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Spread Research
Short Term Ratings Methodology

Non Financial Corporate Issuers

EXECUTIVE SUMMARY

This document is aimed at providing an overview of Spread Research's analytical approach and methodologies related to short term ratings. This methodology is linked to the Spread Research long term corporate rating methodology published in May, 2013.

SHORT TERM RATING

DEFINITION

Spread Research short term ratings are a measure of an issuer's ability to fulfill its debt-related payments within a 12-15 month timeframe.

SCALE

Spread Research uses a specific scale, as shown in the table below.

Ratings	Description	Category
SR 0	Very low short term risk and very strong ability to reimburse short term debt.	Low risk
SR 1	Low short term risk linked to the issuer's ability to anticipate short term funding risks.	
SR 2	Moderate short term risk linked to potential external risks.	⇕
SR 3	Medium short term risk. The issuer's ability to reimburse its short term debt may be hampered by external or specific risks.	
SR 4	High short term risk	High risk
SR 5	Very high short term risk / In- or out-of-court restructuring.	
SR D	Default on the short term debt	

ANALYTICAL APPROACH

Spread Research short term ratings are used to assess the risk of short term instruments that are mostly unsecured and have a maturity less than 15 months. Such instruments include commercial paper and short term notes. Due to their features of being unsecured with a short term maturity, the short term rated instruments will typically have the same rating as the corporate short-term rating.

Long term ratings give an overall credit quality of the issuer although they are not suitable to capture specific short term risks accurately. There is no direct link between long term and short term ratings analysis; however, both engage the same processes for the rating and approval methodologies.

In some cases, long term highly rated issuers may have a higher short term risk than long term lower rated issuers for various reasons. The main reason is that large and well-known issuers may fund themselves in the short term market where market confidence allows them to achieve lower interest rates through the issuance of rolling short term instruments. On the flipside, long term, lower rated companies may attempt to fund themselves on a longer term basis when they know that the capital markets or banks will not always be open to lend them money. Moreover, short term ratings are linked to the level of cash set aside as an operating cash flow buffer in an amount that may differ widely among sectors.

Spread Research has identified three important parameters impacting short term ratings. The first one is the outlook (see definition below), the second one is the liquidity risk (see definition below) and the third parameter is the long term rating, whose methodology was published in May 2013.

OUTLOOK

DEFINITION

Spread Research's indication for the direction in which the credit metrics of an issuer are heading within a 12 –15 month timeframe.

Please note: Spread Research's outlook is not a measure of the likelihood for a rating change.

SCALE

Positive, Stable or Negative.

ANALYTICAL APPROACH

- The outlook is based on Spread Research's own financial projections and forecasts relative to future credit metrics.
- Changes to the outlook, if warranted, will be made by the lead analyst upon publication of quarterly results or significant news.

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LIQUIDITY

DEFINITION

Spread Research's measure of how long an issuer can finance its operations assuming that the access to both equity, bank and debt capital markets is closed.

SCALE

0, 1, 2 or 3 years.

ANALYTICAL APPROACH

- The liquidity analysis is based on Spread Research's own forward-looking covenant computation and financial forecasts that allow to assess the balance between an issuer's projected sources and uses of funds.
- Sources of funds considered by Spread Research include unrestricted cash, undrawn committed credit facilities with expiry > 1 year, FFO (post-WC) and short term back up lines. In the calculation, Spread Research typically removes from its assessment the following items: restricted cash, the minimum level of cash required to run the business (when available; alternatively, the historically lowest quarterly cash level on hand, or a percentage of turnover), uncommitted credit facilities and, finally, asset disposals (unless already agreed upon).
- Uses of funds considered by Spread Research include capex, acquisitions already agreed upon, dividends and debt pay-downs.
- The liquidity parameter is adjusted for the potential impact of a covenant breach.
- Until Q3 in a fiscal year, the liquidity parameter captures the remaining quarters left during that year as well as the two following fiscal years. In Q3, the starting point of the assessment shifts to the beginning of the following fiscal year and captures the two fiscal years thereafter.
- Changes to the liquidity score are proposed by the lead analyst upon revision of financial forecasts or significant news.

SHORT TERM RATING PROCESS

Spread Research can provide a short term rating in the absence of a long term rating, and vice versa.

The granting of a short term rating is organized via the following steps:

- Step 1: Review of annual reports (at least the latest two) and their audit certification;
- Step 2: Review of the quarterly results and all information available in the investor relations section;
- Step 3: Review of competition and market developments. This can be done based on the company's information regarding its market position, information available from its competitors, industry associations or the regulator's database;
- Step 4: Review of the debt documentation.
- Step 1-4: For each of the previous steps, the rating analyst completes Spread Research's excel model with available historical data, including financial statements, the breakdown of the group's (1) revenues, (2) operating margin, and (3) debt structure, e.g., the summary of financial covenants that has been disclosed to Spread Research;
- Step 5: Interview with management; in particular, the lead rating analyst focuses on the company's strategy, its acquisition and dividend policies, as well as its financial leverage target (if any);
- Step 6: Review of the issuer's liquidity risk.
- Step 7: Review of the issuer's outlook.
- Step 8: The quality of the information received and used during the rating process is summarized in the "Transparency Index" issued by Spread Research's analysts. This index gives a fair assessment of the quality of the information used in the rating process.

Short term ratings are decided by the credit committee and communicated to the issuer before publishing. Short term ratings are reviewed by the credit committee following the lead analyst's proposal, any significant news and at least once a year.

LINK BETWEEN SHORT TERM AND LONG TERM RATINGS

The following chart provides an indication of the mapping between short term and long term ratings. However, the credit committee has the right to not follow these guidelines under special circumstances, such as due to a lack of information, for instance.

<table>
<tr><th colspan="6">SR Short-Term Rating</th></tr>
<tr><th>SR LT Rating</th><th>SR0</th><th>SR1</th><th>SR2</th><th>SR3</th><th>SR4 - SR5 -SRD</th></tr>
<tr><td>AAA</td><td rowspan="6">SR0</td><td rowspan="5"></td><td rowspan="8"></td><td rowspan="9"></td><td rowspan="11"></td></tr>
<tr><td>AA+</td></tr>
<tr><td>AA</td></tr>
<tr><td>AA-</td></tr>
<tr><td>A+</td></tr>
<tr><td>A</td><td rowspan="4">SR1</td></tr>
<tr><td>A-</td><td rowspan="16"></td></tr>
<tr><td>BBB+</td></tr>
<tr><td>BBB</td><td rowspan="3">SR2</td></tr>
<tr><td>BBB-</td><td rowspan="13"></td><td rowspan="5">SR3</td></tr>
<tr><td>BB+</td></tr>
<tr><td>BB</td><td rowspan="11"></td><td rowspan="8">SR4</td></tr>
<tr><td>BB-</td></tr>
<tr><td>B+</td></tr>
<tr><td>B</td><td rowspan="8"></td></tr>
<tr><td>B-</td></tr>
<tr><td>CCC+</td></tr>
<tr><td>CCC</td></tr>
<tr><td>CCC-</td></tr>
<tr><td>CC</td><td rowspan="2">SR5</td></tr>
<tr><td>C</td></tr>
<tr><td>D</td><td>SRD</td></tr>
</table>

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