Methodological Assumptions
CORPORATE RATING

1. Corporate Rating Framework

Axesor uses a common framework to analyse the creditworthiness of Corporates. Under the umbrella of this framework, Axesor Rating is publishing sector specific methodologies that are based on the common framework but at the same time address the peculiarities of each sector.

This report serves the reader as a general guidance in understanding how both qualitative and quantitative risk factors combine and affect the final Rating result.

This methodology only deals with corporate issuer credit ratings; a separate document deals with the methodology applied in assigning ratings to specific securities issued by an entity. The corporate issuer rating indicates the issuer´s ability to honour its financial commitments in a timely fashion.

Issuer ratings can be assigned to a parent company on a consolidated basis or to an affiliate belonging to that group. For the latter, a stand-alone rating will be assigned based on its financial statements and a corporate family rating will be given to the group. Final rating of the subsidiary will be a weighted average of the stand-alone valuation and the group´s rating. The weight assigned to the group´s family rating will depend on several qualitative and quantitative factors that indicate the strength of the legal and financial ties between subsidiary and parent company. The following indicators will be taken into account:

- Subsidiary shares the same name as parent.
- Percentage of stake that parent company holds in its subsidiary.
- Percentage that subsidiary represents in the Group´s sales, EBITDA and assets.
- Degree of intragroup financial interrelation in terms of intragroup financing, guarantees, comfort letters and cash pooling agreements.

Axesor takes a stepped approach to rating a Corporate: First it will determine the company's business risk profile, then it will analyse its financial & economic risk profile and combine these two areas to produce a stand-alone Company Rating.

The c**ompany's business risk profile** is assessed using the following analytic factors:

- Industry Risk
    - Product Characteristics
    - Demand Dynamics
    - Sector Characteristics

- Competitive Positioning
    - Competitive Advantages
    - Geographical, product and client diversification
    - Scale and market share
    - Operating efficiency
- Management and shareholder quality and company's stated financial policy.

The **company's financial & economic risk profile** is assessed using the following analytic factors:

- Profitability
- Cash Flow and Leverage
- Solvency and Liquidity

In both profiles, an assessment between 1 and 10 is given to each of the subfactors where 1 is the best valuation and 10 is the worst in terms of credit quality.

The assessment of each analytical factor and subfactor is given a weight and the final numeric rating is the result of the weighted average of the individual scores obtained by each factor and subfactor

In the case of the quantitative analysis, a set of meaningful ratios are indicated for each analysed area. Once the ratios are calculated, Axesor provides a scale that assigns the different values of the ratios to each of the rating categories.

Finally, this methodology will map the numeric rating resulting from the analytical process into the Rating Scale used by Axesor. In addition, the issued rating (solicited or unsolicited) is accompanied by an outlook (over the next year) with the following classification: under observation, positive, stable or negative depending on the prospects of both the sector and the performance of the company.

2. Scope

This methodology applies generically to nonfinancial corporates. However, Axesor uses specialized methodologies for specific industries based on their unique characteristics. In any case, these specialized frameworks are a complement to this methodology and must be applied jointly.

3. Qualitative Factors Analysis

Factors that are taken into consideration when calculating the business profile score are:

- **Industry Risk.** In determining the business risk profile, the industry in which a company operates is a significant factor since the strengths and weaknesses of the industry are common in differing degrees to the companies that have to operate in it. The operating conditions in which a company conducts its business is strongly influenced by the industry and therefore determines a company's capacity to generate cash flows in order to service its debt. The industry rating assessment provides a reference point for the total rating of a company; however, it does not act as a ceiling for all the companies within that sector. Factors that are taken into consideration when calculating the industry risk score are:
    - Product Characteristics
    - Demand Dynamics
    - Sector Characteristics
- **Competitive Positioning:**
    - Competitive Advantages
    - Geographical, product and client diversification
    - Scale and market share
    - Operating efficiency
- **Management and shareholder quality and company's stated financial policy.**

Each factor has established a weight in the final score of the business profile, as indicated in the following table:

Business Risk Profile	
	Weight
Industry Risk	**20%**
Product characteristics	5%
Demand dynamics	10%
Sector characteristics	5%
Competitive Positioning	**20%**
Competitive advantages	5%
Geographical, product & client diversification	5%
Scale & Market Share	5%

Operating efficiency	5%
Shareholder, Financial Policy and Management	**10%**
Shareholder	4%
Financial Policy	3%
Management	3%

4. Quantitative Factors Analysis

The strength of a company's balance sheet, its economic performance and its ability to generate cash flow in order to repay its debt are crucial aspects that must be assessed to determine the Financial & Economic Risk Profile (FERP) of an issuer.

Axesor rates FERP using a quantitative approach through the use of a series of meaningful financial ratios and through a comprehensive analysis of the company's main financial accounts.

Axesor scores the following areas:

- Profitability
- Cash Flow and Leverage
- Solvency and Liquidity

As mentioned, these areas will be analyzed combining ratio and financial account analysis. Thus, Profitability will be rated according to the corresponding ratios and an in-depth analysis of the P&L account. Similarly, Cash Flow will be rated according to the selected ratios and an in-depth analysis of the Cash Flow statement account. Finally, Solvency and Liquidity will be rated applying the selected ratios and an in-depth analysis of the Balance Sheet account.

4.1. Profitability

Profitability has been selected as a meaningful indicator because it portrays the efficiency of the Company's operations compared to that of its peers. A profitable company will have a higher cushion when facing a period of falling margins and will usually be amongst the first to initiate a recovery within the sector. Higher margins also allow a Company to lead the market in terms of marketing and R&D costs and also the ability to attract talent through higher wages.

4.2. Cash flow and Leverage

Cash flow debt coverage is at the core of any rating assessment since it is measuring the ability of the company to repay its debt in a timely fashion.

Cash flow interest coverage is also used since, under normal situations, a company is not expected to repay down all its debt but must be able to meet its interest payments with a fair amount of leeway. The advantage of this ratio over the previous one is that it is not affected by sudden movements of the debt level at year-end and also it discriminates between companies that have to bare high interest rates (usually with a lower credit standing) with those that are favoured with low rates.

Net financial debt over Ebitda shows the ability of the company to pay back its debt, measured in years, with its Ebitda.

4.3. Solvency and Liquidity

Solvency is a key measure of the strength of a company's Balance Sheet in terms of withstanding prolonged periods of low margins and even losses. Strong capitalization indicates that the value of a Company's assets is comfortably greater than its liabilities. In times of cash flow stress, well capitalized companies will have a greater flexibility in sourcing new funds and will hold higher levels of net assets that can be monetized. High capitalizations may be pointing to hidden reserves in the form of fixed assets reported at below market values that in moments of stress can be sold in order to reduce indebtedness.

While solvency indicates the medium-term viability of a company, liquidity measures its ability, in the short term, to honour its financial obligations. Often a solvent company can survive a liquidity-shock, but a company's liquidity will rapidly deteriorate if it has a low solvency.

For an assessment of liquidity, funding sources are analysed against funding needs. Liquidity which will be classified as adequate or inadequate depending on whether sources cover the needs or not.

Each of the ratios mentioned above will be calculated as the average value of the last two years and the projected next two years. The valuation given to the three Financial Risk Profile areas can be raised or lowered by a maximum of 2 notches by Axesor if a further analysis of the annual accounts warrants such a modification. These possible changes must be approved by the Rating Committee.

4.4 Financial & Economic Factors and their score weightings

Financial and Economic Risk Profile		
	Weight	Ratios
Profitability	10%	EBITDA Mg (%)
Cash flow and Leverage	15%	NFD/EBITDA (x)
	5%	FFO/NFD (%)
	10%	EBITDA/Interests (x)
Solvency	5%	Equity/TFD (%)

Financial and Economic Risk Profile		
	Weight	Ratios
Liquidity	5%	(Cash + Short Term Bank Deposits + Marketable Securities + Committed Bank & Factoring Lines + FFO) / (Portion of Long-Term Debt Falling Due During Current Year + Maintenance Capex)