

## New Project Finance Ratings Methodology

Rating and Investment Information, Inc. (R&I) has revised the Project Finance Ratings Methods which was announced on May 8, 2000, and issued a new report, Project Finance Ratings Methodology as follows.

### 1. Envisioned Scheme

First of all, an envisioned project finance is "a scheme in which a business entity sponsored by private company (a stock corporation is assumed, hereinafter referred to as "SPC") offers services to a specific Off-taker (a recipient of services such as electricity) by procuring the investment funds through capital from a Sponsor and borrowings from a lender, and repays the loan by payments of consideration from the Off-taker" (Assumed scheme (1)), such as the Tokyo Municipal Waterworks Kanamachi Water Purification Plant power project, for which R&I announced a rating in November 2000.

Furthermore, a scheme in which a SPC provides services by operating and administering a specific project and repays the loan by the revenue from said project, such as the PFI project relating to the maintenance and operation of the Tokyo International Airport flight passenger terminal building which R&I rated in June 2008, may also be cited (Assumed scheme (2)).

Figure 1: Assumed scheme (1)

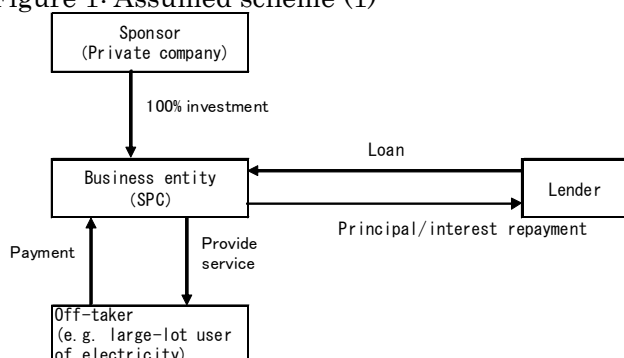
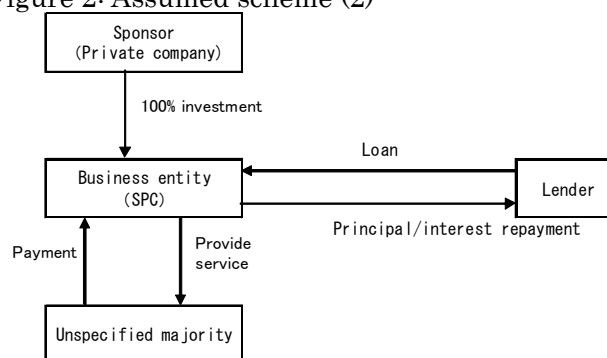


Figure 2: Assumed scheme (2)



### 2. Rating Methodology

Upon rating project finance, R&I firstly analyzes the business risk related with the project and its cash flow generation strength. Thereupon, the creditworthiness of the loan is determined based on factors which include (1) the creditworthiness of a Sponsor and its substitutability, and (2) the creditworthiness of the Off-taker.

In terms of the Sponsor, whether a new Sponsor will be able to participate in the scheme (substitutability) becomes the key. This is because, in view of the fact that the equipment used in the project (e.g. power generation plants) has almost no resale value, whether the payment of interest and principal can be kept current through the continuation of the project by the new business entity will become crucial. In terms of project finances with Off-takers, and in cases where new Sponsors are able to participate in the scheme, the rating will be determined on the basis of indices such as DSCR (Debt Service Coverage Ratio, a number calculated by the amount of business cash flow over the amount of payment of interest and principal) with the Issuer Rating of the Off-taker representing the upper limit (Case A). Replacement by a new Sponsor in the scheme will be determined by criteria such as whether the equipment of the SPC is universal enough to allow operation even after the business operator changes hands, and whether the various agreements executed in the course of the project allow changes to the parties to the agreements. On the other hand, in cases where the equipment of the SPC used in the project have been made

under such particular specs that alternative use is virtually impossible, or the various agreements executed in the course of the project restrict changes to the parties to the agreements, the project will become difficult to continue once the Sponsor fails, and accordingly the possibility of default becomes greater. In such cases, the Sponsor's rating will represent the upper rating limit of the loan because the possibility of loan default is not remote from a Sponsor being in default (Case B).

In terms of project finances without Off-takers, based on a full-scale qualitative assessment of the project, the stability of long term cash flow and DSCR is determined by verifying the validity of various numbers in the cash flow projection (base scenario) of the SPC. Furthermore the substitutability of the party which performs operation and administration (in most cases, the Sponsor) will be verified. Lastly, by setting up multiple stress scenarios in the cash flow projection, and the operation and administration of the project, the capacity to repay the loan's principal and interests will be confirmed (Case C). In cases where it is difficult to replace the Sponsor, the Sponsor's rating will be the upper limit of the rating of the loan (Case D).

The above is summarized in Figure 3.

Figure 3: Possible Rating for Project Finance

Category 1	Category 2	Possible Rating
Replacement by a new sponsor is possible	Off-taker is in place	A: Upper rating limit is on par with the rating of an off-taker and to be determined based on indices such as DSCR.
	No off-taker is in place	C: Rating is determined based on indices such as DSCR.
Replacement by a new sponsor is difficult	Off-taker in place	B: Upper rating limit is on par with the rating of an off-taker and a sponsor, and to be determined based on indices such as DSCR.
	No off-taker is in place	D: Upper rating limit is on par with the rating of a sponsor, and to be determined based on indices such as DSCR.

DSCR level may differ from the risk attributes of a project even if the targeted rating is the same. Upon rating, R&I will take the scheme of each project and various conditions into consideration.