

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

## **Daiwa Green Finance Program Beneficial Interest and Trust ABL (Iwamizawa and Kushiro Solar Power Plants)**

<Assignment>

|                      |               |
|----------------------|---------------|
| Beneficial Interest: | Preliminary A |
| ABL:                 | Preliminary A |

### *Rationale*

#### 1. Outline of Project

This is a case of project finance for a mega solar project of Daiwa Energy & Infrastructure Co. Ltd. conducted in Hokkaido ("Project").

Hokkaido Renewable Energy Initiative Platform LLC ("Project GK") raises funds through investments in an anonymous partnership and a loan from Hitachi Capital Trust Corporation for acquisition of 3 solar power plants developed by Daiwa Energy & Infrastructure in Iwamizawa City and Kushiro City, Hokkaido. Daiwa Energy & Infrastructure, which is the sponsor of the Project GK, invests in the anonymous partnership along with other plural investors. Hitachi Capital Trust Corporation makes the loan to the Project GK, using proceeds from the money trust and the borrowing as trustee. The ratings are assigned to the beneficial interest and trust ABL backed by the loan to the Project.

#### 2. Inherent Risks of Mega Solar Project and Cash Flow Analysis

JCR applies its rating methodology for project finance to the evaluation of creditworthiness of a mega solar project. Major risks inherent to mega solar projects include, among others, creditworthiness of sponsor group, that of panel maker, risks associated with EPC, O&M, etc., site location and variability of solar radiation quantity. JCR considers these expected risks will be duly addressed in the Project thanks to the following factors. (i) Appropriate measures to secure bankruptcy remoteness of the Project GK are to be taken; (ii) Panels by a major manufacturer with extensive experience of supply and a certain financial foundation are used; (iii) Construction risk has been significantly reduced, as the power plants have already started their commercial operation; and (iv) Companies in Daiwa Securities Group, which have high reliability and abundant track records, are sponsor and asset manager in the Project.

Given that the project site is in a region where quite certain amounts of snowfall and accumulation of snow are expected, JCR considers it is necessary to watch impact of snow on the panels and facilities. For this risk, the solar power facilities were designed on the assumption of snowfall, and asset manager and O&M operator are scheduled to conduct appropriate monitoring and snow removal work, which are all working to reduce the risk. When the loan under the Project is being drawn down, required O&M agreements are to be concluded. JCR will confirm the progress and contents of such agreements. Revenue from sales of electric power of a mega solar project tends to have large volatility in a short term depending on monthly and seasonally varying solar radiation quantity. The volatility over the medium term, however, is expected to be reduced. Although the initial expenses are large, the annual expenses except for costs for maintenance are relatively small and less volatile. However, it is still necessary to watch impact from output control over the medium and long term. In cash flow analysis, JCR conducted stress tests in consideration of impacts from snow on power generation amount and rise of expenses during the Project's period as well as changes in solar radiation quantity and output control, based on these characteristics. As a result, JCR determined that the cash flows are sufficient for the repayment of the beneficial interest and trust ABL.

#### 3. Rating

Forty yen (excluding tax) as the fixed price for the power purchase under the feed-in tariff system applies to the Project. As more than 4 years have passed since the start of commercial operation, reliability of the power generation plan including the track record is high. JCR confirmed that the Project's ability to repay debt has been maintained even under plural stresses in light of DSCR during the project period and other indicators. A certain reserve and dividend suspension events are to be set

in preparation for unforeseen situations. Taking the above into consideration, JCR assessed the preliminary ratings for both beneficial Interest and trust ABL at A.

\* JCR preliminarily assigned a Green Bond Evaluation "Green 1" to the beneficial interest and ABL. For the details, please refer to JCR's press release 19-D-1071 and 19-D-1072. JCR's green bond evaluation is different from its credit rating and does not promise to provide or make publicly available a predetermined credit rating.

Kiichi Sugiura, Kengo Sakaguchi

## Rating

### <Assignment>

| Instrument Name     | Issue/ Execution Amount | Trust Termination Date | Coupon Type | Preliminary Rating |
|---------------------|-------------------------|------------------------|-------------|--------------------|
| Beneficial Interest | TBD*                    | June 30, 2036          | Fixed       | A                  |
| Trust ABL           | TBD*                    | June 30, 2036          | Fixed       | A                  |

\*Total amount of Beneficial Interest and Trust ABL will be 4.0 billion yen.

### <Information on Outline of Issue>

|  |                                 |
|--|---------------------------------|
| Trust Establishment Date:  | March 27, 2020                  |
| Beneficial Interest Assignment/ ABL Execution Date:  | March 27, 2020                  |
| Redemption/ Repayment Method:  | Scheduled Redemption/ Repayment |
| Credit Enhancement & Liquidity Facility:   | NA                              |
| Cash Reserve and Senior-subordinated Structure as Credit Enhancement & Liquidity Facility with respect to loan claims, which are the underlying assets |                                 |

### <Information on Structure and Stakeholders>

|                                       |   |
|---------------------------------------|---|
| Entrustor:                            | Daiwa Securities Co. Ltd.                         |
| Trustee:                              | Hitachi Capital Trust Corporation                 |
| Scheduled Mega Solar Project Company: | Hokkaido Renewable Energy Initiative Platform LLC |
| Asset Manager:                        | Daiwa Real Estate Asset Management Co. Ltd.       |
| Arranger:                             | Daiwa Securities Co. Ltd.                         |

### <Information on Underlying Assets>

|                               |  |
|-------------------------------|--|
| Outline of Underlying Assets: | Loan claims against the mega solar project company |
|-------------------------------|--|

Rating Assignment Date: January 24, 2020

The criteria used for identifying matters which serve as assumptions for the assessment of the credit status, and the criteria used for setting of grades indicating the results of the assessments of the credit status are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (<http://www.jcr.co.jp/en/>).

Outline of methodology for determination of the credit rating is shown as "Project Finance" (August 28, 2012) in Information about JCR Ratings on JCR's website (<http://www.jcr.co.jp/en/>). Rating methodologies for other ancillary points such as eligible deposit accounts and bankruptcy remoteness are also shown within the same page.

#### Glossary:

A preliminary rating is a credit rating assigned as a preliminary evaluation while material terms for issue to be rated are not yet finalized. When the issuing terms are finalized, JCR will confirm them and will assign a credit rating anew. The rating level of the final rating may be different from that of the preliminary rating, depending on the final content of the terms, etc.

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JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)

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