

JCR's Credit Rating Process

The credit ratings of JCR are determined through what can generally be broken down into four steps: data collection, analysis by analysts, interviews, and the comprehensive judgment by the Rating Committee. When a credit rating is obtained for the first time, the credit rating process will normally take approximately two months to complete. A brief summary of the credit rating process for corporate bonds from a request to an announcement and credit rating review is presented below (please refer to *appendix I*).

1. Request for Credit Rating

The credit rating process typically begins with a request by an issuer (debtor) of a bond that will be assigned a credit rating (or a third party who has obtained the consent of the entity to be rated).

2. Selection of Responsible Rating Analysts

Following the receipt of the request for a credit rating, analysts are selected, taking into account the industry and the type of the debt to be rated, among other factors. More than two analysts (normally two) is chosen to maintain the objectivity of the analysis undertaken for a credit rating.

3. Request for the Submission of Data

The responsible rating analysts ask the issuer to be rated to submit data necessary for the analysis, including nonpublic information. Although the types of data requested differ depending on the industry and the particular features of the company, they are typically wide-ranging, including a corporate profile, management organization, production, sales, financial statements, business plans, information on subsidiaries and affiliates, and important information such as legal actions, and bond issues. Although JCR already has and keeps public information such as industrial data, industry reference materials, and information on individual companies, JCR is able to determine an even more appropriate credit rating by requesting this type of diverse information from the entity to be rated.

4. Analysis of Data, etc. and Transmission of Questionnaires

The responsible rating analysts perform both quantitative and qualitative analyses of the credit strength of the issuer based on the data submitted by the issuer, as well as financial data, industry data and other relevant information. Based on the results of the analysis, the responsible rating analysts hold discussions to identify questions and issues, and compile these questions and issues into a questionnaire that is sent to the issuer to be rated.

5. Interviews

The responsible rating analysts visit the issuer being rated. They are given the response to the questionnaire that has been sent to the issuer in advance and explanations on the data submitted. They also undertake physical inspections, such as visiting a factory and interviews with senior management.

The purpose of the interviews and the inspections of plants and other facilities is to obtain information specific to the issuer being rated by confirming and viewing first hand information that support the financial analysis. In particular, interviews with senior management is a critical source of information in better understanding of the future prospects of the issuer being rated, because they provide opportunities to hear an accurate vision of the entity being rated and confirm first hand management's policies, strategies, and other important activities.

6. Rating Committee

Based on the analysis of the data submitted and the interviews, the responsible rating analysts discuss the credit strength of the issuer being rated and the details of the debt being rated, and then prepare materials for convening a Rating Committee. When the materials are ready, the Rating Committee is held, where the analysts recommend a credit rating and give an explanation of the rationale.

In general, the Rating Committee consists of at least four Rating Committee members, and the primary purpose of Rating Committee is to discuss whether the recommended credit rating arrived at through the various methods of analyses is consistent with the credit rating structure of JCR and whether it is accurate and valid, before a final credit rating decision is made. If the analyses presented by the responsible rating analysts are considered inadequate or if the analysts' recommendations are considered inappropriate, the analysts may be required to undertake a reexamination and reconvene the Rating Committee at a later date.

7. Notification of Credit Rating

After a credit rating has been determined, the issuer being rated is promptly notified before the credit rating is announced. At that time, the responsible rating analysts inform the entity being rated of the material information and principal points that formed the basis for the credit rating, using data due to be published and explaining other relevant information. This provides the entity being rated with an opportunity to raise an objection against factual errors, etc., so that a more accurate credit rating can be assigned. If an objection is raised with respect to the decision by the issuer being rated and a reexamination is considered necessary as a result of reviewing the objection, a reexamination will be performed by other analysts, and the Rating Committee will reconvene. In this case, information and data that support the objection will be

requested anew from the entity being rated.

8. Announcement

A credit rating that has been decided will be made public without any delay. In addition, if any material change is to be made in the rating criteria, etc., the fact that the change will be made and an outline will be announced before it is applied to individual credit ratings. In unavoidable instances, however, JCR may announce the cause, the fact that the change has been made, and an outline at the time the announcement of an individual credit rating is made.

The announcement will be made through one or more ways, including a news release through the press club at the Tokyo Stock Exchange, distribution to electric media such as Bloomberg and Reuters, and posting on JCR's website.

For the results of a review of a credit rating that has already been made public, there may be instances where, for unavoidable reasons, they are made public without first obtaining the consent of the rated entity. However, the results of the review and the reasons thereof are, in all cases, explained to the rated entity.

9. Review of the Credit Rating

As long as there is rated debt outstanding, the performance of the rated entity and the events and developments of the industry are monitored, and if there is a need to review the credit rating, a review will be made. If it is deemed necessary to change the credit rating, the credit rating will be reviewed and the result will be made public. Furthermore, JCR normally undertakes a regular review of rated debt once a year. If an unexpected or dramatic change occurs in the performance of the rated entity and the business environment that may have a material impact on the credit strength of the rated entity, such as a merger or an acquisition, the credit rating will also be reviewed. If, as a result of the review, it is deemed that there is a likelihood of a change in the credit rating, an announcement will be made that the credit rating has been placed under "Credit Monitor" to call the attention of investors. After it is placed under "Credit Monitor," the credit rating may be changed.

In undertaking a review, the submission of data is in general requested from the rated entity, and interviews are held with the rated entity to reflect all data and information obtained to date and changes in the rating criteria and assumptions, if any. If adequate cooperation and information to perform the reviewing tasks cannot be obtained from the rated entity, the fact that the credit rating is being suspended or withdrawn will be made public.

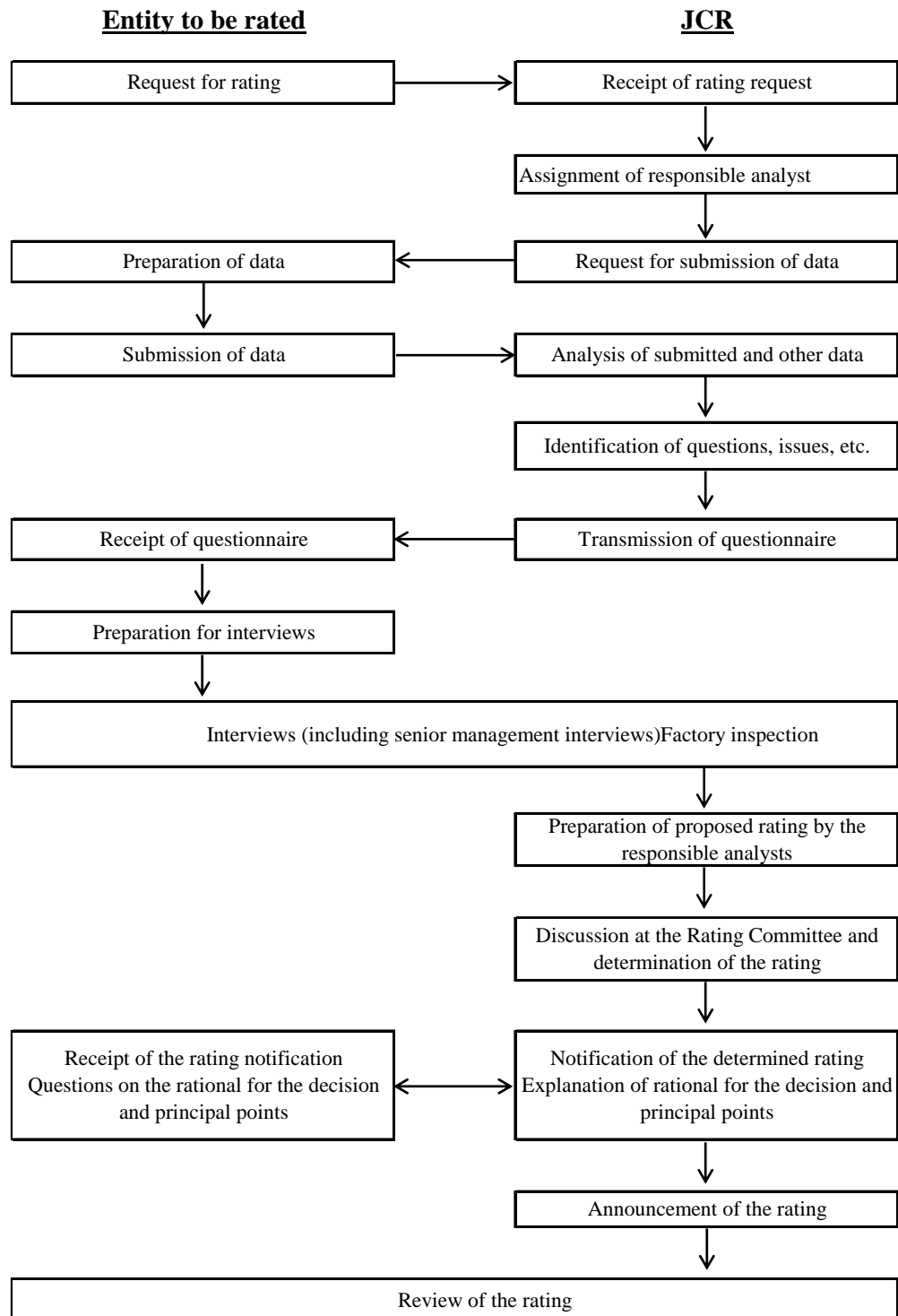
10. Unsolicited Credit Ratings

If a publication of a rating on an issuer is perceived to contribute to the enhancement of credit rating accuracy because the issuer's market share, for example, is high, JCR shall assign

and, if assigned, publicize the unsolicited credit rating without delay with the consent of the issuer. In this case, JCR shall disclose the credit rating not assigned at the request of the issuer by indicating affix, “p”, to the rating symbol to identify it as such. Even in the cases when interview with Stakeholders can be conducted only partially or no such interview can be conducted or when only partial non-public information can be obtained or no such information can be obtained, JCR may assign credit ratings not solicited by the request of the Stakeholders. Even in the cases when credit ratings are assigned without being solicited by the request of the Stakeholders, JCR shall exert efforts to carry out credit assessments in the same credit rating process as for a solicited credit rating, by assessing sufficient information and/or interviewing issuers.

JCR shall assign sovereign credit ratings only when it obtains the consent of the applicable nation. In the case of sovereign credit ratings, when assigning and publishing unsolicited credit ratings, the affix, “p”, shall not be indicated. In this case, however, JCR shall publish unsolicited credit ratings by publicly stating that such ratings are unsolicited credit ratings

Process of Corporate Credit Rating



(Note) If an objection against the decision is made by the entity being rated, the details of the objection will be examined, and if deemed necessary, the rating will be reexamined by other analysts and discussed again at the Rating Committee.