**HR Ratings®** | **Credit Rating Agency**

*A NRSRO Rating\**

**Senior Notes**

**Fibra Uno**
**Trust F/1401**

**HR A- (G)**

**Corporate**
**July 24, 2019**

## Ratings

| | |
|---|---|
| Senior Notes Due 2030 | HR A- (G) |
| Senior Notes Due 2050 | HR A- (G) |
| **Outlook** | **Stable** |

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## Rule 17g-7 Information Disclosure Form

*The Rating Action Commentary (RAC) associated with this disclosure form is an integral part of the form.*

1. **Symbol, Number, or Score in the Rating Scale used by HR Ratings as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:**

| Entity/Instrument | Rating Action | Rating Type | Rating Code |
|---|---|---|---|
| Senior Notes Due 2030 issued by Fibra Uno (the Issuer and/or the Trust and/or the Company) for an amount of US$400m | Assigned | Long Term Rating | HR A- (G) / Stable Outlook |
| Senior Notes Due 2050 issued by Fibra Uno (the Issuer and/or the Trust and/or the Company) for an amount of US$600m | Assigned | Long Term Rating | HR A- (G) / Stable Outlook |

2. **Version of the Procedure or Methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:**

The rating assigned by HR Ratings to the entity is based in accordance with the following methodologies established by the rating agency:

- Corporate Debt Credit Risk Assessment, May 2014
  https://www.hrratings.com/docs/metodologia/Corporate%20Debt%20Credit%20Risk%20Evaluation%20Final.pdf

- General Methodological Criteria, March 2019
  https://www.hrratings.com/docs/metodologia/GMC%20March%202019.pdf

3. **Main assumptions and principles used in constructing the procedures and methodologies to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:**

The methodology is founded upon the analysis performed under a base case and stress case scenario, which are primarily based on the entity's historic, current and projected financial statements. The credit risk analysis reflects our view of the entity's ability and willingness to make interest and principal payments promptly and in full. The ratings do not reflect expected recoveries in the event of default, nor do they incorporate views about non-credit factors that may impact the trading price of the entity's issues.

HR Ratings' methodology for Corporate Debt Credit Risk evaluates relative credit risk across different entities within an asset class.

The rating process consists of two basic components:

a)      Determination of the Initial Rating (IR) or Quantitative analysis:

HR Ratings makes a quantitative analysis of annual audited reports and intra-annual financial statements that provides insight of the financial administration of the entity. Taking in consideration the historical analysis and guidance given by the entity, HR Ratings projects for the next three years the financial statements in a base and a stress scenario. In order to validate guidance given by the entity, it is compared with historical data and guidance given in past years. Ideally, this methodology assumes the existence of five years of historical data to serve as the basis for making projections. However, in the absence of such history, the analysis committee will decide whether, within the context of each entity or asset class, the information available is minimally acceptable in order to proceed with a rating.

The base case scenario represents HR Ratings' estimate of the most likely evolution over time of the entity's financial position. It considers guidance provided by the entity's senior management team, but we don´t incorporate that guidance as a given. The stress case scenario assumes a less favorable mix of assumptions compared to those utilized in the base case scenario.

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Stress case assumptions are determined in relations to those of the base case and are standardized for the asset class in question. The stress case scenario may also incorporate different assumptions that are unique to a specific entity. For example, the stress case may consider less favorable outcomes of a major acquisition, or a significant increase in debt burden after embarking on a sizeable project that could severely affect an entity's financial position.

The main purpose of this methodology is an evaluation of the credit quality of an entity and its debt whose normal servicing is not given any structured preference relative to other forms of debt. However, the final credit ratings of specific debt obligations may be adjusted based on preferences that it might enjoy in situations of distress. For its part, preferred structure debt will generally be serviced by all or part of a specific revenue stream and will have priority (via a cash waterfall) in the receipt of these funds. To insure the prioritization a trust or special purpose vehicle may be created.

As part of the credit risk evaluation process, the analysis committee may distinguish among preferred, nonpreferred and subordinated sub-categories. The committee may also give different ratings to specific debt that is strengthened by credit enhancement mechanisms such as guarantees from financial institutions and development banks. The credit rating process of an entity also takes into consideration related group obligations. This refers to the impact on an entity's debt obligations of credit events on the debt of related parties. In these instances, the ratings may be negatively affected by the relationship to the debt of related parties with lower credit ratings. This extends to other liabilities that might be activated by credit events occurring in related entities.

In measuring the amount of debt, this methodology requires analysts to endeavor to adopt a relatively broad definition such as relevant off-balance sheet obligations or liabilities that may trigger a default. Where appropriate, the Methodology Committee will create more precise definitions tailored to a specific asset class.

Once projections are made, our model calculates the Free Cash Flow (FCF), which is the core concept in order to calculate the four metrics that determine the initial rating. These four metrics are: i) Debt Service Coverage Ratio ("DSCR"), ii) DSCR with cash, iii) Years of Payment of Net Debt and iv) Marketable Assets to Liability Coverage Ratio ("MALC"). The model calculates a weighted average between these metrics and between years in both base and stress scenarios. The weighted sum of the normalized metric values for the two scenarios will determine the IR as converted to a letter grade using HR Ratings' credit risk scale.

The committee also evaluates the trend in the evolution of the key metrics used in the quantitative component of the rating process. Furthermore, a sharp increase in debt amortizations following the conclusion of the forecast period might be viewed as negative and in certain circumstances could justify a decision on the part of the analysis committee to extend the time horizon of the forecast period and recalibrate the relative weights for each year in the measurement of the metrics.

b)      Determination of the Initial Rating (IR) or Quantitative analysis:

Once the IR is determined, the methodology then evaluates the adjustments that might be needed based on the incorporation of a variety of additional qualitative factors. The final adjustment may be multi-notch, either raising or lowering the IR. It is not possible to give a predetermined individual relative weight to any qualitative factor. The analysis committee will determine each factor's impact as neutral, positive or negative. Also, the qualitative component takes into consideration the quality of the information provided and the penalization, if any, of a limited period of historical data.

Among the main qualitative factors that are likely to be highly relevant to all entities are:

- **i. Corporate Governance:** This includes factors such as the presence of independent members on the Board of Directors and procedures to provide adequate compliance with locally appropriate regulations regarding internal operations.
- **ii. Liquidity and Credit Lines:** Although an entity may be structurally solvent, it could also have liquidity issues not entirely reflected in the DSCR measures. Alternatively, an entity could have access to credit lines that would provide it with liquidity. In evaluating credit lines, it is important to incorporate the degree of commitment that a lending institution has to extend the credit even in times of financial stress.
- **iii. Industry Risk:** This includes factors such as the industry's future prospects, the pace of technological change, barriers to entry and cyclicality.
- **iv. Company Market Position:** Here we consider whether an entity is a strong or weak participant within the industry, whether or not that position is changing or at risk of changing (e.g., technology, loss of patents), and whether or not a company depends upon a limited number of customers.

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**v. Regulatory Risk:** This includes such factors as whether the industry is highly regulated such that participants might face sanctions, and whether the regulation is subject to change such that it could harm or benefit the entity being rated. Political and labour relations risks are also considered here.

**vi. Accounting Risk:** Although this methodology generally assumes the accuracy of information audited by reputable accounting firms, the analysis committee has the prerogative to penalize a rating if it believes that the quality of the information is low, but enough to evaluate the financial evolution of the entity.

**vii. Project and Financial Risk:** Under this factor we review if the company is currently engaged in a new venture or acquisition and if it is it exposed to exchange rate volatility.

**viii. Group Risk:** This refers to factors apart from those included in the debt covenants. An entity might be linked to a powerful group of shareholders that can provide it with financial resources in times of stress. Or, it might be linked to businesses that are weakening and shareholders might decide to transfer resources (via dividends or inter-company loans) from the entity being rated to weaker elements of the group.

**ix. Property enhancements:** Debt may be backed by liens on assets held by the entity. The existence of such enhancements may have a positive impact on the final rating depending upon the legal nature of the lien, the valuation of the property and the prospects of monetizing the asset.

4. **Potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7**

- HR Ratings does not validate, guarantee or certify the accuracy, correctness or completeness of any information and is not responsible for any errors or omissions or for results obtained from the use of such information.
- Ratings and/or opinions assigned by HR Ratings are based on an analysis of the of the creditworthiness of an entity, issue or issuer, and do not necessarily imply a statistical likelihood of default.
- The credit ratings do not opine on the liquidity of the issuer's securities or stock.
- The credit ratings do not consider the possible loss severity on an obligation default.
- The credit ratings are not an opinion of the market value of any issuer's securities or stock, or the possibility that this value suffer a deterioration.

5. **Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7**

The Analysis Committee noted no material limitations on the reliability, accuracy and quality on the data relied on in determining the credit rating.

The Analysis Committee noted no material limitations on the scope of historical data or on the accessibility to certain documents or other information that would have better informed any credit rating listed in this disclosure form. It should be noted that a Technical Note was incorporated for the Issuer's rating, regarding the Free Cash Flow calculation, which includes the obligation to distribute 95.0% of their Net Taxable Income to the CBFI holders by regulation, to keep their FIBRA status.

The ratings and/or opinions assigned are issued on behalf of HR Ratings, not of its management or technical staff, and do not constitute an investment recommendation to buy, sell, or hold any instrument nor to perform any business, investment or other operation. The assigned ratings and/or opinions issued may be subject to updates at any time, in accordance with HR Ratings' methodologies.

6. **Use of third party due diligence services as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7**

HR Ratings did not use third party due diligence services for its rating actions.

7. **Use of servicer or remittance reports to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7**

HR Ratings does not use Servicer or Remittance Reports to conduct surveillance of its rating actions.

8. **Description of types of data about any obligor, issue, security or money market instrument relied upon for determining credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7**

Among the main information used for the rating is:

- Annual Audited reports obtained from public record, regulatory filings and from Fibra Uno.

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- Inter-annual financial statements and operational results.
- Projections, budget and guidelines provided by the Trust.
- Presentations provided by the Trust.

**9. Overall assessment of quality of information available and considered in determining credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7**

The quality of the information provided by the entity is considered consistent with the quality observed within the asset class.

**10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7**

The rating was solicited by the entity or issuer, or on its behalf, and therefore, HR Ratings has received the corresponding fees for the rating services provided. The following information can be found on our website at www.hrratings.com: (i) The internal procedures for the monitoring and surveillance of our ratings and the periodicity with which they are formally updated, (ii) the criteria used by HR Ratings for the withdrawal or suspension of the maintenance of a rating, and (iii) the procedure and process of voting on our Analysis Committee. The Analysis has been performed with complete independence from the received fees or any other business relation with the entity and in absolute concordance with the applicable methodologies.

The ratings and/or opinions assigned are issued on behalf of HR Ratings, not of its management or technical staff, and do not constitute an investment recommendation to buy, sell, or hold any instrument nor to perform any business, investment or other operation. The assigned ratings and/or opinions issued may be subject to updates at any time, in accordance with HR Ratings' methodologies.

**11. Explanation or measure of potential volatility to the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule17g-7**

The main factors that could lead to the volatility of the rating are:

- Deterioration of the operating metrics. The generated income could fall below the amount considered in the stressed scenario, if the occupancy and the profitability of the stabilized portfolio decreases due to any outside factor, and/or the properties in development were not ready by their expected due dates.
- Constant payment of distributions greater than the Flow from Operations. The payment of the debt servicing would be compromised if the Trust were to distribute amounts above the cash flow generated from the operations of the portfolio.

**12. Historical performance and expected probability of default and expected loss in event of default as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7**

For historical performance of each rating listed in the disclosure form, click on the link in the ratings table presented on the first page.

Our credit ratings need to be understood as rankings of the relative creditworthiness of different entities or credits. Creditworthiness takes into consideration both the ability and willingness to meet debt obligations in the manner prescribed in the relevant documentation. Default refers to the noncompliance of previously agreed obligations.

As our ratings measure relative creditworthiness they do not necessarily reflect any specific statistical probability of default. In order to make more valid rankings of creditworthiness our different methodologies Will apply stress case scenarios to complement our base case analysis.

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**13. Assumptions made by HR Ratings in determining announced credit ratings and examples of how assumptions impact the rating as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7**

- **Increased FCF.** The FCF reported 75.9% growth in LTM at 1Q19, achieving P$15,460 million (m), in line with our estimates from the previous review (P$15,410m under the baseline scenario). The growth in the LTM was due to improved operating results in net operating income (NOI), EBITDA and Adjusted EBITDA, which increased with the performance of the portfolio in operation, in addition to the quick stabilization of the most recently incorporated properties. With the improved FCF, the DSCR reached high levels to close at 1.6 times (x) (vs. 2.1x at 1Q18 and 2.6x under the baseline scenario).
- **Low payment years for net debt.** Following the growth of investments on properties and associates, the net debt increased 25.8% to close at P$78,377m at 1Q19 (vs. P$72,562m under the baseline scenario).

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However, this increase of the debt has been more than offset by the growth in operating results and FCF, reporting improved payment years for net debt to Adjusted FCF to close at 5.1 years (vs. 7.1 years at 1Q18 and 4.7 years under the baseline scenario). It is important to note that these metrics are below the average weighted life of the debt of 8.9 years and considering the nature of FUNO assets, which are on a long-term.

- **Portfolio diversification.** At 1Q19, the portfolio of properties holds 559 units with a gross leasable area (GLA) of 8,681,121 sqm distributed throughout the Mexican Republic, reporting a healthy occupancy of 95.4% at 1Q19 (vs. 94.8% at 1Q18). This diversification demonstrates a defensive portfolio against geographical risks. Additionally, the Trust maintains a healthy diversification, in terms of its main clients, as the top ten represents 26.5% of the GLA and 24.7% of the rental income.
- **Committed credit lines.** Fibra Uno has various committed credit lines for up to P$7,000m and US$410m contracted in July 2015 for a five-year term. This represents a strength for FUNO, providing financial certainty, even in an adverse economic environment.
- **Exchange rate exposure.** At 1Q19, 43.9% of the total debt is denominated in dollars, for which FUNO has financial instruments for an amount up to US$100m to hedge only the principal of its debt, and US$350m to cover the principal and interests. Considering these hedging instruments, only 33.0% of the debt is at risk of a dollar-peso fluctuation. It is important to mention that although the risk is partially covered with 24.0% of the rents, which are denominated in dollars, there is an additional risk regarding volatility in the exchange rate of the principal that is not covered.

14. <u>**Representations, warranties and enforcement mechanisms available to investors as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7**</u>

The reporting of representations, warranties, and enforcement mechanisms does not apply to the credit rating listed in the disclosure form as it is not assigned to an asset-backed security.

15. <u>**Attestation as required by Paragraph (a)(1)(iii) of Rule 17g-7 (Page 4)**</u>

### Credit Rating Attestation

I, José Luis Cano Mendoza, Executive Director Corporates / ABS have the responsibility for this rating action and, to the best of my knowledge:

- No part of the credit rating was influenced by any other business activities;
- The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated; and
- The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument

Mexico City, July 24, 2019

/s/ José Luis Cano Mendoza /
Executive Director Corporates / ABS
HR Ratings de México, S.A. de C.V.

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*HR Ratings, LLC (HR Ratings), is a Credit Rating Agency registered by the Securities and Exchange Commission (SEC) as a Nationally Recognized Statistical Rating Organization (NRSRO) for the assets of public finance, corporates and financial institutions as described in section 3 (a) (62) (A) and (B) subsection (i), (iii) and (v) of the US Securities Exchange Act of 1934.

**The rating was solicited by the entity or issuer, or on its behalf, and therefore, HR Ratings has received the corresponding fees for the rating services provided. The following information can be found on our website at www.hrratings.com: (i) The internal procedures for the monitoring and surveillance of our ratings and the periodicity with which they are formally updated, (ii) the criteria used by HR Ratings for the withdrawal or suspension of the maintenance of a rating, and (iii) the procedure and process of voting on our Analysis Committee.**

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