This methodology outlines the analysis process that will be used to assess the strength of an entity's corporate governance.

There are different codes of best practices on corporate governance around the world, which are based on local laws, regulations, commercial practices, among others. The Organisation for Economic Cooperation and Development (OECD) has defined 4 international fundamental principles on best practices in corporate governance: corporate responsibility, fairness, accountability and transparency.

The HR Ratings methodology for assessing corporate governance is based on the fundamental principles of the OECD. This methodology defines five pillars that are relevant to any type of entity, regardless of the sector, country and the legal, political and economic conditions. This document outlines the rating process, metrics and concepts.

This methodology establishes the assumptions, metrics and considerations used in the analysis process. This process is comprised of the following pillars or sections: 1) Formalization of the corporate governance framework, 2) Basic responsibilities of the board of directors and the senior management team, 3) Rights of shareholders, 4) Audit practices, transparency and disclosure, and 5) Stakeholder recognition.

A level of compliance with standards in the different factors evaluated is established for each pillar. A high rating for a factor will mean that, in terms of this factor, the entity's corporate governance meets the highest standards of best practices. If the entity's corporate governance receives a medium rating for the factors in the section evaluated, this will mean their standards fall within the acceptable range for compliance with best practices. Lastly, an entity's corporate governance that receives a low rating for one of the factors analyzed means they do not satisfactorily comply with best practices.

The pillars described in this methodology will be weighted according to the level of importance of the component factors. The factors to be analyzed for each pillar will also be given their own relative weighting. The sum of the relative weights for the five sections, weighted by the level of strength HR Ratings’ analysis team has determined, will give a rating on the strength of the entity’s corporate governance practices.

The HR Ratings analysis team may, through adjustment considerations, assign a higher or lower level of relative strength within the same final rating, by adding “+” or “-” signs. These attributes will be assigned if, in the opinion of HR Ratings, the rating scale does not fully allow for the relevance of a certain factor, either positively or negatively.

The corporate governance strength rating is qualitative. It is not a credit analysis or recommendation to invest. The corporate governance rating is based on current information provided to HR Ratings by the company rated and other sources we consider reliable. Ratings may be withdrawn when the information received is not transparent, clear and delivered in a timely manner.

1 The pillar “Rights of shareholders” will only be included as applicable, depending on the type of entity.
This methodology discusses the characteristics that HR Ratings considers relevant to assess the strength of an entity’s corporate governance.

Our rating process starts with the entity providing information. Once we have all the elements required, we then proceed to analyze the information, which is then compiled into a committee package and presented to our Analysis Committee. This Committee then issues an objective opinion on the strength of the company’s corporate governance.

A fundamental part of the rating process includes meeting with the entity’s key people at their offices, to better learn how the entity’s corporate governance operates. These meetings are used to answer questions about procedures and to analyze and verify the application of these procedures, and also how they are addressed in manuals and policies.

Our corporate governance ratings are dynamic. HR Ratings monitors these ratings annually to collect timely and sufficient information to maintain our opinion on the strength of the corporate governance. The frequency of these reviews may vary on the express request of the entity rated, or as required by the authorities, due to any relevant event, or at the discretion of HR Ratings. Regardless, the rating process -including the meeting with the entity’s key people- will be conducted at least once a year.

The rating process consists of a high, medium or low designation after analyzing the factors in each of the five pillars that comprise the analysis.

Each factor, and the pillars themselves, will receive a value weighted according to their importance. The rating for each factor, multiplied by its relative value within the methodology, will assign the points that will give, at the end of the analysis process, a rating between GC 1 and GC 5 for the entity’s corporate governance.

When it is found that a factor assessed has a greater importance than the weighting it receives and this factor proves relevant in the general corporate governance rating, relative strength may be assigned within the rating, for the first three rating levels (GC 1, GC 2 and GC 3). This is known as an adjustment consideration and is reflected in the rating with “+” or “-” signs, as these factors could have positive or negative implications, as such is the case.

After describing the concept assessed, this methodology then discusses the characteristics of the factors analyzed to then rate these as high, medium or low.

Each of the five pillars that comprise the methodology is presented following:
Pillar 1: Formalization of the corporate governance framework

HR Ratings will pay special attention as to whether an entity has formalized in manuals and policies the regulations and healthy practices to which they may be subject. Also, we will consider whether there are documents that detail the entity’s policies on conduct, their structure and processes; and that, in turn, these are applied in the day-to-day operations.

Manuals and policies
Entities may be subject to certain practices or regulations depending on the country, state or zone where they were established and/or the industry in which they operate. Within this factor, we consider whether the entity has manuals detailing their policies on conduct, their procedures, structure, etc.

That these manuals and policies are built based on legal, regulatory and institutional principles is a key factor that gives reassurance and certainty to an entity’s structure. Also, that the entity adheres to these principles, as outlined in their manuals, will reflect a strong commitment of the entity.

It is desirable that entities have manuals and policies that detail and incorporate their mission, vision and values, the basic processes and guidelines on the operation of the entity, and also the operation of shareholders’ meetings, board meetings and committees.

Additionally, these manuals and policies should be well-documented, updated and available to all personnel to foster an effective and efficient operation at all levels of responsibility in order to achieve the entity’s goals.

This will be seen as a positive factor, as it supports the good development of the entity and its people. The analysis team will review these manuals and policies to verify they are well-documented and updated, and will look for evidence in the company to confirm the entity is operating according to their manuals and policies.

The following strength levels reflect our assessment of the factors considered in this section:

High
Updated manuals and policies that include codes and policies on the entity’s structure and processes to facilitate an efficient operation, and these manuals and policies are available to all personnel; application of the codes and policies throughout the entity’s day-to-day operation.

Medium
Manuals and policies contain little detail on codes and policies on the entity’s structure and processes, and these are not widely available to personnel; moderate application of the codes and policies in the entity’s day-to-day operation.

Low
Lack of manuals and policies; lack of codes on the entity’s structure and processes, hindering an efficient operation.
Pillar 2: Basic responsibilities of the board of directors and the senior management team

HR Ratings considers six principal factors for this pillar: clarity of the roles of the board of directors and the senior management team, the composition of the board, senior management performance reviews, the committees that support the board, succession plan for senior management, and risk measuring.

Clarity and orientation in roles
Clarity in the duties and responsibilities of the board of directors and the senior management team is essential for strong performance.

The board of directors is responsible for defining the entity’s strategy, and also for overseeing the operation and approving its administration, while the senior management team is responsible for managing, directing and executing the day-to-day operations of the business.

It will be considered necessary that the responsibilities of the board and senior management are detailed, with clearly defined duties. Best practices recommend having well-defined and separate functions of the board and the senior management, to prevent conflicts of interest.

Similarly, an orientation and training process for new board members and senior management is important, to familiarize new members with the current situation of the entity, the strategic vision and what’s expected of them.

Within this factor, it’s important that the independent board members have broad experience of the entity and their duties, to be able to contribute objective opinions and care for the interests of the shareholders and all stakeholders.

HR Ratings will consider whether the entity has well-defined responsibilities for the board and senior management, with detailed functions. We will also assess whether the responsibilities are aligned with the mission and industry in which the company operates. Additionally, the application of an orientation and training process for new members will be considered a strength.

Composition and proportion of the board
The composition and proportion of the board of directors are relevant factors to consider, as the members of the board should reflect diversity according to the business of the entity and have the experience, independence and ethics necessary to strengthen and solidify the corporate governance. Additionally, consideration will be given to whether the proportion of independent, proprietary and related members is adequate to protect the interests of the entity, the shareholders, and all stakeholders.

We will analyze whether the board is comprised of members that bring experience, in order to complement and enrich decision-making. The analysis team will look for evidence that the composition of the board is correct, analyzing the gender, experience, academic background and credentials of each board member.

Consideration will also be given to the composition of the proprietary, related and independent members being adequate. Having a healthy proportion of independent members will be seen as a positive factor, as this gives greater confidence and strength to
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the decisions made for the entity and independent members may contribute a more objective viewpoint on relevant issues.

Additionally, we will consider the time each independent member has served on the board and whether there is a policy that defines the maximum term. Having such a term strengthens the independence and diversity among the board members.

Performance reviews, remuneration and recognition
The board of directors should regularly review the performance of the senior management team in order to direct their actions towards the goals of the entity.

HR Ratings will analyze whether the entity has a formal review process for senior management. We will look at the indicators used and the frequency with which the reviews are conducted and how the results impact compensation and other forms of recognition. Also, we will assess the alignment of the indicators with the strategies and objectives of the company.

That the board plays an active role in the creation and implementation of the entity’s strategies and in the review of senior management will be considered a positive factor.

Firstly, the existence of a review of senior management by the board of directors, and also the frequency with which the reviews are conducted, the metrics, the details, and the resulting impact will be considered a strength.

The impact of the reviews should be reflected in both compensations and non-monetary recognitions, and in plans to improve performance or dismissals. These measures will give greater importance to the performance of senior management in their duties.

HR Ratings will analyze the compensation plans for board members and senior management, to see if these would motivate the board members and senior management to apply their best effort to their duties and whether they reap any benefit from the entity’s success. It is desirable that these plans be developed by a compensation committee, so that the objectives of the entity are correctly aligned with those of the board members and senior management, preventing conflicts of interest between the parties.

Board meetings and additional committees
The board of directors is the body responsible for the administration of the entity. To facilitate their tasks, the board may be supported by intermediary bodies so that decision-making is more efficient.

HR Ratings will consider whether the entity has additional working committees to the board of directors\(^2\), as these represent a strength in reaching objective and favorable decisions. We will also consider whether the process followed for meetings of the board or additional committees fosters efficient and constructive meeting sessions. Sessions that are well-structured will give greater grounds and solidity to an entity’s decision-making.

That a company has additional committees to the board will be considered a positive factor as this allows relevant corporate issues to be discussed and evaluated thoroughly, which in turn serves as a means of support for stronger decision-making.

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\(^2\) The Code of Corporate Best Practices in Mexico recommends having audit, compensation and review, and finance and planning committees.
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The objectives and frequency of meetings will be analyzed in order to determine whether decisions are made with a plurality of opinions and building consensus to prevent conflicts of interest.

The analysis team will evaluate the meeting process, for both the board of directors and the additional committees, through meeting minutes and records. We will consider the information that may have been provided to the members prior to the session, how the meetings are run, the duration, attendance percentages, and the voting process, among other factors.

Regarding the voting process, HR Ratings will consider whether votes held during the meeting are recorded in the minutes and/or records. It is desirable that voting processes be formal, encouraging the participation of the members and preventing conflicts of interest.

Succession plan for the senior management team

Having plans and strategies to develop talent within the entity is fundamental to ensuring the continuity of the business, so as to prevent putting the stability of the entity at risk.

Succession planning is a strategic matter and should therefore be overseen and approved by the board of directors. The succession plan reassures shareholders and stakeholders as to the continuity of the business.

HR Ratings will consider whether the entity has a succession plan for senior management and key positions in the business, and also a talent development plan to guide rising leadership.

Risk assessment and contingency plans

We will assess the manner in which the corporate governance is prepared for any situation that could impact the operation and performance of the entity, considering internal and external factors, which could be economic, political, social, labor, operational, financial and/or environmental, among others, and which could represent a threat to or opportunity for the entity.

It's important that the corporate governance identify the risks to which the business is exposed and that the entity have defined strategies to mitigate these risks. This assures the continuity of the business.

HR Ratings will analyze whether the entity has clearly identified the internal and external risks that could represent a threat to or opportunity for the entity. We will consider the entity's strategy for mitigating these risks.

The following strength levels reflect our assessment of the factors considered in this section:

High

Detailed description of the responsibilities of the board of directors and senior management, clearly defined functions to prevent conflicts of interest; formal orientation and training for new members; adequate number of board members according to healthy practices; board members have broad experience; adequate proportion of independent

3 A significant sampling of the minutes and records of the board of directors and committee over the last twelve months will be analyzed. If the sampling is not representative, the analyst may decide to extend the range of time.
board members according to healthy practices; adequate rotation of board members; comprehensive reviews of senior management with remuneration goals balancing the short and long-term objectives; compensation plans for board members and senior management developed by a compensation committee, with appropriate and reasonable compensations that are in the best interest of the entity; existence of additional committees to the board according to healthy practices; adequate frequency of meetings; committee members have broad experience; detailed minutes and records; quality and timely information available; efficient voting processes that encourage the participation of members and which mitigate possible conflicts of interest; consistent and complete attendance at meetings; appropriate risk management, and clear, timely and detailed identification of internal and external risks, which could present a threat or an opportunity; well-defined strategies for mitigating these risks.

Medium
Description of the responsibilities of the board of directors and senior management without specifying the functions; informal orientation and training for new members; acceptable number of board members according to healthy practices; board members have acceptable experience; the proportion of independent members is acceptable; rotation of board members is acceptable; occasional reviews of senior management with remuneration goals rewarding more the short-term objectives; compensation plans for board members and senior management are adequate and reasonable; sporadic additional committees to the board; committee members have acceptable experience; minutes and records have little detail; information available only a short time in advance; confusing and limited voting processes that do not necessarily mitigate conflicts of interest; general and majority attendance at meetings; lack of clarity in succession planning and talent development; moderate risk management; recognition of internal and external risks, without well-defining the threats to or opportunities for the entity; strategies to mitigate these risks are not well-defined.

Low
Lack of description of the responsibilities of the board of directors and senior management creating confusion in the functions of each member; without orientation and training processes; the board is too small or too large according to healthy practices; board members have limited experience; there are no independent board members or the proportion is not significant; lack or excess of rotating board members; sporadic and weak reviews to the senior management team with no impact; compensation plans for board members and senior management are inadequate and unfair; limited committees or lack of additional committees to the board; limited experience of members; lack of minutes or records; lack of voting processes; irregular attendance at meetings; there is no planning for succession and talent development; weak risk management; lack of identifying risks that could affect the operation of the business, without strategies to mitigate.

Pillar 3: Shareholders’ rights

The healthy practices of corporate governance ensure equal and fair treatment of both majority and minority shareholders, and also the protection of their interests. The fundamental rights of shareholders are participation and voting at meetings for the approval of important decisions, participation in the entity’s earnings, and access to information about the entity, among others.
The shareholders’ meeting is the supreme body of the entity. It is the forum by which decisions are made and strategies are set for the future. It is through the meetings of this body where the shareholders exercise their rights of participation and voting in the company’s important decisions, such as bylaws changes, the proposal and selection of members of the board, mergers, and acquisitions, among others.

We will analyze the objective, the attendance of shareholders and the frequency of meetings in order to assess whether decisions are made in a fair and equitable manner, with plurality of visions and building consensus to avoid conflicts of interest.

The analysis team will assess how shareholders’ meetings are run through meeting minutes. We will consider whether there are advance notices sent out to all shareholders in terms of the items to address, the information provided prior to the meeting, the routine used in the execution, duration, attendance, and the voting process, among other factors.

Regarding the voting process, HR Ratings will verify whether the voting during each session is recorded in the minutes. It is desirable that the voting processes be formal, in order to prevent conflicts of interest, safeguarding the interests of both majority and minority shareholders.

The following strength levels reflect our assessment of the factors considered in this section:

High
Equal treatment for both majority and minority shareholders; formal and timely meeting calls sent out to shareholders, sufficient information and material for meetings is sent out in a timely manner, which is reflected in consistent and complete attendance at meetings; detailed minutes; efficient voting processes that encourage the participation of shareholders and which mitigate potential conflicts of interest.

Medium
Limited equality in minority shareholders’ rights; meeting calls are sent out with little lead time, limited information and material is sent out for meetings, which is reflected in general and majority attendance at meetings; minutes have bare detail; confusing and limited voting processes that do not necessarily mitigate potential conflicts of interest.

Low
Weak minority shareholders’ rights or evidence of the abuse of these rights; meeting calls sent late, information for meetings is not sent out, which is reflected in irregular attendance at meetings; lack of minutes; lack of voting processes.

Pillar 4: Auditing practices, transparency and disclosure

Having audit practices in place according to healthy practices to which entities are subject, will be a relevant consideration in determining the strength of an entity’s corporate governance. We will also analyze the disclosure and transparency of the entity with all its stakeholders.

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A significant sampling of the meeting minutes over the last twelve months will be analyzed. If the sampling is not representative, the analyst may decide to extend the range of time.
Audit practices
It is desirable that entities have both independent and internal auditors, tasked with monitoring and verifying compliance with company policies and any other to which the entity is subject. This fosters a better operation of the entity and generates confidence in its proper management.

Independent audits play an important role in corporate governance, as they give reassurance to all stakeholders by providing an independent and objective opinion on the entity's financial position and operations.

Meanwhile, internal control systems and internal audits are equally important. It is desirable that these include a review of the entity's operational and financial activities in order to guarantee the reliability of information, compliance with policies, follow-up on resolutions adopted at board meetings and committees, and to monitor the proper use of the company's resources and assets, among others.

HR Ratings will verify the existence of independent and internal audits, and also the quality of the auditor. Independent auditors are assessed according to their experience, credentials and quality of the reports they produce, while internal auditors are assessed according to their experience and the decentralization of their department within the entity. Similarly, we will consider whether there is a limit on the operation time of each auditor, which will be seen as a positive factor for the healthy practices of the entity. We will note whether the entity has a policy that sets this limit and whether this is in line with improving quality in the company's auditing.

The auditor having oversight over conflicts of interest among the members of the entity will be considered a strength, as this fosters good practices and gives reassurance to the decisions made for the entity.

Transparency and disclosure
Entities with good corporate governance practices should have policies for timely, precise and transparent disclosure on matters of interest in the entity, such as its financial situation, corporate governance policies, business strategies, voting rights, and remunerations for board members and senior management, among others.

Timely, precise and transparent disclosure allow the possibility of supervision and review by all stakeholders, in addition to showing accountability and reliability to them. It's important that the channels for disclosure ensure equal access for stakeholders.

HR Ratings will verify that the entity has policies on disclosing information to all stakeholders, including shareholders, investors, regulators, employees, creditors, vendors, and clients, among others. Also, the regularity and frequency of disclosures is considered.

The following strength levels reflect our assessment of the factors considered in this section:

High
Complete and detailed reports prepared by both independent and internal auditors in a timely manner; excellent quality of independent and internal auditors; optimal period for maintaining independent auditors according to healthy practices; monitoring and formal, timely and detailed review of potential conflicts of interest, well-defined strategies to mitigate conflicts of interest; timely, precise and transparent disclosure.
Medium
Reports are not necessarily prepared by independent auditors, but they are by internal auditors; good quality of independent and internal auditors; independent auditors are changed over appropriate time periods; monitoring and infrequent review of conflicts of interest, with little attention to detail, loosely defined strategies to mitigate conflicts of interest; disclosures are sometimes late and have corrections.

Low
Lack of reports, or negative reports, from independent and/or internal auditors; weaknesses in internal controls; inexperienced auditors; independent auditors changed frequently; lack of a document that addresses conflicts of interest; little or no concern for conflicts of interest, no mitigating measures; disclosure is constantly late and there are multiple corrections.

Pillar 5: Recognition of Stakeholders

Healthy practices in corporate governance recognize the rights of the stakeholders in an entity and encourage cooperation. The strong performance of an entity results from its interaction with and contributions from stakeholders, which include regulators, investors, employees, creditors, vendors, clients, unions, government, among others. Therefore, entities must recognize that their stakeholders are essential for their development and sustainability.

It is desirable that the members of the entity not violate the rights of the stakeholders, however circumstances may arise and there should be mechanisms in place for stakeholders to report unethical behavior. In general, it’s important that there is contact information for reporting or complaints by stakeholders. In the specific case of employees, for example, it is desirable that there be a person responsible for defending their rights and to answer complaints.

HR Ratings will analyze how the entity recognizes the rights, obligations and characteristics of each stakeholder through the entity’s policies, and also the strategy, the relationship and the interaction the entity has with these persons. We will also analyze the existence of dedicated offices or departments that serve the stakeholders.

The following strength levels reflect our assessment of the factors considered in this section:

High
Clear and detailed identification of the entity’s stakeholders, their rights, obligations, interests and characteristics; management reviews and potential roles of the stakeholders to determine the strategy with each; the entity has an excellent relationship and interaction with the stakeholders; there is an office that handles and resolves complaints received from any stakeholder.

Medium
Recognition of the entity’s stakeholders, limited details on their rights, obligations, interests and characteristics; management reviews and potential roles of the stakeholders, without having a broad scope; the entity has a good relationship and interaction with the stakeholders; complaints received from stakeholders are handled and resolved, but there is no dedicated office.
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Low
The entity's stakeholders are not well identified; lack of detail in their rights, interests and characteristics; lack of management reviews and roles of the stakeholders; the entity has a poor relationship and interaction with the stakeholders; complaints received from stakeholders are not handled or resolved.
Terminology

Corporate Governance
Corporate governance refers to the manner in which an entity is managed and controlled, and regulates the operation and composition of the authority-holding bodies of a company, these being the shareholders’ meeting, the board of directors and the senior management. The objective is that the administration of the entity be governed so as to achieve the objectives that would benefit each body and the continuity of the company.

Shareholders
Shareholders are people that hold interest in an entity’s shares. Shares are the parts into which a company’s shareholder capital is divided.

Majority shareholders are those who hold a significant portion of the capital and therefore have a position of importance in the shareholding control of an entity.

Board of Directors
Board of directors refers to a group of people selected to support the administration of an entity and to oversee its management. This is where the different authority-holding bodies are represented and can share their opinions for the decision-making.

Board Members
In this methodology, board member refers to any person that sits on an entity's board of directors. The board of directors should be comprised of independent, related and proprietary members.

Independent
Independent members are people who have no ties to the shareholders or the management team, and also have no personal, proprietary or economic interest in the entity. This helps to ensure objective opinions, free of conflicts of interest in decision-making.

The principal criteria HR Ratings applies to determine whether a board member is not independent are:
- The management or employees of a company member of the business group or consortium to which the entity belongs.
- The shareholders that are part of the group that controls the company.
- Persons that have blood relatives or by marriage, to the fourth degree, with any of the persons mentioned in the previous points.
- Any stakeholder who holds personal, proprietary or economic interest in the entity.

These criteria are based on the standards set by the stock markets. However, it’s important to note that these criteria are applied case-by-case and that the information provided by the entity is essential to assess independence.

Related
Related members are those who are involved in the operation of the entity.

Proprietary
Proprietary members refer to shareholders or representatives for shareholders who hold significant interest in an entity's shareholdings.
Senior Management
Senior management refers to the officers or executives that hold relevant positions in the operation and administration of the entity. These positions include chief executive, financial and operating officers, among others.

The principal function of the senior management team is to achieve the objectives of the entity by managing the different areas within the company.

Committees
A committee refers to any group that meets regularly and is comprised of independent, related and/or proprietary members, and is additional to the board of directors. The purpose of a committee is to support and strengthen decision-making, and to make the management of the entity more efficient.
### Rating Scales

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Rating Definition</th>
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<tbody>
<tr>
<td>HR GC 1</td>
<td>The strength of the entity’s corporate governance meets the highest standard of best practices.</td>
</tr>
<tr>
<td>HR GC 2</td>
<td>The strength of the entity’s corporate governance is above the standard for best practices.</td>
</tr>
<tr>
<td>HR GC 3</td>
<td>The strength of the entity’s corporate governance meets the standard for best practices.</td>
</tr>
<tr>
<td>HR GC 4</td>
<td>The strength of the entity’s corporate governance is below the standard for best practices.</td>
</tr>
<tr>
<td>HR GC 5</td>
<td>The strength of the entity’s corporate governance falls at the lowest level for the standard of best practices.</td>
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</table>
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