

# JCR's Rating Process

Ratings are performed by JCR through what can generally be broken down into four steps: data collection, analysis by the analyst, interviews, and the comprehensive judgment by the Rating Committee. When a rating is being obtained for the first time, the rating process will normally require approximately 2 months to complete. A brief summary of the rating process for a straight bond from request to announcement to review is presented below. For a flow chart of the process, please refer to the diagram on page 4.

## 1. Request for a Rating

The rating process is typically initiated by a request by the issuer (obligor) of the straight bond that will be assigned a rating (or the third party to whom the rated entity has given its consent).

## 2. Determination of the Analysts to Be in Charge

Upon receipt of a request for a rating, analysts are chosen, taking into consideration the industry and the type of the obligation to be rated. In order to maintain objectivity in the analysis undertaken for a specific rating, several analysts are chosen (normally 2).

## 3. Request for Submission of Data

The analyst selected to be in charge of the rating requests the entity to be rated for data needed for the analysis, including nonpublic information. The types of data requested differ depending upon the industry and particular features of the company, but in general the types of data requested are diverse, including important information such as company overviews, management organization, production, sales, financial statements, business plans, information on subsidiaries and affiliates, legal actions, and bond issuance activities. Although JCR already has and keeps such public information as industry data, industry reference materials, and information on individual companies, by also requesting this type of information from entities to be rated, JCR is able to determine an even more appropriate rating.

## 4. Analysis of Data and Transmission of a Questionnaire

The analyst in charge will perform a quantitative and qualitative analysis of the credit strength of the issue based on the data submitted by the issuer, as well as industry data and other relevant information. Based on the analytical results, the analysis identifies questions and issues, and compiles these questions and issues into a questionnaire that is sent to the entities to be rated.

## 5. Interviews

The analysts in charge will make a visit to the entity being rated, at which time they will be given the responses to the questionnaire that had been sent to the client. In addition, they will also undertake factory inspections and interviews with the senior management.

The purpose of these interviews and inspections of plants and other related facilities is to obtain information specific to the entity being rated by confirming and seeing first hand information that supports the financial analysis. Interviews with senior management are a critical source of information in making

an accurate rating, because they provide opportunities to confirm first hand management's policies and strategies.

## 6. Rating Committee

The analysts in charge, based on their analysis of the data submitted and results of the interviews and the like, discuss the credit strength of the entity being rated and the details of the obligations being rated, and then prepare pertinent materials in advance of convening a Rating Committee meeting. Upon completion of compiling these materials, a meeting of the Rating Committee is held, where a rating, and the rationale for it, is recommended.

In general, the Rating Committee is composed of at least 4 Rating Committee Members, and the primary purpose of Rating Committee meetings is to discuss whether recommended ratings arrived at through various methods of analysis are consistent within the JCR rating structure, and whether the ratings are accurate and valid, before a final rating decision is made. If the analyses presented by analysts at a Rating Committee are considered inadequate or the analysts' recommendations are considered inappropriate, the analysts may be required to undertake a reexamination and reconvene the Rating Committee meeting at a later date.

## 7. Notification of Rating

After a rating has been determined, the entity being rated will be promptly notified. At that time, the analysts in charge will discuss with the entity being rated the material information and principal points that formed the basis for the rating. If an objection is raised with respect to the decision by the entity being rated and a re-examination is considered necessary, a re-examination will be performed using a different set of analysis, and the the Rating Committee will re-deliberate. In such a case, information and data that support the objection will be requested from the entity being rated.

## 8. Announcement

A rating that has been decided will be made public with the consent of the entity rated\*. This can be done through one or more ways, including by news release through the press club at the Tokyo Stock Exchange, distribution to electronic media such as Bloomberg and Reuters, and posting on JCR's website.

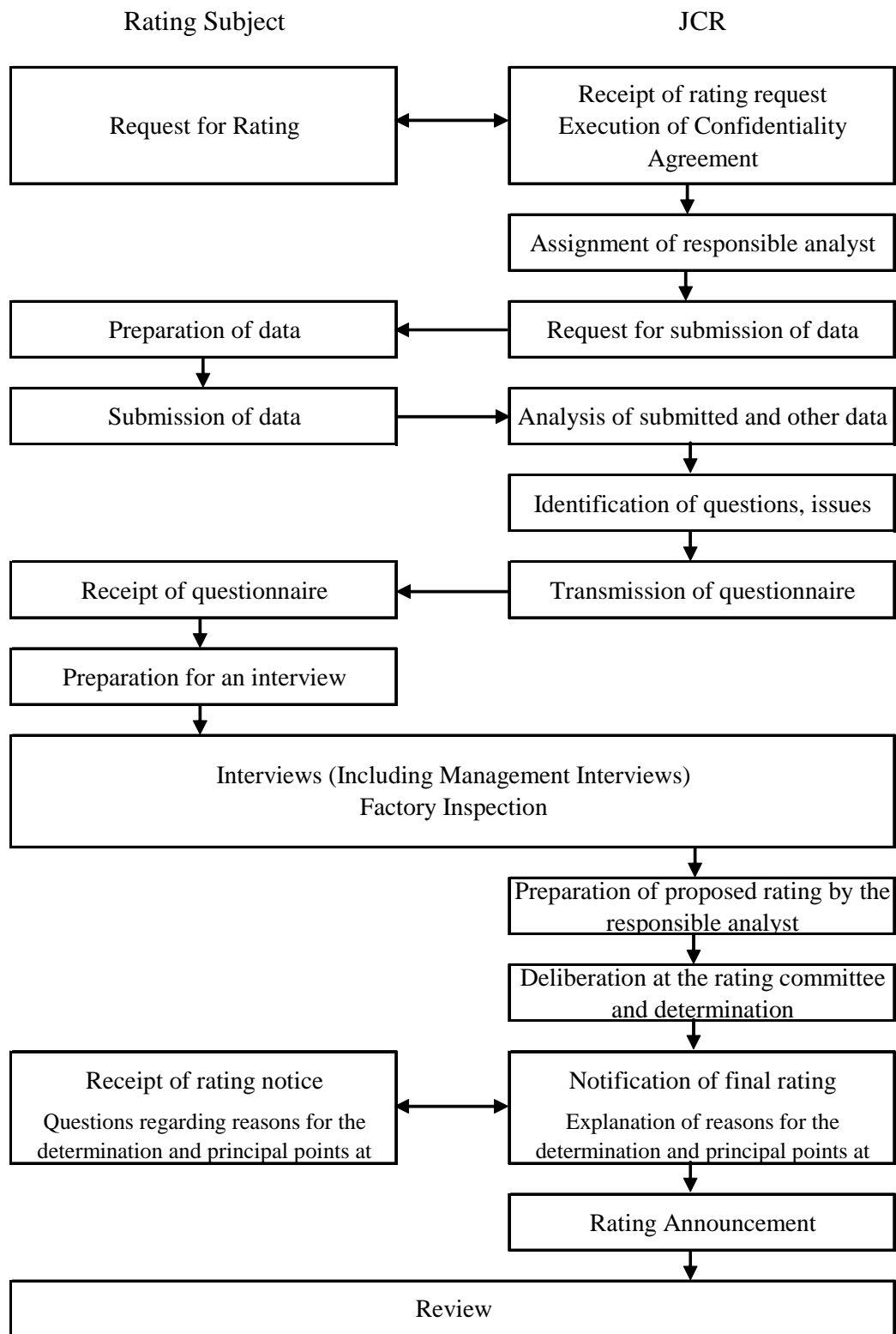
\* For results of a review of a rating that has already been made public, there may be instances where, for unavoidable reasons, it was made public without first obtaining the consent of the rated entity. However, the results of the review and the reasons are, in all cases, discussed with the entity rated.

## 9. Review

So long as there are ratable obligations outstanding, performance of the rated entity and events and development of the industry are followed, and if there is a need to review the rating, amendments to the ratings will be made and the amendments will be made public. JCR normally undertakes a regular review of individual ratable obligations once a year. If an unexpected or dramatic change occurs in the business environment that may have a material impact on the credit strength of a rated entity (such as a merger or acquisition), an ad-hoc review of the entity's rating will be performed. If, as a result of such an ad-hoc review, it is deemed that there is a likelihood of a change in the rating, in order to call this to the attention of investors and other interested parties, an announcement will be made that the rating has been placed on "credit monitor" and that a review of the rating may be undertaken.

In undertaking a review, data is in general requested from the entity being rated, and interviews are held with the rated entity. If adequate information to perform the reviewing tasks cannot be obtained from the entity being rated, the fact that the rating is being put on suspension or that the rating is being withdrawn will be made public.

(Diagram) Rating Process



(NB) If a protest with respect to the determination is made by the rating subject, contents of such protest shall be examined, and if deemed necessary, reexamination by another analyst and re-deliberation will be performed by the Rating Committee