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Fidson Healthcare Plc

Nigeria Corporate Bond Analysis **September 2014**

Security class	Rating scale	Rating	Rating outlook	Expiry date
Issuer - Long term	National	BBB $_{(NG)}$	Stable	September 2015
Issuer - Short term	National	A3 $_{(NG)}$	Stable	September 2015
N2bn Secured Bond - Indicative	National	A- $_{(NG)}^{\#}$	Evolving	March 2015

Key Transaction counterparties:

Issuer: "Fidson", "the Company " or "the Issuer"
Auditors: Ernst & Young
Reporting Accountants: PKF Professional Services
Bond Trustee: ALM Consulting Limited
Solicitors to the Trustees: Templars
Issuing House/Book Runner: CardinalStone Partners Limited
Registrar: City Securities Registrars Limited ("CSRL")
Account Bank: First City Monument Bank Plc ("FCMB")
Receiving Banks: First City Monument Bank Plc, Access Bank Plc ("Access Bank")
Key Documentation: Draft Trust Deed, Draft Supplemental Mortgage Trust Deed and Draft Account Bank and Paying Agent Agreement

Summary of Transaction:

Asset class	Senior secured
Offer size	₦2bln
Proposed Security	All Asset Debenture
Method of Distribution	Book building

Interest Rate

Interest Basis	Fixed: To be determined by way of a book build and paid semi-annually

Principal payment frequency

N2bn Bond	semi-annual amortisation commencing after expiration of 12 month principal moratorium

Issuer rating (09/2014)

Issuer Long term: BBB $_{(NG)}$
Issuer Short term: A3 $_{(NG)}$
Rating outlook: Stable

Related methodologies/research:

Criteria for rating Corporate entities, August 2014
Global Structurally Enhanced Corporate Bonds Criteria
Fidson Healthcare Plc Issuer Reports, Jan, Sept 2014.

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Transaction summary

Fidson Healthcare Plc is initiating a N2bn bond Issue to part-refinance existing debt and fund working capital, via a single Public Issue. The bonds are direct, unsubordinated and secured obligations, ranking pari-passu with all senior obligations of the Issuer. Security is by way of an all asset debenture over Fidson's assets. Maturity of the bonds will be 5 years from issue date, with a 12-month moratorium on principal repayment. Principal will be redeemed by 8 equal semi-annual instalments, following the expiration of the moratorium period. Pricing will be at a fixed interest rate determined by way of a book build. Interest is payable semi-annually in arrears. No redemption option is applicable on the bond. The *indicative public* ratings accorded to the Senior Notes relate to ultimate payment of interest and principal (as opposed to timely, akin to an expected loss rating, which is a function of probability of default and loss severity).

Summary rating rationale

The rating is based on the following key factors:

- As the Bonds are issued directly from Fidson, the Bond rating is intrinsically linked to the financial performance of the Issuer, and any change in the Issuer rating will impact the Bond rating. The Issuer was affirmed at BBB $_{(NG)}$ in September 2014.
- Fidson has developed a strong position in the pharmaceutical industry. Underpinned by a broad product range covering key pharmacological classes and disease treatments, the Company stands to benefit from the strong growth forecast for the pharmaceutical sector in Nigeria. The new Biotech plant (commissioning by FYE14) should significantly enhance Fidson's production capacity and earnings over the medium term.
- Total debt is budgeted at N3.8bn at FYE14, following the Bond Issue. However, as at 1H F14, debt was around N4.5bn and forecast gearing metrics had already been exceeded. Were credit protection metrics to deteriorate, this could lead to negative rating action.
- Although the security package is currently pledged to secure indebtedness to existing bank lenders, a draft Supplemental Trust Deed has been prepared to admit the bondholders as beneficiaries to the Security package. A substantial portion (75%) of bond proceeds will be used for part refinancing of existing bank debt. Existing secured lenders have provided written consent letters to admit the current bondholders as beneficiaries to the security package, albeit subject to certain conditions.
- The *indicative public* rating of the Bonds is derived by applying a notching up approach, starting from the long term corporate rating. The proposed security package is an all asset debenture on the Issuer's assets. Calculations indicate superior recovery prospects even after stressing the fixed asset values, and a two (2) notch uplift is considered appropriate.
- A similar calculation was performed assuming indebtedness reaches the maximum level permitted. In such a case, up-notching would be lower.

The ***indicative public* rating** is premised on the security structure and recovery prospects detailed in this document. Should the final security package and recovery prospects differ, this could impact the final rating accorded. The final rating will be accorded upon receipt of satisfactorily signed and executed transaction documents and final legal opinion.

Issuer Profile

Fidson started operations in 1995 as a distributor of pharmaceutical products. Shortly thereafter, in 1996, the company commenced the importation of its own brand of finished medicines. Fidson currently ranks among the top three pharmaceutical companies in Nigeria, having listed on the Nigeria Stock Exchange in 2008. Fidson set up its first local manufacturing facility in July 2002 and a second plant in 2007. The Company ceded the former facility to an international joint venture project and this led to the establishment of Ecomed Pharma Limited, a related company. The second factory is located in Otta, Ogun State and has five product lines for tablets, capsules, creams & gels, oral liquid and dry powders. Product range includes medicines addressing chronic diseases, infections and malaria as well as over the counter medicines and life style products (including nutraceuticals).

Fidson is a market leader in several therapeutic areas with brands spread nationwide. The Company has achieved major milestones and pioneered various innovative products in the Nigerian Pharmaceutical Industry further adding to its competitive strength. In 2005, it became the first company in Sub-Saharan Africa to produce antiretroviral drugs (ARVs). Fidson is currently building a new manufacturing plant ("Biotech factory"), to be used for production of parenterals and intravenous fluids, which are in high demand. The project commenced in 2011 with an initial completion date set for 3Q F14. However, due to port clearing delays and other hitches, plant commissioning date has been pushed out to FYE14 while commercial production is expected to commence by 1Q F15, albeit subject to a timely regulatory approval process. Fidson is managed by a team of experienced professionals.

GCR accorded Fidson Healthcare Plc an initial national Naira currency long term rating of **BBB$_{(NG)}$** (triple B) and a short term rating of **A3$_{(NG)}$** (single A three) in January 2014. The ratings were affirmed at **BBB$_{(NG)}$** in September 2014. For a detailed analysis of Fidson's corporate credit rating, please refer to the *Fidson Healthcare Plc report* dated September 2014.

Unique rating considerations for the proposed N2bn Bond Issue are detailed in the final section of this report.

Transaction Summary

Fidson is initiating a N2bn bond Issue to part-refinance existing term loans and augment working capital. Over the recent years, the Issuer has been involved in various capex projects and made significant recourse to relatively expensive debt to fund the projects, putting a strain on cash flows. According to management, the Offer would provide a cheaper and more stable debt financing that would match the tenor of debt obligations with operational cashflows. The bonds are direct, unsubordinated and secured obligations, ranking pari-passu with all senior obligations of the Issuer. In line with the transaction documentation, the Bonds will be secured by an all asset debenture over the Issuer's assets. Maturity of the bonds will be 5 years from issue date, with a 12-month moratorium on principal repayment. During this period, only the interest will be paid. Pricing will be at a fixed interest rate determined by way of a book build. Interest is payable semi-annually in arrears and will commence 6 months after Allotment Date until maturity date.

Principal will be redeemed by 8 equal semi-annual instalments, following the expiration of the moratorium period. Final maturity of the bonds will be in 2019. No redemption option is applicable on the bond. As indicated in the prospectus, the Bonds issued will be exempt from taxation in Nigeria. This is based on the Companies Income Tax (Bond exemption) Act, 2011. Fidson can absorb a maximum additional amount of 15% of the offer size, in the event of over-subscription. An application will be made to list the Bonds on the Nigerian Stock Exchange.

Bond proceeds will be utilised as follows:

Details	N'm	%
Part repayment of existing loans	1,500.5	75.0
Working Capital	431.0	21.6
Issue expenses	68.5	3.4
Total	**2,000.0**	**100.0**

According to the prospectus, details of outstanding debts to be settled are as follows:

Financial Institution	Loan Type	Annual interest rate (%)	N'm
FCMB	Lease	19.5	166.6
FCMB	Term loan	20.5	869.0
GTBank	Term Loan	19.0	183.3
Access Bank	IFF	22.0	34.6
Access Bank	Overdraft	22.0	72.8
Financial Derivatives Ltd	Lease	23.0	174.1
Total			**1,500.5**

Trustee

ALM Consulting Limited (trading as ALM Trustees) has been appointed as the Trustee to the transaction. ALM Trustees has about 7 years' experience with services covering Public, Corporate and Private Trusts. The Trustee will hold the benefit of the payment obligations and other covenants of the Issuer in Trust for the bondholders and perform the duties contained in the Trust Deed including control over the Transaction Accounts. ALM Trustees is also the Security Trustee for the existing bank lenders. The Trustees will also enforce the Security Interests constituted by the Supplemental Mortgage Trust Deed (and any other Security Document) for the benefit of the bondholders and other parties deriving title from them.

Security Structure and Transaction Dynamics

In the course of its business, Fidson had utilised various bank loans against which it pledged its assets as security through offer letters and security agreements with the respective lenders. The initial lenders Access Bank, Fidelity Bank, GTBank, Intercontinental Bank Plc[1] (now defunct) entered into an Interlenders' agreement dated October 2010 leading to the constitution of a mortgage debenture trust deed. This was done in order to harmonise, protect and monitor their interests in the various loans granted to Fidson, with each Banks' rights ranking pari passu with each other. Intercontinental Trustees was appointed in 2010 to hold the benefit of the security interest on behalf of the lenders. Following the resignation of erstwhile Intercontinental Trustees, the bank lenders appointed ALM Consulting Ltd. as the new Security Trustee. The security interests were subsequently transferred to ALM Consulting via the "Transfer of Charge/Security Agreement" dated July 2013.

Subsequent to this, Fidson took on additional loans from FCMB and Bank of Industry ("BOI"), to fund the construction of the new biotech factory and in February 2014, a supplemental mortgage debenture trust deed ("the debenture") was executed to admit the new lenders into the existing security arrangement. The debenture indicates that Fidson may obtain further loans from existing lenders or other lenders upon the security of the mortgaged assets provided that the total loan exposure (new and existing) plus interest does not exceed the determined economic value of the security. However, consent of the Trustees and lenders must be sought and obtained. The debenture was registered and stamped to cover N707m, in addition to the existing stamping of N200m on the original mortgage debenture. Per the debenture, total exposure of the lenders was estimated at N4.5bn. In the event of additional borrowing, the Trustees and lenders also have the right to up-stamp the security documents.

A draft Supplemental Mortgage Trust Deed ("STD") was prepared in August 2014 which Fidson and ALM Trustees will execute after the bond Issue is closed. By this deed, an additional security asset (Biotech plant) will be added by way of mortgage to the existing package and security benefits will be extended to the bondholders. According to the STD, the interests of the bondholders in the security package will rank pari-passu with the existing lenders. The security package is to be stamped to cover 45% of the aggregate amount outstanding to bondholders and secured bank debt. Fidson will be responsible for all perfection costs.

Subject to the following conditions, Guaranty Trust Plc ("GTBank"), Fidelity Bank Plc, Access Bank, Bank of Industry ("BOI") and FCMB (lenders under existing security package) have provided written consent to admit bondholders to the security package:

- Bond proceeds to be used for part refinancing of existing term loans
- Fidson to reduce exposure to various banks secured on existing debenture by N1.5bn on a pari passu basis from bond proceeds
- Total indebtedness of the Issuer not to exceed N5.6bn
- Security interest of the bond holders to rank pari passu provided the agreed limit is not breached
- Fidson's obligations to the bondholders and Interest of the Bondholders to rank pari passu with all other secured obligations and Interest of existing lenders respectively.
- The Issuer is required to execute a Supplemental Mortgage Debenture Trust Deed ("Debenture") in this regard and register same.
- The interest of each lender and bond holders under the Debenture to be noted and stamped in line with agreed pro rata stamping agreement.
- Value of security not to fall below market value of N6.4bn and forced sale value of N4.4bn.

In line with the Trust Deed, bondholders will benefit from the security package below:

1) first ranking fixed charge on the Transaction Accounts
2) first ranking floating charge on all monies and investments in the Issuer's bank accounts, including income receivable on such accounts
3) first floating charge over all the Secured Assets (present and future) taken as security for the benefit of bond holders. Details of the assets are:
    i. Property at 268, Ikorodu Road, Obanikoro, Lagos State (head office)
    ii. Property at KM 38, Abeokuta Expressway Sango-Otta (new biotech plant)
    iii. Plot 32, Lyson Chemical Avenue, Off Lagos-Abeokuta Expressway, Ogun State (first plant)
    iv. Fidson Healthcare Plc at Km 38, Lagos-Abeokuta Expressway, Sango Otta (current plant)
    v. Property at KM 38, Lagos – Abeokuta Expressway Sango – Otta Ogun State (Fidson Products Ltd.)

Clause 12 of the Bond Trust Deed indicates that the floating charges will automatically crystallise into fixed charges upon certain events. These include non-compliance with covenants, an event of default, liquidation/winding up of the Issuer, amongst others.

[1] Merged with Access Bank Plc in 2012

Valuation of Security Assets

Messrs Jide Taiwo & Co.[2] carried out the professional valuation of the five properties, with findings presented in two reports. Details of valuation of the first four security assets are presented in a report dated November 2013. The valuation report puts the market value ("MV") of the assets at N6.7bn and forced sales value ("FSV") at N4.7bn. A second valuation report dated 28 October 2013 puts the MV and FSV of the fifth property at N1.3bn and N931.3m respectively. Overall, the properties have a combined market value of N8bn and forced sale value of N5.6bn.

Perfection of Security Documents

Within 6 months from the Closing Date, the Issuer is to conclude the process of stamping of the security documents and all applicable registration. In a bid to save costs, an initial registration and stamping will cover 45% of the Bond amount (N900m). Nevertheless, the trust deed indicates that the security documents will be up-stamped to cover the full value of the bonds, in an event of default. A Perfection Reserve Account will be opened to warehouse the full perfection costs. (*Please see details in the following section).*According to the Issuing House, the estimated cost for the initial registration and nominal stamping is N25m.

Registration Fees – Full Stamping for N4.5bn	Amount (N'm)
FIRS* Stamp Duty @ 1.5% of N900m	13.5
Filing with the Corporate Affairs Commission @ 1% of secured amount (i.e N10,000 per million)	9.0
Estimated solicitor's fees	2.5
Total	**25.0**

**Federal Inland Revenue Service*

Negative Pledge

The Bonds bear a negative pledge whereby as long as any of the Bonds remain outstanding, Fidson will not create any encumbrance on the secured assets, other than existing encumbrance, without the consent of the Bond Trustee. The Trust Deed also contains various warranties from the Issuer to protect the interest of the bond holders

Transaction Accounts

The contemplated transaction incorporates a Minimum Reserve Account, Payment Account and the Perfection Reserve Account ("Transaction Accounts"), which will be opened with the Account Bank on the Closing Date of the bonds. All Transaction Accounts are to be opened in the name of the Issuer but the trustees will exercise control (in line with the terms of the Trust Deed and Account Bank and Paying Agent Agreement). FCMB, currently rated A-$_{(NG)}$ by GCR, has been appointed as the Account Bank. The Paying Agent is City Securities Registrars Limited.

Minimum Reserve Account

The Minimum Reserve Account ("MRA") shall be initially funded on the Closing Date with an amount equal to the interest payable on the next Payment Date. This amount will be maintained as the MRA Minimum Balance or Debt Reserve Amount. Upon expiration of the one year moratorium period, the MRA will be funded on the first business day of each month ("Monthly Funding Date") with one-sixth (1/6th) of the principal amount payable on the next Payment Date. If the Issuer fails to make the required monthly funding payment on or before a Monthly Funding Date, the Issuer shall be obliged to immediately fund the MRA, such that the sum standing to the credit of the Minimum Reserve Account shall be equal to the aggregate semi-annual principal and interest due on the Bonds.

Payment Account

The Payment Account will be used to accumulate monies to pay the interest on the Bonds. The Payment Account will be funded by the fifth Business Day of every month with one sixth (1/6th) of the interest payable on the next Payment Date. The repayment of the principal shall be from the MRA funds duly paid into the Payment Account, five (5) business days before any Payment Date and Redemption Date. If there is a short fall in the Payment Account, two business days before a Payment Date, the Trustee may withdraw the shortfall from the MRA and the Issuer shall replenish the MRA to the extent that it contains the aggregate debt service amount due on the next Payment Date.

Perfection Reserve Account ("PRA")

On the Closing Date, the Perfection Reserve Account will be funded with the cost of perfecting the security package to cover full value of the bonds. The PRA will be operated in line with provisions of Trust Deed and Account Bank and Paying Agent Agreement. In an event of default, the Bond Trustee will apply the funds in the account to up-stamp the security documents.

Authorised Investments

At its discretion, the Bond Trustee may invest funds available in the Transaction Accounts in authorised investments. Investment decisions will be made in consultation with a duly appointed fund manager. Authorised investments include the following:

- Direct obligations of the Federal Government of Nigeria and securities fully and unconditionally guaranteed as to the timely payment of principal and coupon by the Federal Government of Nigeria;
- Direct obligations of federal agencies which are fully guaranteed by the Federal Government of Nigeria;
- Direct obligations of any State of the Federal Republic of Nigeria or any local government or agency thereof, each of which has a minimum credit rating of Aa or its equivalent from a rating

[2] Firm of estate agents and valuers registered by the Securities and Exchange Commission

agency registered by the Securities and Exchange Commission ("SEC") at the time of purchase; and
- Deposit accounts, commercial papers or bankers' acceptances, or instruments (not more than 1 year tenor) of any bank duly licensed by Central Bank of Nigeria. The bank must have an investment grade rating by a SEC-registered rating agency and a minimum of a BB- by an internationally recognised rating agency

Events of default

These include the following events, *inter alia*:

- If the Issuer does not pay any amount payable (principal or interest) under the Bonds within five (5) business days of the due date;
- Breach of other obligations/undertakings with respect to the bonds and where such a breach is not remedied within 30 days of such a breach.
- Cross Default: If any debt in excess of N200m (or equivalent in other currency) of the Issuer is not paid within 10 business days of due date or applicable grace period;
- Enforcement proceedings against the whole or any substantial part of the property, assets or revenue of the Issuer that is not discharged or stayed within 60 days;
- Insolvency event in respect of the Issuer
- Obligations Unenforceable: if any of the bonds, trust deed or final terms becomes wholly or partly void, voidable or unenforceable.

Bond rating considerations

In according the indicative public rating of the Bonds, GCR has taken into account the corporate Issuer rating and the security enhancements afforded to bondholders. The indicative public rating of the Senior Bonds is derived by applying a notching approach, starting from the long term senior unsecured Issuer rating of Fidson. In determining the appropriate number of rating notches to be applied, GCR compares the estimated overall recovery rate after a potential default of the senior bonds with an assumed average corporate senior unsecured debt obligation recovery rate. If overall estimated recoveries are higher than the assumed average recovery rate, a notching uplift may be applicable.

To value the mortgage debenture, GCR has utilised the market values of the fixed assets of N8bn as determined by the independent valuer as a starting point. GCR has applied a 35% haircut to the market value of the real estate, while plant, machinery and other movable assets have been stressed by 65% of the asset value. For other short term assets, assumed recoveries are zero. This is because it is most likely that in a default scenario, inventories will be minimal, all cash holding would have been utilised, while collecting outstanding debtors will become increasingly challenging and expensive.

Recovery rate calculations*	NAIRA
Principal amount outstanding upon default of bonds[1]	2,000,000,000
Other secured debt that would not be repaid from bond proceeds[2]	2,241,683,313
Assumed missed interest upon default[3]	328,730,457
Assumed missed interest to give time to realise recoveries[3]	657,460,914
Aggregate exposure to Senior lenders and bondholders	**5,227,874,683**
Assumed recoveries on sale of fixed assets[4]	(4,229,275,000)
Funds to be deposited into MRA on closing date	(155,000,000)
Assumed sales and legal costs[5]	261,393,734
Unsecured claim on Issuer	**1,104,993,417**
Overall estimated recovery rate	79%

[1]While the principal amount outstanding during the life of the Bonds will amortise from year 2, it is assumed the Issuer defaults prior to the first principal payment being made.
[2]Total outstanding balance on secured debt as at 31 August was N3.76bn while proposed repayment is N1.52bn.
[3]GCR assumes that upon default the first semi-annual coupon is not paid. In addition, interest payments cease during the assumed recovery period (12 months). This equates to 3 semi-annual interest payments in total. An assumed average interest rate of 15.5% has been utilised for calculations.
[4]Stressed value of the assets
[5]GCR applied 5% costs to the stressed value of the assets.

The calculated overall recovery rate of 79% carries superior recovery prospects. If the security is to be enforced, bondholders will only recover up to the value of the registered security interest. Although, the initial registration of security interest will cover 45% of the Bond value, provision has been made in the transaction documents to up-stamp the security package in an event of default. GCR has also considered the impact of other structural mitigants such as the Transaction Accounts. A similar calculation was performed assuming Fidson's indebtedness reaches the maximum level of N5.6bn permitted. In such, recoveries would fall to below 60% and up-notching (if any) would be lower.

Based on the structural mechanics, Issuer risk profile and other considerations by the rating panel, a two notch rating uplift is deemed appropriate. GCR has thus accorded an ***indicative** public rating* of **A-$_{\text{(NG)}}$** to the N2bn Senior bonds. The final ratings will be accorded following the receipt of satisfactorily signed and executed final transaction documents and legal opinion. GCR will also require evidence to show that the funds required to fully perfect and up-stamp the mortgage debenture has been deposited into the Perfection Reserve Account.

Legal opinion

GCR received a draft legal opinion from Templars (solicitors to the trustees) which confirms the following, inter alia:

- Upon execution and completion of perfection formalities (where applicable), the Transaction Documents will constitute legal, valid, binding obligations of parties and will be enforceable in line with their terms.

- Each Bond will constitute the legal, valid and binding obligation of the Issuer enforceable in accordance with its terms.
- The Issuer has good title over the Charged Assets and subject to obtaining consent from the Banks, the Issuer is authorised to create additional security over the Charged Assets for the benefit of the Bond Trustee (acting on behalf of the Bondholders)
- The security interests expressed to be constituted by or pursuant to the Mortgage Trust Deed over the Charged Assets are legal, valid and enforceable security interests.
- The Supplemental Trust Deed when executed and duly perfected will confer on the Security Trustee for the benefit of the Bond Trustee, first fixed and floating charges over the Charged Assets and the security interests created therein are unsubordinated and shall rank *pari passu* in right of payment to the Senior Lenders, except those claims mandatorily preferred by law.
- Upon the completion of the Perfection Formalities, the security interest created in the Mortgage Trust Deed in favour of the Security Trustee for the benefit of the Secured Lenders and the Bond Trustee shall be enforceable against all unsecured creditors of the Issuer and (in the event of insolvency) the liquidator of the Issuer.
- The Bond Trustee is empowered to exercise control over the Transaction Accounts in accordance with the Account Bank and Paying Agent Agreement, notwithstanding that the Transaction Accounts are opened in the name of the Issuer.
- By virtue of a first ranking charge on the Transaction Accounts, the Bond Trustee will also be able to exercise control over the accounts in an insolvency event.
- The draft legal opinion assumes that the Mortgage Trust Deed has been registered to cover 100% of the value of the Issuer's exposure to the Bondholders. In such a scenario, the bondholders will be able to realise the full value of the Bonds in the event of enforcement of the security.
- In the event of failure by the Issuer to perform its obligations under the Transaction Documents, the Bond Trustee is empowered to take such proceedings and actions against the Issuer for enforcement of the security for the total outstanding principal and interest.
- The bonds qualify as corporate bonds and are eligible for tax waivers granted by the Federal Government of Nigeria on withholding tax, personal income tax, companies income tax and value added tax.

Please note that the opinion includes a list of qualifications that stipulate, for example, that the enforcement of obligations may not always be possible for a variety of reasons. The opinion is also hinged on certain assumptions and execution of the transaction documents.

<u>Meaning of the indicative public rating</u>

The *indicative, public* rating accorded to the Bond relates to ultimate payment of interest and principal (as opposed to timely, akin to a loss severity rating therefore). The rating excludes an assessment of the ability of the Issuer to pay any (early repayment) penalties.

The indicative public rating of the Bond incorporates recoveries potentially arising from the sale of the underlying collateral and can therefore not be compared with, for example, a traditional corporate credit rating (the latter, which is also an expression of expected loss, but refers to probability of default and an average historical loss given default for generalised senior unsecured debt).

If the rating of the Issuer changes, the rating of the Bond may also change, but not necessarily in the same quantum. The rating of the Senior Notes may also change if the estimated stressed value of the underlying collateral materially changes.

The indicative public rating mentioned above is a national scale credit rating (as opposed to an international scale rating). National scale credit ratings are an assessment of credit quality relative to the rating of the lowest credit risk in a country. This lowest risk will normally, although not always, be accorded to financial commitments issued or guaranteed by the relevant sovereign state. National scale ratings are not intended to be internationally comparable. The suffix code identifies to which country the rating relates; 'NG' means the Federal Republic of Nigeria. A Rating outlook indicates the potential direction of a rating over the medium term, typically a one or two year period.

The credit rating of the Senior Secured Notes will be reviewed at a minimum on an annual basis or as events warrant. GCR will perform regular surveillance on the Transaction. Surveillance reports will be made available to subscribers to GCR's information services.

SALIENT POINTS OF ACCORDED INDICATIVE PUBLIC RATINGS

GCR affirms that a.) no part of the indicative public rating was influenced by any other business activities of the credit rating agency; b.) the public indicative rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the indicative public rating is for a maximum of 6 months.

Fidson Healthcare Plc participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The information received from Fidson and other reliable third parties to accord the public indicative rating included the draft prospectus, draft trust deed, draft account bank and paying agent agreement, draft supplemental mortgage debenture, existing mortgage debenture documents, draft legal opinion, the 2013 audited annual financial statements (plus four years of comparative numbers), budgeted financial statements for the years 2014 to 2018, unaudited management accounts to June 2014, corporate governance and enterprise risk framework, industry comparative data and regulatory framework and a breakdown of facilities available and related counterparties. In addition, information specific to the rated entity and/or industry was also received.