

Transparency report

Issued in respect of calendar year 2017

Contents

1. Introduction	2
2. The legal structure and ownership of the Economist Intelligence Unit.	3
4. Statistics on the allocation of its staff to new credit ratings, credit rating reviews, methodology or model appraisal and senior management	
5. Record-keeping policy	6
6. The outcome of the annual internal review of the independent compliance function	7
7. Management policy	8
8. Analyst rotation policy	9
9. Financial information	.10
10. Governance statement	11

1. Introduction

The Economist Intelligence Unit (EIU) is a wholly owned subsidiary of The Economist Newspaper Limited. The EIU provides country and sectoral information and analysis to companies, financial institutions and governments.

Among the services offered by the EIU are ratings of sovereigns' creditworthiness. These fall within the scope of European Union (EU) Regulation (EC) No 1060/2009 of 16 September 2009 on credit rating agencies (CRAs), as amended. Since June 2013 the EIU has been registered as a CRA in the EU in accordance with the Regulation.

This Transparency report has been prepared in accordance with Article 12 of the Regulation.

2. The legal structure and ownership of the Economist Intelligence Unit.

The Economist Intelligence Unit Limited (the "Company") is a wholly owned subsidiary of The Economist Newspaper Limited, which is a private company and is not listed or admitted to trading on a regulated market. It is therefore not bound by the Listing Rules of the Financial Conduct Authority to report on compliance with the UK Corporate Governance Code. As such, a governance statement is not included with this Transparency report. The Economist Group of companies has however always sought to run its corporate affairs in line with best practice. It therefore follows the main principles of the UK Corporate Governance Code as closely as is felt to be reasonably practicable and useful to shareholders.

The Company has four directors:

- Chris Stibbs
- Robin Bew
- Mina Toksoz
- Albert Hofman

None of the directors holds shares in the Company. Only Chris Stibbs holds shares in the parent company, The Economist Newspaper Limited, and these amount to less than 1% of that company's issued share capital.

The management of the credit rating business is delegated by the directors of the Company to the Credit Risk Committee (CRC) which consists of the following:

Voting members:

Robin Bew (EIU Managing Director and chair of CRC)

Robert Ward (EIU Editorial Director)

Vinay Shah (Chief Finance Officer)

Ann Silla (Legal Counsel)

Mina Toksoz (Independent Non-executive Director)

Albert Hofman (Independent Non-executive Director)

Attendees:

Brian Farthing (chair of CRS Internal Review function)

Felix Delbrück (Country Risk Service Director)

Vicki Gavin (Compliance Director)

The CRC is responsible for overseeing the Company's credit rating activities and ensuring that they comply with European Union (EU) Regulation (EC) No 1060/2009 of 16 September 2009, as amended.

3. Internal control mechanisms to ensure the quality of credit rating activities.

(i) Governance

The EIU has put in place a governance structure to oversee the sovereign credit rating activities conducted by the CRS. A supervisory board (the Credit Risk Committee, CRC) including two independent directors is at the apex of the governance structure. It has ultimate responsibility for the quality and integrity of the sovereign ratings published by the CRS and for ensuring that the EIU conducts its credit rating activities in accordance with the regulations.

(ii) Compliance Officer

The Compliance Officer reports into the CRC and is independent of CRS, the EIU product line which produces credit ratings. The compliance officer is responsible for ensuring that the EIU conducts its credit rating activities in accordance with the regulations and adheres to the policies and procedures set out in the relevant documents. The Compliance officer provides guidance and training to staff on regulatory matters and is responsible for ensuring that the EIU adapts it policies and procedures to comply with changes in regulation. The Compliance officer is responsible for notifying the regulator of any breaches of EU regulation. The Compliance Officer attends the CRC and provides regular reports on compliance to the board. The Compliance officer holds regular teleconferences with the two independent directors.

(iii) Internal Audit

The EIU has an internal audit function which is charged with overseeing the effectiveness of the EIU's internal controls and governance processes.

(iv) Policies and Procedures

The policies and procedures set out in the series of documents entitled CRS Policies and Procedures (P&P) describe how the EIU conducts its credit rating activities and how it meets its obligations under the regulations in matters such as conflicts of interest, methodology, transparency and disclosure requirements. Staff engaged in credit rating activities are obliged to read the P&P and to certify that they understand and comply with the sections of the document relevant to their role.

(v) Management of Conflicts of Interest

The EIU publishes a list of its actual and potential conflicts and has adopted policies and procedures to prevent, identify and manage them. These include rules against staff/relatives holding securities in governments which they rate, the acceptance of gifts by staff, a rigorous checking process of CRS ratings and reports and the regular rotation of analysts.

(vi) Methodologies

The EIU's sovereign rating methodologies are made publicly and freely available on its website. Any changes to existing methodologies have to be approved by the CRC and notified to subscribers and rated entities.

(vii) Updating of sovereign credit ratings

The EIU publishes regular updates of its sovereign credit ratings, typically three times in a calendar year. A publication schedule is published on www.eiu.com/regulatoryaffairs.

(viii) The performance of sovereign credit ratings

The EIU has an Internal Review Function (IRFn), which is independent of CRS. The IRFn conducts periodic reviews of the performance of its sovereign credit ratings to assess their consistency and quality against measures such as historical default rates and Credit Default Swap (CDS) spreads. The IRFn makes broad recommendations relating to methodology to the CRC.

4. Statistics on the allocation of its staff to new credit ratings, credit rating reviews, methodology or model appraisal and senior management

Statistics on the allocation of staff to new credit ratings, credit rating reviews, methodology or model appraisal and senior management are provided below:

New credit ratings and credit rating reviews: 41.

Methodology/model appraisal: Internal Review Function (IRFn): three voting members who are independent of the CRS business line plus one attendee (CRS Director).

Senior management: The Managing Director is the chair of the CRC and the Editorial Director is a member of the CRC, both with voting rights. In addition to their roles on the CRC, they hold regular telephone calls with the two Independent Directors to update them on the business strategy of the Company.

5. Record-keeping policy

A full description of the Company's record-keeping policies and procedures is given in the CRS Policies and Procedures. They establish principles for the collection, filing and management of documents and data, including emails. These include minimum periods for the retention of such records. Records are kept of all documents and files relating to the credit rating process, such as CRS models, country workbooks, rating reports submitted by the lead analyst and any changes and comments made by the secondary analyst, prior notification of rated entities, any responses from rated entities and any action taken as a result of such responses by the EIU. Access rights to all CRS documents and files are restricted to relevant staff. Access to the file management database is also restricted. Documents and files are stored on a dedicated partition on secure servers. Records and audit trails are made available upon request to ESMA.

6. The outcome of the annual internal review of the independent compliance function

The review was conducted by the Economist Group's Audit and Risk Management department. It focused on the duties set out in the Compliance Director's Terms of Reference and the related Work Plans. Tests were carried out on a sample of these work plans, to ensure the tasks had been completed.

The review concluded that the Compliance function was fulfilling their role in a thorough and independent manner. The review obtained evidence demonstrating the independence of the Compliance Director, both in terms of reporting lines and approach to the role.

7. Management policy

To ensure the objectivity and independence of its credit ratings, the EIU will identify, eliminate or manage and disclose, clearly and prominently, any actual or potential conflicts of interest that may influence the analyses and judgments of its editors, and any other person directly involved in the issuing and approving of credit ratings.

The EIU will keep records of all significant threats to the independence of its credit rating activities and that of its employees and other persons involved in the credit rating process, as well as the safeguards applied to mitigate those threats.

The EIU will take all necessary steps to ensure that it credit ratings are not affected by any existing or potential conflict of interest or business relationship involving its credit rating activities, its managers, editors or employees.

To this end the EIU has established the following policies in relation to employees and other persons involved in the credit rating process:

• EIU editors do not participate in the commercial activities of the company, are not responsible for sales or revenues, and do not participate in the setting of subscription fees or other charges to users of EIU credit ratings.

• the EIU keeps records of all significant threats to the independence of the credit rating activities.

• the EIU ensures that conflicts of interest are properly identified, eliminated, managed and disclosed by the compliance function. (Note: These activities are monitored by the Independent Members of the Credit Risk Committee, whose opinions are presented to the Committee and made available to the regulator on request.)

• the EIU does not link the compensation of the Independent Members of the Credit Risk Committee of the Board to the business performance of the credit rating agency.

• the EIU designs its reporting and communication channels to ensure the independence of those involved in the issuing and approving of credit ratings. This includes a prohibition on editors participating in any commercial activities; a record of any communication between the editor and the rated entity; disclosure of any attempt by parties outside of EIU to influence ratings; and full and unfettered access accorded to the Compliance Director into all activities of editors.

8. Analyst rotation policy

In compliance with the Regulation, the EIU has adopted an analyst rotation policy. Lead rating analysts will not be involved in credit rating activities related to the same rated entity or its related third parties for a period exceeding five years. Secondary rating analysts will not be involved in credit rating activities related to the same rated entity or its related third parties for a period exceeding seven years.

9. Financial information

In the 2017 calendar year (year to December) the EIU generated total sales revenue of £41.8m.

Of the £41.8m, the Country Risk Service (CRS), which encompasses the EIU's credit rating activities, accounted for £3.5m.

Subscriptions to CRS by rated entities and related third parties amounted to £3.5. Ancillary services (other subscription services and consultancy services purchased by rated entities and related third parties) amounted to £8.1m.

In the financial year 2017-18 there were a total of 135 clients of CRS. The most that a single client contributed to CRS revenue was 8.0% of the total.

10. Governance statement

Please refer to point 2: The legal structure and ownership of The Economist Intelligence Unit.