# Creditreform Corporate Issuer / Issue Rating

Kering S.A.

Creditreform Rating

**7 August 2023 – Neuss, Germany**

## Rating Action / Update:

## Creditreform Rating has affirmed the unsolicited corporate issuer rating of Kering S.A., at A / stable

Creditreform Rating (CRA) has affirmed the unsolicited public corporate issuer rating of Kering S.A., hereafter referred to as "Kering", "the Group", or "the Company", as well as the long-term local currency senior unsecured notes issued by Kering, at A with stable outlook. The initial unsolicited short-term rating was set to L2 (High level of liquidity). We also refer to the previous year's rating report of 12.07.2022, which contains further relevant information with respect to the unsolicited corporate issuer rating of the Company.

Kering S.A. is a French multinational luxury goods company founded in 1963 and headquartered in Paris. Kering's portfolio includes prestigious brands as Gucci and Yves Saint Laurent. The Company designs, develops, and sells a range of high-end fashion products, including clothing, footwear and accessories, and operates a number of retail stores. With 47,227 employees as of year-end, the Group generated sales of EUR 20,351 million and EAT of EUR 3,717 million in 2022.


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## Current relevant factors for the rating

The following considerations were of specific relevance for the rating assessment:

\+ Continued recovery in business performance in 2022, with revenues increasing by 15% year-over-year (YoY) and meaningful gains in profitability
\+ Maintenance of good liquidity profile, with a comfortable proportion of cash holdings in relation to upcoming debt maturities
\+ Despite a slight technical deterioration in the result of our key ratio analysis, primarily driven by negative working capital and an increase in trade payables over recent years, there are positive developments of individual key ratios that lead to a stable assessment of the Company's overall performance in 2022
\+ Rebound of the Chinese market in 2023 following the end of the global COVID crisis

– In the first half of 2023, the Group showed little momentum in its business development
– Gucci, Kering's main brand, has shown weaker-than-expected performance since end of 2022
– Kering does not yet consider the legacy structure of the Group and its individual houses to be adapted to modern times and to the scale of the Company
– Due to strong recovery effects in Western countries in 2022, we expect less dynamic development in these markets during 2023
– External challenges, especially those associated with geopolitical and economic issues, increase overall business risk, as existing and potential new sanction policies worldwide could negatively affect sales and procurement activities
– Kering's e-commerce activities losing momentum and will not boost volume growth

**ESG-criteria:**

**ESG factors** are factors related to environment, social issues and governance. For more information, please see the section "Regulatory requirements". CRA generally takes ESG relevant factors into account when assessing the rating object, and discloses them when they have a significant influence on the creditworthiness of the rating object which could lead to a change in the rating result or the outlook.

CRA generally takes ESG factors (environment, social and governance) into account within its rating decisions. In the case of Kering we have not identified any ESG factors with significant influence.

Nevertheless, the luxury goods industry generally faces significant ESG risks. Companies will be increasingly pressured to address environmental and social issues as consumer purchases become more and more purpose-driven. The proportion of customers from generations Y and Z will likely increase. In this context, we see the challenge of meeting the needs and, in some cases, different value systems of customer groups according to age/generation and regional culture with the Group's products and corporate image. Consumer behavior has great potential to influence the course of the business, as controversial fashion campaigns can result in profit losses.

The most significant environmental impact lies in the sourcing of raw materials, such as leather, animal fur, as well as precious metals and gemstones. Despite efforts being made, some luxury companies cannot fully ensure that their raw materials do not come from questionable sources, such as those involving cruel slaughtering processes and illegal extracting activities, with non-transparent disclosure regarding their suppliers[1]. The primary social risk associated with the production of luxury goods is human rights violations within the supply chain, in particular child labor, human trafficking, discrimination and overall poor working conditions. This occurs because the fashion supply chain is highly complex, and it is difficult to monitor each stage of production.

Although there is likely room for improvement, we assume that Kering holds above-average standards in the industry regarding sustainability. Kering has set up a policy with high standards of animal welfare to ensure the traceability of suppliers throughout the entire value chain. In 2021, 90% of its key materials could be traced back to the slaughterhouse or country of origin, and the Company's target is to achieve 100% traceability back to the individual farm by 2025. A major breakthrough was Kering's decision to discontinue the use of animal fur in all of its brands beginning with the fall 2022 collections.

Protests against the fashion industry have become increasingly common nowadays. In April 2023, activists from the so-called "Last Generation" sprayed orange paint from fire extinguishers onto the windows and facades of several luxury boutiques, including Louis Vuitton, Dolce & Gabbana, Rolex, Prada, and Gucci on Berlin's famous shopping street Kurfürstendamm. It remains to be seen whether these actions will be repeated, leading to a general decline in the acceptance of luxury goods in certain markets.

Another topic of concern is the use of precious stones, especially diamonds from Russia, for which sanction regulations are expected to tighten at the beginning of 2024. This would potentially impact, e.g., Gucci, but we consider these effects to be manageable.

In December 2022, Kering and L'Occitane publicly announced that they would join forces to create the Climate Fund for Nature. The fund is open to other partner companies. We see this as an effective measure by the company to continue its serious efforts on sustainability issues, thus managing the impact of potential environmental concerns on the company's business and financial situation.

[1] Source: Fashion Transparency Index 2022 Edition

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

## Rating result

The unsolicited corporate issuer rating of A is based on the company's leading position (Top 5) in the global luxury market, overall good business model and solid earnings profile at the group level, as well as due to its geographic diversity and portfolio of prestigious brands, with Gucci as its flagship. Like the luxury goods sector as a whole, Kering proved comparatively resilient in times of crisis, with very good and often disproportionately high recovery rates.

However, Gucci's sales growth and earnings lagged in the intercompany comparison in 2022, especially in the 4th Quarter. Earnings at the House of Gucci increased only marginally compared with 2021. Although the overall result of our financial ratio analysis for Kering for fiscal year 2022 has deteriorated slightly compared with the previous year, and development in the first half year 2023 is behind the expectation, we do not currently see any reason for a negative rating adjustment, due to the individual key performance indicators and overall profitable increase in business. Although the slightly lower analytical equity ratio and rising interest expense dampen our ratio-based financial analysis, both values remained in a solid range for the present rating level. Additionally, we consider the temporary weakness in Gucci's performance as a limiting factor for the rating. Kering's high rating level incorporates the Company's debt structure and maturity, as well as its conservative financial management, sustaining a solid capital structure, sound cash flow generation, and good liquidity profile. Overall, we consider the Group's net assets, financial position and operational results to be adequate with regard to the rating level.

Gucci's growth in Q1 2023 was low compared to the same period of the previous year. This trend continued in Q2 2023, with Gucci reporting a slight year-on-year decline in sales and earnings in the first half of 2023. Overall, the Group's business performance would need to improve in H2 2023.

## Outlook

The one-year outlook for Kering's unsolicited corporate issuer rating remains stable. This reflects our view that Kering will sustain a good market position in the growing luxury market. This should enable the Company to steadily increase its earnings and maintain a solid level of profitability. We expect the result of our key financial assessment to remain stable, and the Net total liability/EBITDA ratio to remain between 1,7x to 2,2x on our adjusted basis. Our outlook is based on sales and corresponding earnings growth in 2023 and 2024 in the middle-to-upper single-digit percentage range.

### Best-case scenario: A+

In our best-case scenario for one year we assume a rating of A+. An upgrade could occur if the company is committed to maintaining a net total liability/EBITDA ratio of less than 1,7x on an adjusted basis. An upgrade of the rating would also require that the Group as a whole, including the main brand Gucci, demonstrates sustainable growth in operating profit, comparatively above industry-average. In this scenario, our analytical equity ratio will likely not fall below 40%, and the liquidity assessment will continue to indicate a good profile and solid margins, reverting the declining trend seen in 2022 in the years ahead. Kering's assumption of maintaining a profitable growth path leading to high cash flow and return on investment was taken into account in this scenario. Reducing dependence on Gucci would also support a rating upgrade, but on the side condition that all houses, including Gucci, grow profitably.

### Worst-case scenario: A-

CRA could downgrade Kering if net total liability/EBITDA increases above 2.2x. A sharp and sustained decline in earnings, as well as a more aggressive financial policy (associated with large M&A activities or disproportionate increase in capex), with a marked deterioration in the liquidity position or a significant drop in our analytical equity ratio to below 40%, could also justify a downgrade. In addition, the intensification of further geopolitical risks, in particular in the Group's main market China, could lead to a downgrade.

## Business development and outlook

Table 1: Financials of Kering S.A. I Source: Financial Document 2022, standardized by CRA

| **Kering S.A.**<br>**Selected key figures of the financial statement analysis**<br>**Basis: Annual accounts and report of 31.12. (IAS, Group)** | **CRA standardized figures[2]** | |
|---|---|---|
| | **2021** | **2022** |
| Sales (million EUR) | 17,645 | 20,351 |
| EBITDA (million EUR) | 6,246 | 7,035 |
| EBIT (million EUR) | 4,799 | 5,367 |
| EAT (million EUR) | 3,246 | 3,717 |
| EAT after transfer (million EUR) | 3,166 | 3,613 |
| Total assets (million EUR) | 28,099 | 30,275 |
| Equity ratio (%) | 43.5 | 41.9 |
| Capital lock-up period (days) | 36.0 | 40.6 |
| Short-term capital lock-up (%) | 36.4 | 27.0 |
| Net total debt / EBITDA adj. (factor) | 1.6 | 1.8 |
| Ratio of interest expenses to total debt (%) | 1.8 | 2.0 |
| Return on Investment (%) | 12.5 | 13.0 |

Kering increased Group sales across all brands and business units by 15% year-on-year in 2022, thanks to market recovery, especially in Europe but also the USA, Japan and the rest of the world, while China fell short of expectations due to its strict COVID policy, leaving sales in the Asia-Pacific region down 2% (excluding Japan). Currency effects against the backdrop of a weaker euro, also contributed significantly to the sales growth. This sales growth at Group level is roughly in line with the industry average. Kering indicates a growth in sales of +9% on a comparable basis in 2022, representing a significant increase if compared with the pre-crisis year 2019. The Company's reported recurring operating income increased by 11%, reaching EUR 5,589 million in 2022, with the corresponding margin decreasing slightly from 28.4% in the previous year

[2] For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally-generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt takes all balance sheet liabilities into account. Therefore, the key financial figures shown often deviate from the original figures of the respective company.

to 27.5% in 2022. At Group level, we consider Kering's performance in 2022 to be satisfactory to good, although this varies for the individual Houses.

As far as can be seen, the Group continues to focus its retail activities in its own stores, increase the exclusivity of its products, and improve its customers' shopping experience. Roughly 78% of the Group's goods were sold in self-operated retail stores (Gucci >90%). This strategy of building its own network of stores brings advantages, but also entails significant risks, as it would create a higher and less flexible cost structure which could result in cash burning in times of crisis, with declining sales or margins. In 2022 Kering opened additional stores in all reported market regions, increasing the number by 100 to 1,659 locations.

Gucci, which demonstrated only flat performance y-o-y in recurring operating income in 2022, accounts for approximately 52% of the Group's revenues in 2022 and approximately 67% of recurring operating income. This is notable, as Gucci's rationalization efforts are considered largely complete. It remains to be seen to what extent personnel changes in Gucci's creative department, the completed reorganization, and the revised strategy (less wholesaling) can bring back satisfactory positive development. The other houses performed correspondingly well in 2022.

Table 2: Recurring operating income of Kering S.A. I Source: Financial Document 2022, original reporting

| **Kering S.A. Group – Recurring operating income** | | | | |
|---|---|---|---|---|
| In million EUR | **2021** | **2022** | **Δ** | **Δ %** |
| Gucci | 3,715 | 3,732 | 17 | 0 |
| Yves Saint Laurant | 715 | 1,019 | 304 | 43 |
| Bottega Veneta | 286 | 366 | 80 | 28 |
| Other Houses | 459 | 558 | 99 | 22 |
| Kering Eyewear and Corporate | -164 | -88 | 76 | 46 |
| Elimination | 6 | 2 | -4 | -- |
| **Group** | **5,017** | **5,589** | **572** | **+11** |
| Margin (% of sales) | 28.4% | 27.5% | -- | -0.9 pt |

The various market regions showed a mixed picture in 2022, particularly in Asia. While the American and European markets were largely able to free themselves from the COVID effects, resulting in a a resurgence in tourism, China's strict zero COVID policy significantly impacted the business of the luxury industry in 2022. We believe that the direct impact of COVID-19 has now been overcome globally[3], but we see other risks, especially associated with the continuous geopolitical tensions and its long-lasting economic impacts. It remains to be seen whether disrupted supply chains, including expected sanction regulations on Russian diamonds, could have a negative impact on the availability and prices of gemstones. However, we see the latter as manageable, partly due to Kering's product portfolio. Also, Kering itself reports only a limited direct impact on its business and assets from the Russia-Ukraine conflict. Moreover, the direct effects from this conflict were already recorded in the 2022 Annual Report.

Despite higher sales and earnings, the Group's internal operating financing strength declined year-on-year, partly due to higher receivables and inventories. After investments, mainly the

[3] In early May 2023, the World Health Organization (WHO) declared the end of the international public health emergency related to COVID-19.

expansion of the Group's own stores, free cash flow from operations decreased by 19%, reaching EUR 3,208 million. We do not currently view the drop in free cash flow and in cash and cash equivalents as critical for the rating assessment.

The share buyback program (cash effect 2022: EUR 1,030 million) and the dividends paid (EUR 1,528 million) had a dampening effect on the rating. However, looking at the short-term rating, we consider this as acceptable in light of the reduced but still solid free cash flow from operations (EUR 3,208 million), despite a relatively high amount to the acquisition of subsidiaries, associates and financial assets in 2022. The share buyback program has been terminated and the Board of Directors decided on February 14, 2023 that 650,000 of the repurchased shares would be cancelled by the end of 2023. Depending on further business development, this could subsequently lead to a rating downgrade if the key figures deteriorate.

According to the half-year report 2023, Kering fell short of its own expectations and ambitions regarding its business development, due in particular to Gucci’s development (revenue +1% y-o-y) and the segment “Other Houses” (revenue -5% y-o-y).

Table 3: Development of corporate divisions in HY 2023 I Source: Kering First-Half Report 2023

| Kering according to individual corporate divisions First HY 2023 | | | | | | |
|---|---|---|---|---|---|---|
| in million EUR | Gucci | Yves Saint Laurant | Bottega Veneta | Other Houses | Eyewear/ Corporate | Group[4] |
| **Revenue** | 5,128 | 1,576 | 833 | 1,856 | 869 | **10,135** |
| *Change y-o-y* | *-1%* | *+6%* | *0%* | *-5%* | *+47%* | *+2%* |
| **Recurring operating income** | 1,810 | 481 | 169 | 224 | 63 | **2,739** |
| *Change y-o-y* | *-4%* | *+10%* | *+1%* | *-34%* | *--* | *-3%* |
| **EBITDA** | 2,172 | 600 | 259 | 404 | 190 | **3,617** |
| *Change y-o-y* | *-2%* | *+10%* | *+3%* | *-19%* | *+67%* | *0%* |
| **Net income** | -- | -- | -- | -- | -- | **1,785** |
| *Change y-o-y* | -- | -- | -- | -- | -- | *-10%* |

Due to temporary adverse conditions in Asia in 2022 and extraordinarily positive performance in North America in the previous year, an overly critical assessment of Gucci's development would be premature at this time. For the time being, we remain positive with regard to our opinion on the strength of the brand. The impairment test of the Gucci brand indicated relatively stable outlook.

Although Kering's performance in H1 2023 was below expectations, on the one hand due to currency effects and on the other hand supported by scope effects from last year's M&A transactions, we still see the earnings quality as solid and in line with the rating level.

Kering's further development will also depend on the general market development and its trends. Current performance has been driven by positive and negative factors, with increasing tourism activity and the overcoming of the COVID19 crisis being compensated by the deceleration of the global economy, as well as high inflation and interest rates, rendering it difficult to predict the company’s future performance. We expect Kering to grow sales and earnings in 2023

[4] Differences between the Group and the aggregated segment values result from eliminate sa87ü+©on and rounding difference.

at a mid-to-high single-digit percentage rate. Inorganic growth and the resulting full-year effects could also push growth back into the double-digit percentage range from 2024 onwards.

In our view, Kering's liquidity position is good. The company has recently shown a solid coverage ratio of short-term cash sources to cash uses, according to our liquidity calculations based on our short-term methodology. The key figures determined in our financial ratio analysis for 2022 are part of the long-term rating assessment and also indicate a solid level of liquidity. The long-term bond notes of a €1.5 billion issued in a dual-tranche in February 2023 should further support Kering's liquidity. Although the increase in interest expense in 2023 remains to be observed as a result of the rise in interest rates and the expansion of debt, we do not see an impact on the rating so far.

We believe that the luxury goods sector will continue to grow disproportionately compared to the global economy in the coming years. It is therefore likely that Kering will also benefit from this. Against the backdrop of subdued business performance, it remains to be seen how this will compare to the industry as a whole. However, we are still confident that our rating reflects the Group's prestigious brand portfolio and growth rates of the other houses, in addition to acquisitions made recently, which should more than compensate for Gucci's temporary limited growth.

We view the full acquisition of Creed, a traditional perfume manufacturer based in France and previously owned by an investment fund from Blackrock, as having a positive impact on the rating in the medium-to-long term. The transaction was announced at the end of June 2023, and should strengthen Kering's beauty division. Nevertheless, our evaluation is neutral in the current rating as we do not know the details of the M&A deal and are waiting to see the concrete impact on the Group's net assets, financial position and results of operations. According to publicly available information, Creed's annual sales are above EUR 250 million, and we therefore consider the commitment and exposure to be manageable. Kering has already restructured its product and brand portfolio in recent years by selling (e.g. Sowind Group SA) and acquiring subsidiaries (e.g. Maui Jim, Inc.), which could be successful given the recently reported segment development. Full-year effects on acquisitions are expected to support growth in 2023 and 2024.

Additionally, on 27 July 2023, Kering announced that the company would acquire a 30% stake in the Italian House of Valentino from Qatari investor Mayhoola for EUR 1.7 billion, with the option to buy 100% of the company by 2028. Valentino is said to have generated sales of EUR 1.4 billion euros last year.

Our rating notation of the best- and worst-case scenarios given above should cover the short-term effects of these M&A transactions. In the medium term, we are waiting to see the effects of the most recent acquisitions on the financial position and results of operations, strategic co-operation and any resulting structural changes (e.g. in the group of equity investors). The closing of the two acquisitions is expected to happen in the second half of the year 2023, and they are still subject to approval by the relevant antitrust authorities. Another M&A transaction in 2023 was the acquisition of 100% of the share capital of the French company UNT, Usinage & Nouvelles to strengthen the position in the Luxury eyewear.

## Further ratings

Based on the long-term issuer rating of Kering S.A. and taking into account our liquidity analysis, the short-term rating of Kering S.A. was initially set at L2, which corresponds to a high level of liquidity. The short-term rating is derived from the unsolicited corporate issuer rating of A by our standard mapping.

The rating objects of our issue rating are exclusively long-term senior unsecured issues, denominated in euro, issued by Kering S.A., which are included in the list of ECB-eligible marketable assets. The bonds have been issued under the Euro Medium Term Note Programme (EMTN), with the last basis prospectus of 06.12.2022 and with the last amendment of 02.06.2023.

We have provided the long-term local currency senior unsecured notes issued by Kering S.A. with an unsolicited rating of A / stable.

Long-term local currency senior unsecured notes issued by Kering S.A, which have similar conditions to the current EMTN programme, denominated in euro and included in the list of ECB-eligible marketable assets, generally receive the same ratings as the current LT LC senior unsecured notes issued under the EMTN programme. Notes issued in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Table 4: Overview of CRA Ratings I Source: CRA

| Rating Category | Details | |
|---|---|---|
| | Date of rating committee | Rating |
| Kering S.A. | 07.08.2023 | A / stable / L2 |
| Long-term Local Currency (LC) Senior Unsecured Issues issued by Kering S.A. | 07.08.2023 | A / stable |
| Other | -- | n.r. |

## Appendix

### Rating history

The rating history is available under https://www.creditreform-rating.de/en/ratings/published-ratings.html.

Table 5: Corporate Issuer Rating of Kering S.A.

| Event | Rating created | Publication date | Monitoring until | Result |
|---|---|---|---|---|
| Initial rating | 12.07.2022 | www.creditreform-rating.de | Withdrawal of the rating | A / stable |

Table 6: LT LC Senior Unsecured Issues issued by Kering S.A.

| Event | Rating created | Publication date | Monitoring until | Result |
|---|---|---|---|---|
| Initial rating | 12.07.2022 | www.creditreform-rating.de | Withdrawal of the rating | A / stable |

Table 7: Short-term issuer ratings of Kering S.A.

| Event | Rating created | Publication date | Monitoring until | Result |
|---|---|---|---|---|
| Initial rating | 07.08.2023 | www.creditreform-rating.de | Withdrawal of the rating | L2 |

## Regulatory requirements

The rating[5] was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, an unsolicited rating that is public. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

The rating object participated in the creation of the rating as follows:

| | |
|---|---|
| With Rated Entity or Related Third Party Participation | No |
| With access to Internal Documents | No |
| With Access to Management | No |

A management meeting did not take place within the framework of the rating process.

The documents and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document.

| Rating methodology | Version number | Date |
|---|---|---|
| Corporate Ratings | 2.4 | July 2022 |
| Corporate Short-Term Ratings | 1.0 | June 2023 |
| Non-financial Corporate Issue Ratings | 1.0 | October 2016 |
| Rating Criteria and Definitions | 1.3 | January 2018 |

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

| Name | Function | Mail-Address |
|---|---|---|
| Christian Konieczny | Lead-analyst | C.Konieczny@creditreform-rating.de |
| Sabrina Mascher de Lima | Analyst | S.Mascher@creditreform-rating.de |

The rating was approved by the following person (person approving credit ratings, PAC):

| Name | Function | Mail-Address |
|---|---|---|
| Philip Michaelis | PAC | P.Michaelis@creditreform-rating.de |

[5] In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

On 7 August 2023, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 8 August 2023. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

### ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

### Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report at this point:

No ancillary services in the regulatory sense were carried out for this rating object.

### Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report

2. Website

3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating

2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a “rating action”; initial release is indicated as “initial rating”, other updates are indicated as an “update”, “upgrade” or “downgrade”, “not rated”, “confirmed”, “selective default” or “default”.

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website.

An explanatory statement of the meaning of Creditreform Rating AG’s default rates are available in the credit rating methodologies disclosed on the website.

## Disclaimer

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Creditreform Rating AG

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