

Article Title: Guidance | Criteria | Corporates | Project Finance: Project Finance Construction Methodology Data: (EDITOR'S NOTE: —This guidance article references criteria that has been superseded by "General Project Finance Rating Methodology," published Dec. 14, 2022, except in jurisdictions that require local registration.) OVERVIEW AND SCOPE 1. This document provides additional information and guidance related to our criteria "Project Finance Construction Methodology," published Nov. 15, 2013. It is intended to be read in conjunction with those criteria. For a further explanation of guidance documents, please see the description at the end of this article. GUIDANCE Funding Sources: Contractor Support 2. When contractor support is provided through a surety bond, we consider three specific provisions in the policy or construction contract when assessing the degree to which we give credit to such a bond during construction: Terms of payment; Triggers for accessing liquidity; and Capacity and willingness of the insurer to meet the obligations. Key Publication Information This article is related to "Project Finance Construction Methodology," published Nov. 15, 2013. We may revise this guidance from time to time when market dynamics warrant reevaluating the variables and assumptions we generally use in our analysis. 3. The terms and conditions included in surety bonds and the triggers that invoke the use of the bonds vary by region. For example, in the U.S. and Canada, we have seen these bonds triggered by events of default within the construction contract, while we have seen similar bonds in other regions triggered within other project documents. As such, we look at different factors to assess the certainty of the funding provided by those instruments depending on the region where the project is located and the bond is issued. 4. We generally assume such funds would not be available until the last day permitted under the surety terms, so other forms of immediate liquidity would generally need to be available to cover project cash needs until the surety payment date. U.S. and Canada Terms of payment 5. For S&P; Global Ratings to consider a surety bond to be eligible as a highly certain construction security, the following principles of our guarantee criteria (see "General Criteria: Guarantee Criteria") should be met: The surety's obligation to pay under the bond should be unconditional and irrevocable; The timeliness of the payments should be well defined, which means that the surety should pay the obligations on a predictable due date and should not try to seek relief or assert any defense that the construction contractor is not at fault, and the surety's obligation to pay should not be subject to the resolution of any disputes (unless the dispute resolution process also has a defined maximum time period); and The debtholders should be the direct beneficiaries of the surety policy, or indirect beneficiaries through the security package. 6. It is important that the payments under the surety policy be made on or prior to an event of default (EOD) related to failure to pay debt service under the project's financing documents. For example, if an EOD is triggered under a project's financing documents when a debt service payment is not made within three days of the due date, we would expect that the terms of the surety bond ensure that the payments are made within no more than three days of being called upon to avoid a default under the project financing documents. Triggers for accessing liquidity 7. Typically, liquid securities are callable in case of an EOD by the construction contractor under the construction contract. As a result, we consider the existence of the trigger mechanisms in the construction contract when assessing whether the surety bonds are liquid. In North America, we consider the following two triggers to be most important: The project should be able to call upon the surety bond irrespective of a good-faith dispute ("pay now, dispute later"). The liquidated damages under the construction contract should be payable immediately without any cure period. This means that the project is able to call upon the surety policy immediately without waiting for a cure or grace period to end. Insurer's capacity and willingness to meet the obligations 8. We assess the creditworthiness of the surety provider to determine the insurer's capacity and willingness to meet its financial commitments. 9. We use a financial enhancement rating (FER) when an insurer supports a transaction through an insurance policy or other commitment that is predominantly used as credit enhancement or a financial guarantee. The FER addresses the capacity and willingness of the insurer to meet its financial commitments in accordance with the terms of the obligation (see "Relevant Measures Of Insurer Creditworthiness When A Transaction Relies On Credit Enhancement Or Collateral Support"). EMEA and other regions 10. Differences in the use and triggers of these policies in other regional markets mean that the above guidance applies to the U.S. and Canada only. 11. In other regions, including Europe, surety bonds and similar instruments vary in terms of purpose, timeliness, and conditions to draw. Projects in Europe, the Middle East, and Africa (EMEA) feature various types of

instruments, which could include letters of credit and performance bonds, among others, or a combination of instruments. 12. Performance bonds, commonly referred to as "adjudication bonds" in EMEA, often also feature characteristics of letters of credit, such as the ability to be drawn down on short notice following insolvency of the counterparty. However, they often also serve a further purpose in EMEA by supporting the obligations of the construction counterparty to pay liquidated damages. Drawing down on performance bonds following failure of the counterparty to pay liquidated damages typically requires a decision by an adjudicator within a fixed period of time. As a result, they pay out less immediately but within a fixed time frame, and we typically consider them to be less liquid than letters of credit. RELATED PUBLICATIONS Related Criteria Project Finance Construction Methodology, Nov. 15, 2013 Related Research Credit FAQ: Relevant Measures Of Insurer Creditworthiness When A Transaction Relies On Credit Enhancement Or Collateral Support, Jan. 14, 2019 Criteria And Guidance: Understanding The Difference, Dec. 15, 2017