

Methodological Assumptions CORPORATE RATING

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1. Introduction

The present document presents the rating methodology and process used by Axesor for issuing corporate ratings according to the regulatory framework of Regulation 1060/2009 of the European Parliament regarding rating agencies.

The document is structured as follows: Firstly, the detail of the methodology used is described. Then the document sets up the foundation of the rating process, identifying the definition of default that is used, and the areas that are not subject to rating which define the rating scope of Axesor's activities as a rating agency. Finally, the process for the issuance of the ratings is described, identifying all the phases undertaken and responsible parties for each of them.

2. Rating Methodology

Axesor has a methodology that is robust and in line with the “best practices” of the market, in accordance with the regulatory requirements established in Regulation (CE) No. 1060/2009 of the European Parliament and Council regarding credit rating agencies. This section describes the foundations of the methodology.

2.1. Information used

The information used for the issuance of ratings may be exclusively public, as in the case of unsolicited ratings, or it may include confidential information provided by the rated company in addition to the available public data, for solicited ratings.

2.1.1. Unsolicited ratings

For issuing unsolicited ratings, only the most recent public information is used. In this way, the use of information that is not supported by a source of information that can be deemed to be public and of free access is not currently used or envisaged to be used.

The main sources of information considered by Axesor are:

- Commercial information from the BORME (Central Companies Registry Bulletin).
- Information concerning legal incidents obtained from administrative processes with the Public Administration, and civil and social courts, that is available in the various official gazettes.
- The financial and qualitative information collected from the latest annual reports obtained from the Commercial Registry.
- Payment behaviour obtained from the in arrears registers (RAI and ASNEF).
- Other information that is offered publicly on the corporate website of the rated entity.

In a complementary manner, for companies that trade on the stock exchange:

- Audit Report, the source being the CNMV (Spanish Securities and Markets Authority).
- Annual (or quarterly) financial report, the source being the CNMV.
- Corporate Governance Report, the source being the CNMV.
- Corporate Social Responsibility Report, the source being the CNMV.
- Documents of relevant facts, the source being the CNMV.

2.1.2. Solicited ratings

For solicited ratings, an important source of information is the rated entity itself. The information provided is considered confidential and is therefore treated accordingly with the policies and control mechanisms described in the *Axesor's Privacy policy*.

The rated entity provides information to Axesor through the following channels:

- **Rating book:** Every company that reaches Axesor pursuing the issuance of its credit rating will be asked to develop a rating book containing some aspects of the company's confidential information. The information presented in each rating book will vary between companies and sectors, and thus the information to be asked to the rated entities for their development is tailored to each client. Axesor will provide the client with appropriate guidelines for the rating book development. The information is used throughout the solicited rating process, both from a quantitative stand, as well as in a qualitative manner, by means of using the information contained in the rating book for a better understanding of the company's reality.
- **Interviews and oral presentations:** After the rating book's analysis, a team of analysts is sent to the rated entity's facilities, where managers of the organization will make oral presentations explaining the most relevant contents set forth by the rating company on their rating book. In turn, the analysts shall ask for clarifications of aspects of special importance they need to continue with the rating issuance. Additionally, there could be personal interviews with key members of the organization.
- **Written questionnaires:** Complimenting both the rating book and the interviews, **Axesor** may solicit further information through written questionnaires as an aid to cover other information that could potentially have an impact on the Agency's opinion on the company's creditworthiness.

Apart from confidential information, Axesor uses the available information of public nature related to the rated entity just as it is done for unsolicited ratings (section 2.1.1).

2.2. Conceptual context of the ratings

This section describes the basic concepts for the credit rating issuance in Axesor, both the definition of default and the requirements entities have to fulfil to be rated by Axesor.

2.2.1. Definition of Default

The definition of default is of vital importance in the development of models to estimate credit risk, since it entails defining their objective, purpose and by extension, the issues that they cover.

Any company that has not fulfilled a given economic obligation or is about to within a high level of certainty, is deemed to be in default. A company is deemed to be in a situation of default when any of the following circumstances arise:

- The company is in arrears given an economic obligation with a significant amount.
- The company has been declared in bankruptcy or in a similar protective situation.

As example **Axesor** monitoring the following actions and indicators, published in publicly accessible sources, referring to commercial legal proceedings as well as proceedings with Public Administration or proceedings in Civil and Social courts, in the following phases:

Default
Bankruptcy proceedings
Bankrupt
Suspension of payments
Write-off
Insolvency notification
Default notification

In a similar way to the definition of default, it is important to define the situations in which companies are fulfilling their payments with regard to their obligations after a default has been observed.

2.2.2. Rating scope

It has been defined that the rating methodology evaluates the credit quality of all commercial bodies that fulfil the following requirements:

- Companies with a legal nature of Mixed-Capital Company, Limited Liability Company or similar.
- For unsolicited ratings, companies with sufficient public and updated information to enable the estimation of their rating according to the stipulated quality criteria.
- Companies that are not deemed inactive.
- Companies that do not belong to an excluded sector of activity.
- Companies which comply with the requirements established in *Axesor's Conflict of interests policy*.

With regard to deeming a company inactive, the presentation of the following actions within the Commercial Register is taken into account:

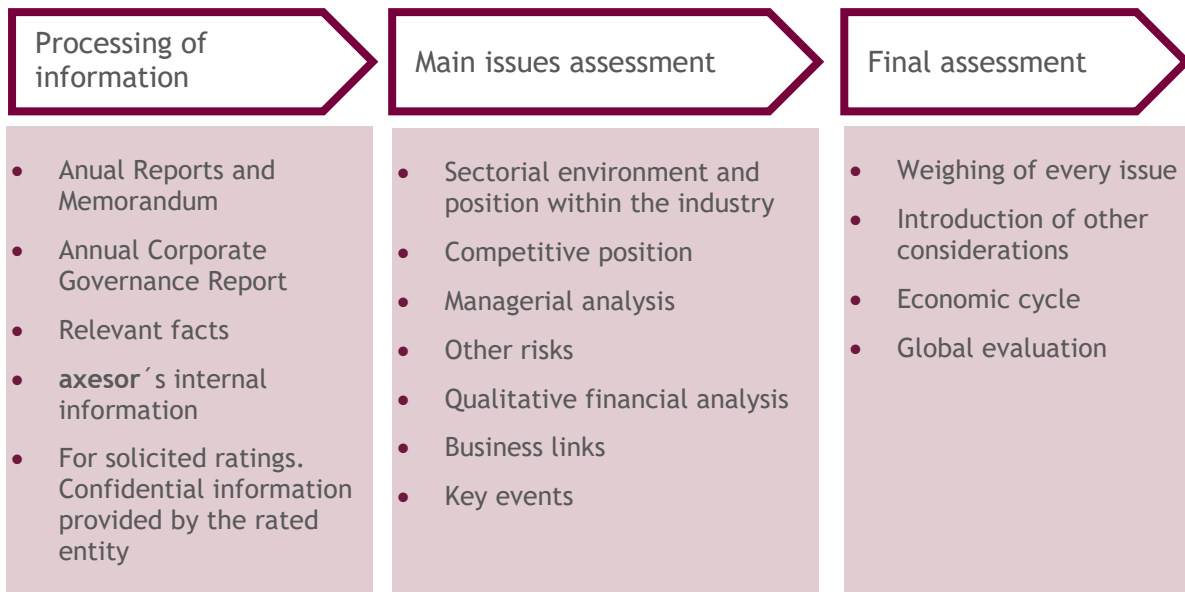
Inactivity
Merger
Acquisition
Dissolution
Closure
Winding up
Total division
Closure of the Registry sheet

2.3. Model

The model frames the risk analyst’s direct evaluation work, upholding the expert evaluation performed by the risk analysts, ensuring the integrity, independence and consistency of the ratings made by the analysts.

The main issues for the evaluation of the credit quality in the model can be grouped into the following categories:

- Sectorial environment and position of the industry
- Competitive position
- Managerial analysis
- Other risks
- Qualitative financial analysis
- Business links
- Key events



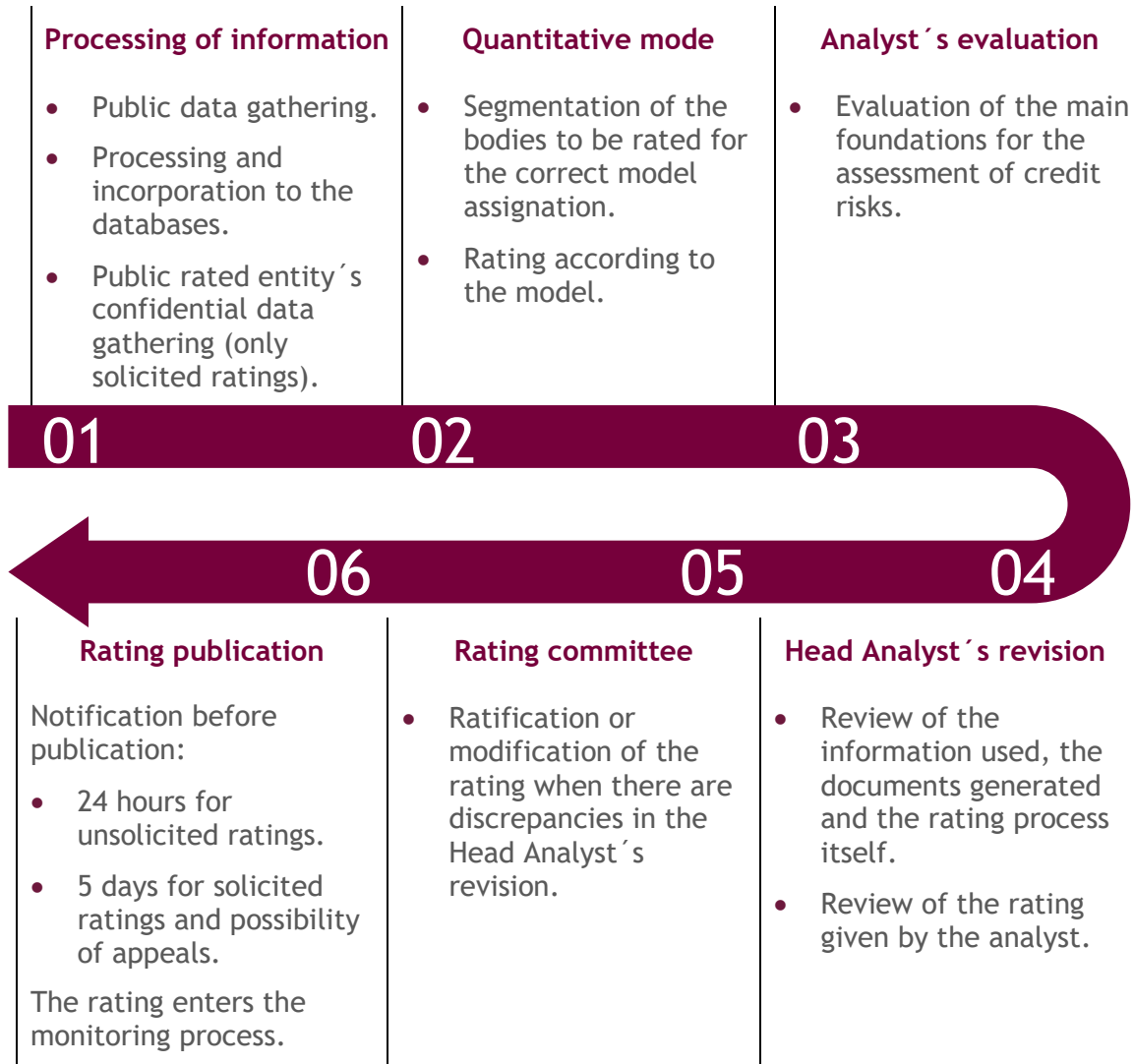
3. Rating process

An entity is rating goes through several validation filters before its publication, in order to ensure the awarded credit rating's quality.

3.1. Issuance process

Every rating published is issued by means of the established rating procedure, which is defined in accordance with the European Regulation No. 1060/2009, which ensures the ratings' consistency and quality. More specifically, the process is structured in various phases. A rating goes through these phases until it is publicly issued, and the people involved in each phase are clearly identified.

The detail of the process is as follows:



4. Rating Scale

The table below shows the credit ratings applied by the agency and what they represent.

Rating	Description
AAA	The highest credit quality. The company has an excellent capacity for fulfilling its payment obligations. One can be assured of the prompt payment of its financial obligations in the future.
AA	It upholds a very high capacity for fulfilling its credit obligations, even if changes were to occur to the economic environment.
A	The company has a high capacity for fulfilling its credit obligations. Nonetheless, this qualification may be downgraded in the case of moderately negative changes in the economic environment.
BBB	It has a more-than-adequate capacity to fulfill its financial commitments. Nonetheless, this capacity is more likely to experience medium- or long-term deterioration than higher categories.
BB	Adequate capacity to fulfill its financial obligations.
B	Although the capacity to fulfill the payment of obligations is not currently a problem, said capacity cannot be maintained over a prolonged period of time.
CCC	A low capacity for fulfilling financial obligations. It is dependent upon a favourable economic environment.
CC	Poor credit quality. There is uncertainty regarding its capacity to reimburse financial obligations. There is a high probability of defaulting on some payments. High sensitivity to changes in the economic environment
C	Very poor credit quality. There is a high risk of cessation or interruption of payments.
D	Condition close to insolvency. A very high risk of non-payment.
Default	The company is in a defaulting situation, with delayed payments, has been declared insolvent or is under administration.

The ratings from 'AA' to 'CCC' can be modified by a plus sign (+) or a minus sign (-) to show its relative positioning within the principal rating categories.

This document updates the previous version while preserving its original methodological assumptions; therefore, all existing ratings remain unchanged.