assign Yellow due to the high climate risks associated with such products.

Climate Transition Plan

Metrics And Targets

Environmental metrics

Environmental metrics	Baseline metric (2024)	2027	2028	2029-2060
Coverage of water supply (%)	Not applicable	99%	99%	99%
Coverage of sewage collection (%)	Not applicable	93%	96%	99%
Coverage of sewage treatment (%)	Not applicable	87%	89%	99%
Water loss index (%)	29.4%	Defined at each municipal level		

Source: Company reporting. The figures detailed above for the period 2027-2060 serve as consolidated references for SABESP’s concession contract with URAE-1. Additional information for each municipality is provided in the official documents.

Note: In 2024, SABESP signed a new concession contract with URAE-1 that significantly expanded its service areas, thereby affecting baseline coverage figures, expressed as "not applicable" in this section. The contract mandates SABESP to measure and disclose adjusted coverage metrics starting in the base year 2027. Furthermore, for the water loss index, targets will be established at the municipal level, which will require improvements relative to various baselines.

SABESP aims to achieve 99% water and sewage coverage across 371 municipalities by 2029, exceeding regulatory requirements. Under Brazil’s sanitation framework, public sanitation service providers must ensure that 99% of the population has access to potable water and 90% to sewage collection and treatment by 2033. This acceleration of SABESP’s universalization targets is part of the new concession agreement (URAE-1) that consolidates service contracts for 371 municipalities in São Paulo until 2060. URAE-1 was signed when SABESP was privatized in 2024 and establishes new regulatory and pricing structures, all linked to planned investment expansions. Additionally, SABESP serves four other municipalities through individual contracts, bringing the total to 375 municipalities under its scope. Under these four individual contracts, SABESP commits to achieving universalization by 2033, in line with regulatory requirements. Although SABESP will only disclose coverage metrics in 2027, prior to URAE-1 the company had strong coverage metrics compared to the Brazilian average.

Under the new contracts, the scope of areas covered by SABESP’s services has expanded to include informal urban settlements and rural areas, where sanitation gaps are significantly larger, informality is prevalent, and infrastructure deployment is often more complex. This expansion holds significant environmental importance in terms of pollution prevention and control, along with relevant social benefits, such as the improvement in public health.

From 2029 onwards, SABESP will be subject to new regulatory targets aimed at reducing water loss rates. Following an initial cycle focused on expansion, SABESP will be required to target operational improvements, including loss rate reductions for each municipality. This shift highlights the challenge of maintaining quality and universalization levels post-2029. In 2024, SABESP’s total loss rate (29.4%) was already significantly below the national average (37.8%). Therefore, we expect that SABESP will further reduce these figures through structured actions and programs.

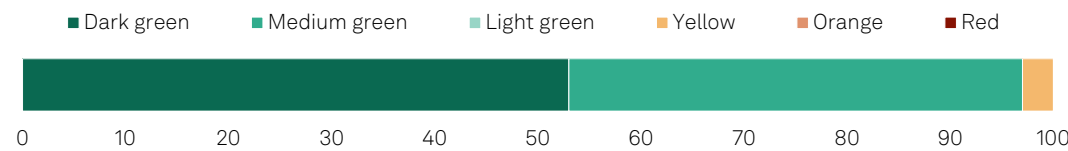
Despite the absence of specific targets for reducing greenhouse gas emissions, SABESP’s universalization goals yield tangible climate benefits. The company estimates that the expansion of sewage collection and treatment services in rivers and water bodies would prevent greenhouse gas emissions of over 20 million tons of carbon dioxide equivalents (tCO2e) by 2050.

Each year, SABESP accounts for its emissions using the GHG protocol methodology, with external verification. In 2024, it had a slight increase in scope 1 emissions due to the expansion

of its sewage collection and treatment activities, which represent 72.8% of its total emissions. In addition, the company has implemented a calculator to support the technical areas in selecting projects with lower associated emissions. Furthermore, SABESP has enhanced the accuracy of its scope 3 emissions accounting by including emissions related to pipe procurement. This is significant, as pipes are essential for expanding service coverage and achieving the company's universalization goals. This update follows SABESP's 2023 inclusion of emissions from the purchase of lime and hydrogen peroxide used in water and wastewater treatment, reinforcing its commitment to improving its greenhouse gas metrics.

Actions And Investments

2024 Capex breakdown by shade (% of total)



Source: S&P Global Ratings.

SABESP allocated 53% of its capex to Dark green investments, 44% Medium green, and 3% Yellow investments in 2024. There was a slight increase in Dark green investments compared with 2023 (50%) because the company had more sewage expansion coverage representation in 2024. The company's investments in sewage coverage expansion, onsite renewable power generation, water loss reduction, and water reuse projects are categorized as Dark green.

Despite half of the company's yearly capex being assigned a Dark green, there is limited impact on its Medium green revenues and future shade. Investing in the expansion of sewage collection is highly beneficial from an environmental standpoint, as it prevents the release of sewage into the environment and the resulting ecosystem degradation. However, once the sewage is collected and begins to be treated--the revenue-generating activity for SABESP (assigned a Medium green)--climate risks are introduced due to the methane generated during wastewater treatment, which SABESP currently controls but does not fully recover (i.e., via biogas generation). Therefore, we differentiate the capex and revenues related to its wastewater business.

The remaining Dark green investments include onsite renewable generation, which reduces the company's scope 2 emissions by substituting fossil fuel-based electricity, aligning with a low-carbon future. Additionally, SABESP invests in reducing water loss and promoting water reuse, which alleviate freshwater demand pressure on the natural environment. While these investments enhance the environmental profile of SABESP's water treatment business, we do not foresee its water treatment revenues going to a Dark green shade given the still high-water loss rates compared with global standards.

The other part of the company's capex primarily focuses on maintaining or modernizing existing water and wastewater treatment systems, which we classify as Medium green investments, in line with the shade of the current assets. The company allocated 3% of capex to new water intake points, which carry high physical risks and flex vehicles, which we consider Yellow.

To achieve its universalization goals by 2029, SABESP must invest three times the national average. While other Brazilian water utilities invest R\$111 per inhabitant in basic sanitation services on average, SABESP plans to allocate R\$369 per inhabitant. The influx of private capital, facilitated by the privatization process, along with the new governance structure adopted by the company, has enhanced its capacity to mobilize resources for early universalization. In total, SABESP could invest up to R\$14 billion annually over the next five years, representing a significant increase from preprivatization annual levels of approximately R\$6 billion to R\$7 billion. Furthermore, the company anticipates investing a total of R\$260 billion throughout 2029-2060 to

maintain the agreed-upon standards of universalization, quality, and operational efficiency. Therefore, the investment plan is well-suited to accelerate these goals.

SABESP's new governance structure has facilitated investments that are more aligned with the company's commitments, implemented through multiyear plans. Starting in 2025, following the review of contracts and the new management configuration after privatization, capex will be organized into four main areas: expansion, renovation, operational efficiency, and indirect costs (administrative and support).

Investments in new networks, treatment plants, and infrastructure for underserved regions, particularly vulnerable areas, will be consolidated under expansion capex. Expansion is the most significant pillar, representing 70% of the projected implementation needed to achieve its goals by 2029. Under the operational efficiency pillar, for example, there are pilot initiatives for new solutions for wastewater management, such as sludge hubs. SABESP aims to combine sludge from different collection points to enhance the potential for its biogas generation.

SABESP has established structured programs that are key to achieving universalization. The Integra Tietê program is the flagship initiative for expansion, accounting for 70% of the target set for 2029. By the end of 2026, SABESP aims to connect 1.5 million households to the sanitation system through an investment of R\$15.3 billion, which will also contribute to the revitalization of the Tietê River. By 2029, an estimated 3.8 million people will be connected to sanitation infrastructure through this program. Additionally, SABESP plans to continue initiatives to regularize water supply in vulnerable regions (Água Legal) and improve environmental sanitation in coastal areas of São Paulo (Onda Limpa) by expanding sewage collection and treatment in those regions.

SABESP's water loss and water supply resilience investments totaled around R\$1.1 billion, while urban drainage expenses totaled R\$7.1 million in 2024. To ensure water availability in its coverage areas, the company uses climate scenarios for a long-term diagnostics of water needs in the regions served by its supply systems. Such diagnostics have the oversight of regulatory bodies. This approach allows the company to identify critical risks affecting its primary water sources and to invest in adaptation accordingly. In regard to urban drainage, the company has been exposed to flood risks. Flood prevention infrastructure can lead to substantial emissions during the construction phase (e.g., the use of fossil fuel-powered equipment) and significant material use (particularly cement). That said, the company is starting to engage with construction companies on their decarbonization progress.

SABESP is implementing a strategy to enhance carbon footprint awareness among critical suppliers. SABESP has piloted a program for construction companies' contracts. The initiative encompasses over 1 million connections, representing water and wastewater services for up to 4 million people. The program, among other topics, consists of monitoring climate and environmental indicators of contractors to gain visibility on their footprints. For example, an initial mapping of the fuels used by contracted companies has been conducted, laying the groundwork for future decarbonization initiatives. This focus is particularly relevant for SABESP, as the infrastructure expansion is necessary for universal access. Furthermore, it is especially significant in Brazil, where decarbonization plans among construction companies are still nascent.

Implementation Drivers

SABESP's governance structures support the implementation of its universalization strategies while prioritizing relevant climate and environmental considerations. The Sustainability and Corporate Responsibility Committee reports directly to the board of directors, which monitors sustainability goals, results, and commitments on a quarterly basis. Following SABESP's privatization, it approved a new sustainability strategy based on four essential pillars: universal access to water and sewage, water security and resilience, efficient protection and management of natural resources, and healthy relationships with strategic stakeholders. Additionally, the company maintains a corporate risk map that incorporates climate-related aspects, such as the risks of water scarcity and reduced availability, which are regularly reported to senior management. Finally, we believe SABESP's public reports adequately disclose progress toward

its universalization strategy and reference the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), along with third-party assurances of greenhouse gas metrics.

SABESP's implementation plans are governed by robust tariff and regulatory models linked to the URAE-1 concession contract. Central to this structure are the Q (quality) and U (universalization) factors, which are supervised by the regulatory agency and externally verified. The Q factor measures quality aspects related to the provision of water and sewage services, while the U factor assesses compliance with coverage targets. If the pre-established contractual levels are not met, tariff adjustments will be impacted, directly affecting revenue generation. Moreover, if the U factor is not met, dividend distribution is also compromised. Conversely, all efficiencies generated by SABESP can be converted into benefits for the issuer's cash generation within an incentive structure designed to achieve the universalization targets. Additionally, a fund has been established to mitigate tariff impacts on consumers during the expansion of services, which mitigates concerns related to affordability.

The new contractual structure has addressed several critical implementation challenges. For example, when the expansion of water and sewage networks is not technically feasible, the contract permits the implementation of individual or smaller-scale alternatives, such as decentralized systems. Additionally, by adopting a shared risk approach, the contract ensures that SABESP is not penalized for regulatory delays in license approvals or other relevant permits necessary to its expansion strategy. However, significant challenges persist, including demographic complexities, the risks of obsolescence associated with existing infrastructure, and data gaps regarding regions with low infrastructure, high informality, and pronounced socioeconomic vulnerability.

The achievement of universalization targets heavily relies on SABESP's ability to execute planned infrastructure expansion projects. To this end, SABESP must mobilize suppliers, construction companies, and service providers at the appropriate scale while ensuring efficiency in its procurement processes. Additionally, it is crucial that the necessary labor is available locally, which is not directly within the company's control in the short term. Delays in infrastructure expansion schedules can also create critical bottlenecks in meeting contractual targets. SABESP's new governance structure has introduced a supplier management model that significantly reduces contracting time and establishes specific processes with critical suppliers. The entity is actively promoting a culture of sustainability throughout its supply chain through structured programs. However, implementing stricter screening based on climate-related criteria could lead to less efficiency in the procurement processes.

External financing is key for the execution of SABESP's investment plans. We expect that the company will rely on a combination of internal cash generation and debt to finance its universalization target. SABESP has proven access to capital international and domestic capital markets, commercial and development banks, and multilateral lending agencies. The latter agencies' loans typically require SABESP to comply with certain environmental, social, and governance indicators. For example, in 2024, SABESP signed a loan agreement linked to sustainability goals with the International Finance Corp. (IFC) for R\$1.06 billion as part of the Integra Tietê program.

SABESP operates in a highly regulated sector. In addition to the legal framework for sanitation and environmental and land legislation, which are fundamental to the company's operations, specific regulatory dynamics may affect its strategies. For example, under the law regulating carbon markets in the country, the sanitation sector is exempt from additional obligations if it adopts technologies that capture and neutralize emissions, such as biogas utilization, an important coproduct of SABESP's processes. However, in the state of São Paulo, the injection of biogas directly into the gas distribution infrastructure is still not permitted, restricting the potential investments and growth of such business for SABESP in the short term. SABESP actively engages with local authorities for the regularization of biogas injection in the state of São Paulo's gas infrastructure.













B3 Ações Verdes

S&P Global Ratings confirms that SABESP meets the requirements for B3 Ações Verdes (BAV) Designation set out in the B3 Circular Letter on Green Equities.

As per the requirement by B3 Ações Verdes, only green economy activities that are eligible for the EU taxonomy can be counted toward the designation thresholds. In 2024, 100% of SABESP's revenue met these requirements, exceeding the 50% threshold for revenue. The sum of opex and capex that met these requirements is 98%. This exceeds the 50% threshold for investments, defined as the sum of capex and opex. In 2024, SABESP had no revenue derived from fossil fuel activities, meeting the threshold of less than 5% of the company's revenue being derived from fossil fuel activities.



S&P Global Ratings' Shades of Green

Assessments					
 Dark green	 Medium green	 Light green	 Yellow	 Orange	 Red
Description					
Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects					
 Solar power plants	 Energy efficient buildings	 Hybrid road vehicles	 Health care services	 Conventional steel production	 New oil exploration

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Related Research

- [Analytical Approach: Climate Transition Assessments](#), July 18, 2024
- [FAQ: Applying Our Integrated Analytical Approach For Climate Transition Assessments](#), July 18, 2024

Analytical Contacts

Primary contact

Déborah Siqueira
São Paulo
deborah,siqueira
@spglobal.com

Victor Laudisio
São Paulo
victor.laudisio
@spglobal.com

Secondary contacts

Michael Ferguson
New York
michael.ferguson
@spglobal.com

Rafael Janequine
São Paulo
rafael.janequine
@spglobal.com

Kristina Alnes
Oslo
kristina.alnes
@spglobal.com

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