# Corporate Entities Rating Methodology

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CORPORATE ENTITIES
RATING METHODOLOGY

This is an update to the methodology previously published in March 2019.
There are no material changes and as such no rating impact.

RATINGS world partners

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## I. CRITERIA SUMMARY

This criteria report is an update to the version published in March 2019 and has no material changes in respect of ARC's approach to rating Corporate Entities and therefore no rating impact. Please note that ARC has introduced a new section on Environmental, Social and Governance (ESG) factors with the aim of making ARC's approach to these factors clearer. The addition of these factors will not materially change our approach and thus no rating actions are expected.

## II. INTRODUCTION

ARC's Corporate Entities (corporate) ratings are a measure of the ability of an issuer to honour its financial obligations, relative to other issuers. A corporate entity is defined as a non-financial corporation. Corporate credit quality and default risk is assessed over both the short term and the long term, with separate short-term and long-term ratings being accorded where necessary. A crucial part of ARC's analysis is a peer comparison.

Typically, a strong linkage exists between short and long-term ratings. However, the rating process is dynamic, this linkage may be broken under certain circumstances, at the discretion of the rating panel.

Day-to-day corporate performance can be reflected by a series of quantitative projections of corporate risk ratios that are calculated through ARC's analysis on a regular basis, such as EBITDA related indicators. A careful survey of these quantifiable factors often allows a nuanced distinction between the creditworthiness of one corporate vis-à-vis another.

In its broadest terms ARC's corporate methodology tests the sustainability of the underlying business model of the corporate as well as its historical and prospective performance against various shifts in paradigms.

ARC's approach is to integrate quantitative analysis with a strategically based qualitative analysis. The objective is to assign ratings that are applicable throughout the various stages of the business cycle, as well as examining the ability of an issuer to meet its obligations under reasonable and stressed scenarios. This analysis takes into account the different fundamentals evidenced across the various industries that fall under the corporate sector.

While the debt maturity profile of an entity may differ from year-to-year, ARC assesses the creditworthiness of the entity over the maturity of the commitment being rated. If principal and interest payments would appear to be especially onerous during any one-year period, the related default risk of the corporate in that year may define the overall rating in the context of all other meaningful considerations. Likewise, if an assessment of major risk events projects the occurrence of a risk related event within the horizon being analysed, the firm's critical ability to manage the impact of such an event on its business will also become a key element to be considered within the rating analysis. Cyclical peaks and turnarounds are typical examples of such risks.

In order to issue an opinion on a non-financial corporation's ability and willingness to pay, ARC typically analyses the last five years of audited financial statements and the most recent interim financial statements / information.

## III. RATING METHODOLOGY

Incorporating a mix of quantitative and qualitative factors, fundamental analysis forms the basis for ratings assigned by ARC. ARC's ratings are based on a clear understanding of the fundamentals and risks of the rated organization and the industry (or industries) in which it participates. The goal of any credit analysis is to determine if and to what extent future cash flows cover interest and principal payments. Thus, assigning a credit rating is a dynamic process, as each entity possesses unique characteristics and assumes varying levels of risk. Whilst appropriate financial and credit metrics will vary amongst companies in different sectors, ARC will benchmark a corporate's financial performance and metrics against market peers. Nevertheless, the individual financial metrics or credit ratios are not considered solely against the peer group, but their strength and relevance is determined by reference to all other company characteristics.

Gaining an in-depth understanding of the particular issuer's business and corporate philosophy is the foundation upon which ARC's credit ratings are based. At the outset, ARC will devote substantial efforts to understand, amongst other things, the issuer's organisational history, corporate structure, management profile, business model and the key strengths and weaknesses as perceived by both those involved with and external to the issuer. As such ARC will meet with the entities' management at the outset of the process as well as on an annual basis to determine if there have been any changes to strategy.

ARC's analytical process focuses on the following key areas:

1. Sovereign risk
2. Economic and industry analysis
3. Corporate governance and management
4. Operational performance analysis
5. Financial performance and ratio analysis
6. Funding profile
7. Forecasts and sensitivity analysis
8. Group relations and support
9. Environmental, Social and Governance factors

## SOVEREIGN RISK

Political stability and macroeconomic conditions in the country where the non-financial corporation is headquartered may greatly influence the creditworthiness of such non-financial corporation. An unstable political environment may create great uncertainty about government intervention. By the same token, vigorous economic growth in a given jurisdiction may offer opportunities and bear some risks for non-financial corporations headquartered therein. In assessing this risk, ARC will largely draw on reference entities' sovereign risk analysis for the jurisdiction in which the rated entity is headquartered. For transnational non-financial corporations this may require the review and incorporation of several sovereign risk analyses.

It is important to understand that the profitability of a non-financial corporation may be highly correlated to global economic growth, while others have an inverse relationship. Given increased interconnectedness, economic and industry analysis extends beyond country or regional borders to global trends, which could reasonably impact the creditworthiness of the rated non-financial corporation. This is especially relevant with regard to assigning ratings to non-financial corporations dependent on funding from global markets, and hence vulnerable to the condition of such markets, even when they are unrelated to the actual credit quality of the rated entity.

## ECONOMIC AND INDUSTRY ANALYSIS

A comprehensive analysis of the political and economic environment provides the context against which both historical performance and future expectations are considered. Economic trends and government policies are analysed to determine their impact on the demand / consumption function within the economy in general and the relevant industry in particular. Given the increased interconnectedness of business, economic analysis extends beyond country or regional borders to global trends, which could reasonably impact on the issuer's credit strength and thus rating. Nevertheless, ARC has discerned that, particularly in the less developed markets, the economic environment is driven more by domestic factors than by international trends.

Global factors have a more significant impact on ratings through commodity price movements. As the corporate environment is weighted more towards basic manufacturing industries, earnings are often highly susceptible to fluctuations in commodity prices, over which the corporate has no control. Whilst forecasting commodity price movements is difficult, ARC analyses historical price trends and current supply / demand factors to develop an opinion of the future movements. Nevertheless, determining the impact that changes commodity prices will have on earnings is more important than the absolute price movements.

In most instances, commodity dependent manufacturers are exposed to substantial liquidity pressure in periods of rising commodity prices, particularly where price movements are rapid. ARC considers the organisation's risk management procedures in relation to this volatility, as well as assessing whether sufficient unutilized funding facilities are available to meet unforeseen requirements.

In the industry overview, fundamental industry and business risks that could impact on cash flows are identified, and broad credit rating parameters are set accordingly. For example, highly cyclical industries, where sales (in term of volume / price) are closely tied to fluctuations in macroeconomic indicators, such as GDP and interest rates, would incur a negative rating bias in the long term. This is due to pronounced volatility in earnings, as these types of issuers are characterized by high operating leverage, arising from their large fixed-to-variable cost ratio. Notwithstanding this, there are diversified businesses whose cycles often offset each other, thereby reducing the variability in earnings and cash flow exhibited by single-cycle issuers.

The nature and state of the industry is also analysed, as those play a fundamental role in determining a rating category. For example, in an industry in decline or a high growth industry may adversely affect a corporate's long-term rating. The former may be characterized by waning profitability and weaker cash flows, the latter may require larger capital or R&D expenditure, which may lead to higher gearing levels. In contrast, a corporate operating in a stable industry could enjoy a higher long-term rating, owing to the less volatile nature of revenue and cash flow streams. Acknowledging the risks related to cyclicality and other industry factors, rating ceilings may be applied to specific industries.

ARC's evaluation of industry issues focuses on a number of potential barriers to entry, with a focus on the following key areas:

1. Competitive environment (looking at both local and international competition).
2. Capital spending requirements.
3. Sensitivities to industry drivers, such as interest rates, household expenditure and gross fixed capital formation.
4. Regulatory environment.

In developing economies, issues relating to political and social influences have a substantial impact on the industrial environment, although this trend is also evidenced in stable developed economies. ARC's analysis accounts for prospective changes in legislation, whether impending or merely being raised in government circles. An issuer's ability to adapt to both a changing legislative environment and to shifting social norms is an important factor in the long-term assessment.

## CORPORATE GOVERNANCE AND MANAGEMENT

Corporate governance codes and frameworks exist in many countries but are generally only applicable to corporates that issue shares in regulated markets. ARC expects principles of corporate governance to be applied to all corporates that it rates. Corporate governance principles are not always legally enforceable and are very often implemented through recommendations and best practices. Thus, it is as important to understand the culture within an organisation and to take note of more subjective measures of strong corporate governance. ARC will review the issuer's corporate governance principles, guidelines and application and will highlight any material concerns or faults.

ARC's assessment of management structures includes evaluation of the quality and level of oversight and support of all the institution's activities. Competent, independent and high performing boards are important to set an entity's strategic direction, constructively challenge executive management's decisions and ensure that the entity is run in a sustainable way. Effective boards should include non-executive and independent members with diverse skills, competencies, views and professional experience. The oversight role of the board of directors plays an integral part in how management performance is measured, rewarded and disciplined / sanctioned as it fulfils its fiduciary and management responsibilities. An independent, active, knowledgeable and committed board with no conflict of interest generally signals a robust governance framework. Corporate governance is considered weak when the board can no longer maintain its independence from management and exercise appropriate oversight over risk taking, competition or conflicts of interest.

Ultimately, the performance of an organization depends, to a large extent, on the strengths and capabilities of management. A management team with good depth and breadth is considered important to ensure that the entity does not have a 'key-man' risk. Relying on one or a few key managers could result in a significant disruption to the operations, if the key personnel were lost to the business. Further to this, adequate depth of management and succession planning are characteristic of soundly managed organisations. Management's ability is primarily assessed by considering historical budgeted expectations relative to actual performance for all key earnings, liquidity and gearing metrics. The analysis also encompasses the success and impact of past expansionary efforts, as well as the utilisation and management of financing methods.

Key Quantitative indicators:

- Frequency and coverage period of strategic plans.
- Number of strategic goals and historical performance against these goals.
- Number of employees, branches and subsidiaries.
- Frequency of shareholder meetings.
- Number of board members.
- Executive / non-executive board members.
- Number and frequency of board committee meetings.

## OPERATIONAL PERFORMANCE ANALYSIS

The analysis shifts towards the various divisions / subsidiaries, which comprise the income generating units of the business. Divisional performance is benchmarked against historical trends, industry norms and competitors. Financial data such as turnover growth and profit margins are critical in measuring such performance. Within this context, ARC's analysis takes account of industry fundamentals and key determinants of growth, as well as competitive advantages (such as cost profile, product differentiation, degree of product integration) and barriers to entry. Apart from relative strengths and opportunities, the threats and weaknesses of an entity are also assessed.

Emphasis is placed on diversification of earnings. Issuers are penalized for being too heavily reliant on any single revenue stream, supplier or customer, particularly where the loss of that income would impact the sustainability of the business. Where significant exposure to a single counterparty exists, ARC may undertake risk analysis of the counterparty to determine its credit rating, and thereby form an opinion as to risks relevant to the issuer under review. Should the exposure be sufficiently material, the Issuer's rating may be constrained by or capped to that of the relevant counterparty.

## FINANCIAL PERFORMANCE AND RATIO ANALYSIS

Quantitative analysis involves scrutinizing the corporate's financial performance, cash generation and financial position, ideally, over a five-year period. Before a corporate's results are analysed, due consideration is given to their composition and accounting quality. ARC will review the accounting standards applied and quality of the audit firm used.

The regulatory / supervisory environment is another important factor to evaluate. ARC maintains a comprehensive understanding of the evolution and direction of the global regulatory environment, including rules developed under Basel II, Basel III, CPSS / IOSCO as well as all other internationally applicable rules.

### FINANCIAL PERFORMANCE

ARC assigns great importance to consistency in revenue and cash generation. Crucially, financial performance is assessed not only relative to historical performance, but also in relation to budgets provided by management. This allows for due consideration to be taken of the climate and circumstances in which the financial results were produced. Thus, while a successive decline in the operating profit margin could be negatively perceived, it may be attributable to management's strategy of penetrating a lower margin segment of the market or increasing market share.

The careful discussion of an issuer's profit margins is a central element in assessing the quality of earnings. Both the gross margin and the operating margin are scrutinized to identify the sources of cost pressures. Gross margin analysis provides an important tool in identifying the effect of external costs pressures on corporate profitability. This is particularly true for commodity-dependent corporates, where earnings can be substantially affected by sudden commodity price volatility. To the extent that gross margins can be maintained within a predictable band, earnings volatility is likely to be minimized. Moreover, maintaining fairly stable margins (or consistently profiting from price fluctuations) points to above-average management quality.

Operating profit margins help identify an issuer's success in managing those costs over which it does exercise some control. Whilst cost controls may be crucial in ensuring the efficiency of an organisation, ARC seeks to identify the point at which such reductions may have a negative impact on the entity's future growth prospects.

## CASH FLOW ANALYSIS

ARC assigns ratings to an issuer primarily based on the extent to which its cash flow covers interest and principal payments. Accordingly, of paramount importance is the analysis of the group's cash generation capabilities. Cash flow analysis focuses on the cash flows generated by the corporate's core business, which are expected to be sustainable going forward. Both operating and free cash flow are analysed along the following parameters:

- Strength – the quantum of cash flow generated by the corporate's core operations in relation to capital requirements.
- Variability – volatility in cash flow across business cycles, determining sensitivities of cash flows to changes in economic conditions.
- Predictability – of future cash flows, asset disposal and acquisitions.

## RATIOS

Cash flow and interest coverage ratios are key credit protection metrics and are analysed in conjunction with gearing levels and funding structure (as discussed below). ARC assesses the various ratios in relation to the issuer's historical trends, as well as those of the industry in which it operates. Various modelling techniques may be applied to identify possible sources of liquidity pressure and understand the effect they may have on debt serviceability.

Key ratios analysed include:

- Interest coverage – gross interest coverage assesses the ability of an issuer to honour its interest obligations, including the capitalized interest on development funding (if material). Net interest coverage examines the interest charge after all interest risk mitigants, such as interest income, hedging instruments and capitalized interest on development funding have been accounted for.
- Cash flow coverage of debt – as ultimately an issuer will require sufficient cash to settle its debt obligations, the ratio provides a measure of the level of available cash (after all operational and working capital requirement are met) relative to its debt obligations. A more conservative measure is discretionary cash flow (cash flows after operational commitments, working capital requirements and replacement or maintenance capital expenditure)

relative to the issuer's interest-bearing obligations.

- Free cash flow coverage of interest (and / or debt redemptions) – attempts to isolate the level of cash available to settle all cash interest charges. The metric is calculated by dividing cash flow from operations plus the net interest charge by net interest. An alternative ratio measures free cash flow coverage of both interest and short-term debt redemptions. Free cash flow is considered in conjunction with unused committed debt facilities, which can be used to bridge funding gaps.

## FUNDING PROFILE

An appraisal of the company's funding profile commences with the various sources of funding available to the company, in relation to its asset profile. While no optimal mix of short-term and long-term funding is prescribed, emphasis is placed on the match between assets and liabilities. For example, it is prudent for working capital intensive businesses to predominantly make use of short-term funding, whereas capital intensive businesses would be expected to utilise longer term facilities.

The unique characteristic of each corporate entity dictates that there are no hard and fast rules with regards to the debt composition. Cognizance is taken of the corporate's lifecycle and type of industry in which it operates. For example, a corporation operating in the telecommunications or diversified industrial sectors will generally be capital intensive in nature and have greater funding requirements than a cash retail business, while a credit retail business will have sizeable working capital requirements. ARC's corporate analysis also takes into account the need to repair or replace infrastructure that has deteriorated or become obsolete. Where specific data is not available, depreciation is usually used, as a proxy of a corporate's annual replacement capital expenditure.

As the credit rating ultimately pertains to an issuer's ability to service its debt, the core of the funding analysis focuses on the quantum and profile of its debt. Particular emphasis is placed on debt concentrations, be they by source or by maturity. A diverse range of debt sources, either through different banks or financial institutions, or through capital markets, is positively viewed. Conversely, debt concentration by source points to lesser funding flexibility, even if the arrangement has positive operational aspects (such as strong banking relationships or specific collateral agreements).

Maturity concentration is assessed relative to an entity's ability to meet debt redemption obligations in the absence of refinancing options. Where there are substantial short-term maturities (over the next 12 months), ARC expects the issuer to have initiated refinancing or redemption arrangements at least 6 months in advance. For facilities that will be redeemed, ARC requires that cash trapping mechanisms are instituted, albeit that this requirement may be waived where the issuer can provide acceptable assurances that sufficient cash will be available.

For short-term debt issuances such as commercial paper ("CP"), issuers are required to maintain sufficient standby facilities at all times to ensure full redemption of the CP if necessary. Such facilities may include the unutilised portion on existing facilities. However, ARC recognises that unutilised facilities may be withdrawn at any time. Thus, significantly greater weighting is given to committed facilities, for which the issuer pays a commitment fee or has placed collateral. To assess the level of liquidity available to the issuer, ARC calculates the ratio of unutilised facilities to all cash requirements over the following 12 months, including short-term programmes, maturing issues and committed capex or other expenditure.

The analysis of a corporate's funding composition also examines the currency associated with its debt exposure. To the extent that obligations may be denominated in a currency outside of a corporate's transacting currency, this implies greater risk. ARC would assess the extent to which these mismatches are mitigated, and the effectiveness of the mitigants employed. The analysis would determine the extent to which cash flows, as well as cash and equivalents within a specific geography are matched to the obligations in that jurisdiction (or currency). Alternatively, financial hedges, such as currency swaps or forward contracts may be employed where feasible.

The interest rate structure, i.e. whether fixed or floating interest rate facilities are utilised, is also assessed. While corporates may prefer floating interest rates, due to the costs involved in fixing the rate, this leaves them exposed to changes in the interest rate cycle, which are very difficult to predict. Accordingly, a conservative approach is to maintain a balance between fixed and floating rates, such that adverse changes in the environment will not have a severe impact on the financial stability of a corporate.

The accessibility and domicile of cash holdings is also critical. Often a corporate will report substantial cash holdings, but the cash will be restricted to subsidiaries, joint ventures or specific projects and cannot be accessed. Similarly, cash holdings may be deposited in foreign banks with the corporate unable or unwilling to repatriate the money. To the extent cash is restricted, ARC may exclude it from net gearing calculations.

Access to equity markets provides an important source of funding diversification, which could reduce the risk within an organisation. ARC measures equity on a tangible net equity basis, after excluding goodwill and certain intangible assets. The inclusion or exclusion of intangible assets is considered on a case-by-case basis with the key considerations being whether such assets directly produce cash flows and whether they can be sold to a third-party on a standalone basis.

A more favourable rating is awarded to a company that is financially flexible (in other words, can incur additional debt with greater ease and less strain on its balance sheet). Financial flexibility is assessed in terms of two key gearing ratios. Net gearing (net debt to tangible equity) measures the prominence of debt within a corporate's financial structure. Net debt to EBITDA assesses the extent to which on-going operations could meet principal obligations. Given the diverse nature of corporates analysed, ARC does not impose an optimal gearing limit, but rather assesses gearing levels relative to management's self-imposed gearing limits and industry norms. In addition, ARC assesses the gearing trends within the issuer's respective business cycles. Cognizance is taken of the fact that working capital requirements fluctuate seasonally and hence gearing levels at reporting dates may not accurately reflect the issuer's risk profile. Further to this, many issuers set their reporting dates to coincide with the most favourable balance sheet position possible, and ARC examines interim and / or management accounts to assess this element.

Funding flexibility may be constrained by the existence of secured credit facilities. Many securitisation or secured bond structures have fairly onerous terms and financial covenants, which significantly limit an issuer's ability to raise additional funding. Moreover, the position of unsecured creditors is adversely impacted by the existence of secured facilities, as the former will rank subordinate in a default situation, leading to lower expected recoveries. ARC thus calculates the level of unencumbered assets relative to unsecured creditors, to determine whether average recoveries could be expected. Where expected recoveries are deemed to be below average, the corporate credit rating (relating to all creditors) would necessarily be constrained.

Other liabilities also considered include:

- Off balance sheet financing.
- Contingent liabilities or guarantees provided.
- Legal disputes.

Insurance policy: ARC will assess the insurance policies in place regarding the issuer's facilities, machinery, etc., including any insurances for business interruption and for damages to third parties.

## FORECASTS AND SENSITIVITY ANALYSIS

ARC's credit ratings provide a forward-looking assessment of an Issuer's risk characteristics. Thus, it is critical to gain a clear understanding of not just the corporate's current financial position, but of how cash flows and risk metrics are likely to perform under various scenarios.

ARC utilises internal forecasting tools to project cash flows and expected funding until the maturity of the debt being rated or for a period of 1 to 5 years for issuer ratings. Internal forecasts are then compared to budgets provided by management. Where there is a strong correlation between the two sets of forecasts, greater comfort is taken in the veracity of both. Where differences emerge, ARC investigates the underlying assumptions more closely. Often it is through these assumptions that future sources of risk can be accurately identified.

Forecast models are stringently tested for accuracy, particularly to ensure that the expected funding requirements (or redemptions) are achievable based on the earnings and cash flows projected. Thereafter, ARC stress tests the models. While the actual inputs that are stressed differ significantly across issuers, common factors include revenue growth, gross or operating margins and raw material or other costs pressures. Forecasts are tested to determine whether operating profit and cash flows will be sufficient to ensure timely payment of interest and principal obligations.

Crucially, the extent to which stress factors are applied is linked to the credit rating level being considered. For credit ratings within the higher rating bands, greater stress factors are applied, as the higher ratings indicate less vulnerability to adverse changes in the operating environment.

## GROUP RELATIONS AND SUPPORT

When the issuer being rated is part of a group of companies ARC carefully analyses the linkages between the various group companies and the potential of support by the group to the rated issuer. In the case where the issuer is the group's holding company a consolidated approach is usually taken (unless there are relevant factors, like material minority interests, that advise against using this approach) so that the operating subsidiaries' cash flow generation, dividend generation potential and funding needs might be assessed and its impact on the issuer creditworthiness incorporated on our analysis. Even if the issuer is not the holding company of the group, but just one of its operational subsidiaries, the consolidated approach will also be used whenever our analysis reveals the existence of shareholding, operational, financial or contractual linkages (including intra-group guarantees to the issuer debt) that in practical terms join the group together.

If the issuer is, in practical terms, segregated from its group, that is, when there's no legal obligation from the group's holding or any other subsidiary of the group to support the issuer due to shareholding relations or any other substantial operational, financial or contractual (including intra-group guarantees of the issuer debt) linkages, ARC will assess the capacity and the interest that the issuer's group might have of supporting the issuer. This interest might be based on reputational reasons, for example. This assessment and its impact on the rating assigned will be very clearly highlighted in the analytical report that supports the rating assigned.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS

ARC's rating actions are always based on a holistic analysis of the issuer and issue to be rated with the goal of identifying all relevant aspects, including environmental, social and governance factors, that might impact the issuer's capacity and willingness to pay in due time and in full its obligations. Furthermore, ARC always takes the most forward-looking perspective that the current knowledge about these risks permits, acknowledging that in the case of some ESG factors (climate change or demographics are examples) the credit impact of such factors will only be known over a very long time horizon, making an accurate quantification of its potential impact impossible. Therefore ARC will try to incorporate these into its ratings mostly through qualitative analysis. Within this broad context ARC must highlight that governance factors are usually the most relevant factors to impact creditworthiness and therefore these are covered in the Corporate Governance and Management section of this methodology (see above). Environmental and social factors are also captured and highlighted in ARC's analysis whenever it is considered that these might have a material impact on credit quality.

For corporate ratings, usually the most relevant environmental factors are contained with the environmental policy of the corporate specific areas of focus would be:

- Air pollution.
- Energy management.
- Water and wastewater management.
- Exposure to climate change and extreme natural disasters / events.

ARC assesses both the consequences (effective or potential) from the environmental factors, as well as the impact of regulatory or policy initiatives aimed at minimizing or preventing the deterioration of these environmental factors.

And the most relevant social factors are:

- Human rights.
- Consumer protection, including privacy and data security.
- Labour relations and practices.
- Stakeholders opposition.

ESG factors typically may differentiate ratings between different sectors, but generally will only differentiate ratings from issuers within the same sector when an issuer is unusually strong or weak in a specific ESG factor.

Where ESG factors are a key driver behind the assignment or change of a credit rating or rating outlook this will be outlined, the ESG factor that was considered a key driver identified and its materiality will be explained in the accompanying press release or report.

## CONCLUSION

While thorough quantitative analysis is important, the qualitative characteristics of ARC's analysis cannot be over-emphasised. It is critically important to look "beyond the numbers" to evaluate the intangible strengths and weaknesses of an entity. An important aspect of ARC's analysis is an understanding of the strategic characteristics of an organisation and the quality of management. Ultimately ARC's emphasis is on determining how these strategic aspects will affect the organisation's capacity to generate cash into the future.

# APPENDIX 1: ISSUER VS ISSUE RATINGS

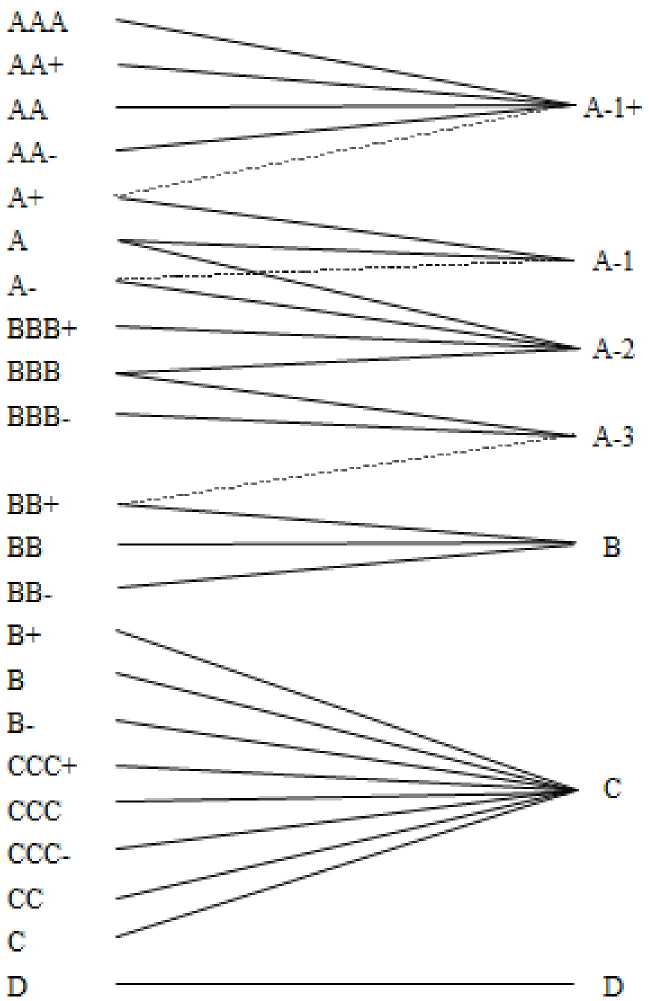
Corporate credit ratings issued by ARC are typically an expression of an issuer's ability to service all of its debt and other obligations. This is an assessment of the entirety of the issuer's asset base, cash flows and operations relative to all of its obligations. Most significantly, this relates to the interest-bearing obligations of an issuer, which are generally underpinned by a legal obligation to make repayments and can most easily lead to a default of the issuer. However, a complete credit assessment requires that the issuer's ability to meet all liabilities, including the ongoing ability to meet its operating expenses and trade creditors inter alia, be considered.

Different liabilities or obligations of an issuer can report different levels of credit risk for reasons that include the size / quantum of the obligation, timing of the related payment, collateral, and other structural enhancements or legal characteristics. As a result, ARC also accords Issue ratings to specific debt issues / instruments and assesses these in terms of their unique credit risk characteristics relative to that of the issuer as a whole. To the extent that the particular issue has a stronger recovery prospects than the issuer as a whole, the issue rating may be notched upwards from that accorded to the issuer. Conversely, where such an Issue reports a weaker recovery prospects than the issuer as a whole, the issue rating may be notched downwards from the rating accorded to the issuer.

In reality, given the complex nature of a corporate entity and its operations, it is usually not possible or practical to assess different probabilities of default across issues as compared to that of an issuer as whole (such assessment falls under the purview of structured finance, and typically entails the full securitisation of assets and liabilities).

However, many corporate debt issues are usually accompanied by structural enhancements such as collateral pledged or a guarantee. As these features can improve the expected recovery to a debt funder in the case of a default on the issue, and can readily be quantified, such structural enhancements are typically utilised to improve the credit risk profile of a specific Issue by a corporate. Such issue ratings are examined under ARC Ratings' Structurally Enhanced Corporate Bonds Rating Criteria, to address recovery prospects.

# APPENDIX 2: INDICATIVE CORRESPONDENCE BETWEEN MEDIUM-LONG TERM RATING SCALE AND SHORT TERM RATING SCALE



Note that ARC Ratings 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, ARC Ratings is not a party to the transaction documents. Users of our credit ratings should familiarise themselves with the transaction documents / mechanics and should form their own views in this respect. They should not rely on ARC Ratings for legal, tax or financial advice, and are encouraged to contact the relevant advisers.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ARC Ratings is registered as a Credit Rating Agency with the European Securities and Markets Authority (ESMA), within the scope of the Regulation (EC) N° 1060/2009 of the European Parliament and of the Council, of 16 September, and recognised as External Credit Assessment Institution (ECAI).

Ratings assigned by ARC Ratings represent opinions on the capacity and willingness of an entity to make all required payments on a given obligation in a timely manner. The meaning of each rating category is explained in www.arcratings.com.

The rating(s) assigned by ARC Ratings in this report was / were sought by the entity whose financial commitments are being rated.

Prior to the assignment or revision of a rating ARC Ratings provides to the entity whose financial commitments are being rated the documents that substantiate the rating to be attributed. This entity is thus given the opportunity to clarify or correct factual details, thus allowing the rating assigned to be as accurate as possible. The comments made by the entity whose financial commitments are being rated are taken into account by ARC Ratings in the assignment of the rating. ARC Ratings also grants the issuer the possibility of appealing a rating accorded by ARC Ratings as long as this appeal is supported on additional information that hasn't been taken into account in the original rating accordance.

ARC Ratings, S.A. historical default rates are published in the European Securities and Markets Authority Central Repository (CEREP) which can be accessed on the website cerep.esma.europa.eu/cerep-web/. ARC Ratings default rate is the probability of lack of full and timely payment of capital or interest or of the occurrence of any event that explicitly indicates that the future full and timely payment of those commitments will not occur (e.g., in case of insolvency).

Ratings do not constitute a recommendation to buy or sell, but only one of the factors to be weighted by investors.

Throughout the entire period during which ratings are valid, ARC Ratings monitors the issuer's performance on a constant basis, and may even bring forward the date of the review unless stated as point in time. Hence, prior to an investor using a rating, ARC Ratings recommends that it be confirmed, namely by consulting the list of public ratings available on the website www.arcratings.com.

ARC Ratings' ratings are assigned based on information, which may include confidential information, collected from a wide group of sources, which may include the entity whose financial commitments are subject to rating. ARC Ratings uses and treats this information with due care and attention. Although all due care was taken in the collection, cross-checking and processing of the information for the purposes of the rating analysis, ARC Ratings cannot be held liable for its accuracy. ARC Ratings must make sure that the information has a minimum level of quality prior to assigning a rating based on such information.

In the rating process, ARC Ratings adopts procedures and methodologies aimed at ensuring transparency, credibility and independence, and also that rating classifications are not influenced by situations of conflict of interests. Any exceptions to these principles are disclosed by ARC Ratings together with the rating of the financial commitment in question.