

Creditreform Rating AG Rating Methodology

Government-Related Companies

The Methodology of Performing Corporate Ratings for
the Sub-Group of Government-Related Companies

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Creditreform 
Rating

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1 Introduction

Over the past two decades, Creditreform Rating AG ("CRA"), established in 2000, has become one of Europe's leading rating agencies.

In this document, CRA discloses its methodology of rating the sub-group of government-related companies in order to provide the parties involved, investors and the wider public with the opportunity of developing a deeper understanding of the mechanisms behind its ratings. The rating methodology will be upgraded from time to time to reflect any changes in our methods and philosophy. Each CRA rating is based on a certain number of definitions, process descriptions and principles (concerning, among others, the rating process, procedures and rating scales). The CRA rating methodology – including this sub-system – and Code of Conduct can be freely accessed on our web page (www.creditreform-rating.de).

2 Scope of Application

This CRA **sub-system of corporate ratings for government-related companies** has been designed for active companies that are distinguished – in the view of CRA – by an affiliation to a national, transnational, federal or municipal government. This rating system (sub-system) defines what analyses government-related companies must undergo in addition to non-government-related companies. We apply this system to verify whether or not a company is government-related when the company in question is – entirely or in part – owned by the state or when it is operated in the public interest.

Government-related companies in situations of economic or financial distress can rely on extraordinary support from government authorities which may provide them with resources to fund their business development, to meet their financing requirements or to fulfil their financial obligations. Such guarantees can have an impact on the assessment of a company's financial strength and creditworthiness, but companies that are identified as government-related do not necessarily benefit from such a categorization by automatically receiving a higher rating.

3 Rating Method

Once a company has been identified as potentially government-related, it will first be subjected to a standalone rating according to the rating process described in the CRA Corporate Rating System. You can access this document on the CRA web page (www.creditreform-rating.de).

Following this, the extent of its government-relation is analyzed in greater detail in order to derive an accurate assessment of the affiliation's consequences on the company under review. We analyze the

nature of the affiliation between company and its respective government and assess whether the government is willing and able to provide financial support and whether or not any such determination or capacity is restricted by laws or regulations.

3.1 Criteria for the assessment of government-relation

If the analysts or the Rating Committee have identified the company under review as government-related, the degree of this affiliation is determined on the basis of two quantitative and three qualitative criteria. For each of the five criteria, CRA measures the intensity of the affiliation on a scale of four levels (low, moderate, high, very high).

A.1.) Absolute and relative size of the government's investment

Whether or not and to what extent the company under review is considered to be affiliated to a government is determined by the absolute size of the government's capital investment but also by the relative size of its share. The assessment is based on the twin assumptions that the shareholders' impact on decision-making processes is proportionate to the size of their shareholding and that large interests (in absolute terms) increase the degree to which the government in question will need to pursue its own economic or political interests.

A.2.) Proportion of the corporate revenue that comes from the government

The share of the company's total revenue that is contributed by the government or related authorities (such as direct subsidies, public commissions etc.) is another indicator for the government's involvement in the company under review and for its hypothetical willingness to support it financially in the event that such an intervention becomes necessary. We also research whether or not any laws or regulations exist that might oblige the government to support the company under certain circumstances (through subsidies, e.g.).

B.1.) Probability that the government will provide a guarantee for the company's liabilities

If the government has issued an unconditional guarantee for the liabilities of the company under review, one can assume that it is committed to a high degree of support. The key parameter for the CRA assessment is the probability of the government issuing such a guarantee for the liabilities of the company under review. (This probability can be assessed, for example, on the basis of the existing laws.)

B.2.) Systemic importance of the company

The systemic importance of a government-related company reflects the relevance of its products and services (in conjunction with its size and market position) for the government itself and for the subjects

under the government's control. We assess factors such as the company's relevance for the population's supply with electricity, water and other essential goods as well as its importance for the overall economy (including transport, power generation, number of jobs at stake) and for key tasks of responsible government (including national defence and the storage of essential raw materials).

B.3.) Substitutability of the company

We analyze to what extent the products and services that are provided by the company may be substituted by other companies' products and services. This degree of substitutability is determined based on a range of criteria including the number and the size of the company's competitors, the specific conditions on the market and market entry barriers such as the time it would take to copy the business model, capital requirements and the need for public authority approvals / permits.

3.2 Categorization as a government-related company

Finally, the scores from the five different sub-categories are rolled into a single overall result. This assessment of how close the relationship is between the company under review and the government in question has a significant impact on the corporate rating. CRA assesses the level of interest that the government takes in the company and to what extent it may be ready – within its financial possibilities – to provide the company with financial help routinely and under extraordinary circumstances. The default risk of government-related companies will reflect this assessment and CRA's assessment of the government's own financial strength.

Taking into account the assessment of the government itself, the degree of affiliation between company and government determines the extent to which the previously performed corporate rating is affected. If the rating of the government in question is higher than the standalone corporate rating, the corporate rating can be notched-up but never to a level higher than that of the government in question. The extent of the standalone corporate rating's notching can be influenced by the government's financial strength or the relation in size between government and company under review. If the government's rating is worse than the previously performed standalone corporate rating, the corporate rating can be notched-down – in a worst case scenario – down to the level of the government's.

CRA shall be free to use other and/or additional criteria and analytical methods than those described in the above if it believes that such a strategy will lead to a more accurate assessment of a company's government-relation and financial strength / creditworthiness. Such a change may be prompted by a relatively large number or importance of foreign shareholders, a large proportion of foreign-based business volume or profits, the nature of legal regulations or other circumstances. Whether or not a company is categorized as government-related is ultimately decided by the Rating Committee. If a

potentially government-related company has not been categorized as such, this will be disclosed in the Rating Report.