Article Title: Criteria | Corporates | General: Corporate Methodology Data: (EDITOR'S NOTE: —On Dec. 15, 2021, we republished this criteria article to make nonmaterial changes. See the "Revisions And Updates" section for details.) 1. These criteria present S&P; Global Ratings' methodology for rating corporate industrial companies and utilities. The criteria organize the analytical process according to a common framework and articulate the steps in developing the stand-alone credit profile (SACP) and issuer credit rating (ICR) for a corporate entity. For the related guidance article, see "Guidance: Corporate Methodology." 2. This article is related to our criteria article "Principles Of Credit Ratings." SUMMARY OF THE CRITERIA 3. The criteria describe the methodology we use to determine the SACP and ICR for corporate industrial companies and utilities. Our assessment reflects these companies' business risk profiles, their financial risk profiles, and other factors that may modify the SACP outcome (see "General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating," for the definition of SACP). The criteria provide clarity on how we determine an issuer's SACP and ICR and are more specific in detailing the various factors of the analysis. The criteria also provide clear guidance on how we use these factors as part of determining an issuer's ICR. S&P; Global Ratings intends for these criteria to provide the market with a framework that clarifies our approach to fundamental analysis of corporate credit risks. 4. The business risk profile comprises the risk and return potential for a company in the markets in which it participates, the competitive climate within those markets (its industry risk), the country risks within those markets, and the competitive advantages and disadvantages the company has within those markets (its competitive position). The business risk profile affects the amount of financial risk that a company can bear at a given SACP level and constitutes the foundation for a company's expected economic success. We combine our assessments of industry risk, country risk, and competitive position to determine the assessment for a corporation's business risk profile. 5. The financial risk profile is the outcome of decisions that management makes in the context of its business risk profile and its financial risk tolerances. This includes decisions about the manner in which management seeks funding for the company and how it constructs its balance sheet. It also reflects the relationship of the cash flows the organization can achieve, given its business risk profile, to the company's financial obligations. The criteria use cash flow/leverage analysis to determine a corporate issuer's financial risk profile assessment. 6. We then combine an issuer's business risk profile assessment and its financial risk profile assessment to determine its anchor (see table 3). Additional rating factors can modify the anchor. These are: diversification/portfolio effect, capital structure, financial policy, liquidity, and management and governance. Comparable ratings analysis is the last analytical factor under the criteria to determine the final SACP on a company. 7. These criteria are complemented by sector-specific provisions, included in industry-specific criteria articles called Key Credit Factors (KCFs) or in the guidance related to this criteria article ("Guidance: Corporate Methodology"). The KCFs describe the industry risk assessments associated with each sector and may identify sector-specific criteria that supersede certain factors of these criteria in the analysis. "Guidance: Corporate Methodology" also provides guidelines on the analytical factors we consider when applying "Corporate Methodology" to certain sectors. SCOPE OF THE CRITERIA 8. This methodology applies to nonfinancial corporate issuer credit ratings globally. Please see "Recovery Rating Criteria For Speculative-Grade Corporate Issuers," and "Reflecting Subordination Risk In Corporate Issue Ratings," for further information on our methodology for determining issue ratings. This methodology does not apply to the following sectors, based on the unique characteristics of these sectors, which require either a different framework of analysis or substantial modifications to one or more factors of analysis: project finance entities, project developers, commodities trading, investment holding companies and companies that maximize their returns by buying and selling equity holdings over time, Japanese general trading companies, corporate securitizations, nonprofit and cooperative organizations (other than agricultural cooperatives), and other entities whose cash flows are primarily derived from partially owned equity holdings. 9. This paragraph has been deleted. 10. This paragraph has been deleted. METHODOLOGY A. Corporate Ratings Framework 11. The corporate analytical methodology organizes the analytical process according to a common framework, and it divides the task into several factors so that S&P; Global Ratings considers all salient issues. First we analyze the company's business risk profile, then evaluate its financial risk profile, then combine those to determine an issuer's anchor. We then analyze six factors that could potentially modify our anchor conclusion. 12. To

determine the assessment for a corporate issuer's business risk profile, the criteria combine our assessments of industry risk, country risk, and competitive position. Cash flow/leverage analysis determines a company's financial risk profile assessment. The analysis then combines the corporate issuer's business risk profile assessment and its financial risk profile assessment to determine its anchor. In general, the analysis weighs the business risk profile more heavily for investment-grade anchors, while the financial risk profile carries more weight for speculative-grade anchors. 13. After we determine the anchor, we use additional factors to modify the anchor. These factors are: diversification/portfolio effect, capital structure, financial policy, liquidity, and management and governance. The assessment of each factor can raise or lower the anchor by one or more notches--or have no effect. These conclusions take the form of assessments and descriptors for each factor that determine the number of notches to apply to the anchor. 14. The last analytical factor the criteria call for is comparable ratings analysis, which may raise or lower the anchor by one notch based on a holistic view of the company's credit characteristics. 15. The three analytic factors within the business risk profile generally are a blend of qualitative assessments and quantitative information. Qualitative assessments distinguish risk factors, such as a company's competitive advantages, that we use to assess its competitive position. Quantitative information includes, for example, historical cyclicality of revenues and profits that we review when assessing industry risk. It can also include the volatility and level of profitability we consider in order to assess a company's competitive position. The assessments for business risk profile are: 1, excellent; 2, strong; 3, satisfactory; 4, fair; 5, weak; and 6, vulnerable. 16. In assessing cash flow/leverage to determine the financial risk profile, the analysis focuses on quantitative measures. The assessments for financial risk profile are: 1, minimal; 2, modest; 3, intermediate; 4, significant; 5, aggressive; and 6, highly leveraged. 17. The ICR results from the combination of the SACP and the support framework, which determines the extent of the difference between the SACP and the ICR, if any, for group or government influence. Extraordinary influence is then captured in the ICR. Please see "Group Rating Methodology," and "Rating Government-Related Entities: Methodology And Assumptions," for our methodology on group and government influence. 18. Ongoing support or negative influence from a government (for government-related entities), or from a group, is factored into the SACP (see "SACP criteria"). While such ongoing support/negative influence does not affect the industry or country risk assessment, it can affect any other factor in business or financial risk. For example, such support or negative influence can affect: national industry analysis, other elements of competitive position, financial risk profile, the liquidity assessment, and comparable ratings analysis. 19. The application of these criteria will result in an SACP that could then be constrained by the relevant sovereign rating and transfer and convertibility (T&C;) assessment affecting the entity when determining the ICR. In order for the final ICR to be higher than the applicable sovereign rating or T&C; assessment, the entity will have to meet the conditions established in "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions." 1. Determining the business risk profile assessment 20. Under the criteria, the combined assessments for country risk, industry risk, and competitive position determine a company's business risk profile assessment. A company's strengths or weaknesses in the marketplace are vital to its credit assessment. These strengths and weaknesses determine an issuer's capacity to generate cash flows in order to service its obligations in a timely fashion. 21. Industry risk, an integral part of the credit analysis, addresses the relative health and stability of the markets in which a company operates. The range of industry risk assessments is: 1, very low risk; 2, low risk; 3, intermediate risk; 4, moderately high risk; 5, high risk; and 6, very high risk. The treatment of industry risk is in section B. 22. Country risk addresses the economic risk, institutional and governance effectiveness risk, financial system risk, and payment culture or rule of law risk in the countries in which a company operates. The range of country risk assessments is: 1, very low risk; 2, low risk; 3, intermediate risk; 4, moderately high risk; 5, high risk; and 6, very high risk. The treatment of country risk is in section C. 23. The evaluation of an enterprise's competitive position identifies entities that are best positioned to take advantage of key industry drivers or to mitigate associated risks more effectively--and achieve a competitive advantage and a stronger business risk profile than that of entities that lack a strong value proposition or are more vulnerable to industry risks. The range of competitive position assessments is: 1, excellent; 2, strong; 3, satisfactory; 4, fair; 5, weak; and 6, vulnerable. The full treatment of competitive position is in section D.

24. The combined assessment for country risk and industry risk is known as the issuer's Corporate Industry and Country Risk Assessment (CICRA). Table 1 shows how to determine the combined assessment for country risk and industry risk. Table 1 Determining The CICRA --COUNTRY RISK ASSESSMENT-- INDUSTRY RISK ASSESSMENT 1 (VERY LOW RISK) 2 (LOW RISK) 3 (INTERMEDIATE RISK) 4 (MODERATELY HIGH RISK) 5 (HIGH RISK) 6 (VERY HIGH RISK) 1 (very low risk) 1 1 1 2 4 5 2 (low risk) 2 2 2 3 4 5 3 (intermediate risk) 3 3 3 3 4 6 4 (moderately high risk) 4 4 4 4 5 6 5 (high risk) 5 5 5 5 5 6 6 (very high risk) 6 6 6 6 6 6 25. The CICRA is combined with a company's competitive position assessment in order to create the issuer's business risk profile assessment. Table 2 shows how we combine these assessments. Table 2 Determining The Business Risk Profile Assessment --CICRA-- COMPETITIVE POSITION ASSESSMENT 1 2 3 4 5 6 1 (excellent) 1 1 1 2 3* 5 2 (strong) 1 2 2 3 4 5 3 (satisfactory) 2 3 3 3 4 6 4 (fair) 3 4 4 4 5 6 5 (weak) 4 5 5 5 5 6 6 (vulnerable) 5 6 6 6 6 6 *See paragraph 26. 26. A small number of companies with a CICRA of 5 may be assigned a business risk profile assessment of 2 if all of the following conditions are met: The company's competitive position assessment is 1. The company's country risk assessment is no riskier than 3. The company produces significantly better-than-average industry profitability, as measured by the level and volatility of profits. The company's competitive position within its sector transcends its industry risks due to unique competitive advantages with its customers, strong operating efficiencies not enjoyed by the large majority of the industry, or scale/scope/diversity advantages that are well beyond the large majority of the industry. 27. For issuers with multiple business lines, the business risk profile assessment is based on our assessment of each of the factors--country risk, industry risk, and competitive position--as follows: Country risk: We use the weighted average of the country risk assessments for the company across all countries where companies generate more than 5% of sales or EBITDA, or where more than 5% of fixed assets are located. Industry risk: We use the weighted average of the industry risk assessments for all business lines representing more than 20% of the company's forecasted earnings, revenues or fixed assets, or other appropriate financial measures if earnings, revenue, or fixed assets do not accurately reflect the exposure to an industry. Competitive position: We assess all business lines identified above for the components competitive advantage, scope/scale/diversity, and operating efficiency (see section D). They are then blended using a weighted average of revenues, earnings, or assets to form the preliminary competitive position assessment. The level of profitability and volatility of profitability are then assessed based on the consolidated financials for the enterprise. The preliminary competitive position assessment is then blended with the profitability assessment, as per section D.5, to assess competitive position for the enterprise. 2. Determining the financial risk profile assessment 28. Under the criteria, cash flow/leverage analysis is the foundation for assessing a company's financial risk profile. The range of assessments for a company's cash flow/leverage is 1, minimal; 2, modest; 3, intermediate; 4, significant; 5, aggressive; and 6, highly leveraged. The full treatment of cash flow/leverage analysis is the subject of section E. 3. Merger of financial risk profile and business risk profile assessments 29. An issuer's business risk profile assessment and its financial risk profile assessment are combined to determine its anchor (see table 3). If we view an issuer's capital structure as unsustainable or if its obligations are currently vulnerable to nonpayment, and if the obligor is dependent upon favorable business, financial, and economic conditions to meet its commitments on its obligations, then we will determine the issuer's SACP using "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings." If the issuer meets the conditions for assigning 'CCC+', 'CCC', 'CCC-', and 'CC' ratings, we will not apply Table 3. Table 3 Combining The Business And Financial Risk Profiles To Determine The Anchor --FINANCIAL RISK PROFILE-- BUSINESS RISK PROFILE 1 (MINIMAL) 2 (MODEST) 3 (INTERMEDIATE) 4 (SIGNIFICANT) 5 (AGGRESSIVE) 6 (HIGHLY LEVERAGED) 1 (excellent) aaa/aa+ aa a+/a a- bbb bbb-/bb+ 2 (strong) aa/aa- a+/a a-/bbb+ bbb bb+ bb 3 (satisfactory) a/a- bbb+ bbb/bbb- bbb-/bb+ bb b+ 4 (fair) bbb/bbb- bbb- bb+ bb bb- b 5 (weak) bb+ bb+ bb bb- b+ b/b- 6 (vulnerable) bb- bb- bb-/b+ b+ b b- 30. When two anchor outcomes are listed for a given combination of business risk profile assessment and financial risk profile assessment, an issuer's anchor is determined as follows: When a company's financial risk profile is 4 or stronger (meaning, 1-4), its anchor is based on the comparative strength of its business risk profile. We consider our assessment of the business risk profile for corporate issuers to be points along a possible range within its category (e.g., "strong"). Consequently, each of these assessments

that ultimately generate the business risk profile for a specific issuer can be at the upper or lower end of such a range. Issuers with a stronger business risk profile for the range of anchor outcomes will be assigned the higher anchor. Those with a weaker business risk profile for the range of anchor outcomes will be assigned the lower anchor. When a company's financial risk profile is 5 or 6, its anchor is based on the comparative strength of its financial risk profile. Issuers with stronger cash flow/leverage ratios for the range of anchor outcomes will be assigned the higher anchor. Issuers with weaker cash flow/leverage ratios for the range of anchor outcomes will be assigned the lower anchor. For example, a company with a business risk profile of (1) excellent and a financial risk profile of (6) highly leveraged would generally be assigned an anchor of 'bb+' if its ratio of debt to EBITDA was 8x or greater and there were no offsetting factors to such a high level of leverage. 4. Building on the anchor 31. The analysis of diversification/portfolio effect, capital structure, financial policy, liquidity, and management and governance may raise or lower a company's anchor. The assessment of each modifier can raise or lower the anchor by one or more notches--or have no effect in some cases (see tables 4 and 5). We express these conclusions using specific assessments and descriptors that determine the number of notches to apply to the anchor. However, this notching in aggregate can't lower an issuer's anchor below 'b-' (see "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," for the methodology we use to assign 'CCC' and 'CC' category SACPs and ICRs to issuers). 32. The analysis of the modifier diversification/portfolio effect identifies the benefits of diversification across business lines. The diversification/portfolio effect assessments are 1, significant diversification; 2, moderate diversification; and 3, neutral. The impact of this factor on an issuer's anchor is based on the company's business risk profile assessment and is described in Table 4. Multiple earnings streams (which are evaluated within a firm's business risk profile) that are less-than-perfectly correlated reduce the risk of default of an issuer (see Appendix D). We determine the impact of this factor based on the business risk profile assessment because the benefits of diversification are significantly reduced with poor business prospects. The full treatment of diversification/portfolio effect analysis is the subject of section F. Table 4 Modifier Step 1: Impact Of Diversification/Portfolio Effect On The Anchor --BUSINESS RISK PROFILE ASSESSMENT-- DIVERSIFICATION/PORTFOLIO EFFECT 1 (EXCELLENT) 2 (STRONG) 3 (SATISFACTORY) 4 (FAIR) 5 (WEAK) 6 (VULNERABLE) 1 (significant diversification) +2 notches +2 notches +2 notches +1 notch +1 notch 0 notches 2 (moderate diversification) +1 notch +1 notch +1 notch +1 notch 0 notches 0 notches 3 (neutral) 0 notches 0 notches 0 notches 0 notches 0 notches 0 notches 33. After we adjust for the diversification/portfolio effect, we determine the impact of the other modifiers: capital structure, financial policy, liquidity, and management and governance. We apply these four modifiers in the order listed in Table 5. As we go down the list, a modifier may (or may not) change the anchor to a new range (one of the ranges in the four right-hand columns in the table). We'll choose the appropriate value from the new range, or column, to determine the next modifier's effect on the anchor. And so on, until we get to the last modifier on the list–-management and governance. For example, let's assume that the anchor, after adjustment for diversification/portfolio effect but before adjusting for the other modifiers, is 'a'. If the capital structure assessment is very negative, the indicated anchor drops two notches, to 'bbb+'. So, to determine the impact of the next modifier-–financial policy-–we go to the column 'bbb+ to bbb-' and find the appropriate assessment–-in this theoretical example, positive. Applying that assessment moves the anchor up one notch, to the 'a- and higher' category. In our example, liquidity is strong, so the impact is zero notches and the anchor remains unchanged. Management and governance is satisfactory, and thus the anchor remains 'a-' (see chart following table 5). Table 5 Modifier Step 2: Impact Of Remaining Modifier Factors On The Anchor --ANCHOR RANGE-- ‘A-’ AND HIGHER ‘BBB+’ TO ‘BBB-’ ‘BB+’ TO ‘BB-’ ‘B+’ AND LOWER FACTOR/ASSESSMENT CAPITAL STRUCTURE (SEE SECTION G) 1 (Very positive) 2 notches 2 notches 2 notches 2 notches 2 (Positive) 1 notch 1 notch 1 notch 1 notch 3 (Neutral) 0 notches 0 notches 0 notches 0 notches 4 (Negative) -1 notch -1 notch -1 notch -1 notch 5 (Very negative) -2 or more notches -2 or more notches -2 or more notches -2 notches FINANCIAL POLICY (FP; SEE SECTION H) 1 (Positive) +1 notch if M&G; is at least satisfactory +1 notch if M&G; is at least satisfactory +1 notch if liquidity is at least adequate and M&G; is at least satisfactory +1 notch if liquidity is at least adequate and M&G; is at least satisfactory 2 (Neutral) 0 notches 0 notches 0 notches 0 notches 3 (Negative) -1 to -3 notches(1) -1 to -3 notches(1) -1 to -2 notches(1) -1 notch 4 (FS-4,

FS-5, FS-6, FS-6 [minus]) N/A(2) N/A(2) N/A(2) N/A(2) LIQUIDITY (SEE SECTION I) 1 (Exceptional) 0 notches 0 notches 0 notches +1 notch if FP is positive, neutral, FS-4, or FS-5 (3) 2 (Strong) 0 notches 0 notches 0 notches +1 notch if FP is positive, neutral, FS-4, or FS-5 (3) 3 (Adequate) 0 notches 0 notches 0 notches 0 notches 4 (Less than adequate [4]) N/A N/A -1 notch(5) 0 notches 5 (Weak) N/A N/A N/A ‘b-’ cap on SACP MANAGEMENT AND GOVERNANCE (M&G; SEE SECTION J) 1 (Strong) 0 notches 0 notches 0, +1 notches(6) 0, +1 notches(6) 2 (Satisfactory) 0 notches 0 notches 0 notches 0 notches 3 (Fair) -1 notch 0 notches 0 notches 0 notches 4 (Weak) -2 or more notches(7) -2 or more notches(7) -1 or more notches(7) -1 or more notches(7) (1) Number of notches depends on potential incremental leverage. (2) See “Financial Policy,” section H.2. (3) Additional notch applies only if we expect liquidity to remain exceptional or strong. (4) See “Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers." SACP is capped at ‘bb+.’ (5) If issuer SACP is ‘bb+’ due to cap, there is no further notching. (6) This adjustment is one notch if we have not already captured benefits of strong management and governance in the analysis of the issuer’s competitive position. (7) Number of notches depends upon the degree of negative effect to the enterprise’s risk profile. 34. Our analysis of a firm's capital structure assesses risks in the firm's capital structure that may not arise in the review of its cash flow/leverage. These risks include the currency risk of debt, debt maturity profile, interest rate risk of debt, and an investments subfactor. We assess a corporate issuer's capital structure on a scale of 1, very positive; 2, positive; 3, neutral; 4, negative; and 5, very negative. The full treatment of capital structure is the subject of section G. 35. Financial policy serves to refine the view of a company's risks beyond the conclusions arising from the standard assumptions in the cash flow/leverage, capital structure, and liquidity analyses. Those assumptions do not always reflect or adequately capture the long-term risks of a firm's financial policy. The financial policy assessment is, therefore, a measure of the degree to which owner/managerial decision-making can affect the predictability of a company's financial risk profile. We assess financial policy as 1) positive, 2) neutral, 3) negative, or as being owned by a financial sponsor. We further identify financial sponsor-owned companies as "FS-4", "FS-5", "FS-6", or "FS-6 (minus)." The full treatment of financial policy analysis is the subject of section H. 36. Our assessment of liquidity focuses on the monetary flows--the sources and uses of cash--that are the key indicators of a company's liquidity cushion. The analysis also assesses the potential for a company to breach covenant tests tied to declines in earnings before interest, taxes, depreciation, and amortization (EBITDA). The methodology incorporates a qualitative analysis that addresses such factors as the ability to absorb high-impact, low-probability events, the nature of bank relationships, the level of standing in credit markets, and the degree of prudence of the company's financial risk management. The liquidity assessments are 1, exceptional; 2, strong; 3, adequate; 4, less than adequate; and 5, weak. An SACP is capped at 'bb+' for issuers whose liquidity is less than adequate and 'b-' for issuers whose liquidity is weak, regardless of the assessment of any modifiers or comparable ratings analysis. (For the complete methodology on assessing corporate issuers' liquidity, see "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers.") 37. The analysis of management and governance addresses how management's strategic competence, organizational effectiveness, risk management, and governance practices shape the company's competitiveness in the marketplace, the strength of its financial risk management, and the robustness of its governance. The range of management and governance assessments is: 1, strong; 2, satisfactory; 3, fair; and 4, weak. Typically, investment-grade anchor outcomes reflect strong or satisfactory management and governance, so there is no incremental benefit. Alternatively, a fair or weak assessment of management and governance can lead to a lower anchor. Also, a strong assessment for management and governance for a weaker entity is viewed as a favorable factor, under the criteria, and can have a positive impact on the final SACP outcome. For the full treatment of management and governance, see "Methodology: Management And Governance Credit Factors For Corporate Entities." 5. Comparable ratings analysis 38. The anchor, after adjusting for the modifiers, could change one notch up or down in order to arrive at an issuer's SACP based on our comparable ratings analysis, which is a holistic review of a company's stand-alone credit risk profile, in which we evaluate an issuer's credit characteristics in aggregate. A positive assessment leads to a one-notch improvement, a negative assessment leads to a one-notch reduction, and a neutral assessment indicates no change to the anchor. The application of comparable ratings analysis reflects the need to

'fine-tune' ratings outcomes, even after the use of each of the other modifiers. A positive or negative assessment is therefore likely to be common rather than exceptional. B. Industry Risk 39. The analysis of industry risk addresses the major factors that S&P; Global Ratings believes affect the risks that entities face in their respective industries. (See "Methodology: Industry Risk.") C. Country Risk 40. The analysis of country risk addresses the major factors that S&P; Global Ratings believes affect the country where entities operate. Country risks, which include economic, institutional and governance effectiveness, financial system, and payment culture/rule of law risks, influence overall credit risks for every rated corporate entity. (See "Country Risk Assessment Methodology And Assumptions.") 1. Assessing country risk for corporate issuers 41. The following paragraphs explain how the criteria determine the country risk assessment for a corporate entity. Once it's determined, we combine the country risk assessment with the issuer's industry risk assessment to calculate the issuer's CICRA (see section A, table 1). The CICRA is one of the factors of the issuer's business risk profile. If an issuer has very low to intermediate exposure to country risk, as represented by a country risk assessment of 1, 2, or 3, country risk is neutral to an issuer's CICRA. But if an issuer has moderately high to very high exposure to country risk, as represented by a country risk assessment of 4, 5, or 6, the issuer's CICRA could be influenced by its country risk assessment. 42. Corporate entities operating within a single country will receive a country risk assessment for that jurisdiction. For entities with exposure to more than one country, the criteria prospectively measure the proportion of exposure to each country based on forecasted EBITDA, revenues, or fixed assets, or other appropriate financial measures if EBITDA, revenue, or fixed assets do not accurately reflect the exposure to that jurisdiction. 43. Arriving at a company's blended country risk assessment involves multiplying its weighted-average exposures for each country by each country's risk assessment and then adding those numbers. For the weighted-average calculation, the criteria consider countries where the company generates more than 5% of its sales or where more than 5% of its fixed assets are located, and all weightings are rounded to the nearest 5% before averaging. We round the assessment to the nearest integer, so a weighted assessment of 2.2 rounds to 2, and a weighted assessment of 2.6 rounds to 3 (see table 6). Table 6 Hypothetical Example Of Weighted-Average Country Risk For A Corporate Entity COUNTRY WEIGHTING (% OF BUSINESS*) COUNTRY RISK§ WEIGHTED COUNTRY RISK Country A 45 1 0.45 Country B 20 2 0.4 Country C 15 1 0.15 Country D 10 4 0.4 Country E 10 2 0.2 Weighted-average country risk assessment (rounded to the nearest whole number) -- -- 2 *Using EBITDA, revenues, fixed assets, or other financial measures as appropriate. §On a scale from 1-6, lowest to highest risk. 44. A weak link approach, which helps us calculate a blended country risk assessment for companies with exposure to more than one country, works as follows: If fixed assets are based in a higher-risk country but products are exported to a lower-risk country, the company's exposure would be to the higher-risk country. Similarly, if fixed assets are based in a lower-risk country but export revenues are generated from a higher-risk country and cannot be easily redirected elsewhere, we measure exposure to the higher-risk country. If a company's supplier is located in a higher-risk country, and its supply needs cannot be easily redirected elsewhere, we measure exposure to the higher-risk country. Conversely, if the supply chain can be re-sourced easily to another country, we would not measure exposure to the higher risk country. 45. Country risk can be mitigated for a company located in a single jurisdiction in the following narrow case. For a company that exports the majority of its products overseas and has no direct exposure to a country's banking system that would affect its funding, debt servicing, liquidity, or ability to transfer payments from or to its key counterparties, we could reduce the country risk assessment by one category (e.g., 5 to 4) to determine the adjusted country risk assessment. This would only apply for countries where we considered the financial system risk subfactor a constraint on the overall country risk assessment for that country. For such a company, other country risks are not mitigated: economic risk still applies, albeit less of a risk than for a company that sells domestically (potential currency volatility remains a risk for exporters); institutional and governance effectiveness risk still applies (political risk may place assets at risk); and payment culture/rule of law risk still applies (legal risks may place assets and cross-border contracts at risk). 46. Companies will often disclose aggregated information for blocks of countries, rather than disclosing individual country information. If the information we need to estimate exposure for all countries is not available, we use regional risk assessments. Regional risk assessments are calculated as averages of the unadjusted country risk

assessments, weighted by gross domestic product of each country in a defined region. The criteria assess regional risk on a 1-6 scale (strongest to weakest). Please see Appendix A, Table 26, which lists the constituent countries of the regions. 47. If an issuer does not disclose its country-level exposure or regional-level exposure, its individual country risk exposures or regional exposures will be estimated. 2. Adjusting the country risk assessment for diversity 48. We will adjust the country risk assessment for a company that operates in multiple jurisdictions and demonstrates a high degree of diversity of country risk exposures. As a result of this diversification, the company could have less exposure to country risk than the rounded weighted average of its exposures might indicate. Accordingly, the country risk assessment for a corporate entity could be adjusted if an issuer meets the conditions outlined in paragraph 49. 49. The preliminary country risk assessment is raised by one category to reflect diversity if all of the following four conditions are met: If the company's head office, as defined in paragraph 51, is located in a country with a risk assessment stronger than the preliminary country risk assessment; If no country, with a country risk assessment equal to or weaker than the company's preliminary country risk assessment, represents or is expected to represent more than 20% of revenues, EBITDA, fixed assets, or other appropriate financial measures; If the company is primarily funded at the holding level, or through a finance subsidiary in a similar or stronger country risk environment than the holding company, or if any local funding could be very rapidly substituted at the holding level; and If the company's industry risk assessment is '4' or stronger. 50. The country risk assessment for companies that have 75% or more exposure to one jurisdiction cannot be improved and will, in most instances, equal the country risk assessment of that jurisdiction. But the country risk assessment for companies that have 75% or more exposure to one jurisdiction can be weakened if the balance of exposure is to higher risk jurisdictions. 51. We consider the location of a corporate head office relevant to overall risk exposure because it influences the perception of a company and its reputation--and can affect the company's access to capital. We determine the location of the head office on the basis of 'de facto' head office operations rather than just considering the jurisdiction of incorporation or stock market listing for public companies. De facto head office operations refers to the country where executive management and centralized high-level corporate activities occur, including strategic planning and capital raising. If such activities occur in different countries, we take the weakest country risk assessment applicable for the countries in which those activities take place. D. Competitive Position 52. Competitive position encompasses company-specific factors that can add to, or partly offset, industry risk and country risk--the two other major factors of a company's business risk profile. 53. Competitive position takes into account a company's: 1) competitive advantage, 2) scale, scope, and diversity, 3) operating efficiency, and 4) profitability. A company's strengths and weaknesses on the first three components shape its competitiveness in the marketplace and the sustainability or vulnerability of its revenues and profit. Profitability can either confirm our initial assessment of competitive position or modify it, positively or negatively. A stronger-than-industry-average set of competitive position characteristics will strengthen a company's business risk profile. Conversely, a weaker-than-industry-average set of competitive position characteristics will weaken a company's business risk profile. 54. These criteria describe how we develop a competitive position assessment. They provide guidance on how we assess each component based on a number of subfactors. The criteria define the weighting rules applied to derive a preliminary competitive position assessment. And they outline how this preliminary assessment can be maintained, raised, or lowered based on a company's profitability. S&P; Global Ratings' competitive position analysis is both qualitative and quantitative. 1. The components of competitive position 55. A company's competitive position assessment can be: 1, excellent; 2, strong; 3, satisfactory; 4, fair; 5, weak; or 6, vulnerable. 56. The analysis of competitive position includes a review of: Competitive advantage; Scale, scope, and diversity; Operating efficiency; and Profitability. 57. We follow four steps to arrive at the competitive position assessment. First, we separately assess competitive advantage; scale, scope, and diversity; and operating efficiency (excluding any benefits or risks already captured in the issuer's CICRA assessment). Second, we apply weighting factors to these three components to derive a weighted-average assessment that translates into a preliminary competitive position assessment. Third, we assess profitability. Finally, we combine the preliminary competitive position assessment and the profitability assessment to determine the final competitive position assessment. Profitability can

confirm, or influence positively or negatively, the competitive position assessment. 58. We assess the relative strength of each of the first three components by reviewing a variety of subfactors (see table 7). When quantitative metrics are relevant and available, we use them to evaluate these subfactors. However, our overall assessment of each component is qualitative. Our evaluation is forward-looking; we use historical data only to the extent that they provide insight into future trends. 59. We evaluate profitability by assessing two subcomponents: level of profitability (measured by historical and projected nominal levels of return on capital, EBITDA margin, and/or sector-specific metrics) and volatility of profitability (measured by historically observed and expected fluctuations in EBITDA, return on capital, EBITDA margin, or sector specific metrics). We assess both subcomponents in the context of the company's industry. 2. Assessing competitive advantage, scale, scope, and diversity, and operating efficiency 60. We assess competitive advantage; scale, scope, and diversity; and operating efficiency as: 1, strong; 2, strong/adequate; 3, adequate; 4, adequate/weak; or 5, weak. Tables 8, 9, and 10 provide guidance for assessing each component. 61. In assessing the components' relative strength, we place significant emphasis on comparative analysis. Peer comparisons provide context for evaluating the subfactors and the resulting component assessment. We review company-specific characteristics in the context of the company's industry, not just its narrower subsector. (See list of industries and subsectors in Appendix B, table 27.) For example, when evaluating an airline, we will benchmark the assessment against peers in the broader transportation-cyclical industry (including the marine and trucking subsectors), and not just against other airlines. Likewise, we will compare a home furnishing manufacturer with other companies in the consumer durables industry, including makers of appliances or leisure products. We might occasionally extend the comparison to other industries if, for instance, a company's business lines cross several industries, or if there are a limited number of rated peers in an industry, subsector, or region. Additionally, our qualitative assessment of a company's competitive position can be influenced by environmental and social credit factors that, in our view, could positively or negatively affect an obligor's competitive position. If material and sufficiently certain, we could, for example, capture such environmental and social credit factors in the subfactors of brand reputation and cost structure. For example, a negative compliance track record, or the prospect of rapidly increasing pressure with respect to carbon emissions regulation, can result in wide-ranging adverse credit impacts, including a decline in market position and a significant hit to brand reputation. 62. An assessment of strong means that the company's strengths on that component outweigh its weaknesses, and that the combination of relevant subfactors results in lower-than-average business risk in the industry. An assessment of adequate means that the company's strengths and weaknesses with respect to that component are balanced and that the relevant subfactors add up to average business risk in the industry. A weak assessment means that the company's weaknesses on that component override any strengths and that its subfactors, in total, reveal higher-than-average business risk in the industry. 63. Where a component is not clearly strong or adequate, we may assess it as strong/adequate. A component that is not clearly adequate or weak may end up as adequate/weak. 64. Although we review each subfactor, we don't assess each individually--and we seek to understand how they may reinforce or weaken each other. A component's assessment combines the relative strengths and importance of its subfactors. For any company, one or more subfactors can be unusually important--even factors that aren't common in the industry. The industry KCF articles or "Guidance: Corporate Methodology" can identify subfactors that are consistently more important, or happen not to be relevant, in a given industry. 65. Not all subfactors may be equally important, and a single one's strength or weakness may outweigh all the others. For example, if notwithstanding a track record of successful product launches and its strong brand equity, a company's strategy doesn't appear adaptable, in our view, to changing competitive dynamics in the industry, we will likely not assess its competitive advantage as strong. Similarly, if its revenues came disproportionately from a narrow product line, we might view this as compounding its risk of exposure to a small geographic market and, thus, assess its scale, scope, and diversity component as weak. 66. From time to time companies will, as a result of shifting industry dynamics or strategies, expand or shrink their product or service lineups, alter their cost structures, encounter new competition, or have to adapt to new regulatory environments. In such instances, we will reevaluate all relevant subfactors (and component assessments). 3. Determining the preliminary competitive position assessment: Competitive position group profile and

category weightings 67. After assessing competitive advantage; scale, scope, and diversity; and operating efficiency, we determine a company's preliminary competitive position assessment by ascribing a specific weight to each component. The weightings depend on the company's Competitive Position Group Profile (CPGP). 68. There are six possible CPGPs: 1) services and product focus, 2) product focus/scale driven, 3) capital or asset focus, 4) commodity focus/cost driven, 5) commodity focus/scale driven, and 6) national industry and utilities (see table 11 for definitions and characteristics). Table 11 Competitive Position Group Profile (CPGP) DEFINITION AND CHARACTERISTICS EXAMPLES Services and product focus Brands, product quality or technology, and service reputation are typically key differentiating factors for competing in the industry. Capital intensity is typically low to moderate, although supporting the brand often requires ongoing reinvestment in the asset base. Typically, these are companies in consumer-facing light manufacturing or service industries. Examples include branded drug manufacturers, software companies, and packaged food. Product focus/scale driven Product and geographic diversity, as well as scale and market position are key differentiating factors. Sophisticated technology and stringent quality controls heighten risk of product concentration. Product preferences or sales relationships are more important than branding or pricing. Cost structure is relatively unimportant. The sector most applicable is medical device/equipment manufacturers, particularly at the higher end of the technology scale. These companies largely sell through intermediaries, as opposed to directly to the consumer. Capital or asset focus Sizable capital investments are generally required to sustain market position in the industry. Brand identification is of limited importance, although product and service quality often remain differentiating factors. Heavy manufacturing industries typically fall into this category. Examples include telecom infrastructure manufacturers and semiconductor makers. Commodity focus/cost driven Cost position and efficiency of production assets are more important than size, scope, and diversification. Brand identification is of limited importance Typically, these are companies that manufacture products from natural resources that are used as raw materials by other industries. Examples include forest and paper products companies that harvest timber or produce pulp, packaging paper, or wood products. Commodity focus/scale driven Pure commodity companies have little product differentiation, and tend to compete on price and availability. Where present, brand recognition or product differences are secondary or of less importance. Examples range from pure commodity producers and most oil and gas upstream producers, to some producers with modest product or brand differentiation, such as commodity foods. National industries and utilities Government policy or control, regulation, and taxation and tariff policies significantly affect the competitive dynamics of the industry (see paragraphs 72-73). An example is a water-utility company in an emerging market. 69. The nature of competition and key success factors are generally prescribed by industry characteristics, but vary by company. Where service, product quality, or brand equity are important competitive factors, we'll give the competitive advantage component of our overall assessment a higher weighting. Conversely, if the company produces a commodity product, differentiation comes less into play, and we will more heavily weight scale, scope, and diversity as well as operating efficiency (see table 12). Table 12 Competitive Position Group Profiles (CPGPs) And Category Weightings --(%)-- Component Services and product focus Product focus/scale driven Capital or asset focus Commodity focus/cost driven Commodity focus/scale driven National industries and utilities 1. Competitive advantage 45 35 30 15 10 60 2. Scale, scope, and diversity 30 50 30 35 55 20 3. Operating efficiency 25 15 40 50 35 20 Total 100 100 100 100 100 100 Weighted-average assessment* 1.0-5.0 1.0-5.0 1.0-5.0 1.0-5.0 1.0-5.0 1.0-5.0 *1 (strong), 2 (strong/adequate), 3 (adequate), 4 (adequate/weak), 5 (weak). 70. We place each of the defined industries (see Appendix B, table 27) into one of the six CPGPs (see above and Appendix B, table 27). This is merely a starting point for the analysis, since we recognize that some industries are less homogenous than others, and that company-specific strategies do affect the basis of competition. 71. In fact, the criteria allow for flexibility in selecting a company's group profile (with its category weightings). Reasons for selecting a profile different than the one suggested in the guidance table could include: The industry is heterogeneous, meaning that the nature of competition differs from one subsector to the next, and possibly even within subsectors. The KCF article for the industry or the relevant section in "Guidance: Corporate Methodology" will identify such circumstances. A company's strategy could affect the relative importance of its key factors of competition. 72. For example, the

standard CPGP for the telecom and cable industry is services and product focus. While this may be an appropriate group profile for carriers and service providers, an infrastructure provider may be better analyzed under the capital or asset focus group profile. Other examples: In the capital goods industry, a construction equipment rental company may be analyzed under the capital or asset focus group profile, owing to the importance of efficiently managing the capital spending cycle in this segment of the industry, whereas a provider of hardware, software, and services for industrial automation might be analyzed under the services and product focus group profile, if we believe it can achieve differentiation in the marketplace based on product performance, technology innovation, and service. 73. In some industries, the effects of government policy, regulation, government control, and taxation and tariff policies can significantly alter the competitive dynamics, depending on the country in which a company operates. That can alter our assessment of a company's competitive advantage; scale, size, and diversity; or operating efficiency. When industries in given countries have risks that differ materially from those captured in our global industry risk profile and assessment (see "Methodology: Industry Risk," section B), we will weight competitive advantage more heavily to capture the effect, positive or negative, on competitive dynamics. The assessment of competitive advantage; scale, size, and diversity; and operating efficiency will reflect advantages or disadvantages based on these national industry risk factors. Table 13 identifies the circumstances under which national industry risk factors are positive or negative. 74. When national industry risk factors are positive for a company, typically they support revenue growth, profit growth, higher EBITDA margins, and/or lower-than-average volatility of profits. Often, these benefits provide barriers to entry that impede or even bar new market entrants, which should be reflected in the competitive advantage assessment. These benefits may also include risk mitigants that enable a company to withstand economic downturns and competitive and technological threats better in its local markets than its global competitors can. The scale, scope, and diversity assessment might also benefit from these policies if the company is able to withstand economic, regional, competitive, and technological threats better than its global competitors can. Likewise, the company's operating efficiency assessment may improve if, as a result, it is better able than its global competitors to withstand economic downturns, taking into account its cost structure. 75. Conversely, when national industry risk factors are negative for a company, typically they detract from revenue growth and profit growth, shrink EBITDA margins, and/or increase the average volatility of profits. The company may also have less protection against economic downturns and competitive and technological threats within its local markets than its global competitors do. We may also adjust the company's scale, scope, and diversity assessment lower if, as a result of these policies, it is less able to withstand economic, regional, competitive, and technological threats than its global competitors can. Likewise, we may adjust its operating efficiency assessment lower if, as a result of these policies, it is less able to withstand economic downturns, taking into account the company's cost structure. 76. An example of when we might use a national industry risk factor would be for a telecommunications network owner that benefits from a monopoly network position, supported by substantial capital barriers to entry, and as a result is subject to regulated pricing for its services. Accordingly, in contrast to a typical telecommunications company, our analysis of the company's competitive position would focus more heavily on the monopoly nature of its operations, as well as the nature and reliability of the operator's regulatory framework in supporting future revenue and earnings. If we viewed the regulatory framework as being supportive of the group's future earnings stability, and we considered its monopoly position to be sustainable, we would assess these national industry risk factors as positive in our assessment of the group's competitive position. 77. The weighted average assessment translates into the preliminary competitive position assessment on a scale of 1 to 6, where one is best. Table 14 describes the matrix we use to translate the weighted average assessment of the three components into the preliminary competitive position assessment. Table 14 Translation Table For Converting Weighted-Average Assessments Into Preliminary Competitive Position Assessments WEIGHTED AVERAGE ASSESSMENT RANGE PRELIMINARY COMPETITIVE POSITION ASSESSMENT 1.00 – 1.50 1 >1.50 – 2.25 2 >2.25 – 3.00 3 >3.00 – 3.75 4 >3.75 – 4.50 5 >4.50 – 5.00 6 4. Assessing profitability 78. We assess profitability on the same scale of 1 to 6 as the competitive position assessment. 79. The profitability assessment consists of two subcomponents: level of profitability and the volatility of profitability, which we assess separately. We use a matrix to combine these into the final

profitability assessment. a) Level of profitability 80. The level of profitability is assessed in the context of the company's industry. We most commonly measure profitability using return on capital (ROC) and EBITDA margins, but we may also use sector-specific ratios. Importantly, as with the other components of competitive position, we review profitability in the context of the industry in which the company operates, not just in its narrower subsector. (See list of industries and subsectors in Appendix B, table 27.) 81. We assess level of profitability on a three-point scale: above average, average, and below average. We may establish numeric guidance, for instance by stating that an ROC above 12% is considered above average, between 8%-12% is average, and below 8% is below average for the industry, or by differentiating between subsectors in the industry. In the absence of numeric guidance, we compare a company against its peers across the industry. When establishing numeric guidance for assessing profitability within an industry or subsector, we typically consider the distribution of profitability measures across rated issuers in the sector. Depending on the shape of the distribution, we choose logical breakpoints between above average, average, and below average profitability. For instance, for a distribution that resembles a normal curve, we typically assess the top quartile of the relevant profitability indicator to be above average, the two middle quartiles average, and the bottom quartile below average. For a relatively flat distribution curve, we typically assess the top third to be above average, the middle third to be average, and the bottom third to be below average. We also may take averages of historical data or adjust the thresholds between the three ranges to consider factors such as variation over the business cycle and across regions. Finally, we may incorporate our expertise in the sector to adjust for underlying M&A; trends or other distortions, as appropriate. 82. We calculate profitability ratios generally based on a five-year average, consisting of two years of historical data, our projections for the current year (incorporating any reported year-to-date results and estimates for the remainder of the year), and the next two financial years. There may be situations where we consider longer or shorter historical results or forecasts, depending on such factors as availability of financials, transformational events (such as mergers or acquisitions [M&A;]), cyclical distortion (such as peak or bottom of the cycle metrics that we do not deem fully representative of the company's level of profitability), and we take into account improving or deteriorating trends in profitability ratios in our assessment. For example, a company's profitability trend may be forecast to decline over the next two years because of levied carbon taxes and our anticipation that such carbon tax rates will increase each year as regulations tighten. b) Volatility of profitability 83. We base the volatility of profitability on the standard error of the regression (SER) for a company's historical EBITDA, EBITDA margins, or return on capital. The KCF articles and "Guidance: Corporate Methodology" detail which measures are most appropriate for a given industry or set of companies. For each of these measures, we divide the standard error by the average of that measure over the time period in order to ensure better comparability across companies. 84. The SER is a statistical measure that is an estimate of the deviation around a 'best fit' linear trend line. We regress the company's EBITDA, EBITDA margins, or return on capital against time. A key advantage of SER over standard deviation or coefficient of variation is that it doesn't view upwardly trending data as inherently more volatile. At the same time, we recognize that SER, like any statistical measure, may understate or overstate expected volatility and thus we will make qualitative adjustments where appropriate (see paragraphs 86-90). Furthermore, we only calculate SER when companies have at least seven years of historical annual data and have not significantly changed their line of business during the timeframe, to ensure that the results are meaningful. 85. As with the level of profitability, we evaluate a company's SER in the context of its industry group. For most industries, we establish a six-point scale with 1 capturing the least volatile companies, i.e., those with the lowest SERs, and 6 identifying companies whose profits are most volatile. We have established industry-specific SER parameters using the most recent seven years of data for companies within each sector. We believe that seven years is generally an adequate number of years to capture a business cycle. (See "Guidance: Corporate Methodology" for industry-specific SER parameters.) For companies whose business segments cross multiple industries, we evaluate the SER in the context of the organization's most dominant industry--if that industry represents at least two-thirds of the organization's EBITDA, sales, or other relevant metric. If the company is a conglomerate and no dominant industry can be identified, we will evaluate its profit volatility in the context of SER guidelines for all nonfinancial companies. 86. In certain circumstances, the SER derived

from historical information may understate--or overstate--expected future volatility, and we may adjust the assessment downward or upward. The scope of possible adjustments depends on certain conditions being met as described below. 87. We might adjust the SER-derived volatility assessment to a worse assessment (i.e., to a higher assessment for greater volatility) by up to two categories if the expected level of volatility isn't apparent in historical numbers, and the company either: Has a weighted country risk assessment of 4 or worse, which may, notwithstanding past performance, result in a less stable business environment going forward; Operates in a subsector of the industry that may be prone to higher technology or regulation changes, or other potential disruptive risks that have not emerged over the seven year period; Is of limited size and scope, which will often result in inherently greater vulnerability to external changes; or Has pursued material M&A; or internal growth projects that obscure the company's underlying performance trend line. As an example, a company may have consummated an acquisition during the trough of the cycle, masking what would otherwise be a significant decline in performance. 88. The choice of one or two categories depends on the degree of likelihood that the related risks will materialize and our view of the likely severity of these risks. 89. Conversely, we may adjust the SER-derived volatility assessment to a better assessment (i.e., to a lower assessment reflecting lower volatility) by up to two categories if we observe that the conditions historically leading to greater volatility have receded and are misrepresentative. This will be the case when: The company grew at a moderately faster, albeit more uneven, pace relative to the industry. Since we measure volatility around a linear trend line, a company growing at a constant percentage of moderate increase (relative to the industry) or an uneven pace (e.g., due to "lumpy" capital spending programs) could receive a relatively unfavorable assessment on an unadjusted basis, which would not be reflective of the company's performance in a steady state. (Alternatively, those companies that grow at a significantly higher-than-average industry rate often do so on unsustainable rates of growth or by taking on high-risk strategies. Companies with these high-risk growth strategies would not receive a better assessment and could be adjusted to a worse assessment;) The company's geographic, customer, or product diversification has increased in scope as a result of an acquisition or rapid expansion (e.g. large, long-term contracts wins), leading to more stability in future earnings in our view; or The company's business model is undergoing material change that we expect will benefit earnings stability, such as a new regulatory framework or major technology shift that is expected to provide a significant competitive hedge and margin protection over time. The company has experienced a sharp drop in demand for its products and services due to the materialization of social credit factors related to health and safety, such as a pandemic, which had a significant negative impact on commercial activity for a period of time, but which we view as temporary and not indicative of future earnings trends. 90. The choice of one or two categories depends on the degree of likelihood that the related risks will materialize and our view of the likely severity of these risks. 91. If the company either does not have at least seven years of annual data or has materially changed its business lines or undertaken abnormally high levels of M&A; during this time period, then we do not use its SER to assess the volatility of profitability. In these cases, we use a proxy to establish the volatility assessment. If there is a peer company that has, and is expected to continue having, very similar profitability volatility characteristics, we use the SER of that peer entity as a proxy. 92. If no such matching peer exists, or one cannot be identified with enough confidence, we perform an assessment of expected volatility based on the following rules: An assessment of 3 if we expect the company's profitability, supported by available historical evidence, will exhibit a volatility pattern in line with, or somewhat less volatile than, the industry average. An assessment of 2 based on our confidence, supported by available historical evidence, that the company will exhibit lower volatility in profitability metrics than the industry's average. This could be underpinned by some of the factors listed in paragraph 89, whereas those listed in paragraph 87 would typically not apply. An assessment of 4 or 5 based on our expectation that profitability metrics will exhibit somewhat higher (4), or meaningfully higher (5) volatility than the industry, supported by available historical evidence, or because of the applicability of possible adjustment factors listed in paragraph 87. Assessments of either 1 or 6 are rarely assigned and can only be achieved based on a combination of data evidence and very high confidence tests. For an assessment of 1, we require strong evidence of minimal volatility in profitability metrics compared with the industry, supported by at least five years of historical information, combined with a very high degree

of confidence that this will continue in the future, including no country risk, subsector risk or size considerations that could otherwise warrant a worse assessment as per paragraph 87. For an assessment of 6 we require strong evidence of very high volatility in profitability metrics compared with the industry, supported by at least five years of historical information and very high confidence that this will continue in the future. 93. Next, we combine the level of profitability assessment with the volatility assessment to determine the final profitability assessment using the matrix in Table 15. Table 15 Profitability Assessment --VOLATILITY OF PROFITABILITY ASSESSMENT-- LEVEL OF PROFITABILITY ASSESSMENT 1 2 3 4 5 6 Above average 1 1 2 3 4 5 Average 1 2 3 4 5 6 Below average 2 3 4 5 6 6 5. Combining the preliminary competitive position assessment with profitability 94. The fourth and final step in arriving at a competitive position assessment is to combine the preliminary competitive position assessment with the profitability assessment. We use the combination matrix in Table 16, which shows how the profitability assessment can confirm, strengthen, or weaken (by up to one category) the overall competitive position assessment. Table 16 Combining The Preliminary Competitive Position Assessment And Profitability Assessment --PRELIMINARY COMPETITIVE POSITION ASSESSMENT-- PROFITABILITY ASSESSMENT 1 2 3 4 5 6 1 1 2 2 3 4 5 2 1 2 3 3 4 5 3 2 2 3 4 4 5 4 2 3 3 4 5 5 5 2 3 4 4 5 6 6 2 3 4 5 5 6 95. We generally expect companies with a strong preliminary competitive position assessment to exhibit strong and less volatile profitability metrics. Conversely, companies with a relatively weaker preliminary competitive position assessment will generally have weaker and/or more volatile profitability metrics. Our analysis of profitability helps substantiate whether management is translating any perceived competitive advantages, diversity benefits, and cost management measures into higher earnings and more stable return on capital and return on sales ratios than the averages for the industry. When profitability differs markedly from what the preliminary/anchor competitive position assessment would otherwise imply, we adjust the competitive position assessment accordingly. 96. Our method of adjustment is biased toward the preliminary competitive position assessment rather than toward the profitability assessment (e.g., a preliminary competitive assessment of 6 and a profitability assessment of 1 will result in a final assessment of 5). E. Cash Flow/Leverage 97. The pattern of cash flow generation, current and future, in relation to cash obligations is often the best indicator of a company's financial risk. The criteria assess a variety of credit ratios, predominately cash flow-based, which complement each other by focusing on the different levels of a company's cash flow waterfall in relation to its obligations (i.e., before and after working capital investment, before and after capital expenditures, before and after dividends), to develop a thorough perspective. Moreover, the criteria identify the ratios that we think are most relevant to measuring a company's credit risk based on its individual characteristics and its business cycle. 98. For the analysis of companies with intermediate or stronger cash flow/leverage assessments (a measure of the relationship between the company's cash flows and its debt obligations as identified in paragraphs 106 and 124), we primarily evaluate cash flows that reflect the considerable flexibility and discretion over outlays that such companies typically possess. For these entities, the starting point in the analysis is cash flows before working capital changes plus capital investments in relation to the size of a company's debt obligations in order to assess the relative ability of a company to repay its debt. These "leverage" or "payback" cash flow ratios are a measure of how much flexibility and capacity the company has to pay its obligations. 99. For entities with significant or weaker cash flow/leverage assessments (as identified in paragraphs 105 and 124), the criteria also call for an evaluation of cash flows in relation to the carrying cost or interest burden of a company's debt. This will help us assess a company's relative and absolute ability to service its debt. These "coverage"- or "debt service"-based cash flow ratios are a measure of a company's ability to pay obligations from cash earnings and the cushion the company possesses through stress periods. These ratios, particularly interest coverage ratios, become more important the further a company is down the credit spectrum. 1. Assessing cash flow/leverage 100. Under the criteria, we assess cash flow/leverage as 1, minimal; 2, modest; 3, intermediate; 4, significant; 5, aggressive; or 6, highly leveraged. To arrive at these assessments, the criteria combine the assessments of a variety of credit ratios, predominately cash flow-based, which complement each other by focusing attention on the different levels of a company's cash flow waterfall in relation to its obligations. For each ratio, there is an indicative cash flow/leverage assessment that corresponds to a specified range of values in one of three given benchmark tables

(see tables 17, 18, and 19). We derive the final cash flow/leverage assessment for a company by determining the relevant core ratios, anchoring a preliminary cash flow assessment based on the relevant core ratios, determining the relevant supplemental ratio(s), adjusting the preliminary cash flow assessment according to the relevant supplemental ratio(s), and, finally, modifying the adjusted cash flow/leverage assessment for any material volatility. 2. Core and supplemental ratios a) Core ratios 101. For each company, we calculate two core credit ratios--funds from operations (FFO) to debt and debt to EBITDA--in accordance with S&P; Global Ratings' ratios and adjustments criteria (see "Corporate Methodology: Ratios And Adjustments"). We compare these payback ratios against benchmarks to derive the preliminary cash flow/leverage assessment for a company. These ratios are also useful in determining the relative ranking of the financial risk of companies. b) Supplemental ratios 102. The criteria also consider one or more supplemental ratios (in addition to the core ratios) to help develop a fuller understanding of a company's financial risk profile and fine-tune our cash flow/leverage analysis. Supplemental ratios could either confirm or adjust the preliminary cash flow/leverage assessment. The confirmation or adjustment of the preliminary cash flow/leverage assessment will depend on the importance of the supplemental ratios as well as any difference in indicative cash flow/leverage assessment between the core and supplemental ratios as described in section E.3.b. 103. The criteria typically consider five standard supplemental ratios, although the relevant KCF article or "Guidance: Corporate Methodology" may introduce additional supplemental ratios or focus attention on one or more of the standard supplemental ratios. The standard supplemental ratios include three payback ratios--cash flow from operations (CFO) to debt, free operating cash flow (FOCF) to debt, and discretionary cash flow (DCF) to debt--and two coverage ratios, FFO plus interest paid to cash interest paid and EBITDA to interest. 104. The criteria provide guidelines as to the relative importance of certain ratios if a company exhibits characteristics such as high leverage, working capital intensity, capital intensity, or high growth. 105. If the preliminary cash flow/leverage assessment is significant or weaker (see section E.3), then two coverage ratios, FFO plus cash interest paid to cash interest paid and EBITDA to interest, will be given greater importance as supplemental ratios. For the definition of these metrics please see "Corporate Methodology: Ratios And Adjustments". 106. If the preliminary cash flow/leverage assessment is intermediate or stronger, the criteria first apply the three standard supplemental ratios of CFO to debt, FOCF to debt, and DCF to debt. When FOCF to debt and DCF to debt indicate a cash flow/leverage assessment that is lower than the other payback-ratio-derived cash flow/leverage assessments, it signals that the company has either larger than average capital spending or other non-operating cash distributions (including dividends). If these differences persist and are consistent with a negative trend in overall ratio levels, which we believe is not temporary, then these supplemental leverage ratios will take on more importance in the analysis. 107. If the supplemental ratios indicate a cash flow/leverage assessment that is different than the preliminary cash flow/leverage assessment, it could suggest an unusual debt service or fixed charge burden, working capital or capital expenditure profile, or unusual financial activity or policies. In such cases, we assess the sustainability or persistence of these differences. For example, if either working capital or capital expenditures are unusually low, leading to better indicated assessments, we examine the sustainability of such lower spending in the context of its impact on the company's longer term competitive position. If there is a deteriorating trend in the company's asset base, we give these supplemental ratios less weight. If either working capital or capital expenditures are unusually high, leading to weaker indicated assessments, we examine the persistence and need for such higher spending. If elevated spending levels are required to maintain a company's competitive position, for example to maintain the company's asset base, we give more weight to these supplemental ratios. 108. For capital-intensive companies, EBITDA and FFO may overstate financial strength, whereas FOCF may be a more accurate reflection of their cash flow in relation to their financial obligations. The criteria generally consider a capital-intensive company as having ongoing capital spending to sales of greater than 10%, or depreciation to sales of greater than 8%. For these companies, the criteria place more weight on the supplementary ratio of FOCF to debt. Where we place more analytic weight on FOCF to debt, we also seek to estimate the amount of maintenance or full cycle capital required (see Appendix C) under normal conditions (we estimate maintenance or full-cycle capital expenditure required because this is not a reported number). The FOCF figure may be adjusted by adding back estimated discretionary capital expenditures. The

adjusted FOCF to debt based on maintenance or full cycle capital expenditures often helps determine how much importance to place on this ratio. If both the FOCF to debt and the adjusted (for estimated discretionary capital spending) FOCF to debt derived assessments are different from the preliminary cash/flow leverage assessment, then these supplemental leverage ratios take on more importance in the analysis. 109. For working-capital-intensive companies, EBITDA and FFO may also overstate financial strength, and CFO may be a more accurate measure of the company's cash flow in relation to its financial risk profile. Under the criteria, if a company has a working capital-to-sales ratio that exceeds 25% or if there are significant seasonal swings in working capital, we generally consider it to be working-capital-intensive. For these companies, the criteria place more emphasis on the supplementary ratio of CFO to debt. Examples of companies that have working-capital-intensive characteristics can be found in the capital goods, metals and mining downstream, or the retail and restaurants industries. The need for working capital in those industries reduces financial flexibility and, therefore, these supplemental leverage ratios take on more importance in the analysis. 110. For all companies, when FOCF to debt or DCF to debt is negative or indicates materially lower cash flow/leverage assessments, the criteria call for an examination of management's capital spending and cash distribution strategies. For high-growth companies, typically the focus is on FFO to debt instead of FOCF to debt because the latter ratio can vary greatly depending on the growth investment the company is undergoing. The criteria generally consider a high-growth company one that exhibits real revenue growth in excess of 8% per year. Real revenue growth excludes price or foreign exchange related growth, under these criteria. In cases where FOCF or DCF is low, there is a greater emphasis on monitoring the sustainability of margins and return on capital and the overall financing mix to assess the likely trend of future debt ratios. In addition, debt service ratio analysis will be important in such situations. For companies with more moderate growth, the focus is typically on FOCF to debt unless the capital spending is short term or is not funded with debt. 111. For companies that have ongoing and well entrenched banking relationships we can reflect these relationships in our cash flow/leverage analysis through the use of the interest coverage ratios as supplemental ratios. These companies generally have historical links and a strong ongoing relationship with their main banks, as well as shareholdings by the main banks, and management influence and interaction between the main banks and the company. Based on their bank relationships, these companies often have lower interest servicing costs than peers, even if the macro economy worsens. In such cases, we generally use the interest coverage ratios as supplemental ratios. This type of banking relationship occurs in Japan, for example, where companies that have the type of bank relationship described in this paragraph tend to have a high socioeconomic influence within their country by way of their revenue size, total debt quantum, number of employees, and the relative importance of the industry. c) Time horizon and ratio calculation 112. A company's credit ratios may vary, often materially, over time due to economic, competitive, technological, or investment cycles, the life stage of the company, and corporate or strategic actions. Thus, we evaluate credit ratios on a time series basis with a clear forward-looking bias. The length of the time series is dependent on the relative credit risk of the company and other qualitative factors and the weighting of the time series varies according to transformational events. A transformational event is any event that could cause a material change in a company's financial profile, whether caused by changes to the company's capital base, capital structure, earnings, cash flow profile, or financial policies. Transformational events can include mergers, acquisitions, divestitures, management changes, structural changes to the industry or competitive environment, product development and capital programs, and/or business disruptions, including those that arise from the materialization of substantial environmental or social risks. This section provides guidance on the timeframe and weightings the criteria apply to calculate the indicative ratios. 113. The criteria generally consider the company's credit ratios for the previous one to two years, current-year forecast, and the two subsequent forecasted financial years. There may be situations where longer--or even shorter--historical results or forecasts are appropriate, depending on such factors as availability of financials, transformational events, or relevance. For example, a utility company with a long-term capital spending program may lend itself to a longer-term forecast, whereas for a company experiencing a near-term liquidity squeeze even a two-year forecast will have limited value. Alternatively, for most commodities-based companies we emphasize credit ratios based on our

forward-looking view of market conditions, which may differ materially from the historical period. 114. Historical patterns in cash flow ratios are informative, particularly in understanding past volatility, capital spending, growth, accounting policies, financial policies, and business trends. Our analysis starts with a review of these historical patterns in order to assess future expected credit quality. Historical patterns can also provide an indication of potential future volatility in ratios, including that which results from seasonality or cyclicality. A history of volatility could result in a more conservative assessment of future cash flow generation if we believe cash flow will continue to be volatile. 115. The forecast ratios are based on an expected base-case scenario developed by S&P; Global Ratings, incorporating current and near-term economic conditions, industry assumptions, and financial policies. The prospective cyclical and longer-term volatility associated with the industry in which the issuer operates is addressed in the industry risk criteria (see section B) and the longer-term directional influence or event risk of financial policies is addressed in our financial policy criteria (see section H). 116. The criteria generally place greater emphasis on forecasted years than historical years in the time series of credit ratios when calculating the indicative credit ratio. For companies where we have five years of ratios as described in section E.3, generally we calculate the indicative ratio by weighting the previous two years, the current year, and the forecasted two years as 10%, 15%, 25%, 25%, and 25%, respectively. 117. This weighting changes, however, to place even greater emphasis on the current and forecast years when: The issuer meets the characteristics described in paragraph 113, and either shorter- or longer-term forecasts are applicable. The weights applied will generally be quite forward weighted, particularly if a company is undergoing a transformational event and there is moderate or better cash flow certainty. The issuer is forecast to generate negative cash flow available for debt repayment, which we believe could lead to deteriorating credit metrics. Forecast negative cash flows could be generated from operating activities as well as capital expenditures, share buybacks, dividends, or acquisitions, as we forecast these uses of cash based on the company's track record, market conditions, or financial policy. The weights applied will generally be 30%, 40%, and 30% for the current and two subsequent years, respectively. The issuer is in an industry that is prospectively volatile or that has a high degree of cash flow uncertainty. Industries that are prospectively volatile are industries whose competitive risk and growth assessments are either high risk (5) or very high risk (6) or whose overall industry risk assessments are either high risk (5) or very high risk (6). The weights applied will generally be 50% for the current year and 50% for the first subsequent forecast year. An issuer experienced a significant business disruption due to exceptional events that are temporary and are not assumed to be repeated. These circumstances may stem, for example, from the materialization of environmental or social credit factors (e.g. an epidemic or pandemic health event, or man-made or natural environmental disaster). In such cases, we may take the view that historical financial performance is not indicative of the issuer's current and future earnings trends and put more weight on future year ratios. 118. When the indicative ratio(s) is borderline (i.e., less than 10% different from the threshold in relative terms) between two assessment thresholds (as described in section E.3 and tables 17, 18, and 19) and the forecast points to a switch in the ratio between categories during the rating timeframe, we will weigh the forecast even more heavily in order to prospectively capture the trend. 119. For companies undergoing a transformational event, the weighting of the time series could vary significantly. 120. For companies undergoing a transformational event and with significant or weaker cash flow/leverage assessments, we place greater weight on near-term risk factors. That's because overemphasis on longer-term (inherently less predictable) issues could lead to some distortion when assessing the risk level of a speculative-grade company. We generally analyze a company using the arithmetic mean of the credit ratios expected according to our forecasts for the current year (or pro forma current year) and the subsequent financial year. A common example of this is when a private equity firm acquires a company using additional debt leverage, which makes historical financial ratios meaningless. In this scenario, we weight or focus the majority of our analysis on the next one or two years of projected credit measures. 3. Determining the cash flow/leverage assessment a) Identifying the benchmark table 121. Tables 17, 18, and 19 provide benchmark ranges for various cash flow ratios we associate with different cash flow/leverage assessments for standard volatility, medial volatility, and low volatility industries. The tables of benchmark ratios differ for a given ratio and cash flow/leverage assessment along two dimensions: the starting point for the ratio range and the width of the ratio range. 122. If an industry

exhibits low volatility, the threshold levels for the applicable ratios to achieve a given cash flow/leverage assessment are less stringent than those in the medial or standard volatility tables, although the range of the ratios is narrower. Conversely, if an industry exhibits medial or standard levels of volatility, the threshold for the applicable ratios to achieve a given cash flow/leverage assessment are elevated, albeit with a wider range of values. 123. The relevant benchmark table for a given company is based on our Corporate Industry and Country Risk Assessment, or the CICRA (see section A, table 1), as described in the bullet points below, unless otherwise indicated in a sector's KCF criteria or in "Guidance: Corporate Methodology." The low volatility table (table 19) will generally apply when a company's CICRA is '1' but can infrequently also apply to a company with a CICRA of '2' if the company exhibits or is expected to exhibit low levels of volatility. The medial volatility table (table 18) will generally apply for a company with a CICRA of '2' but can infrequently also apply to a company with a CICRA of '1' if the company exhibits or is expected to exhibit medial levels of volatility. The standard volatility table (table 17) serves as the relevant benchmark table for all CICRA scores other than '1', but we will always use it for companies with a CICRA of '1' or '2' whose competitive position is assessed as '5' or '6'. Table 17 Cash Flow/Leverage Analysis Ratios--Standard Volatility --CORE RATIOS-- --SUPPLEMENTARY COVERAGE RATIOS-- --SUPPLEMENTARY PAYBACK RATIOS-- FFO/DEBT (%) DEBT/EBITDA (X) FFO/CASH INTEREST(X) EBITDA/INTEREST (X) CFO/DEBT (%) FOCF/DEBT (%) DCF/DEBT (%) Minimal 60+ Less than 1.5 More than 13 More than 15 More than 50 40+ 25+ Modest 45-60 1.5-2 9-13 10-15 35-50 25-40 15-25 Intermediate 30-45 2-3 6-9 6-10 25-35 15-25 10-15 Significant 20-30 3-4 4-6 3-6 15-25 10-15 5-10 Aggressive 12-20 4-5 2-4 2-3 10-15 5-10 2-5 Highly leveraged Less than 12 Greater than 5 Less than 2 Less than 2 Less than 10 Less than 5 Less than 2 Table 18 Cash Flow/Leverage Analysis Ratios--Medial Volatility --CORE RATIOS-- --SUPPLEMENTARY COVERAGE RATIOS-- --SUPPLEMENTARY PAYBACK RATIOS-- FFO/DEBT (%) DEBT/EBITDA (X) FFO/CASH INTEREST (X) EBITDA/INTEREST (X) CFO/DEBT (%) FOCF/DEBT (%) DCF/DEBT (%) Minimal 50+ less than 1.75 10.5+ 14+ 40+ 30+ 18+ Modest 35-50 1.75-2.5 7.5-10.5 9-14 27.5-40 17.5-30 11-18 Intermediate 23-35 2.5-3.5 5-7.5 5-9 18.5-27.5 9.5-17.5 6.5-11 Significant 13-23 3.5-4.5 3-5 2.75-5 10.5-18.5 5-9.5 2.5-6.5 Aggressive 9-13 4.5-5.5 1.75-3 1.75-2.75 7-10.5 0-5 (11)-2.5 Highly leveraged Less than 9 Greater than 5.5 Less than 1.75 Less than 1.75 Less than 7 Less than 0 Less than (11) Table 19 Cash Flow/Leverage Analysis Ratios--Low Volatility --CORE RATIOS-- --SUPPLEMENTARY COVERAGE RATIOS-- --SUPPLEMENTARY PAYBACK RATIOS-- FFO/DEBT (%) DEBT/EBITDA (X) FFO/CASH INTEREST (X) EBITDA/INTEREST (X) CFO/DEBT (%) FOCF/DEBT (%) DCF/DEBT (%) Minimal 35+ Less than 2 More than 8 More than 13 More than 30 20+ 11+ Modest 23-35 2-3 5-8 7-13 20-30 10-20 7-11 Intermediate 13-23 3-4 3-5 4-7 12-20 4-10 3-7 Significant 9-13 4-5 2-3 2.5-4 8-12 0-4 0-3 Aggressive 6-9 5-6 1.5-2 1.5-2.5 5-8 (10)-0 (20)-0 Highly leveraged Less than 6 Greater than 6 Less than 1.5 Less than 1.5 Less than 5 Less than (10) Less than (20) b) Aggregating the credit ratio assessments 124. To determine the final cash flow/leverage assessment, we make these calculations: 1) First, calculate a time series of standard core and supplemental credit ratios, select the relevant benchmark table, and determine the appropriate time weighting of the credit ratios. Calculate the two standard core credit ratios and the five standard supplemental credit ratios over a five-year time horizon. Consult the relevant industry KCF article (if applicable) or "Guidance: Corporate Methodology," which may identify additional supplemental ratio(s). The relevant benchmark table for a given company is based on our assessment of the company's associated industry and country risk volatility, or the CICRA. Calculate the appropriate weighted average cash flow/leverage ratios. If the company is undergoing a transformational event, then the core and supplemental ratios will typically be calculated based on S&P; Global Ratings' projections for the current and next one or two financial years. 2) Second, we use the core ratios to determine the preliminary cash flow assessment. Compare the core ratios (FFO to debt and debt to EBITDA) to the ratio ranges in the relevant benchmark table. If the core ratios result in different cash flow/leverage assessments, we will select the relevant core ratio based on which provides the best indicator of a company's future leverage. 3) Third, we review the supplemental ratio(s). Determine the importance of standard or KCF supplemental ratios based on company-specific characteristics, namely, leverage, capital intensity, working capital intensity, growth rate, or industry. 4) Fourth, we calculate the adjusted cash flow/leverage assessment. If the cash flow/leverage

assessment(s) indicated by the important supplemental ratio(s) differs from the preliminary cash flow/leverage assessment, we might adjust the preliminary cash flow/leverage assessment by one category in the direction of the cash flow/leverage assessment indicated by the supplemental ratio(s) to derive the adjusted cash flow/leverage assessment. We will make this adjustment if, in our view, the supplemental ratio provides the best indicator of a company's future leverage. If there is more than one important supplemental ratio and they result in different directional deviations from the preliminary cash flow/leverage assessment, we will select one as the relevant supplemental ratio based on which, in our opinion, provides the best indicator of a company's future leverage. We will then make the adjustment outlined above if the selected supplemental ratio differs from the preliminary cash flow/leverage assessment and the selected supplemental ratio provides the best overall indicator of a company's future leverage. 5) Lastly, we determine the final cash flow/leverage assessment based on the volatility adjustment. We classify companies as stable for these cash flow criteria if cash flow/leverage ratios are expected to worsen by up to one category during periods of stress based on their business risk profile. The final cash flow/leverage assessment for these companies will not be modified from the adjusted cash flow/leverage assessment. We classify companies as volatile for these cash flow criteria if cash flow/leverage ratios are expected to move one or two categories worse during periods of stress based on their business risk profiles. Typically, this is equivalent to EBITDA declining about 30% from its current level. The final cash flow/leverage assessment for these companies will be modified to one category weaker than the adjusted cash flow/leverage assessment; the adjustment will be eliminated if cash flow/leverage ratios, as evaluated, include a moderate to high level of stress already. We classify companies as highly volatile for these cash flow criteria if cash flow/leverage ratios are expected to move two or three categories worse during periods of stress, based on their business risk profiles. Typically, this is equivalent to EBITDA declining about 50% from its current level. The final cash flow/leverage assessment for these companies will be modified to two categories weaker than the adjusted cash flow/leverage assessment; the adjustment will be eliminated or reduced to one category if cash flow/leverage ratios, as evaluated, include a moderate to high level of stress already. 125. The volatility adjustment is the mechanism by which we factor a "cushion" of medium-term variance to current financial performance not otherwise captured in either the near-term base-case forecast or the long-term business risk assessment. We make this adjustment based on the following: The expectation of any potential cash flow/leverage ratio movement is both prospective and dependent on the current business or economic conditions. Stress scenarios include, but are not limited to, a recessionary economic environment, technology or competitive shifts, loss or renegotiation of major contracts or customers, the materialization of ESG credit risks, and key product or input price movements, as typically defined in the company's industry risk profile and competitive position assessment. The volatility adjustment is not static and is company specific. At the bottom of an economic cycle or during periods of stressed business conditions, already reflected in the general industry risk or specific competitive risk profile, the prospect of weakening ratios is far less than at the peak of an economic cycle or business conditions. The expectation of prospective ratio changes may be formed by observed historical performance over an economic, business, or product cycle by the company or by peers. The assessment of which classification to use when evaluating the prospective number of scoring category moves will be guided by how close the current ratios are to the transition point (i.e. "buffer" in the current scoring category) and the corresponding amount of EBITDA movement at each scoring transition. F. Diversification/Portfolio Effect 126. Under the criteria, diversification/portfolio effect applies to companies that we regard as conglomerates. They are companies that have multiple core business lines that may be operated as separate legal entities. For the purpose of these criteria, a conglomerate would have at least three business lines, each contributing a material source of earnings and cash flow. 127. The criteria aim to measure how diversification or the portfolio effect could improve the anchor of a company with multiple business lines. This approach helps us determine how the credit strength of a corporate entity with a given mix of business lines could improve based on its diversity. The competitive position factor assesses the benefits of diversity within individual lines of business. This factor also assesses how poorly performing businesses within a conglomerate affect the organization's overall business risk profile. 128. Diversification/portfolio effect could modify the anchor depending on how meaningful we think the diversification is, and on the degree of correlation we find in each business

line's sensitivity to economic cycles. This assessment will have either a positive or neutral impact on the anchor. We capture any potential factor that weakens a company's diversification, including poor management, in our management and governance assessment. 129. We define a conglomerate as a diversified company that is involved in several industry sectors. Usually the smallest of at least three distinct business segments/lines would contribute at least 10% of either EBITDA or FOCF and the largest would contribute no more than 50% of EBITDA or FOCF, with the long-term aim of increasing shareholder value by generating cash flow. Industrial conglomerates usually hold a controlling stake in their core businesses, have highly identifiable holdings, are deeply involved in the strategy and management of their operating companies, generally do not frequently roll over or reshuffle their holdings by buying and selling companies, and therefore have high long-term exposure to the operating risks of their subsidiaries. 130. In rating a conglomerate, we first assess management's commitment to maintain the diversified portfolio over a longer-term horizon. These criteria apply only if the company falls within our definition of a conglomerate. 1. Assessing diversification/portfolio effect 131. A conglomerate's diversification/portfolio effect is assessed as 1, significant diversification; 2, moderate diversification; or 3, neutral. An assessment of moderate diversification or significant diversification potentially raises the issuer's anchor. To achieve an assessment of significant diversification, an issuer should have uncorrelated diversified businesses whose breadth is among the most comprehensive of all conglomerates'. This assessment indicates that we expect the conglomerate's earnings volatility to be much lower through an economic cycle than an undiversified company's. To achieve an assessment of moderate diversification, an issuer typically has a range of uncorrelated diversified businesses that provide meaningful benefits of diversification with the expectation of lower earnings volatility through an economic cycle than an undiversified company's. 132. We expect that a conglomerate will also benefit from diversification if its core assets consistently produce positive cash flows over our rating horizon. This supports our assertion that the company diversifies to take advantage of allocating capital among its business lines. To this end, our analysis focuses on a conglomerate's track record of successfully deploying positive discretionary cash flow into new business lines or expanding capital-hungry business lines. We assess companies that we do not expect to achieve these benefits as neutral. 2. Components of correlation and how it is incorporated into our analysis 133. We determine the assessment for this factor based on the number of business lines in separate industries (as described in table 27) and the degree of correlation between these business lines as described in table 20. There is no rating uplift for an issuer with a small number of business lines that are highly correlated. By contrast, a larger number of business lines that are not closely correlated provide the maximum rating uplift. Table 20 Assessing Diversification/Portfolio Effect --NUMBER OF BUSINESS LINES-- DEGREE OF CORRELATION OF BUSINESS LINES 3 4 5 OR MORE High Neutral Neutral Neutral Medium Neutral Moderately diversified Moderately diversified Low Moderately diversified Significantly diversified Significantly diversified 134. The degree of correlation of business lines is high if the business lines operate within the same industry, as defined by the industry designations in Appendix B, table 27. The degree of correlation of business lines is medium if the business lines operate within different industries, but operate within the same geographic region (for further guidance on defining geographic regions, see Appendix A, table 26). An issuer has a low degree of correlation across its business lines if these business lines are both a) in different industries and b) either operate in different regions or operate in multiple regions. 135. If we believe that a conglomerate's various industry exposures fail to provide a partial hedge against the consolidated entity's volatility because they are highly correlated through an economic cycle, then we assess the diversification/portfolio effect as neutral. G. Capital Structure 136. S&P; Global Ratings uses its capital structure criteria to assess risks in a company's capital structure that may not show up in our standard analysis of cash flow/leverage. These risks may exist as a result of maturity date or currency mismatches between a company's sources of financing and its assets or cash flows. These can be compounded by outside risks, such as volatile interest rates or currency exchange rates. 1. Assessing capital structure 137. Capital structure is a modifier category, which adjusts the initial anchor for a company after any modification due to diversification/portfolio effect. We assess a number of subfactors to determine the capital structure assessment, which can then raise or lower the initial anchor by one or more notches--or have no effect in some cases. We assess capital structure as 1, very positive; 2, positive; 3, neutral; 4, negative; or 5, very negative. In the large majority

of cases, we believe that a firm's capital structure will be assessed as neutral. To assess a company's capital structure, we analyze four subfactors: Currency risk associated with debt, Debt maturity profile (or schedule), Interest rate risk associated with debt, and Investments. 138. Any of these subfactors can influence a firm's capital structure assessment, although some carry greater weight than others, based on a tiered approach: Tier one risk subfactors: Currency risk of debt and debt maturity profile, and Tier two risk subfactor: Interest rate risk of debt. 139. The initial capital structure assessment is based on the first three subfactors (see table 21). We may then adjust the preliminary assessment based on our assessment of the fourth subfactor, investments. Table 21 Preliminary Capital Structure Assessment PRELIMINARY CAPITAL STRUCTURE ASSESSMENT SUBFACTOR ASSESSMENTS Neutral No tier one subfactor is negative. Negative One tier one subfactor is negative, and the tier two subfactor is neutral. Very negative Both tier one subfactors are negative, or one tier one subfactor is negative and the tier two subfactor is negative. 140. Tier one subfactors carry the greatest risks, in our view, and, thus, could have a significant impact on the capital structure assessment. This is because, in our opinion, these factors have a greater likelihood of affecting credit metrics and potentially causing liquidity and refinancing risk. The tier two subfactor is important in and of itself, but typically less so than the tier one subfactors. In our view, in the majority of cases, the tier two subfactor in isolation has a lower likelihood of leading to liquidity and default risk than do tier one subfactors. 141. The fourth subfactor, investments, as defined in paragraph 153, quantifies the impact of a company's investments on its overall financial risk profile. Although not directly related to a firm's capital structure decisions, certain investments could provide a degree of asset protection and potential financial flexibility if they are monetized. Thus, the fourth subfactor could modify the preliminary capital structure assessment (see table 22). If the subfactor is assessed as neutral, then the preliminary capital structure assessment will stand. If investments is assessed as positive or very positive, we adjust the preliminary capital structure assessment upward (as per table 22) to arrive at the final assessment. Table 22 Final Capital Structure Assessment --INVESTMENTS SUBFACTOR ASSESSMENT-- PRELIMINARY CAPITAL STRUCTURE ASSESSMENT NEUTRAL POSITIVE VERY POSITIVE Neutral Neutral Positive Very positive Negative Negative Neutral Positive Very negative Very negative Negative Negative 2. Capital structure analysis: Assessing the subfactors a) Subfactor 1: Currency risk of debt 142. Currency risk arises when a company borrows without hedging in a currency other than the currency in which it generates revenues. Such an unhedged position makes the company potentially vulnerable to fluctuations in the exchange rate between the two currencies, in the absence of mitigating factors. We determine the materiality of any mismatch by identifying situations where adverse exchange-rate movements could weaken cash flow and/or leverage ratios. We do not include currency mismatches under the following scenarios: The country where a company generates its cash flows has its currency pegged to the currency in which the company has borrowed, or vice versa (or the currency of cash flows has a strong track record and government policy of stability with the currency of borrowings), examples being the Hong Kong dollar which is pegged to the U.S. dollar, and the Chinese renminbi which is managed in a narrow band to the U.S. dollar (and China's foreign currency reserves are mainly in U.S. dollars). Moreover, we expect such a scenario to continue for the foreseeable future; A company has the proven ability, through regulation or contract, to pass through changes in debt servicing costs to its customers; or A company has a natural hedge, such as where it may sell its product in a foreign currency and has matched its debt in that same currency. 143. We also recognize that even if an entity generates insufficient same-currency cash flow to meet foreign currency-denominated debt obligations, it could have substantial other currency cash flows it can convert to meet these obligations. Therefore, the relative amount of foreign denominated debt as a proportion of total debt is an important factor in our analysis. If foreign denominated debt, excluding fully hedged debt principal, is 15% or less of total debt, we assess the company as neutral on currency risk of debt. If foreign-denominated debt, excluding fully hedged debt principal, is greater than 15% of total debt, and debt to EBITDA is greater than 3.0x, we evaluate currency risks through further analysis. 144. If an entity's foreign-denominated debt in a particular currency represents more than 15% of total debt, and if its debt to EBITDA ratio is greater than 3.0x, we identify whether a currency-specific interest coverage ratio indicates potential currency risk. The coverage ratio divides forecasted operating cash flow in each currency by interest payments over the coming 12 months for that same currency. It is

often easier to ascertain the geographic breakdown of EBITDA as opposed to operating cash flow. So in situations where we don't have sufficient cash flow information, we may calculate an EBITDA to interest expense coverage ratio in the relevant currencies. If neither cash flow nor EBITDA information is disclosed, we estimate the relevant exposures based on available information. 145. In such an instance, our assessment of this subfactor is negative if we believe any appropriate interest coverage ratio will fall below 1.2x over the next 12 months. b) Subfactor 2: Debt maturity profile 146. A firm's debt maturity profile shows when its debt needs to be repaid, or refinanced if possible, and helps determine the firm's refinancing risk. Lengthier and more evenly spread out debt maturity schedules reduce refinancing risk, compared with front-ended and compressed ones, since the former give an entity more time to manage business- or financial market-related setbacks. 147. In evaluating debt maturity profiles, we measure the weighted average maturity (WAM) of bank debt and debt securities (including hybrid debt) within a capital structure, and make simplifying assumptions that debt maturing beyond year five matures in year six. WAM = (Maturity1/Total Debt)*tenor1 + (Maturity2/Total Debt)* tenor2 +… (Thereafter/Total Debt)* tenor6 148. In evaluating refinancing risk, we consider risks in addition to those captured under the 12-month to 24-month time-horizons factored in our liquidity criteria (see "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers"). While we recognize that investment-grade companies may have more certain future business prospects and greater access to capital than speculative-grade companies, all else being equal, we view a company with a shorter maturity schedule as having greater refinancing risk compared to a company with a longer one. In all cases, we assess a company's debt maturity profile in conjunction with its liquidity and potential funding availability. Thus, a short-dated maturity schedule alone is not a negative if we believe the company can maintain enough liquidity to pay off debt that comes due in the near term. 149. Our assessment of this subfactor is negative if the WAM is two years or less, and the amount of these near-term maturities is material in relation to the issuer's liquidity so that under our base-case forecast, we believe the company's liquidity assessment will become less than adequate or weak over the next two years due to these maturities. In certain cases, we may assess a debt maturity profile as negative regardless of whether or not the company passes the aforementioned test. We expect such instances to be rare, and will include scenarios where we believed a concentration of debt maturities within a five-year time horizon poses meaningful refinancing risk, either due to the size of the maturities in relation to the company's liquidity sources, the company's leverage profile, its operating trends, lender relationships, and/or credit market standings. c) Subfactor 3: Interest rate risk of debt 150. The interest rate risk of debt subfactor analyzes the company's mix of fixed-rate and floating-rate debt. Generally, a higher proportion of fixed-rate debt leads to greater predictability and stability of interest expense and therefore cash flows. The exception would be companies whose operating cash flows are to some degree correlated with interest rate movements--for example, a regulated utility whose revenues are indexed to inflation--given the typical correlation between nominal interest rates and inflation. 151. The mix of fixed versus floating-rate debt is usually not a significant risk factor for companies with intermediate or better financial profiles, strong profitability, and high interest coverage. In addition, the interest rate environment at a given point in time will play a role in determining the impact of interest rate movements. Our assessment of this subcategory will be negative if a 25% upward shift (e.g., from 2.0% to 2.5%) or a 100 basis-point upward shift (e.g., 2% to 3%) in the base interest rate of the floating rate debt will result in a breach of interest coverage covenants or interest coverage rating thresholds identified in the cash flow/leverage criteria (see section E.3). 152. Many loan agreements for speculative-grade companies contain a clause requiring a percentage of floating-rate debt to be hedged for a period of two to three years to mitigate this risk. However, in many cases the loan matures after the hedge expires, creating a mismatched hedge. We consider only loans with hedges that match the life of the loan to be--effectively--fixed-rate debt. d) Subfactor 4: Investments 153. For the purposes of the criteria, investments refer to investments in unconsolidated equity affiliates, other assets where the realizable value isn't currently reflected in the cash flows generated from those assets (e.g. underutilized real-estate property), we do not expect any additional investment or support to be provided to the affiliate, and the investment is not included within S&P; Global Ratings' consolidation scope and so is not incorporated in the company's business and financial risk profile analysis. If equity affiliate companies are consolidated, then the financial benefits and costs of these investments will be

captured in our cash flow and leverage analysis. Similarly, where the company's ownership stake does not qualify for consolidation under accounting rules, we may choose to consolidate on a pro rata basis if we believe that the equity affiliates' operating and financing strategy is influenced by the rated entity. If equity investments are strategic and provide the company with a competitive advantage, or benefit a company's scale, scope, and diversity, these factors will be captured in our competitive position criteria and will not be used to assess the subfactor investments as positive. Within the capital structure criteria, we aim to assess nonstrategic financial investments that could provide a degree of asset protection and financial flexibility in the event they are monetized. These investments must be noncore and separable, meaning that a potential divestiture, in our view, has no impact on the company's existing operations. 154. In many instances, the cash flows generated by an equity affiliate, or the proportional share of the associate company's net income, might not accurately reflect the asset's value. This could occur if the equity affiliate is in high growth mode and is currently generating minimal cash flow or net losses. This could also be true of a physical asset, such as real estate. From a valuation standpoint, we recognize the subjective nature of this analysis and the potential for information gaps. As a result, in the absence of a market valuation or a market valuation of comparable companies in the case of minority interests in private entities, we will not ascribe value to these assets. 155. We assess this subfactor as positive or very positive if three key characteristics are met. First, an estimated value can be ascribed to these investments based on the presence of an existing market value for the firm or comparable firms in the same industry. Second, there is strong evidence that the investment can be monetized over an intermediate timeframe--in the case of an equity investment, our opinion of the marketability of the investment would be enhanced by the presence of an existing market value for the firm or comparable firms, as well as our view of market liquidity. Third, monetization of the investment, assuming proceeds would be used to repay debt, would be material enough to positively move existing cash flow and leverage ratios by at least one category and our view on the company's financial policy, specifically related to financial discipline, supports the assessment that the potential proceeds would be used to pay down debt. This subfactor is assessed as positive if debt repayment from the investment sale has the potential to improve cash flow and leverage ratios by one category. We assess investments as very positive if proceeds upon sale of the investment have the potential to improve cash flow and leverage ratios by two or more categories. If the three characteristics are not met, this subfactor will be assessed as neutral and the preliminary capital structure assessment will stand. 156. We will not assess the investments subfactor as positive or very positive when the anchor is 'b+' or lower unless the three conditions described in paragraph 155 are met, and: For issuers with less than adequate or weak liquidity, the company has provided a credible near-term plan to sell the investment. For issuers with adequate or better liquidity, we believe that the company, if needed, could sell the investment in a relatively short timeframe. H. Financial Policy 157. Financial policy refines the view of a company's risks beyond the conclusions arising from the standard assumptions in the cash flow/leverage assessment (see section E). Those assumptions do not always reflect or entirely capture the short-to-medium term event risks or the longer-term risks stemming from a company's financial policy. To the extent movements in one of these factors cannot be confidently predicted within our forward-looking evaluation, we capture that risk within our evaluation of financial policy. The cash flow/leverage assessment will typically factor in operating and cash flows metrics we observed during the past two years and the trends we expect to see for the coming two years based on operating assumptions and predictable financial policy elements, such as ordinary dividend payments or recurring acquisition spending. However, over that period and, generally, over a longer time horizon, the firm's financial policies can change its financial risk profile based on management's or, if applicable, the company's controlling shareholder's (see Appendix E, paragraphs 254-257) appetite for incremental risk or, conversely, plans to reduce leverage. We assess financial policy as 1) positive, 2) neutral, 3) negative, or as being owned by a financial sponsor. We further identify financial sponsor-owned companies as "FS-4", "FS-5", "FS-6", or "FS-6 (minus)" (see section H.2). 1. Assessing financial policy 158. First, we determine if a company is owned by a financial sponsor. Given the intrinsic characteristics and aggressive nature of financial sponsor's strategies (i.e. short- to intermediate-term holding periods and the use of debt or debt-like instruments to maximize shareholder returns), we assign a financial risk profile assessment to a firm controlled by a financial sponsor that reflects the

likely impact on leverage due to these strategies and we do not separately analyze management's financial discipline or financial policy framework. 159. If a company is not controlled by a financial sponsor, we evaluate management's financial discipline and financial policy framework. Management's financial discipline measures its tolerance for incremental financial risk or, conversely, its willingness to maintain the same degree of financial risk or to lower it compared with recent cash flow/leverage metrics and our projected ratios for the next two years. The company's financial policy framework assesses the comprehensiveness, transparency, and sustainability of the entity's financial policies. We do not assess these factors for financial sponsor controlled firms. 160. The financial discipline assessments can have a positive or negative influence on an enterprise's overall financial policy assessment, or can have no net effect. Conversely, the financial policy framework assessment cannot positively influence the overall financial policy assessment. It can constrain the overall financial policy assessment to no greater than neutral. 161. The separate assessments of a company's financial policy framework and financial discipline determine the financial policy adjustment. 162. We assess management's financial discipline as 1, positive; 2, neutral; or 3, negative. We determine the assessment by evaluating the predictability of an entity's expansion plans and shareholder return strategies. We take into account, generally, management's tolerance for material and unexpected negative changes in credit ratios or, instead, its plans to rapidly decrease leverage and keep credit ratios within stated boundaries. 163. A company's financial policy framework assessment is: 1, supportive or 2, non-supportive. We make the determination by assessing the comprehensiveness of a company's financial policy framework and whether financial targets are clearly communicated to a large number of stakeholders, and are well defined, achievable, and sustainable. Table 23 Financial Policy Assessments ASSESSMENT WHAT IT MEANS GUIDANCE Positive Indicates that we expect management’s financial policy decisions to have a positive impact on credit ratios over the time horizon, beyond what can be reasonably built in our forecasts on the basis of normalized operating and cash flow assumptions. An example would be when a credible management team commits to dispose of assets or raise equity over the short to medium term in order to reduce leverage. A company with a 1 financial risk profile will not be assigned a positive assessment. If financial discipline is positive, and the financial policy framework is supportive Neutral Indicates that, in our opinion, future credit ratios won’t differ materially over the time horizon beyond what we have projected, based on our assessment of management’s financial policy, recent track record, and operating forecasts for the company. A neutral financial policy assessment effectively reflects a low probability of “event risk,” in our view. If financial discipline is positive, and the financial policy framework is non-supportive. Or when financial discipline is neutral, regardless of the financial policy framework assessment. Negative Indicates our view of a lower degree of predictability in credit ratios, beyond what can be reasonably built in our forecasts, as a result of management’s financial discipline (or lack of it). It points to high event risk that management’s financial policy decisions may depress credit metrics over the time horizon, compared with what we have already built in our forecasts based on normalized operating and cash flow assumptions. If financial discipline is negative, regardless of the financial policy framework assessment Financial Sponsor* We define a financial sponsor as an entity that follows an aggressive financial strategy in using debt and debt-like instruments to maximize shareholder returns. Typically, these sponsors dispose of assets within a short to intermediate time frame. Accordingly, the financial risk profile we assign to companies that are controlled by financial sponsors ordinarily reflects our presumption of some deterioration in credit quality in the medium term. Financial sponsors include private equity firms, but not infrastructure and asset-management funds, which maintain longer investment horizons. We define financial sponsor-owned companies as nonfinancial corporate entities in which one or more financial sponsors own at least 40% of the entity's common equity, or retain the majority of the voting rights and control through preference shares, and where we consider that the sponsors exercise control of the company either solely or jointly. *Assessed as FS-4, FS-5, FS-6, or FS-6 (minus). 2. Financial sponsor-controlled companies 164. We define a financial sponsor as an entity that follows an aggressive financial strategy in using debt and debt-like instruments to maximize shareholder returns. Typically, these sponsors dispose of assets within a short-to-intermediate time frame. Financial sponsors include private equity firms, but not infrastructure and asset-management funds, which maintain longer investment horizons. 165. We define financial sponsor-owned companies as

nonfinancial corporate entities in which one or more financial sponsors own at least 40% of the entity's common equity, or retain the majority of the voting rights and control through preference shares, and where we consider that the sponsors exercise control of the company either solely or jointly. "Control" refers to the sponsors' ability to dictate an entity's strategy and cash flow. The strategic goals of the sponsors must be aligned for us to consider the sponsors as having joint control. 166. We differentiate between financial sponsors and other types of controlling shareholders and companies that do not have controlling shareholders based on our belief that short-term ownership--such as exists in private equity sponsor-owned companies--generally entails financial policies aimed at achieving rapid returns for shareholders typically through aggressive debt leverage. 167. Financial sponsors often dictate policies regarding risk-taking, financial management, and corporate governance for the companies that they control. There is a common pattern of these investors extracting cash in ways that increase the companies' financial risk by utilizing debt or debt like instruments. Accordingly, the financial risk profile we assign to companies that are controlled by financial sponsors ordinarily reflect our presumption of some deterioration in credit quality or steadily high leverage in the medium term. 168. We assess the influence of financial sponsor ownership as "FS-4", "FS-5", "FS-6", and "FS-6 (minus)" depending on how aggressive we assume the sponsor will be and assign a financial risk profile accordingly (see table 24). 169. Generally, financial sponsor-owned issuers will receive an assessment of "FS-6" or "FS-6 (minus)", leading to a financial risk profile assessment of '6', under the criteria. A "FS-6" assessment indicates that, in our opinion, forecasted credit ratios in the medium term are likely be to be consistent with a '6' financial risk profile, based on our assessment of the financial sponsor's financial policy and track record. A "FS-6 (minus)" will likely be applied to companies that we forecast to have near-term credit ratios consistent with a '6' financial risk profile, but we believe the financial sponsor to be very aggressive and that leverage could increase materially even further from our forecasted levels. 170. In a small minority of cases, a financial sponsor-owned entity could receive an assessment of "FS-5". This assessment will apply only when we project that the company's leverage will be consistent with a '5' (aggressive) financial risk profile (see tables 17, 18, and 19), we perceive that the risk of releveraging is low based on the company's financial policy and our view of the owner's financial risk appetite, and liquidity is at least adequate. 171. In even rarer cases, we could assess the financial policy of a financial sponsor-owned entity as "FS-4". This assessment will apply only when all of the following conditions are met: other shareholders own a material (generally, at least 20%) stake, we expect the sponsor to relinquish control over the intermediate term, we project that leverage is currently consistent with a '4' (significant) financial risk profile (see tables 17, 18, and 19), the company has said it will maintain leverage at or below this level, and liquidity is at least adequate. 3. Companies not controlled by a financial sponsor 172. For companies not controlled by a financial sponsor we evaluate management's financial discipline and financial policy framework to determine the influence on an entity's financial risk profile beyond what is implied by recent credit ratios and our cash flow and leverage forecasts. This influence can be positive, neutral, or negative. 173. We do not distinguish between management and a controlling shareholder that is not a financial sponsor when assessing these subfactors, as the controlling shareholder usually has the final say on financial policy. a) Financial discipline 174. The financial discipline assessment is based on management's leverage tolerance and the likelihood of event risk. The criteria evaluate management's potential appetite to incur unforeseen, higher financial risk over a prolonged period and the associated impact on credit measures. We also assess management's capacity and commitment to rapidly decrease debt leverage to levels consistent with its credit ratio targets. 175. This assessment therefore seeks to determine whether unforeseen actions by management to increase, maintain, or reduce financial risk are likely to occur during the next two to three years, with either a negative or positive effect, or none at all, on our baseline forecasts for the period. 176. This assessment is based on the leverage tolerance of a company's management, as reflected in its plans or history of acquisitions, shareholder remuneration, and organic growth strategies (see Appendix E, paragraphs 258 to 263). 177. We assess financial discipline as positive, neutral, or negative, based on its potential impact on our forward-looking assessment of a firm's cash flow/leverage, as detailed in table 25. For example, a neutral assessment for leverage tolerance reflects our expectation that management's financial policy will unlikely lead to significant deviation from current and forecasted credit ratios. A negative assessment acknowledges a significant degree of event

risk of increased leverage relative to our base-case forecast, resulting from the company's acquisition policy, its shareholder remuneration policy, or its organic growth strategy. A positive assessment indicates that the company is likely to take actions to reduce leverage, but we cannot confidently incorporate these actions into our baseline forward-looking assessment of cash flow/leverage. 178. A positive assessment indicates that management is committed and has the capacity to reduce debt leverage through the rapid implementation of credit enhancing measures, such as asset disposals, rights issues, or reductions in shareholder returns. In addition, management's track record over the past five years shows that it has taken actions to rapidly reduce unforeseen increases in debt leverage and that there have not been any prolonged periods when credit ratios were weaker than our expectations for the rating. Management, even if new, also has a track record of successful execution. Conversely, a negative assessment indicates management's financial policy allows for significant increase in leverage compared with both current levels and our forward-looking forecast under normal operating/financial conditions or does not have observable time limits or stated boundaries. Management has a track record of allowing for significant and prolonged peaks in leverage and there is no commitment or track record of management using mitigating measures to rapidly return to credit ratios consistent with our expectations. 179. As evidence of management's leverage tolerance, we evaluate its track record and plans regarding acquisitions, shareholder remuneration, and organic growth strategies (see Appendix E, paragraphs 258 to 263). Acquisitions could increase the risk that leverage will be higher than our base-case forecast if we view management's strategy as opportunistic or if its financial policy (if it exists) provides significant headroom for debt-financed acquisitions. Shareholder remuneration could also increase the risk of leverage being higher than our base-case forecast if management's shareholder reward policies are not particularly well defined or have no clear limits, management has a tolerance for shareholder returns exceeding operating cash flow, or has a track record of sustained cash returns despite weakening operating performance or credit ratios. Organic growth strategies can also result in leverage higher than our base-case forecast if these plans have no clear focus or investment philosophy, capital spending is fairly unpredictable, or there is a track record of overspending or unexpected or rapid shifts in plans for new markets or products. 180. We also take into account management's track record and level of commitment to its stated financial policies, to the extent a company has a stated policy. Historical evidence and any deviations from stated policies are key elements in analyzing a company's leverage tolerance. Where material and unexpected deviation in leverage may occur (for example, on the back of operating weakness or acquisitions), we also assess management's plan to restore credit ratios to levels consistent with previous expectations through rapid and proactive non-organic measures. Management's track record to execute its deleveraging plan, its level of commitment, and the scope and timeframe of debt mitigating measures will be key differentiators in assessing a company's financial policy discipline. Table 25 Assessing Financial Discipline DESCRIPTOR WHAT IT MEANS GUIDANCE Positive Management is likely to take actions that result in leverage that is lower than our base-case forecast, but can't be confidently included in our base-case assumptions. Event risk is low. Management is committed and has capacity to reduce debt leverage and increase financial headroom through the rapid implementation of credit enhancing measures, in line with its stated financial policy, if any. This relates primarily to management's careful and moderate policy with regard to acquisitions and shareholder remuneration as well as to its organic growth strategy. The assessments are supported by historical evidence over the past five years of not showing any prolonged weakening in the company's credit ratios, or relative to our base-case credit metrics' assumptions. Management, even if new, has a track record of successful execution. Neutral Leverage is not expected to deviate materially from our base-case forecast. Event risk is moderate. Management's financial discipline with regard to acquisitions, shareholder remuneration, as well as its organic growth strategy does not result in significantly different leverage as defined in its stated financial policy framework. Negative Leverage could become materially higher than our base-case forecast. Event risk is high. Management's financial policy framework does not explicitly rule out a significant increase in leverage compared to our base-case assumptions, possibly reflecting a greater event risk with regard to its M&A; and shareholder remuneration policy as well as to its organic growth strategy. These points are supported by historical evidence over the past five years of allowing for significant and prolonged peaks in leverage, which remained unmitigated by credit

supporting measures by management. b) Financial policy framework 181. The company's financial policy framework assesses the comprehensiveness, transparency, and sustainability of the entity's financial policies (see Appendix E, paragraphs 264-268). This will help determine whether there is a satisfactory degree of visibility into the issuer's future financial risk profile. Companies that have developed and sustained a comprehensive set of financial policies are more likely to build long-term, sustainable credit quality than those that do not. 182. We will assess a company's financial policy framework as supportive or non-supportive based on evidence that supports the characteristics listed below. In order for an entity to receive a supportive assessment for financial policy framework, there must be sufficient evidence of management's financial policies to back that assessment. 183. A company assessed as supportive will generally exhibit the following characteristics: Management has a comprehensive set of financial policies covering key areas of financial risk, including debt leverage and liability management. Financial targets are well defined and quantifiable. Management's financial policies are clearly articulated in public forums (such as public listing disclosures and investor presentations) or are disclosed to a limited number of key stakeholders such as main creditors or to the credit rating agencies. The company's adherence to these policies is satisfactory. Management's articulated financial policies are considered achievable and sustainable. This assessment takes into consideration historical adherence to articulated policies, existing financial risk profile, capacity to sustain capital structure through nonorganic means, demands of key stakeholders, and the stability of financial policy parameters over time. 184. A company receives a non-supportive assessment if it does not meet all the conditions for a supportive assessment. We expect a non-supportive assessment to be uncommon. I. Liquidity 185. Our assessment of liquidity focuses on monetary flows--the sources and uses of cash--that are the key indicators of a company's liquidity cushion. The analysis assesses the potential for a company to breach covenant tests related to declines in EBITDA, as well as its ability to absorb high-impact, low-probability events (such as those that may arise from the materialization of ESG risks), the nature of the company's bank relationships, its standing in credit markets, and how prudent (or not) we believe its financial risk management to be (see "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers"). J. Management And Governance 186. The analysis of management and governance addresses how management's strategic competence, organizational effectiveness, risk management, and governance practices shape the issuer's competitiveness in the marketplace, the strength of its financial risk management, and the robustness of its governance. Stronger management of important strategic and financial risks may enhance creditworthiness (see "Methodology: Management And Governance Credit Factors For Corporate Entities"). K. Comparable Ratings Analysis 187. The comparable ratings analysis is our last step in determining a SACP on a company. This analysis can lead us to raise or lower our anchor, after adjusting for the modifiers, on a company by one notch based on our overall assessment of its credit characteristics for all subfactors considered in arriving at the SACP. This involves taking a holistic review of a company's stand-alone credit risk profile, in which we evaluate an issuer's credit characteristics in aggregate. A positive assessment leads to a one-notch upgrade, a negative assessment leads to a one-notch downgrade, and a neutral assessment indicates no change to the anchor. 188. The application of comparable ratings analysis reflects the need to "fine-tune" ratings outcomes, even after the use of each of the other modifiers. A positive or negative assessment is therefore likely to be common rather than exceptional. 189. We consider our assessments of each of the underlying subfactors to be points within a possible range. Consequently, each of these assessments that ultimately generate the SACP can be at the upper or lower end, or at the mid-point, of such a range: A company receives a positive assessment if we believe, in aggregate, its relative ranking across the subfactors typically to be at the higher end of the range; A company receives a negative assessment if we believe, in aggregate, its relative ranking across the subfactors typically to be at the lower end of the range; A company receives a neutral assessment if we believe, in aggregate, its relative ranking across the subfactors typically to be in line with the middle of the range. 190. The most direct application of the comparable ratings analysis is in the following circumstances: Business risk assessment. If we expect a company to sustain a position at the higher or lower end of the ranges for the business risk category assessment, the company could receive a positive or negative assessment, respectively. Financial risk assessment and financial metrics. If a company's actual and

forecasted metrics are just above (or just below) the financial risk profile range, as indicated in its cash flow/leverage assessment, we could assign a positive or negative assessment. 191. We also consider additional factors not already covered, or existing factors not fully captured, in arriving at the SACP. Such factors will generally reflect less frequently observed credit characteristics, may be unique, or may reflect unpredictability or uncertain risk attributes, both positive and negative. 192. This paragraph has been deleted. APPENDIXES A. Country Risk Table 26 Countries And Regions REGION Western Europe Southern Europe Western + Southern Europe East Europe Central Europe Eastern Europe and Central Asia Middle East Africa North America Central America Latin America The Caribbean Asia-Pacific Central Asia East Asia Australia NZ COUNTRY REGION South Africa Africa Egypt Africa Nigeria Africa Algeria Africa Morocco Africa Angola Africa Tunisia Africa Ethiopia Africa Ghana Africa Kenya Africa Tanzania Africa Uganda Africa Botswana Africa Congo, Democratic Republic of Africa Gabon Africa Senegal Africa Mozambique Africa Burkina Faso Africa Zambia Africa Congo, Republic of Africa Zimbabwe Africa Eritrea Africa Indonesia Asia-Pacific Taiwan Asia-Pacific Thailand Asia-Pacific Malaysia Asia-Pacific Philippines Asia-Pacific Vietnam Asia-Pacific Bangladesh Asia-Pacific Sri Lanka Asia-Pacific Cambodia Asia-Pacific Laos Asia-Pacific Papua New Guinea Asia-Pacific Mongolia Asia-Pacific Australia Australia NZ New Zealand Australia NZ Guatemala Central America Costa Rica Central America Panama Central America Honduras Central America India Central Asia Pakistan Central Asia Kazakhstan Central Asia Bhutan Central Asia Poland Central Europe Czech Republic Central Europe Romania Central Europe Hungary Central Europe Slovakia Central Europe Bulgaria Central Europe Croatia Central Europe Serbia Central Europe Lithuania Central Europe Latvia Central Europe Bosnia and Herzegovina Central Europe Estonia Central Europe Albania Central Europe Macedonia Central Europe China East Asia Japan East Asia South Korea East Asia Hong Kong East Asia Singapore East Asia Macau East Asia Greece Eastern Europe Slovenia Eastern Europe Cyprus Eastern Europe Russia Eastern Europe and Central Asia Ukraine Eastern Europe and Central Asia Belarus Eastern Europe and Central Asia Azerbaijan Eastern Europe and Central Asia Georgia Eastern Europe and Central Asia Brazil Latin America Mexico Latin America Argentina Latin America Colombia Latin America Venezuela Latin America Peru Latin America Chile Latin America Ecuador Latin America Bolivia Latin America Uruguay Latin America El Salvador Latin America Paraguay Latin America Trinidad and Tobago Latin America Suriname Latin America Belize Latin America Turkey Middle East Saudi Arabia Middle East United Arab Emirates Middle East Israel Middle East Qatar Middle East Kuwait Middle East Iraq Middle East Oman Middle East Lebanon Middle East Jordan Middle East Bahrain Middle East United States North America Canada North America Italy Southern Europe Spain Southern Europe Portugal Southern Europe Dominican Republic The Caribbean Jamaica The Caribbean Bahamas The Caribbean Barbados The Caribbean Curacao The Caribbean Cayman Islands The Caribbean Grenada The Caribbean Turks and Caicos The Caribbean Germany Western Europe United Kingdom Western Europe France Western Europe Netherlands Western Europe Belgium Western Europe Sweden Western Europe Switzerland Western Europe Austria Western Europe Norway Western Europe Denmark Western Europe Finland Western Europe Ireland Western Europe Luxembourg Western Europe Iceland Western Europe Malta Western Europe B. Competitive Position Table 27 List Of Industries, Subsectors, And Standard Competitive Position Group Profiles INDUSTRY SUBSECTOR COMPETITIVE POSITION GROUP PROFILE Transportation cyclical Airlines Capital or asset focus Marine Capital or asset focus Trucking Capital or asset focus Auto OEM Automobile and truck manufacturers Capital or asset focus Metals and mining downstream Aluminum Commodity focus/cost driven Steel Commodity focus/cost driven Metals and mining upstream Coal and consumable fuels Commodity focus/cost driven Diversified metals and mining Commodity focus/cost driven Gold Commodity focus/cost driven Precious metals and minerals Commodity focus/cost driven Homebuilders and developers Homebuilding Capital or asset focus Oil and gas refining and marketing Oil and gas refining and marketing Commodity focus/scale driven Forest and paper products Forest products Commodity focus/cost driven Paper products Commodity focus/cost driven Building Materials Construction materials Capital or asset focus Oil and gas integrated, exploration and production Integrated oil and gas Commodity focus/scale driven Oil and gas exploration and production Commodity focus/scale driven Agribusiness and commodity foods Agricultural products Commodity focus/scale driven Real estate investment trusts (REITs) Diversified REITs Real-estate specific* Health

care REITS Real-estate specific* Industrial REITs Real-estate specific* Office REITs Real-estate specific* Residential REITs Real-estate specific* Retail REITs Real-estate specific* Specialized REITs Not applicable** Self-storage REITs Real-estate specific* Net lease REITs Real-estate specific* Real estate operating companies Real-estate specific* Leisure and sports Casinos and gaming Services and product focus Hotels, resorts, and cruise lines Services and product focus Leisure facilities Services and product focus Commodity chemicals Commodity chemicals Commodity focus/cost driven Diversified chemicals Commodity focus/cost driven Fertilizers and agricultural chemicals Commodity focus/cost driven Auto suppliers Auto parts and equipment Capital or asset focus Tires and rubber Capital or asset focus Vehicle-related suppliers Capital or asset focus Aerospace and defense Aerospace and defense Services and product focus Technology hardware and semiconductors Communications equipment Capital or asset focus Computer hardware Capital or asset focus Computer storage and peripherals Capital or asset focus Consumer electronics Capital or asset focus Electronic equipment and instruments Capital or asset focus Electronic components Capital or asset focus Electronic manufacturing services Capital or asset focus Technology distributors Capital or asset focus Office electronics Capital or asset focus Semiconductor equipment Capital or asset focus Semiconductors Capital or asset focus Specialty Chemicals Industrial gases Capital or asset focus Specialty chemicals Capital or asset focus Capital Goods Electrical components and equipment Capital or asset focus Heavy equipment and machinery Capital or asset focus Industrial componentry and consumables Capital or asset focus Construction equipment rental Capital or asset focus Industrial distributors Services and product focus Engineering and construction Construction and engineering Services and product focus Railroads and package express Railroads Capital or asset focus Package express Services and product focus Logistics Services and product focus Business and consumer services Consumer services Services and product focus Distributors Services and product focus Facilities services Services and product focus General support services Services and product focus Professional services Services and product focus Midstream energy Oil and gas storage and transportation Commodity focus/scale driven Technology software and services Internet software and services Services and product focus IT consulting and other services Services and product focus Data processing and outsourced services Services and product focus Application software Services and product focus Systems software Services and product focus Consumer software Services and product focus Consumer durables Home furnishings Services and product focus Household appliances Services and product focus Housewares and specialties Services and product focus Leisure products Services and product focus Photographic products Services and product focus Small appliances Services and product focus Containers and packaging Metal and glass containers Capital or asset focus Paper packaging Capital or asset focus Media and entertainment Ad agencies and marketing services companies Services and product focus Ad-supported online content platforms Services and product focus Broadcast networks Services and product focus Cable TV and OTT networks Services and product focus Newspapers/magazines Services and product focus Data publishing Services and product focus E-Commerce (services) Services and product focus Educational publishing Services and product focus Film and TV programming production Capital or asset focus Miscellaneous media and entertainment Services and product focus Motion picture exhibitors Services and product focus Music publishing and recording Services and product focus Outdoor advertising Services and product focus Printing Commodity focus/scale driven Radio stations Services and product focus Local TV stations Services and product focus Oil and gas drilling, equipment and services Onshore contract drilling Commodity focus/scale driven Offshore contract drilling Capital or Asset Focus Oil and gas equipment and services (oilfield services) Commodity focus/scale driven Retail and restaurants Catalog retail Services and product focus Internet retail Services and product focus Department stores Services and product focus General merchandise stores Services and product focus Apparel retail Services and product focus Computer and electronics retail Services and product focus Home improvement retail Services and product focus Specialty stores Services and product focus Automotive retail Services and product focus Home furnishing retail Services and product focus Health care services Health care services Commodity focus/scale driven Transportation infrastructure Airport services National industries and utilities Highways National industries and utilities Railtracks National industries and utilities Marine ports and services National industries and utilities Environmental services

Environmental and facilities services Services and product focus Regulated utilities Electric utilities National industries and utilities Gas utilities National industries and utilities Multi-utilities National industries and utilities Water utilities National industries and utilities Unregulated power and gas Independent power producers and energy traders Capital or asset focus Merchant power Capital or asset focus Pharmaceuticals Branded pharmaceuticals Services and product focus Generic pharmaceuticals Commodity focus/scale driven Health care equipment High-tech health care equipment Product focus/scale driven Low-tech health care equipment Commodity focus/scale driven Branded nondurables Brewers Services and product focus Distillers and vintners Services and product focus Soft drinks Services and product focus Packaged foods and meats Services and product focus Tobacco Services and product focus Household products Services and product focus Apparel, footwear, accessories, and luxury goods Services and product focus Personal products Services and product focus Telecommunications and cable Cable and satellite Services and product focus Alternative carriers Services and product focus Integrated telecommunication services Services and product focus Wireless towers Capital or asset focus Data center operators Capital or asset focus Fiber-optic carriers Capital or asset focus Wireless telecommunication services Services and product focus *See "Key Credit Factors For The Real Estate Industry." **For specialized REITs, there is no standard CPGP, as the CPGP will vary based on the underlying industry exposure (e.g., a forest and paper products REIT). 1. Analyzing subfactors for competitive advantage 193. Competitive advantage is the first component of our competitive position analysis. Companies that possess a sustainable competitive advantage are able to capitalize on key industry factors or mitigate associated risks more effectively. When a company operates in more than one business, we analyze each segment separately to form an overall view of its competitive advantage. In assessing competitive advantage, we evaluate the following subfactors: Strategy; Differentiation/uniqueness, product positioning/bundling; Brand reputation and marketing; Product/service quality; Barriers to entry, switching costs; Technological advantage and capabilities, technological displacement; and Asset profile. a) Strategy 194. A company's business strategy will enhance or undermine its market entrenchment and business stability. Compelling business strategies can create a durable competitive advantage and thus a relatively stronger competitive position. We form an opinion as to the source and sustainability (if any) of the company's competitive advantage relative to its peers'. The company may have a differentiation advantage (i.e., brand, technology, regulatory) or a cost advantage (i.e., lower cost producer/servicer at the same quality level), or a combination. 195. Our assessment of a company's strategy is informed by a company's historical performance and how realistic we view its forward-looking business objectives to be. These may include targets for market shares, the percentage of revenues derived from new products, price versus the competition's, sales or profit growth, and required investment levels. We evaluate these objectives in the context of industry dynamics and the attractiveness of the markets in which the company participates. b) Differentiation/uniqueness, product positioning/bundling 196. The attributes of product or service differentiation vary by sector, and may include product or services features, performance, durability, reliability, delivery, and comprehensiveness, among other measures. The intensity of competition may be lower where buyers perceive the product or service to be highly differentiated or to have few substitutes. Conversely, products and services that lack differentiation, or offer little value-added in the eyes of customers, are generally commodity-type products that primarily compete on price. Competition intensity will often be highest where limited or moderate investment (R&D;, capital expenditures, or advertising) or low employee skill levels (for service businesses) are required to compete. Independent market surveys, media commentaries, market share trends, and evidence of leading or lagging when it comes to raising or lowering prices can indicate varying degrees of product differentiation. 197. Product positioning influences how companies are able to extend or protect market shares by offering popular products or services. A company's abilities to replace aging products with new ones, or to launch product extensions, are important elements of product positioning. In addition, the ability to sell multiple products or services to the same customer, known as bundling or cross-selling, (for instance, offering an aftermarket servicing contract together with the sale of a new appliance) can create a competitive advantage by increasing customers' switching costs and fostering loyalty. c) Brand reputation and marketing 198. Brand equity measures the price premium a company receives based on its brand

relative to the generic equivalent. High brand equity typically translates into customer loyalty, built partially via marketing campaigns. One measure of advertising effectiveness can be revenue growth compared with the increase in advertising expenses. 199. We also analyze re-investment and advertising strategies to anticipate potential strengthening or weakening of a company's brand. A company's track record of boosting market share and delivering attractive margins could indicate its ability to build and maintain brand reputation. d) Product/service level quality 200. The strength and consistency of a value proposition is an important factor contributing to a sustainable competitive advantage. Value proposition encompasses the key features of a product or a service that convince customers that their purchase has the right balance between price and quality. Customers generally perceive a product or a service to be good if their expectations are consistently met. Quality, both actual and perceived, can help a company attract and retain customers. Conversely, poor product and service quality may lead to product recalls, higher-than-normal product warnings, or service interruptions, which may reduce demand. Measures of customer satisfaction and retention, such as attrition rates and contract renewal rates, can help trace trends in product/service quality. 201. Maintaining the value proposition requires consistency and adaptability around product design, marketing, and quality-related operating controls. This is pertinent where product differentiation matters, as is the case in most noncommodity industries, and especially so where environmental or human health (concerns for the chemical, food, and pharmaceutical industries) adds a liability dimension to the quality and value proposition. Similarly, regulated utilities (which often do not set their own prices) typically focus on delivering uninterrupted service, often to meet the standards set by their regulator. e) Barriers to entry, switching costs 202. Barriers to entry can reduce or eliminate the threat of new market entrants. Where they are effective, these barriers can lead to more predictable revenues and profits, by limiting pricing pressures and customer losses, lowering marketing costs, and improving operating efficiency. While barriers to entry may enable premium pricing, a dominant player may rationally choose pricing restraint to further discourage new entrants. 203. Barriers to entry can be one or more of: a natural or regulatory monopoly; supportive regulation; high transportation costs; an embedded customer base that would incur high switching costs; a proprietary product or service; capital or technological intensiveness. 204. A natural monopoly may result from unusually high requirements for capital and operating expenditures that make it uneconomic for a market to support more than a single, dominant provider. The ultimate barrier to entry is found among regulated utilities, which provide an essential service in their 'de juris' monopolies and receive a guaranteed rate of return on their investments. A supportive regulatory regime can include rules and regulations with high hurdles that discourage competitors, or mandate so many obligations for a new entrant as to make market entry financially unviable. 205. In certain industrial sectors, proprietary access to a limited supply of key raw materials or skilled labor, or zoning laws that effectively preclude a new entrant, can provide a strong barrier to entry. Factors such as relationships, long-term contracts or maintenance agreements, or exclusive distribution agreements can result in a high degree of customer stickiness. A proprietary product or service that's protected by a copyright or patent can pose a significant hurdle to new competitors. f) Technological advantage and capabilities, technological displacement 206. A company may benefit from a proprietary technology that enables it to offer either a superior product or a commodity-type product at a materially lower cost. Proven research and development (R&D;) capabilities can deliver a differentiated, superior product or service, as in the pharmaceutical or high tech sectors. However, optimal R&D; strategies or the importance or effectiveness of patent protection differ by industry, stage of product development, and product lifecycle. 207. Technological displacement can be a threat in many industries; new technologies or extensions of current ones can effectively displace a significant portion of a company's products or services. g) Asset profile 208. A company's asset profile is a reflection of its reinvestment, which creates tangible or intangible assets, or both. Companies in similar sectors and industries usually have similar reinvestment options and, thus, their asset profiles tend to be comparable. The reinvestment in "heavy" industries, such as oil and gas, metals and mining, and automotive, tends to produce more tangible assets, whereas the reinvestment in certain "light" industries, such as services, media and entertainment, and retail, tends to produce more intangible assets. 209. We evaluate how a company's asset profile supports or undermines its competitive advantage by reviewing its manufacturing or service creation capabilities and investment

requirements, its distribution capabilities, and its track record and commitment to reinvesting in its asset base. This may include a review of the company's ability to attract and retain a talented workforce; its degree of vertical integration and how that may help or hinder its ability to secure supply sources, control the value-added part of its production chain, or adjust to technological developments; or its ability develop a broad and strong distribution network. 2. Analyzing subfactors for scale, scope, and diversity 210. In assessing the relative strength of this component, we evaluate four subfactors: Diversity of product or service range; Geographic diversity; Volumes, size of markets and revenues, and market shares; and Maturity of products or services. 211. In a given industry, entities with a broader mix of business activities are typically lower risk, and entities with a narrower mix are higher risk. High concentration of business volumes by product, customer, or geography, or a concentration in the production footprint or supplier base, can lead to less stable and predictable revenues and profits. Comparatively broader diversity helps a company withstand economic, competitive, or technological threats better than its peers. 212. There is no minimum size criterion, although size often provides a measure of diversification. Size and scope of operations is important relative to those of industry peers, though not in absolute terms. While relatively smaller companies can enjoy a high degree of diversification, they will likely be, almost by definition, more concentrated in terms of product, number of customers, or geography than their larger peers in the same industry. 213. Successful and continuing diversification supports a stronger competitive position. Conversely, poor diversification weakens overall competitive position. For example, a company will weaken its overall business position if it enters new product lines and countries where it has limited expertise and lacks critical mass to be a real competitor to the incumbent market leaders. The weakness is greater when the new products or markets are riskier than the traditional core business. 214. Where applicable, we also include under scale, scope, and diversity an assessment of the potential benefits derived from unconsolidated (or partially consolidated) investments in strategic assets. The relative significance of such an investment and whether it is in an industry that exhibits high or, conversely, low correlation with the issuer's businesses would be considered in determining its potential benefits to scale, scope, and diversity. This excludes nonstrategic, financial investments, the analysis of which does not fall under the competitive position criteria but, instead, under the capital structure criteria. a) Diversity of product or service range 215. The concentration of business volumes or revenues in a particular or comparatively small set of products or services can lead to less stable revenues and profits. Even if this concentration is in an attractive product or service, it may be a weakness. Likewise, the concentration of business volumes with a particular customer or a small group of customers, or the reliance on one or a few suppliers, can expose the company to a potentially greater risk of losing and having to replace related revenues and profits. On the other hand, successful diversification across products, customers, and/or suppliers can lead to more stable and predictable revenues and profits, which supports a stronger assessment of scale, scope, and diversity. 216. The relative contribution of different products or services to a company's revenues or profits helps us gauge its diversity. We also evaluate the correlation of demand between product or services lines. High correlation in demand between seemingly different product or service lines will accentuate volume declines during a weak part of the business cycle. 217. In most sectors, the share of revenue a company receives from its largest five to 10 customers or counterparties reveals how diversified its customer base is. However, other considerations such as the stability and credit quality of that customer base, and the company's ability to retain significant customers, can be mitigating or accentuating factors in our overall evaluation. Likewise, supplier dependency can often be measured based on a supplier's share of a company's operating or capital costs. However, other factors, such as the degree of interdependence between the company and its supplier(s), the substitutability of key supply sources, and the company's presumed ability to secure alternative supply without incurring substantial switching costs, are important considerations. Low switching costs (i.e. limited impact on input price, quality, or delivery times as a result of having to adapt to a new supply chain partner) can mitigate a high level of concentration. b) Geographic diversity 218. We assess geographic diversity both from the standpoint of the breadth of the company's served or addressable markets, and from the standpoint of how geographically concentrated its facilities are. 219. The concentration of business volumes and revenues within a particular region can lead to greater exposure to economic factors affecting demand for a company's goods or services in that region. Even

if the company's volumes and revenues are concentrated in an attractive region, it may still be vulnerable to a significant drop in demand for its goods and services. Conversely, a company that serves multiple regions may benefit from different demand conditions in each, possibly resulting in greater revenue stability and more consistent profitability than a more focused peer's. That said, we consider geographic diversification in the context of the industry and the size of the local or regional economy. For instance, companies operating in local industries (such as food retailers) may benefit from a well-entrenched local position. 220. Generally, though, geographically concentrated production or service operations can expose a company to the risk of disruption, and damage revenues and profitability. Even when country risks don't appear significant, a company's vulnerability to exogenous factors (for example, natural disasters, an epidemic, labor or political unrest) increases with geographic concentration. c) Volumes, size of markets and revenues, market share 221. Absolute sales or unit volumes and market share do not, by themselves, support a strong assessment of scale, scope, and diversity. Yet superior market share is a positive, since it may indicate a broad range of operations, products, or services. 222. We view volume stability (relative to peers') as a positive especially when: a company has demonstrated it during an economic downturn; if it has been achieved without relying on greater price concessions than competitors have made; and when it is likely to be sustained in the future. However, volume stability combined with shrinking market share could be evidence of a company's diminishing prospects for future profitability. We assess the predictability of business volumes and the likely degree of future volume stability by analyzing the company's performance relative to peers' on several industry factors: cyclicality; ability to adapt to technological and regulatory threats; the profile of the customer base (stickiness); and the potential life cycle of the company's products or services. 223. Depending on the industry sector, we measure a company's relative size and market share based on unit sales; the absolute amount of revenues; and the percentage of revenues captured from total industry revenues. We also adjust for industry and company specific qualitative considerations. For example, if an industry is particularly fragmented and has a number of similarly sized participants, none may have a particular advantage or disadvantage with respect to market share. d) Maturity of products or services 224. The degree of maturity and the relative position on the lifecycle curve of the company's product or service portfolio affect the stability and sustainability of its revenues and margins. It is important to identify the stage of development of a company's products or services in order to measure the life cycle risks that may be associated with key products or services. 225. Mature products or services (e.g. consumer products or broadcast programming) are not necessarily a negative, in our view, if they still contribute reliable profits. If demand is declining for a company's product or service, we examine its track record on introducing new products with staying power. Similarly, a company's track record with product launches is particularly relevant. 3. Analyzing subfactors for operating efficiency 226. In assessing the relative strength of this component, we consider four subfactors: Cost structure, Manufacturing processes, Working capital management, and Technology. 227. To the extent a company has high operating efficiency, it should be able to generate better profit margins than peers that compete in the same markets, whatever the prevailing market conditions. The ability to minimize manufacturing and other operational costs and thus maximize margins and cash flow--for example, through manufacturing excellence, cost control, and diligent working capital management--will provide the funds for research and development, marketing, and customer service. a) Cost structure 228. Companies that are well positioned from a cost standpoint will typically enjoy higher capacity utilization and be more profitable over the course of the business cycle. Cost structure and cost control are keys to generating strong profits and cash flow, particularly for companies that produce commodities, operate in mature industries, or face pricing pressures. It is important to consider whether a company or any of its competitors has a sustainable cost advantage, which can be based on access to cheaper energy, favorable manufacturing locations, or lower and more flexible labor costs, for example. 229. Where information is available, we examine a company's fixed versus variable cost mix as an indication of operating leverage, a measure of how revenue growth translates into growth in operating income. A company with significant operating leverage may witness dramatic declines in operating profit if unit volumes fall, as during cyclical downturns. Conversely, in an upturn, once revenues pass the breakeven point, a substantial percentage of incremental revenues typically becomes profit. b) Manufacturing process 230. Capital intensity characterizes many heavy

manufacturing sectors that require minimum volumes to produce acceptable profits, cash flow, and return on assets. We view capacity utilization through the business cycle (combined with the cost base) as a good indication of manufacturers' ability to maintain profits in varying economic scenarios. Our capacity utilization assessment is based on a company's production capacity across its manufacturing footprint. In addition, we consider the direction of a company's capacity utilization in light of our unit sales expectations, as opposed to analyzing it plant-by-plant. 231. Labor relations remain an important focus in our analysis of operating efficiency for manufacturers. Often, a company's labor cost structure is driven by its history of contractual negotiations and the countries in which it operates. We examine the rigidity or flexibility of a company's labor costs and the extent to which it relies on labor rather than automation. We analyze labor cost structure by assessing the extent of union representation, wage and benefit costs as a share of cost of goods sold (when available), and by assessing the balance of capital equipment vs. labor input in the manufacturing process. We also incorporate trends in a company's efforts to transfer labor costs from high-cost to low-cost regions. c) Working capital management 232. Working capital management--of current or short-term assets and liabilities--is a key factor in our evaluation of operating efficiency. In general, companies with solid working capital management skills exhibit shorter cash conversion cycles (defined as days' investment in inventory and receivables less days' investment in accounts payable) than their lower-skilled peers. Short cash-conversion cycles could, for instance, demonstrate that a company has a stronger position in the supply chain (for example, requiring suppliers or dealers to hold more of its inventory). This allows a company to direct more capital than its peers can to other areas of investment. d) Technology 233. Technology can play an important role in achieving superior operating efficiency through effective yield management (by improving input/output ratios), supply chain automation, and cost optimization. 234. Achieving high yield management is particularly important in industries with limited inventory and high fixed costs, such as transportation, lodging, media, and retail. The most efficient airlines can achieve higher revenue per available seat mile than their peers, while the most efficient lodging companies can achieve a higher revenue per available room than their peers. Both industries rely heavily on technology to effectively allocate inventory (seats and rooms) to maximize sales and profitability. 235. Effective supply chain automation systems enable companies to reduce investments in inventory and better forecast future orders based on current trends. By enabling electronic data interchange between supplier and retailer, such systems help speed orders and reorders for goods by quickly pinpointing which merchandise is selling well and needs restocking. They also identify slow moving inventory that needs to be marked down, making space available for fresh merchandise. 236. Effective use of technology can also help hold down costs by improving productivity via automation and workflow management. This can reduce selling, general, and administrative costs, which usually represent a substantial portion of expenditures for industries with high fixed costs, thus boosting earnings. [Tables 28-30 have been deleted.] C. Cash Flow/Leverage Analysis 1. The merits and drawbacks of each cash flow measure a) EBITDA 237. EBITDA is a widely used, and therefore a highly comparable, indicator of cash flow, although it has significant limitations. Because EBITDA derives from the income statement entries, it can be distorted by the same accounting issues that limit the use of earnings as a basis of cash flow. In addition, interest can be a substantial cash outflow for speculative-grade companies and therefore EBITDA can materially overstate cash flow in some cases. Nevertheless, it serves as a useful and common starting point for cash flow analysis and is useful in ranking the financial strength of different companies. b) Funds from operations (FFO) 238. FFO is a hybrid cash flow measure that estimates a company's inherent ability to generate recurring cash flow from its operations independent of working capital fluctuations. FFO estimates the cash flow available to the company before working capital, capital spending, and discretionary items such as dividends, acquisitions, etc. 239. Because cash flow from operations tends to be more volatile than FFO, FFO is often used to smooth period-over-period variation in working capital. We consider it a better proxy of recurring cash flow generation because management can more easily manipulate working capital depending on its liquidity or accounting needs. However, we do not generally rely on FFO as a guiding cash flow measure in situations where assessing working capital changes is important to judge a company's cash flow generating ability and general creditworthiness. For example, for working-capital-intensive industries such as retailing, operating cash flow may be a better indicator than FFO of the firm's actual cash generation. 240. FFO

is a good measure of cash flow for well-established companies whose long-term viability is relatively certain (i.e., for highly rated companies). For such companies, there can be greater analytical reliance on FFO and its relation to the total debt burden. FFO remains very helpful in the relative ranking of companies. In addition, more established, healthier companies usually have a wider array of financing possibilities to cover potential short-term liquidity needs and to refinance upcoming maturities. For marginal credit situations, the focus shifts more to free operating cash flow--after deducting the various fixed uses such as working capital investment and capital expenditures--as this measure is more directly related to current debt service capability. c) Cash flow from operations (CFO) 241. The measurement and analysis of CFO forms an important part of our ratings assessment, in particular for companies that operate in working-capital-intensive industries or industries in which working capital flows can be volatile. CFO is distinct from FFO as it is a pure measure of cash flow calculated after accounting for the impact on earnings of changes in operating assets and liabilities. CFO is cash flow that is available to finance items such as capital expenditures, repay borrowing, and pay for dividends and share buybacks. 242. In many industries, companies shift their focus to cash flow generation in a downturn. As a result, even though they typically generate less cash from ordinary business activities because of low capacity utilization and relatively low fixed-cost absorption, they may generate cash by reducing inventories and receivables. Therefore, although FFO is likely to be lower in a downturn, the impact on CFO may not be as great. In times of strong growth the opposite will be true, and consistently lower CFO compared to FFO without a corresponding increase in revenue and profitability can indicate an untenable situation. 243. Working capital is a key element of a company's cash flow generation. While there tends to be a need to build up working capital and therefore to consume cash in a growth or expansion phase, changes in working capital can also act as a buffer in case of a downturn. Many companies will sell off inventories and invest a lower amount in raw materials because of weaker business activities, both of which reduce the amount of capital and cash that is tied up in working capital. Therefore, working capital fluctuations can occur both in periods of revenue growth and contraction and analyzing a company's near-term working capital needs is crucial for estimating future cash flow developments. 244. Often, businesses that are capital intensive are not working-capital-intensive: most of the capital commitment is upfront in equipment and machinery, while asset-light businesses may have to invest proportionally more in inventories and receivables. That also affects margins, because capital-intensive businesses tend to have proportionally lower operating expenses (and therefore higher EBITDA margins), while working-capital-intensive businesses usually report lower EBITDA margins. The resulting cash flow volatility can be significant: because all investment is made upfront in a capital-intensive business, there is usually more room to absorb subsequent EBITDA volatility because margins are higher. For example, a capital-intensive company may remain reasonably profitable even if its EBITDA margin declines from 30% to 20%. By contrast, a working-capital-intensive business with a lower EBITDA margin (due to higher operating expenses) of 8% can post a negative EBITDA margin if EBITDA volatility is large. d) Free operating cash flow (FOCF) 245. By deducting capital expenditures from CFO, we arrive at FOCF, which can be used as a proxy for a company's cash generated from core operations. We may exclude discretionary capital expenditures for capacity growth from the FOCF calculation, but in practice it is often difficult to discriminate between spending for expansion and replacement. And, while companies have some flexibility to manage their capital budgets to weather down cycles, such flexibility is generally temporary and unsustainable in light of intrinsic requirements of the business. For example, companies can be compelled to increase their investment programs because of strong demand growth, technological changes, or to meet environmental regulatory requirements. Regulated entities (for example, telecommunications companies) might also face significant investment requirements related to their concession contracts (the understanding between a company and the host government that specifies the rules under which the company can operate locally). 246. Positive FOCF is a sign of strength and helpful in distinguishing between two companies with the same FFO. In addition, FOCF is helpful in differentiating between the cash flows generated by more and less capital-intensive companies and industries. 247. In highly capital-intensive industries (where maintenance capital expenditure requirements tend to be high) or in other situations in which companies have little flexibility to postpone capital expenditures, measures such as FFO to debt and debt to EBITDA may provide less valuable

insight into relative creditworthiness because they fail to capture potentially meaningful capital expenditures. In such cases, a ratio such as FOCF to debt provides greater analytical insight. 248. A company serving a low-growth or declining market may exhibit relatively strong FOCF because of diminishing fixed and working capital needs. Growth companies, in contrast, exhibit thin or even negative FOCF because of the investment needed to support growth. For the low-growth company, credit analysis weighs the positive, strong current cash flow against the danger that this high level of cash flow might not be sustainable. For the high-growth company, the opposite is true: weighing the negatives of a current cash deficit against prospects of enhanced cash flow once current investments begin yielding cash benefits. In the latter case, if we view the growth investment as temporary and not likely to lead to increased leverage over the long-term, we'll place greater analytical importance on FFO to debt rather than on FOCF to debt. In any event, we also consider the impact of a company's growth environment in our business risk analysis, specifically in a company's industry risk analysis (see section B). e) Discretionary cash flow (DCF) 249. For corporate issuers primarily rated in the investment-grade universe, DCF to debt can be an important barometer of future cash flow adequacy as it more fully reflects a company's financial policy, including decisions regarding dividend payouts and share buybacks. In addition, potential M&A; can represent a very significant use of cash and is an important component in cash flow analysis. 250. The level of dividends depends on a company's financial strategy. Companies with aggressive dividend payout targets might be reluctant to reduce dividends even under some liquidity pressure. In addition, investment-grade companies are less likely to reduce dividend payments following some reversals--although dividends ultimately are discretionary. DCF is the truest reflection of excess cash flow, but it is also the most affected by management decisions and, therefore, does not necessarily reflect the potential cash flow available. D. Diversification/Portfolio Effect 1. Academic research 251. Academic research recently concluded that, during the global financial crisis of 2007-2009, conglomerates had the advantage over single sector-focused firms because they had better access to the credit markets as a result of their debt co-insurance and used the internal capital markets more efficiently (i.e., their core businesses had stronger cash flows). Debt co-insurance is the view that the joining-together of two or more firms whose earnings streams are less-than-perfectly correlated reduces the risk of default of the merged firms (i.e., the co-insurance effect) and thereby increases the "debt capacity" or "borrowing ability" of the combined enterprise. These financing alternatives became more valuable during the crisis. (Source: "Does Diversification Create Value In The Presence Of External Financing Constraints? Evidence From The 2007-2009 Financial Crisis," Venkat Kuppuswamy and Belen Villalonga, Harvard Business School, Aug. 19, 2011.) 252. In addition, fully diversified, focused companies saw more narrow credit default swap spreads from 2004-2010 vs. less diversified firms. This highlighted that lenders were differentiating for risk and providing these companies with easier and cheaper access to capital. (Source: "The Power of Diversified Companies During Crises," The Boston Consulting Group and Leipzig Graduate School of Management, January 2012.) 253. Many rated conglomerates are either country- or region-specific; only a small percentage are truly global. The difference is important when assessing the country and macroeconomic risk factors. Historical measures for each region, based on volatility and correlation, reflect regional trends that are likely to change over time. E. Financial Policy 1. Controlling shareholders 254. Controlling shareholder(s)--if they exist--exert significant influence over a company's financial risk profile, given their ability to use their direct or indirect control of the company's financial policies for their own benefit. Although the criteria do not associate the presence of controlling shareholder(s) to any predefined negative or positive impact, we assess the potential medium- to long-term implications for a company's credit standing of these strategies. Long-term ownership--such as exists in many family-run businesses--is often accompanied by financial discipline and reluctance to incur aggressive leverage. Conversely, short-term ownership--such as exists in private equity sponsor-owned companies--generally entails financial policies aimed at achieving rapid returns for shareholders typically through aggressive debt leverage. 255. The criteria define controlling shareholder(s) as: A private shareholder (an individual or a family) with majority ownership or control of the board of directors; A group of shareholders holding joint control over the company's board of directors through a shareholder agreement. The shareholder agreement may be comprehensive in scope or limited only to certain financial aspects; and A private equity firm or a group of private equity firms holding at least

40% in a company or with majority control of its board of directors. 256. A company is not considered to have a controlling shareholder if it is publicly listed with more than 50% of voting interest listed or when there is no evidence of a particular shareholder or group of shareholders exerting 'de facto' control over a company. 257. Companies that have as their controlling shareholder governments or government-related entities, infrastructure and asset-management funds, and diversified holding companies and conglomerates are assessed in separate criteria. 2. Financial discipline a) Leverage influence from acquisitions 258. Companies may employ more or less acquisitive growth strategies based on industry dynamics, regulatory changes, market opportunities, and other factors. We consider management teams with disciplined, transparent acquisition strategies that are consistent with their financial policy framework as providing a high degree of visibility into the projected evolution of cash flow and credit measures. Our assessment takes into account management's track record in terms of acquisition strategy and the related impact on the company's financial risk profile. Historical evidence of limited management tolerance for significant debt-funded acquisitions provides meaningful support for the view that projected credit ratios would not significantly weaken as a result of the company's acquisition policy. Conversely, management teams that pursue opportunistic acquisition strategies, without well-defined parameters, increase the risks that the company's financial risk profile may deteriorate well beyond our forecasts. 259. Acquisition funding policies and management's track record in this respect also provide meaningful insight in terms of credit ratio stability. In the criteria, we take into account management's willingness and capacity to mobilize all funding resources to restore credit quality, such as issuing equity or disposing of assets, to mitigate the impact of sizable acquisitions on credit ratios. The financial policy framework and related historical evidence are key considerations in our assessment. b) Leverage influence from shareholder remuneration policies 260. A company's approach to rewarding shareholders demonstrates how it balances the interests of its various stakeholders over time. Companies that are consistent and transparent in their shareholder remuneration policies, and exhibit a willingness to adjust shareholder returns to mitigate adverse operating conditions, provide greater support to their long-term credit quality than other companies. Conversely, companies that prioritize cash returns to shareholders in periods of deteriorating economic, operating, or share price performance can significantly undermine long-term credit quality and exacerbate the credit impact of adverse business conditions. In assessing a company's shareholder remuneration policies, the criteria focus on the predictability of shareholder remuneration plans, including how a company builds shareholder expectations, its track record in executing shareholder return policies over time, and how shareholder returns compare with industry peers'. 261. Shareholder remuneration policies that lack transparency or deviate meaningfully from those of industry peers introduce a higher degree of event risk and volatility and will be assessed as less predictable under the criteria. Dividend and capital return policies that function primarily as a means to distribute surplus capital to shareholders based on transparent and stable payout ratios--after satisfying all capital requirements and leverage objectives of the company, and that support stable to improving leverage ratios--are considered the most supportive of long term credit quality. c) Leverage influence from plans regarding investment decisions or organic growth strategies 262. The process by which a company identifies, funds, and executes organic growth, such as expansion into new products and/or new markets, can have a significant impact on its long-term credit quality. Companies that have a disciplined, coherent, and manageable organic growth strategy, and have a track record of successful execution are better positioned to continue to attract third-party capital and maintain long-term credit quality. By contrast, companies that allocate significant amounts of capital to numerous, unrelated, large and/or complex projects and often incur material overspending against the original budget can significantly increase their credit risk. 263. The criteria assess whether management's organic growth strategies are transparent, comprehensive, and measurable. We seek to evaluate the company's mid- to long-term growth objectives--including strategic rationales and associated execution risks--as well as the criteria it uses to allocate capital. Effective capital allocation is likely to include guidelines for capital deployment, including minimum return hurdles, competitor activity analysis, and demand forecasting. The company's track record will provide key data for this assessment, including how well it executes large and/or complex projects against initial budgets, cost overruns, and timelines. 3. Financial policy framework a) Comprehensiveness of financial policy framework 264. Financial policies that are clearly

defined, unambiguous, and provide a tight framework around management behavior are the most reliable in determining an issuer's future financial risk profile. We assess as consistent with a supportive assessment, policies that are clear, measurable, and well understood by all key stakeholders. Accordingly, the financial policy framework must include well-defined parameters regarding how the issuer will manage its cash flow protection strategies and debt leverage profile. This includes at least one key or a combination of financial ratio constraints (such as maximum debt to EBITDA threshold) and the latter must be relevant with respect to the issuer's industry and/or capital structure characteristics. 265. By contrast, the absence of established financial policies, policies that are vague or not quantifiable, or historical evidence of significant and unexpected variation in management's long-term financial targets could contribute to an overall assessment of a non-supportive financial policy framework. b) Transparency of financial policies 266. We assess as supportive financial policy objectives that are transparent and well understood by all key stakeholders and we view them as likely to influence an issuer's financial risk profile over time. Alternatively, financial policies, if they exist, that are not communicated to key stakeholders and/or where there is limited historical evidence to support the company's commitment to these policies, are non-supportive, in our view. We consider the variety of ways in which a company communicates its financial policy objectives, including public disclosures, investor presentation materials, and public commentary. 267. In some cases, however, a company may articulate its financial policy objectives to a limited number of key stakeholders, such as its main creditors or to credit rating agencies. In these situations, a company may still receive a supportive classification if we assess that there is a sufficient track record (more than three years) to demonstrate a commitment to its financial policy objectives. c) Achievability and sustainability of financial policies 268. To assess the achievability and sustainability of a company's financial policies, we consider a variety of factors, including the entity's current and historical financial risk profile; the demands of its key stakeholders (including dividend and capital return expectations of equity holders); and the stability of the company's financial policies that we have observed over time. If there is evidence that the company is willing to alter its financial policy framework because of adverse business conditions or growth opportunities (including M&A;), this could support an overall assessment of non-supportive. 4. Financial policy adjustments--examples 269. Example 1: A moderately leveraged company has just been sold to a new financial sponsor. The financial sponsor has not leveraged the company yet and there is no stated financial policy at the outset. We expect debt leverage to increase upon refinancing, but we are not able to factor it precisely in our forecasts yet. Likely outcome: FS-6 financial policy assessment, implying that we expect the new owner to implement an aggressive financial policy in the absence of any other evidence. 270. Example 2: A company has two owners–-a family owns 75%, a strategic owner holds the remaining 25%. Although the company has provided S&P; Global Ratings with some guidance on long-term financial objectives, the overall financial policy framework is not sufficiently structured nor disclosed to a sufficient number of stakeholders to qualify for a supportive assessment. Recent history, however, does not provide any evidence of unexpected, aggressive financial transactions and we believe event risk is moderate. Likely outcome: Neutral financial policy impact, including an assessment of neutral for financial discipline. Although the company's financial framework does not support long-term visibility, historical evidence and stability of management suggest that event risk is not significant. The unsupportive financial framework assessment, however, prevents the company from qualifying for an overall positive financial policy assessment, should the conditions for positive financial discipline be met. 271. Example 3: A company (not owned by financial sponsors) has stated leverage targets equivalent to a significant financial risk profile assessment. The company continues to make debt-financed acquisitions yet remains within its leverage targets, albeit at the weaker end of these. Our forecasts are essentially built on expectations that excess cash flow will be fully used to fund M&A; or, possibly pay share repurchases, but that management will overall remain within its leverage targets. Likely outcome: Neutral financial policy impact. Although management is fairly aggressive, the company consistently stays within its financial policy targets. We think our forecasts provide a realistic view of the evolution of the company's credit metrics over the next two years. No event risk adjustment is needed. 272. Example 4: A company (not owned by a financial sponsor) has just made a sizable acquisition (consistent with its long-term business strategy) that has brought its credit ratios out of line. Management expressed its commitment to rapidly improve credit

ratios back to its long-term ratio targets-–representing an acceptable range for the SACP--through asset disposals or a rights issue. We see their disposal plan (or rights issue) as realistic but precise value and timing are uncertain. At the same time, management has a supportive financial policy framework, a positive track record of five years, and assets are viewed as fairly easily tradable. Likely outcome: Positive financial policy impact. Although forecast credit ratios will remain temporarily depressed, as we cannot fully factor in asset disposals (or rights issue) due to uncertainty on timing/value, or without leaking confidential information, the company's credit risk should benefit from management's positive track record and a supportive financial policy framework. The anchor will be better by one notch if management and governance is at least satisfactory and liquidity is at least adequate. 273. Example 5: A company (not owned by a financial sponsor) has very solid financial ratios, providing it with meaningful flexibility for M&A; when compared with management's long-term stated financial policy. Also, its stock price performance is somewhat below that of its closest industry peers. Although we have no recent evidence of any aggressive financial policy steps, we fundamentally believe that, over the long-term term, the company will end up using its financial flexibility for the right M&A; opportunity, or alternatively return cash to shareholders. Likely outcome: Negative financial policy impact. Long-term event risk derived from M&A; cannot be built into forecasts nor shareholder returns (share buybacks or one-off dividends) be built into forecasts to attempt aligning projected ratios with stated long-term financial policy levels. This is because our forecasts are based on realistic and reasonably predictable assumptions for the medium term. The anchor will be adjusted down, by one notch or more, because of the negative financial policy assessment. F. Corporate Criteria Glossary Anchor: The combination of an issuer's business risk profile assessment and its financial risk profile assessment determine the anchor. Additional rating factors can then modify the anchor to determine the final rating or SACP. Asset profile: A descriptive way to look at the types and quality of assets that comprise a company (examples can include tangible versus intangible assets, those assets that require large and continuing maintenance, upkeep, or reinvestment, etc.). Business risk profile: This measure comprises the risk and return potential for a company in the market in which it participates, the country risks within those markets, the competitive climate, and the competitive advantages and disadvantages the company has. The criteria combine the assessments for Corporate Industry and Country Risk Assessment (CICRA), and competitive position to determine a company's business risk profile assessment. Capital-intensive company: A company exhibiting large ongoing capital spending to sales, or a large amount of depreciation to sales. Examples of capital-intensive sectors include oil production and refining, telecommunications, and transportation sectors such as railways and airlines. Cash available for debt repayment: Forecast cash available for debt repayment is defined as the net change in cash for the period before debt borrowings and debt repayments. This includes forecast discretionary cash flow adjusted for our expectations of any share issuance and M&A.; Discretionary cash flow is defined in our Ratios And Adjustments criteria and guidance. Competitive position: Our assessment of a company's: 1) competitive advantage; 2) operating efficiency; 3) scale, scope, and diversity; and 4) profitability. Competitive advantage--The strategic positioning and attractiveness to customers of the company's products or services, and the fragility or sustainability of its business model. Operating efficiency--The quality and flexibility of the company's asset base and its cost management and structure. Scale, scope, and diversity--The concentration or diversification of business activities. Profitability--Our assessment of both the company's level of profitability and volatility of profitability. Competitive Position Group Profile (CPGP): Used to determine the weights to be assigned to the three components of competitive position other than profitability. While industries are assigned to one of the six profiles, individual companies and industry subsectors can be classified into another CPGP because of unique characteristics. Similarly, national industry risk factors can affect the weighing. The six CPGPs are: Services and product focus, Product focus/scale driven, Capital or asset focus, Commodity focus/cost driven, Commodity focus/scale driven, and National industry and utilities. Conglomerate: Companies that have at least three distinct business segments, each contributing between 10%-50% of EBITDA or FOCF. Such companies may benefit from the diversification/portfolio effect. Controlling shareholders: Equity owners who are able to affect decisions of varying effect on operations, leverage, and shareholder reward without necessarily being a majority of shareholders. Corporate Industry and Country Risk Assessment (CICRA): The result of the combination of an issuer's

country risk assessment and industry risk assessment. Debt co-insurance: The view that the joining-together of two or more firms whose earnings streams are less-than-perfectly correlated reduces the risk of default of the merged firms (i.e., the co-insurance effect) and thereby increases the "debt capacity" or "borrowing ability" of the combined enterprise. These financing alternatives became more valuable during the global financial crisis of 2007-2009. Financial headroom: Measure of deviation tolerated in financial metrics without moving outside or above a pre-designated band or limit typically found in loan covenants (as in a debt to EBITDA multiple that places a constraint on leverage). Significant headroom would allow for larger deviations. Financial risk profile: The outcome of decisions that management makes in the context of its business risk profile and its financial risk tolerances. This includes decisions about the manner in which management seeks funding for the company and how it constructs its balance sheet. It also reflects the relationship of the cash flows the organization can achieve, given its business risk profile, to its financial obligations. The criteria use cash flow/leverage analysis to determine a corporate issuer's financial risk profile assessment. Financial sponsor: An entity that follows an aggressive financial strategy in using debt and debt-like instruments to maximize shareholder returns. Typically, these sponsors dispose of assets within a short to intermediate time frame. Financial sponsors include private equity firms, but not infrastructure and asset-management funds, which maintain longer investment horizons. Profitability ratio: Commonly measured using return on capital and EBITDA margins but can be measured using sector-specific ratios. Generally calculated based on a five-year average, consisting of two years of historical data, and our projections for the current year and the next two financial years. Shareholder remuneration policies: Management's stated shareholder reward plans (such as a buyback or dividend amount, or targeted payout ratios). Stand-alone credit profile (SACP): S&P; Global Ratings' opinion of an issue's or issuer's creditworthiness, in the absence of extraordinary intervention or support from its parent, affiliate, or related government or from a third-party entity such as an insurer. Transfer and convertibility assessment: S&P; Global Ratings' view of the likelihood of a sovereign restricting nonsovereign access to foreign exchange needed to satisfy the nonsovereign's debt service obligations. Unconsolidated equity affiliates: Companies in which an issuer has an investment, but which are not consolidated in an issuer's financial statements. Therefore, the earnings and cash flows of the investees are not included in our primary metrics unless dividends are received from the investees. Upstream/midstream/downstream: Referring to exploration and production, transport and storage, and refining and distributing, respectively, of natural resources and commodities (such as metals, oil, gas, etc.). Volatility of profitability/SER: We base the volatility of profitability on the standard error of the regression (SER) for a company's historical EBITDA. The SER is a statistical measure that is an estimate of the deviation around a 'best fit' trend line. We combine it with the profitability ratio to determine the final profitability assessment. We only calculate SER when companies have at least seven years of historical annual data, to ensure that the results are meaningful. Working-capital-intensive companies: Generally a company with large levels of working capital in relation to its sales in order to meet seasonal swings in working capital. Examples of working-capital-intensive sectors include retail, auto manufacturing, and capital goods. G. Sector-Specific Criteria 1) Asset managers Asset managers are companies that derive a majority of their revenues from management and performance fees for managing third-party money or assets on behalf of retail or institutional investors. a) Capital structure We assess asset managers' capital structure according to the same methodology we use for other corporate entities, with the exception of one additional subfactor--diversity of the capital structure, which we consider a tier one risk subfactor. A very positive assessment (1) is not used for asset managers. In analyzing the diversity of the capital structure, we review the combination of debt and equity that forms an asset manager's capital and the degree of diversity within each of these two components. In analyzing diversity within debt, we review the number of different debt sources the company has, its access to different bank lines, and the number of banks providing those lines. In the analysis of equity, we consider whether the company is publicly traded and whether it has the ability to raise funds in public markets. We also look at the composition of equity (whether it includes common equity or any hybrid security, such as preferred equity). We believe that diversity of capital structure is especially important for asset managers because the somewhat higher confidence sensitivity of these firms relative to nonfinancial corporate

entities may rapidly reduce funding flexibility in adverse market or economic conditions. It is favorable, in our view, for an asset manager not to rely on one or a few financial institutions to raise debt and to have access to public equity markets. We view diversity of capital structure negatively if a company is reliant on a single source (for example, one bank) to raise debt and is privately owned with limited access to additional equity. The initial capital structure assessment is based on the first four subfactors: diversity of the capital structure, currency risk associated with debt, debt maturity profile (or schedule), and interest rate risk associated with debt (see table 28). We may then adjust the initial assessment based on the fifth subfactor--investments--as per table 22. (The investments assessment cannot exceed positive.) Table 28 Assessing Capital Structure PRELIMINARY CAPITAL STRUCTURE ASSESSMENT SUBFACTOR ASSESSMENT Neutral No tier one subfactor is negative. Negative One tier one subfactor is negative and the tier two subfactor is neutral. Very negative Two or more tier one subfactors are negative; or only one tier one subfactor is negative but the tier two subfactor is also negative. As we analyze the investment portfolio of an asset manager, we also assess the market risk associated with those investments. Our assessment of market risk includes the manager's exposure to movements in interest rates, credit spreads, foreign exchange rates, commodity and equity prices, and any other market movements that could impair its earnings and ability to service debt. Investment portfolio market risk that produces a mismatch in cash flows, hinders profitability, or could cause a track record of losses precludes a positive assessment for investments. If the exposures are not large or hedges are in place, a positive assessment of investments is still possible despite the presence of market risk. 2) Financial market infrastructure companies Financial market infrastructure companies (FMIs) are principally exchanges, clearinghouses, central security depositories (CSDs), and payment networks that process and clear credit or debit card transactions and cash payments. a) Clearing and settlement risk For FMIs, including exchanges, clearinghouses, CSDs, and payment networks, the analysis combines the FMI's business risk profile assessment and its financial risk profile assessment to determine the preliminary anchor. We then incorporate our view of clearing and settlement (C&S;) risk to determine the anchor. The C&S; risk assessment, as a component of the anchor, is the key difference between the FMI rating framework and the corporate methodology. This is because a clearinghouse's most important function is to reduce credit risk among its members by acting as guarantor or CCP to trades executed in its market. In our opinion, the risk of a member default is the single largest risk that a clearinghouse faces. Similarly, a CSD acts to reduce settlement risk among its members by completing trades on a delivery-versus-payment (DVP) basis and by following other well-established risk management procedures. Our C&S; risk assessment considers the diversity and creditworthiness of membership and an institution's risk management policies and procedures per international standards. The outcome of our C&S; risk assessment could raise (by one notch), lower (by one to eight notches), or leave unchanged the preliminary anchor to determine the anchor. b) Capital structure For the most part, we follow the corporate methodology for assessing capital structure, which focuses on two Tier 1 risk subfactors (currency risk associated with debt and the debt maturity profile) and one Tier 2 subfactor (interest rate risk associated with debt). In a limited number of cases, our assessment of capital structure for an FMI differs from the corporate methodology when the FMI is prudentially regulated by the national banking regulators and conducts some (limited) banking operations, such as deposit-taking and/or granting of credit facilities, linked to its core FMI business (e.g., European-based international CSDs). For these FMI companies, we calculate the risk-adjusted capital (RAC) ratio. (For details, see "Risk-Adjusted Capital Framework Methodology.") For those few FMI companies for which we calculate a RAC ratio and assign potential modifiers, as per table 29, we apply the same five-point scale from very positive (1) to very negative (5), employing similar gradation of RAC ratios as in "Financial Institutions Rating Methodology." There are two important exceptions. If an FMI has an anchor of 'aa-' or higher, it is not eligible to receive any notches of uplift. This is because we expect FMI companies exhibiting strong business and financial risk profiles to have strong capitalization. Likewise, if an FMI has an anchor within the 'a' category, it may receive a maximum uplift of one notch. Table 29 Capital Structure--RAC Ratio DESCRIPTOR RAC RATIO % NOTCHES 1 Very positive >15 2 2 Positive 10-15 1 3 Neutral 7.0-9.9 0 4 Negative 5.0-6.9 (1) 5 Very negative <5 (2) or more In our view, there is no optimal structure of the financial safeguard package or default waterfall. Some clearinghouses may rely more on individual member margin requirements, while others may rely

more on the mutualized guarantee fund. For this reason, the overall protection afforded by the financial safeguard package (i.e., the sum of the parts) is more important than the individual components of the financial safeguard package. For example, very strong guarantee fund contributions can offset weakness in the margin calculation. 2) Financial services finance companies Financial services finance companies (FSFCs) are finance companies for which the greatest risks relate more to their ability to generate cash flow than to the amount of capital they may need to withstand credit losses. These include consumer finance companies, originators and servicers, auto fleet services companies, real estate services, and money transaction processors, among others. a) Competitive position In assessing the competitive position group profile (CPGP) for FSFCs, we review the following factors: Competitive advantage; Scale, scope, and diversity; Operating efficiency; Profitability; and Regulatory and legislative risks. We assess a company's exposure to regulatory or legislative risks as either (1) adequate, (2) weak, or (3) vulnerable. If the regulatory and legislative risk assessment is (3) vulnerable, a company's competitive position is capped at (6) vulnerable. If the regulatory and legislative risk is assessment is (2) weak, the competitive position assessment is capped at (5) weak. If the regulatory and legislative risk assessment is (1) adequate, there are no caps on the competitive position assessment. Regulatory and legislative risks.Regulatory and legislative risks are prominent factors for FSFCs. When assessing regulatory and legislative risks, we consider the credit implications on the FSFC and don't opine on the larger policy issue. From this perspective, regulators may introduce new legislation or change existing policy that could have significant financial consequences related to both the revenue and costs for individual FSFCs or FSFC subsectors. For example, regulators could impose new regulatory reporting standards, which would increase costs, or regulators could impose limits on the maximum rates at which an individual FSFC or FSFC subsector can lend, which would reduce revenue. Our assessment balances how regulation may constrain profitability while at the same time enhancing profit stability. Depending on the operating environment, new rules could incrementally constrain the profitability of business activities--for example, by limiting the interest rates permissible to be charged to clients or by limiting the range of clients that a finance company could help finance. Regulatory or legislative changes could also result in higher compliance costs. We do not view regulatory and legislative risks as a potential positive to competitive advantage. We recognize that regulation could help stabilize volatility for FSFCs, but that would be reflected in the financial risk profile if it were to occur. Given their typically negative impact on competitive ability, regulatory and legislative risks cannot be assessed above adequate. An FSFC with an adequate assessment is not exposed to regulatory policies--existing or prospective--that meaningfully constrain profitability. When regulation reduces competition, we do reflect these benefits directly in the specific company's competitive advantage, as opposed to the overall sector. An FSFC with a weak regulatory and legislative risk assessment is typically characterized by two or more of the following, or one of the following that is particularly significant: Subject to regulatory scrutiny, sometimes in a loosely regulated industry, and profitability could be constrained if new policies were implemented Exposed to regulatory and legislative changes, but in some cases, diversification by product or geography partially mitigates these risks Has a track record of government policy and regulation that constrain profitability or alter the standards for business conduct An FSFC with a vulnerable regulatory and legislative risk assessment typically has two or more of the following, or one of the following that is particularly significant: Subject to ongoing regulatory scrutiny, and profitability will likely be constrained if new policies were implemented Exposed to regulatory and legislative changes, with limited diversification by product or geography Has a track record of government policy and regulation that significantly constrain profitability or alter the standards for business conduct b) Capital structure We consider a company's dependence on revolving, and generally short-term, asset-specific funding as an additional Tier 1 risk subfactor in our analysis of capital structure for FSFCs. We assess asset-specific funding as either: (1) neutral, (2) negative, or (3) very negative. We then replace table 21 ("Preliminary Capital Structure Assessment") with table 30 here to determine the preliminary capital structure assessment. When debt, such as warehouse facilities, or other asset-specific funding is used to finance assets and we net the debt with the assets, we assess the asset-specific Tier 1 subfactor as negative. Typically, asset-specific funding includes secured and unsecured warehouse lending facilities, repurchase agreements, asset-backed security (ABS) securitizations, and residential mortgage-backed security (RMBS)

securitizations. Table 30 Assessing Capital Structure PRELIMINARY CAPITAL STRUCTURE ASSESSMENT SUBFACTOR ASSESSMENT Neutral No Tier 1 subfactor is negative. Negative One Tier 1 subfactor is negative, and the Tier 2 subfactor is neutral. Very negative Two or more Tier 1 subfactors are negative; or one Tier 1 subfactor is negative and the Tier 2 subfactor is negative; or asset-specific funding is very negative. We consider asset-specific funding a key driver of creditworthiness when a company is dependent on this form of funding to facilitate origination volume, primarily because the company could be susceptible to disruptions in adverse economic environments. Specifically, how an FSFC funds its business and the confidence sensitivity of its assets directly affect its ability to maintain business volumes and meet obligations in the event that asset-specific funding options become unavailable at different points in the business cycle. However, finance companies with large confidence-sensitive funding exposures are more susceptible to changes in asset credit quality and tangible capital, and we rate these entities under "Financial Institutions Rating Methodology." We assess asset-specific funding by considering stability during times of stress, the diversity of counterparties, the type of collateral being pledged, and the maturity of asset-specific funding sources. An FSFC with a neutral asset-specific funding assessment generally has a limited amount of, or no reliance on, asset-specific funding sources for ongoing business operations. An FSFC with a negative asset-specific funding assessment is typically characterized by one or more of the following: The company is reliant on asset-specific funding sources for ongoing business operations. A large proportion of maturities are less than one year, or there is a maturity concentration in the same quarter. The company is reliant on a concentrated group of financial counterparties. An FSFC with a very negative asset-specific funding assessment is characterized by both of the following: A company exhibits all of the characteristics of a negative asset-specific funding assessment as per the previous paragraph. One or more facilities are subject to substantial margin call exposure. FREQUENTLY ASKED QUESTIONS A. Volatility of cash flows If a company exhibits volatile cash flow metrics, does S&P; Global Ratings capture this in the cash flow volatility adjustment or in the financial policy assessment? We capture this in either analytic factor, as appropriate. As per paragraph 125, the volatility adjustment is the mechanism by which we factor a "cushion" of medium-term variance to current financial performance not otherwise captured in either the near-term base-case forecast or the long-term business risk assessment. We make this adjustment based on the following: The expectation of any potential cash flow/leverage ratio movement is both prospective and dependent on the current business or economic conditions. Stress scenarios include, but are not limited to, a recession, technology or competitive shifts, loss or renegotiation of major contracts or customers, and key product or input price movements, as typically defined in the company's industry risk profile and competitive position assessment. The volatility adjustment is not static and is company-specific. At the bottom of an economic cycle or during periods of stressed business conditions, already reflected in the general industry risk or specific competitive risk profile, the prospect of weakening ratios is far less than at the peak of an economic cycle or business conditions. The expectation of prospective ratio changes may be formed by observed historical performance over an economic, business, or product cycle by the company or by peers. The assessment of which classification to use when evaluating the prospective number of scoring category moves will be guided by how close the current ratios are to the transition point (i.e. "buffer" in the current scoring category) and the corresponding amount of EBITDA movement at each scoring transition. As per paragraph 157, financial policy refines our view of a company's risks beyond the conclusions arising from the standard assumptions in the cash flow/leverage assessment. Those assumptions do not always reflect or entirely capture the short-to-medium term event risks or the longer-term risks stemming from a company's financial policy. To the extent movements in one of these factors cannot be confidently predicted within our forward-looking evaluation of cash flow/leverage, we capture that risk in our evaluation of financial policy. What constitutes a period of stress when assessing whether a company has a volatile or highly volatile level of cash flow/leverage? As guidance, our global default studies demonstrate significant correlation of defaults with weak points in business cycles and banking crises. The 1991 peak default rate occurred after a mild recession in the U.S., a severe but short recession in the U.K., and the Nordic banking crisis. Other developed-market speculative-grade default peaks were the U.S., at 10.6% in 2001 (the U.S. recession) and 11.4% in 2009 (the global banking crisis and recession); and Europe, at 12.3% in 2002 (due in part to the

bursting of the technology/Internet bubble and failures of a large number of telecom start-ups). (Sources: "2012 Annual Global Corporate Default Study," published March 18, 2013, and "Understanding Standard & Poor's Rating Definitions.") Additional guidance can be found in "Methodology: Industry Risk," Appendix 1 where we considered sensitivity to economic cycles, as measured by the historical cyclical peak-to-trough decline in profitability and revenues for major recessions ('BBB' and 'BB' stress) mapped to specific industry sectors. B. Profitability If a company operates in a region or in a country where local inflation is high, and you believe that this affects the comparability of its profitability measures with industry peers', how do you incorporate this in your assessment? When analyzing level of profitability, we use, where available, the numeric guidance developed by considering the distribution of profitability measures within an industry or subsector. These thresholds apply globally irrespective of the underlying level of inflation, although we also consider trends in the profitability ratio to determine the level of profitability assessment. However, high inflation environments are often associated with exposure to countries with a high country risk, in which case as per paragraph 87 we may adjust the volatility of profitability assessment to account for this exposure. Finally, to the extent not captured elsewhere in the analysis, we may incorporate this factor as part of the comparable ratings analysis. REVISIONS AND UPDATES This article was originally published on Nov. 19, 2013. These criteria became effective on the date of publication. Changes introduced after original publication: Following our periodic review completed on Oct. 16, 2015, we deleted paragraphs 9 and 10, which were related to the initial publication of our criteria and no longer relevant. We also made some adjustments to language. These adjustments have no impact on our ratings or the effective date of the criteria. Following our periodic review completed on Oct. 14, 2016, we updated criteria references, the contact list, and the definitions of financial sponsor-owned companies and financial sponsors to be consistent with those in the article "The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities," published April 29, 2014. On Feb. 8, 2017, we republished the article to correct an error in the regional grouping for the countries of Bhutan, Grenada, and Eritrea introduced after the periodic criteria review closed on Oct. 14, 2016. Following our periodic review completed on Oct. 11, 2017, we updated criteria references. On April 23, 2018, we updated the definition of a financial sponsor-owned company in table 23. We also updated the contact information. On Dec. 7, 2018, we republished this criteria article to make nonmaterial changes. We updated table 26, which supplements paragraph 46, by removing the GDP weightings of each country making up each defined region. The GDP weightings were removed because they were outdated and because a static table does not reflect the fact that GDP data change dynamically. Consistent with the criteria (see paragraph 46), we calculate regional risk assessments as the average of the unadjusted country risk assessments, weighted by the GDP of each country in a defined region. These GDP weights were published in the criteria at the time of initial publication for reference only. Since the GDP data change, we use current GDP data each time we recalculate the regional risk assessments. We also updated the contact information and a criteria reference. On April 1, 2019, we changed the definition of discretionary cash flow in the Corporate Criteria Glossary section because it was superseded by "Corporate Methodology: Ratios And Adjustments," published on April 1, 2019 (Ratios and Adjustments). We also aligned the FFO to cash interest coverage ratio in paragraphs 103 and 105 with Ratios and Adjustments. We also made a nonmaterial change to paragraph 81 and the Frequently Asked Questions to provide additional transparency on how we assess profitability. Finally, we updated criteria references. On July 1, 2019, we republished this criteria article to make nonmaterial changes. We removed tables 28, 29, and 30 that contained industry-specific SER parameters. These parameters are not key rating factors and may change over time. We will update these tables and republish them in "Guidance: Corporate Methodology." We also amended the reference to these tables in paragraph 85 and updated the related research. On Dec. 4, 2019, we republished this article to make nonmaterial changes. Specifically, we deleted a sentence in paragraph seven that contained an example that is not criteria text, we clarified language in paragraph 124, we updated the title of table 26, and we updated criteria references. On April 30, 2020, we republished this criteria article to make nonmaterial changes: 1) We clarified language in paragraphs 7, 64, 71, 83, 103, 123, and 124 to reflect the fact that some previous content from archived KCFs has subsequently been included in "Guidance: Corporate Methodology"; 2) in paragraph 123, we reformatted and clarified our language as to the use

of the standard and medial volatility tables; 3) we added Appendix G, "Sector-Specific Criteria", through which we have consolidated sector-specific criteria for financial market infrastructure companies (FMIs) and financial service finance companies (FSFCs) (the criteria in Appendix G previously appeared in separate Key Credit Factors articles for FMIs and for FSFCs, both of which have since been archived); 4) in table 27 of Appendix B, we updated the list of subsectors under the media and entertainment industry--specifically, we eliminated trade show, directories, and internet search engines as subsectors, since they are not materially represented in our current rated universe, and we combined several similar subsectors within media and entertainment to simplify the sector-specific guidance; and 5) we updated the "Related Publications" section to include criteria articles referenced by Appendix G. On March 31, 2021, we republished this criteria article to correct a publication error in Appendix G. Specifically, we included sector-specific criteria for asset managers that were inadvertently omitted when we consolidated sector-specific criteria that previously appeared in a separate "Key Credit Factors" article for asset managers, which has since been archived. On May 27, 2021, we republished this article to make nonmaterial changes. Specifically, we deleted paragraph 192, and moved the list of CRA application examples to "Guidance: Corporate Methodology". On Oct. 11, 2021, we republished this criteria article to make nonmaterial changes. We updated paragraphs 61, 82, 89, 112, 117, 125, 185, 220, and 245 to include examples describing how we incorporate environmental, social, and governance credit factors in our criteria framework. We also updated the "Related Publications" section. On Dec. 15, 2021, we republished this criteria article to make nonmaterial changes to update criteria references. Sectors that fall in the scope of these criteria since the original publication include: Agricultural cooperatives following publication of "Key Credit Factors For Agricultural Cooperatives" on March 17, 2015; Entities engaged in commodities trading activities that generate less than 70% of expected earnings from commodities trading following publication of "Commodities Trading Industry Methodology," published Jan. 19, 2017; Master limited partnerships and general partnerships of master limited partnerships trading following publication of "Methodology: Master Limited Partnerships And General Partnerships" on Sept. 22, 2014; and Transportation equipment leasing and car rental companies following publication of "Key Credit Factors For The Operating Leasing Industry," published on Dec. 14, 2016. RELATED PUBLICATIONS Superseded Criteria Companies Owned By Financial Sponsors: Rating Methodology, March 21, 2013 Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012 How Stock Prices Can Affect An Issuer's Credit Rating, Sept. 26, 2008 2008 Corporate Criteria: Analytical Methodology, April 15, 2008 Credit FAQ: Knowing The Investors In A Company's Debt And Equity, April 4, 2006 Related Criteria Financial Institutions Rating Methodology, Dec. 9, 2021 Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021 Group Rating Methodology, July 1, 2019 Corporate Methodology: Ratios And Adjustments, April 1, 2019 Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018 Risk-Adjusted Capital Framework Methodology, July 20, 2017 Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016 Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015 Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014 The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014 Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013 Methodology: Industry Risk, Nov. 19, 2013 Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013 Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012 Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012 Principles Of Credit Ratings, Feb. 16, 2011 Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010 Related Guidance Guidance: Corporate Methodology, July 1, 2019 Guidance: Corporate Methodology: Ratios And Adjustments, April 1, 2019