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Project Finance Global Rating Methodology

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Executive Summary

This report describes the Kroll Bond Rating Agency and its rating affiliates (collectively, "KBRA") rating methodology used to rate project finance transactions. Project Finance is the long-term financing of infrastructure, energy and other large-scale projects based upon the projected cash flows of the project. Some projects may still be in the planning stages or be under construction, while others are already operational. The project debt is most commonly non-recourse and is often secured by a first priority lien on all of the project's equity and assets, including rights to revenue under the project's contracts, so that investors are able to assume control of a project in an event of default.

In most Project Finance transactions, the project is organized as a bankruptcy-remote special purpose entity, such that the investors' interest in the project is shielded from financial difficulties that may affect the project's parent or equity holders. Assets that have been financed using this structure include but are not limited to pipelines, refineries, power generation facilities (renewable and non-renewable), toll roads, airports, docking facilities, mines, and various industrial facilities.

The Rating Process

KBRA's approach to evaluating Project Finance transactions focuses on the project's ability to produce a stable revenue stream so that it can meet its financial obligations under various stress scenarios. During the rating process, KBRA may meet with the sponsor's management team and request preliminary data and information about the project specifications. For projects where construction has begun or the project is in operation, KBRA may conduct an on-site review of the operator, the project, or the technology to be used by the project.

To begin the rating analysis, KBRA initially evaluates four credit determinants in order to ascertain a Kroll Project Risk Score ("KPRS"): Operations (typically weighted at 40% of the overall KPRS), Counterparty Exposure & Competitive Position (typically weighted at 30%), Construction (typically weighted at 20%) and Transaction Structure (typically weighted at 10%). Within each credit determinant there are one or more sub-determinants, as indicated in the table on the following page. KBRA will assign a KPRS of *Weak, Average* or *Strong* for each of these determinants and sub-determinants. It should be noted, however, that the weighting used for each determinant and sub-determinant may change depending on the transaction.

The table on the following page shows illustrative descriptions of attributes and the weightings for each subcategory considered by KBRA when determining an overall KPRS.

KBRA Project Risk Scores (KPRS) – Scoring System & Illustrative Descriptions of Attributes

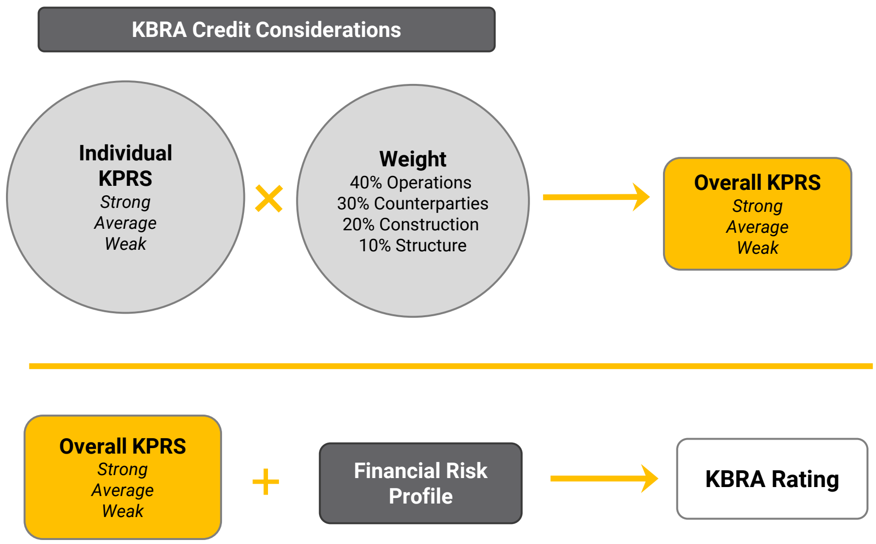
KPRS					
Credit Determinant	**Sub-Determinants**	**Weight**	**Weak**	**Average**	**Strong**
Construction	**Construction**	20%	Contractor with little relevant experience; floating contract; aggressive budget and schedule; difficult construction	Contractor with some relevant experience; fixed rate contract; reasonable budget and schedule; reasonable construction	Contractor with significant experience and strong financial position; fixed rate contract with financial incentives and penalties; reasonable budget and schedule; simple construction
Operations	**Technology**	15%	Unproven technology with limited performance history	Proven technology with some performance history	Proven technology with significant performance history
	Operations & Maintenance (O&M)	15%	O&M is managed by the project and funded from cash flow from operations	O&M is managed by the project or third party and expenses are funded through reserve accounts	O&M is managed by a reputable third party through a long-term service agreement with fixed pricing
	Resource Assessment	10%	Fuel is purchased on the open market; resource assessment is opaque and is based on a number of assumptions	Fuel is purchased through a third party at predetermined prices; resource assessment is acceptable and based on some historical data	Fuel is purchased through a long-term agreement with fixed pricing; resource assessment is exceptional and based on significant historical data
Counterparty Exposure & Competitive Position	**Counterparty Exposure**	15%	Weak counterparties; aggressive contractual terms	Creditworthy counterparties; reasonable contractual terms	Counterparties whose creditworthiness is rated above the project's; favorable contractual terms
	Competitive Position	15%	Production will be sold into merchant market	Merchant exposure with some hedging to mitigate price fluctuations	Production is sold to a creditworthy offtaker through a long-term agreement
Transaction Structure	**Transaction Structure**	10%	Relatively strong bankruptcy remoteness provisions; no distribution tests; refinancing risk; cross-default provisions with other debt; weak cash management	Strong bankruptcy remoteness provisions; limited refinancing risk; adequate distribution tests; adequate cash management	Strong bankruptcy remoteness provisions; strong distribution tests; no refinancing risk; strong cash management

As an illustration, if KBRA determines that each of the Technology, Operations & Maintenance, Resource Assessment, and Counterparty Exposure sub-determinants (collectively constituting a weighting of 55%) has a KPRS of *Strong*, and that each of the Competitive Position, Construction, and Transaction Structure sub-determinants (collectively constituting a weighting of 45%) has a KPRS of *Average*, the overall KPRS could be *Strong*. It should be noted that certain deficiencies in one or more sub-determinants may be so material that such deficiencies will have a greater effect on the overall KPRS than indicated in the table above. For example, if a proposed project financing utilizes a borrower that does not have any of the bankruptcy-remote characteristics typical of SPEs traditionally utilized in project financings, the overall KPRS could be considered Weak, regardless of the KPRS assigned for the other sub-determinants, even though the Transaction Structure subcategory typically accounts for only 10% of a transaction's overall KPRS.

The weights may also be adjusted depending on which stage of development the project is at upon issuance of the rating. Construction risk, typically accounting for 20% of the overall KPRS, could limit the project's rating depending on the construction counterparty and the strength of the associated construction contracts. If the project is already complete, the relative weight might stay the same but essentially, the score moves to *Strong* and the impact of weaker construction-related business determinates is largely dissipated. The business risk at that point would be more reflective of operations and transaction structure.

Once the overall KPRS is calculated, KBRA determines what Financial Risk Profile can be supported at that KPRS at a specific rating level. The Financial Risk Profile is determined by looking at the expected financial characteristics of the proposed structure. The debt service coverage and expected outstanding debt at time of issuance and at maturity are important factors in determining the rating level. Overall cashflow expectations, availability of reserves, and other leverage metrics, as applicable, are also evaluated.

It is important to note that KBRA applies judgment in the application of all of its methodologies. This may result in situations where certain aspects of the methodology are not employed, deemphasized or modified to address additional considerations in the analytical process, where deemed appropriate.



The KPRS credit determinants are discussed in detail below:

Credit Determinant #1: Construction

Project Finance transactions usually depend on a small number of discrete assets to generate revenue. In some cases, the project's collateral consists of a single asset. In order for the project to meet its debt service payments, the project must typically be built on time and operate as originally expected. Historically, most projects that defaulted on their financial obligations did so because of construction delays, technology issues or operational problems that resulted in the project being offline for an extended period of time. KBRA typically performs a review of the project's construction strategy and operations in order to determine the likelihood that the project will be built in a timely manner, within budget and operate according to the sponsor's forecast.

Construction is generally one of the most significant risks in a project because of the project's reliance on a limited number of assets to generate revenue. KBRA may analyze the timeline for obtaining the required permits. Some projects rely more heavily on permits due to their sensitive nature or their importance to a national interest. For example, the permits required for LNG exports to non-Free Trade Agreement countries are likely to be a larger hurdle taking greater time and investment.

KBRA also determines the level of risk attributable to the contractor by reviewing a contractor's experience and financial position. Typically, a contractor with extensive experience building similar projects will be expected to complete construction on time and within budget. If the equipment manufacturers and the contractors have experience working together, that could provide added confidence that the project will not have technology related delays. Conversely, a contractor with limited experience constructing similar assets may have difficulty completing the project on time and within budget. KBRA will likely assign a Construction KPRS of *Strong* to a project that is built by a reputable contractor with significant experience and adequate capital to fulfill its financial obligations. The rating on a project's debt may be linked to the contractor's creditworthiness if KBRA determines the contractor is irreplaceable or if there is a large amount of funding required to replace the contractor or break the EPC contract.

A realistic construction budget and contract are typically required to support a Construction KPRS of *Strong*. Construction budgets that are below market may expose the project to higher than expected expenses and make it difficult to replace the original construction company. A strong construction contract may have a guaranteed maximum price that will transfer the risk of higher expenses to the contractor. KBRA may rely on an independent engineer (IE) to determine if construction costs are in line with current market rates and if the contractor can be easily and quickly replaced in a distressed scenario. The presence of a surety bond or other liquidity facility may provide additional comfort that the contractor could be replaced. Both in the planning and development stage and during construction, KBRA evaluates the viability of the budget and the timeline for completion and commercial operation. A Construction KPRS of *Strong* also indicates that the project has adequate cushion both in terms of the forecasted duration of construction and the funding required.

In cases where several counterparties are jointly and severally involved in construction, KBRA determines if there are checks and balances in place such that adequate protection is available for the work of each major sub-contractor. KBRA typically reviews construction contracts to determine whether procedures are in place to handle change orders and resolve disputes. A Construction KPRS of *Strong* may be supported by a construction contract that includes financial bonuses and penalties for the contractor to build the project according to the original schedule and budget. Appropriate liquidated damages provisions that align the economic incentives of the contractor and the project, and compensate the project for any loss or delay in production, are typically required in order to obtain a Construction KPRS of *Strong*.

Credit Determinant #2: Operations

Operations risk refers to the risk that the asset will experience operational problems resulting in higher than expected costs, lower availability or limited production. Each of these risks has the ability to weigh negatively on the project's cash flows and its creditworthiness. KBRA evaluates the project's operating risks by examining the technology, operations and maintenance strategy, and resource assessment. KBRA generally expects that an investment-grade project will be run by an experienced operator and utilize proven technology. For example, a highly rated power project is also generally expected to have an adequate fuel supply agreement or other resource available to power the asset for its useful life. KBRA typically expects each project to have comprehensive insurance policies to protect investors from unexpected events.

Technology

The technology selected by the sponsor has a direct impact on the overall success of the project. KBRA believes projects that utilize proven technology with a long and effective track record are far more likely to experience success than projects that rely on new technology. Many projects that rely on new technology have encountered severe operational issues that resulted in payment defaults and minimal recovery values. KBRA typically reviews independent engineer reports and feasibility studies to determine if the project's technology is considered proven. In general, KBRA will assign a score of *Strong* to projects that utilize well-known and proven technology.

Operations & Maintenance

Project finance assets require ongoing maintenance in order to ensure that they operate properly throughout their useful life. KBRA believes a detailed maintenance schedule and budget can protect the project from rising costs, forced outages and decreased production. KBRA will generally focus on the project's operations and maintenance expenses in order to determine if they are sufficient to cover future costs.

Moreover, the project operator is responsible for managing the project's overall operations. It is responsible for ensuring the physical plant is well maintained and is operating in an optimal manner. KBRA will generally review the operator's experience with similar assets in order to determine if it can operate the project efficiently. KBRA may also incorporate into the overall score an independent engineer's views of the operator and how easily it can be replaced. KBRA may also consider the operator's contractual agreement with the project in order to ensure its interests are aligned with those of debt investors. An effective contract usually includes financial bonuses and penalties that are based on the overall performance of the project. A score of *Strong* will typically be assigned to an operator that has significant experience managing similar assets, can be quickly and easily replaced, and whose compensation is tied to the overall performance of the project.

A project with an operations & maintenance score of *Strong* typically has a long-term service agreement in place with a reputable provider in order to protect the transaction from increased costs. A fully funded reserve account that is dedicated to capital expenditures and maintenance costs can be used as a substitute for a long-term service agreement in the *Strong* category. Projects that rely on cash flow from operations to fund ongoing capital expenditures and maintenance expenses will be generally assigned a score of *Average* or *Weak*.

Resource Assessment

Generally, the resource assessment includes an evaluation of some key dependencies that are critical for the project to generate revenue. For example, the resource assessment for infrastructure related projects may include an evaluation of the expected level of traffic or activity at the project site, while a review of a power project's feedstock is critical when determining its ability to achieve a certain level of production.

Projects in the energy sector rely on various fuel sources to power the assets. The source of fuel is usually specific to the project and may be provided from natural resources, such as solar or wind, or from a third party such as a natural gas provider. KBRA's assessment of the resource will depend upon the fuel source. For example, independent consultant reports may be utilized for renewable projects, while a review of the gas supply agreement may be undertaken for a combined-cycle plant.

KBRA will typically review the independent resource reports to determine if the forecast is clear and realistic. Little credit will be given to reports that are opaque or are based on a number of significant assumptions. In certain situations, KBRA may make adjustments to the resource forecast to reflect what it believes is a more realistic scenario for determining our base and stress cases. It should be noted that the resource assessment for availability-based infrastructure projects is usually *Strong* since revenues are not dependent on a certain level of activity.

The resource score for renewable energy projects will be based on the availability of the resource and the assumptions utilized in the sponsor's pro forma forecast. Projects that use aggressive assumptions will likely have a score of *Average* or *Weak*, while projects with conservative assumptions will generally have a score of *Strong*.

The fuel source for traditional fossil fuel projects is usually a third party or purchases on the open market. For fossil fuel projects that benefit from a long-term agreement with a third party fuel supplier, thus reducing the project's cash flow volatility, KBRA will generally assign a score of *Strong* to the resource assessment. Conversely, KBRA will assign an *Average* or *Weak* score for fossil fuel projects where fuel is purchased on the open market.

Credit Determinant #3: Counterparty Exposure & Competitive Position

Counterparty Exposure

Projects rely on a number of counterparties in order to operate effectively and generate revenue. The rating on a project could be limited to a counterparty's rating or credit assessment under certain situations. Specifically, ratings on a project may be linked to a counterparty if such entity has agreed to purchase all of the project's production for a certain period of time. The rating on the project could also be limited to the counterparty if such entity is providing a unique service and cannot be replaced. Major counterparties in a typical project finance transaction may include:

- Power purchasers: This category typically includes PPA offtakers or merchant markets. For an offtaker that is contractually obligated to purchase energy from a power project for a certain period of time, KBRA will generally assign a KPRS of *Strong* to Counterparty Exposure as long as the offtaker's corporate rating or credit assessment is equivalent to or higher than the rating on the securities. Otherwise, a KPRS of *Average* or *Weak* is more appropriate. It is possible, however, that in the case of projects with rate-certain contracts and a diverse set of counterparties with long track records that the Counterparty Exposure KPRS could still be *Strong*.
- Suppliers: This category typically includes fuel providers for power plants or raw material suppliers that are critical to the normal functioning of the project. KBRA may evaluate the operational capacity, replaceability and credit quality of suppliers if they provide a critical function.
- Service Providers: This category typically includes O&M, technology or original equipment providers. KBRA may assess the replaceability of the service party, specifically evaluating if the service provided is standard with market rate contracts and if there are adequate funds for replacement. If either the services or the equipment provided is proprietary, then the operational ability and credit quality of the service provider may be a key credit constraint on the project debt's rating.
- Sponsors: While project debt ratings are generally de-coupled from the sponsor's rating, a weak transaction structure may expose the project debt to the credit risk of the sponsor, in which case an assessment of the creditworthiness of the sponsor may be a factor in the KPRS assigned for Counterparty Exposure.

KBRA typically undertakes a detailed review of the project documents between the projects and the various counterparties. The focus of this review is generally on the payment terms, performance criteria, representations and warranties, covenants, events of default, and assignment and termination provisions. In some instances, a well-capitalized parent of a subsidiary that is a service provider will guaranty the obligations of that service provider for the benefit of the project, in which case KBRA would typically assess the strength of that guaranty and the guarantor's creditworthiness. It is important to note that these contracts are also critical to the evaluation of other rating determinants, such as construction, operations and maintenance and competitive position.

After reviewing the creditworthiness of the counterparties and the strength of the contracts the project has in place with these counterparties, KBRA will assign a KPRS for Counterparty Exposure. For example, a power purchase agreement that contains low availability requirements and strong capacity payments, or an EPC agreement with an experienced, creditworthy construction contractor, may result in the assignment of a *Strong* KPRS for Counterparty Exposure. Conversely, a PPA that permits curtailment and is based strictly on energy payments, or an EPC agreement with a contractor that has experienced financial difficulties, offers limited warranties of short duration, and provides no guarantee from a creditworthy parent may result in a Counterparty Exposure KPRS of *Weak*.

Competitive Position

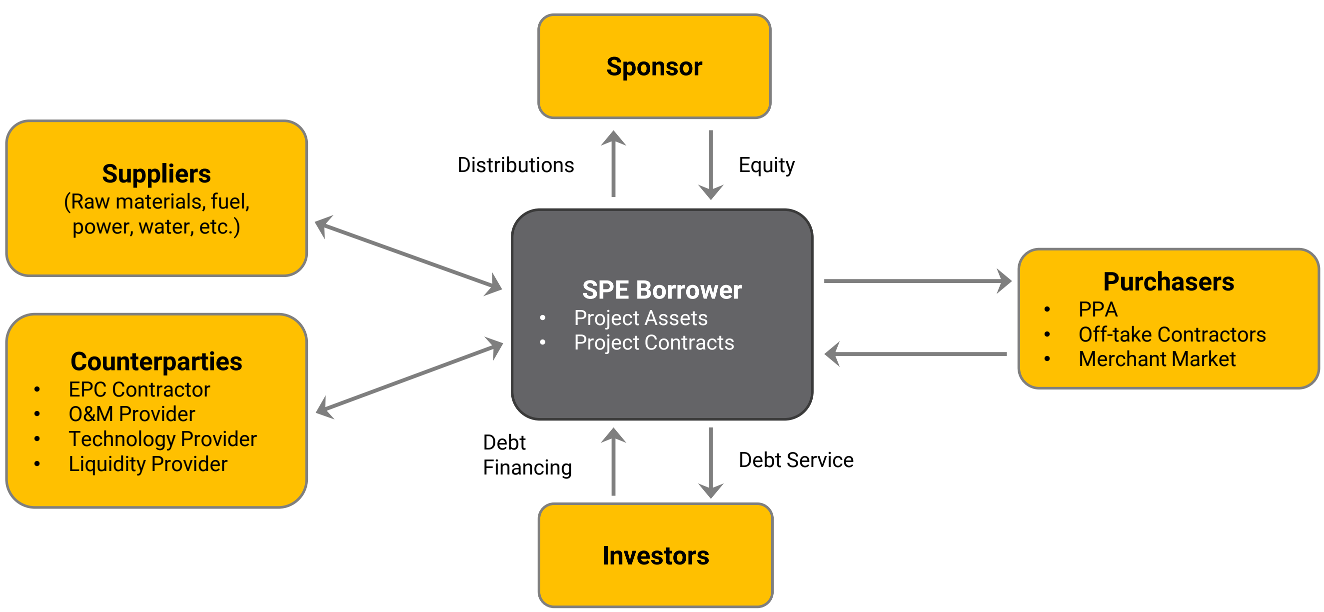
KBRA evaluates a project's competitive position by reviewing its primary revenue drivers. A project's competitive position could vary depending on the industry in which it operates. For example, projects that operate in merchant markets tend to have volatile cash flow profiles. Some merchant projects may have hedges in place to provide revenue stability, but generally these projects have a weak competitive position. Projects that have exposure to merchant markets could obtain a Competitive Position KPRS of *Average* if they have a dominant market share or competitive advantage that results in a stable cash flow profile. Financial hedges that eliminate some revenue uncertainty for a given period of time could improve a project's Competitive Position KPRS.

Projects that generate a substantial portion of their revenues from contracted sources are more likely to receive a Competitive Position KPRS of *Strong*. This is likely the case for availability-based infrastructure assets or power projects that benefit from a strong tolling agreement. KBRA may rate or perform credit assessments of the various counterparties to determine the quality of the project's cash flows. Although contracted cash flows should provide a project with a stable source of revenue, cash flows generated from weak counterparties could have a negative impact on a project's quality of cash flow. This is especially true if most cash flows are generated from counterparties whose credit quality is weaker than the project's credit quality. In these cases, KBRA would categorize these revenue sources as highly volatile because of uncertainty that the various counterparties will be able to fulfill their obligations.

Many contracts require a project to be available for a certain period of time or meet a minimum production threshold. These predefined conditions could increase a project's credit risk if they are difficult to achieve. KBRA typically reviews each rated project's material legal documents to ascertain its operating and generation requirements. Each condition is typically analyzed to determine the likelihood that the minimum thresholds could be achieved under different operating conditions. Many contracts require a project to pay liquidated damages if certain thresholds are not met, and in some cases the contracts could be terminated. KBRA normally incorporates the liquidated damages into its analysis if it determines that the project will likely have difficulty meeting its predefined operating or generation requirements. Similarly, KBRA may assume that contracts are canceled if a termination clause is easily breached.

Credit Determinant #4: Transaction Structure

Example of a Project Finance Transaction Structure:



The transaction structure chosen by the sponsor directly affects the likelihood that debt holders will be paid timely interest and principal. KBRA typically evaluates the characteristics that enable the project to exist on a standalone basis without a linkage to its sponsor or parent. Although details will vary by transaction, as a general matter the primary requirement for de-linking the rating of the project debt to the rating of the sponsor or parent is to ensure that the project entity is structured as a limited purpose, bankruptcy-remote entity.

Most project finance transactions utilize a special purpose vehicle ("SPV") as the issuer of non-recourse debt to reduce the risk that a project could be consolidated with a parent/sponsor in a bankruptcy or insolvency. The rating on the project debt may be limited to the sponsor's or parent's creditworthiness if KBRA determines that the SPV is not adequately ring-fenced. KBRA typically undertakes a detailed review of the financing documents, including a review of the payment waterfall, performance triggers, representations and warranties, covenants, events of default, and enforcement mechanisms in the event of a breach. In analyzing the debt repayment profile, KBRA may rate transactions with fully amortizing structures with level debt service payments higher than transactions with a balloon payment that needs to be refinanced. Typically, for a project to be assigned a KPRS of *Strong* in Transaction Structure, the investors must have a perfected, first priority security interest in all of the SPV's assets and equity and the transaction must include a distribution test that limits payments to a sponsor or other affiliate during periods of poor performance.

In the event that multiple debt instruments are issued, KBRA will typically review all agreements pertaining to the intercreditor relationship to make sure that all rated debt instruments are adequately protected by the transaction documents in a manner consistent with the rating of the securities. If relevant, KBRA may consider how subordinated debt is treated and whether a payment default on a subordinate debt might impact a rated senior debt.

KBRA may also evaluate a proposed project's cash management system. A project with a Transaction Structure KPRS of *Strong* generally segregates project funds and uses an investment grade banking institution with significant assets and experience in cash management as a trustee or depositary.

Financial Risk Profile

Once KBRA assigns a KPRS to the project for each of the four credit determinants discussed above (i.e. Operations, Counterparty Exposure & Competitive Position, Construction, and Transaction Structure), KBRA next determines the project's financial risk profile. The financial risk profile is normally determined by evaluating the predictability and stability of the cash flows. Specifically, KBRA typically evaluates the debt service coverage ratios, refinancing risk, and the availability of liquidity. Each factor is described in detail below.

Debt Service Coverage & Leverage Metrics

KBRA's general approach is to perform sensitivity analyses, typically focusing on changes in the project's operations, expenses, technology, and financial obligations, to gain insight into a project's cash flow profile. KBRA may utilize various financial metrics when evaluating a project, but the primary driver is the debt service coverage ("DSC"). DSCs provide insight into the project's ability to service its financial obligations. KBRA expects that an investment grade project could repay its debt under several scenarios, including those involving severe stress.

Projects that have an overall KPRS of *Weak* or a volatile cash flow profile will generally need higher DSCs than projects with similar ratings, an overall KPRS of *Average* or *Strong*, and stable cash flows. KBRA will not normally assign an investment grade rating to a project with an overall KPRS of *Weak*. The range of DSCs in the table below assumes that a project has a relatively stable cash flow profile. Projects that have volatile cash flows may need higher DSCs than projects with similar ratings and stable cash flows. It should be noted that the ranges below are general guidelines. However, it is possible for projects to be rated within these categories and have DSCs outside the ranges indicated below. This will most likely occur when the variability of cash flow is limited.

Average Debt Service Coverage						
Kroll Project Risk Score (KPRS)	KBRA Rating Category					
	AA	A	BBB	BB	B	CCC
Weak	N/A	N/A	N/A	1.30-2.00x	1.20-1.50x	1.10-1.35x
Average	>3.00x	1.75-3.25x	1.30-2.00x	1.20-1.50x	1.10-1.35x	1.00-1.25x
Strong	>2.75x	1.50-3.00x	1.20-1.75x	1.10-1.35x	1.00-1.25x	1.00-1.15x

While DSCs constitute a critical part of the analysis, an assessment of the project debt's amortization schedule may also significantly impact KBRA's view of the financial risk profile. For example, in the case of Term Loan B structures with periodic 1% mandatory amortization, lower amounts of cash flows will be required to meet a targeted debt service amount than in a transaction where full amortization occurs within the same timeframe. In Term Loan B structures or similar transactions, it is difficult to compare financial metrics purely based on DSCs. Consequently, KBRA may evaluate the project on the basis of residual debt remaining at maturity and the likelihood of the debt being serviced if refinanced at a higher rate. For gas- or coal-fired power assets, KBRA may quantify financial risk by looking at the project in terms of debt/KW. Amortizing structures where the debt is completely paid off are considered the most stable. Interest-only structures with no or minimal expected amortization are considered the weakest, all other things being equal.

In certain cases, KBRA may use its RMBS model described in the U.S. RMBS Rating Methodology or the Portfolio Loss Simulation (KPLS) Model to forecast portfolio defaults. The KPLS Model employs a copula approach to model correlated defaults and a Monte-Carlo simulation to generate the portfolio default distribution. Typically, these models have been used for residential solar assets. However, they could be used when evaluating default probabilities for a pool of diversified assets.

Refinancing Risk

For projects where the debt is not scheduled to fully amortize by the maturity date, KBRA may assess refinancing risk by simulating various cash flow scenarios. The amount of cash a project can generate after its maturity date may be compared to the expected outstanding debt at maturity to determine the likelihood it will be able to be refinanced. KBRA believes that a project's debt will be refinanced if its post-maturity cash flows are reasonably expected to exceed the outstanding debt amount.

KBRA may apply some of the following stresses to its refinancing analysis:

- Discounting of future cash flows in a stressed market environment in order to account for the time value of money
- Failure to renew project contracts with existing service providers coincide with a high price environment for replacement service providers
- Significant changes in project costs

Liquidity

Projects are operating assets and may experience intermittent operational problems. KBRA generally expects investment grade projects to have significant liquidity, typically in the form of a debt service reserve account, to pay the project's financial obligations during periods when the project is offline or experiencing financial stress. Investment grade projects will likely have a debt service reserve account sized to pay interest for a six to twelve month period and distribution tests to trap cash in case the project experiences stress. The reserve account could either be cash-funded or back-stopped by a letter of credit from a financial institution whose rating or credit assessment does not act as a constraint on the project debt's rating.

Some projects also provide liquidity for maintenance expenses using a separate account either prefunded by the sponsor or funded and consistently replenished by project revenues over the course of the transaction. For some commodity related projects, there might also be a separate working capital account in order to provide the project with additional liquidity.

Recovery Analysis

KBRA may incorporate a project's recovery profile into its ratings for deeply speculative rated securities since KBRA places a greater emphasis on recovery analysis when the probability of default increases. KBRA generally determines a project's recovery prospects using liquidation values or a discounted cash flow approach. Both valuation techniques provide a terminal value which is then used to determine recovery values across the project's capital structure. The impact of recoveries on a KBRA rating is described in greater detail in KBRA's Rating Scales (www.krollbondratings.com/ratings/scales).

Sovereign, Transfer and Convertibility Risk

The ownership of a project by a sovereign or a project's exposure to sovereign credit risk may impact a project's credit quality. Sovereign risk may be considered when either the project or any material counterparty is located in a country with a hazardous environment for normal business activities or where the contractual basis of economic activities may not be honored. Sovereign risks include political instability, threats of violence or war, instability of the financial system, and a judicial system's unreliability with respect to enforcing contracts.

KBRA may also evaluate a project to assess whether the project is subject to convertibility, transferability or other risks. In these instances, KBRA will evaluate the impact of these risks on the transaction. Convertibility risk pertains to the issuer's ability to convert local currency earnings into another currency in order to pay debt obligations. Obstacles may arise because of a jurisdiction's restrictions on the frequency and the amount of money that can be converted, as well as the taxes and fees needed to effect the conversion. Transferability risk is the potential for the government to impose rules limiting the ability to move funds to other jurisdictions for payment of debt obligations.

Surveillance

KBRA monitors outstanding Project Finance ratings on an ongoing basis, including a full review of the key rating factors outlined in this methodology typically on an annual basis.