

— Accounting and tax related advisory services

Project finance

Accounting, taxation, and cash flow projection

We have been involved in numerous project finance deals in Japan and overseas, acting as a reliable concierge for clients working on infrastructure projects, particularly in the renewable energy sector.

Tokyo Kyodo Accounting Office began focusing on the project finance sector in earnest in 2012, when the feed-in tariff (FIT) scheme was introduced for solar power and other forms of renewable energy. We have secured a strong reputation among clients, particularly for our strength in accounting and taxation advice concerning structured finance, accounting and taxation verification for cash flow models (business income plans), and structuring services. Client referrals have given us the opportunity to work on a succession of new deals, and in recent years, we have been involved in more project finance deals than any other accounting and taxation experts.

Project finance focuses on "projects," meaning that it falls somewhere between structured finance, which focuses on cash flows and value from "things" such as financial claims and real estate, and corporate finance, which focuses on "companies," where the details of businesses, etc., change in accordance with the policies of managers and the management environment. It is common practice to establish new special purpose companies (SPCs) to operate projects, and silent partnerships, trusts, and investment limited partnerships (LPSs) are also options for vehicles. Accordingly, one of our main services is accounting and taxation advice for structuring, as with our structured finance practice.

Acquisitions, mergers, splits, and other forms of M&A are also common practice, particularly for renewable energy such as solar power and concessions. For this reason, we also provide corporate finance services, such as accounting and taxation advice, finance and taxation due diligence, and stock and business valuation in relation to organizational restructuring. It is also common practice to have subsidiaries and affiliates for concessions at airports, etc., and the businesses operated by the group as a whole may cover a broader scope than "companies," which are the target of corporate finance. ◦ Conversely, under the Build, Transfer, Operate (BTO) method, one method for PFI projects, ownership rights for public facilities, etc., are transferred to the national government, local public bodies, or other entities after construction. For this reason, such deals may be described as a form of structured finance that focuses on real estate and financial claims, as the funds are recovered in installments.

— Strengths of our services

- Wide range of services without boundaries between practices
- Cash flow models, the lifeline of project finance* Related services

* Cash flow models are project business income plans created as Excel files, and are indispensable for project investment decisions, negotiation concerning financing terms with financial institutions, performance management, etc.

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Features of our services

1 We have experience of providing services in numerous projects including concessions and PFI, focusing mainly on establishing vehicles related to renewable energy power generation and advisory cases.

As mentioned, our project finance services overlap with many aspects of other practices, domains, and services, and wide-ranging knowledge is required. For example, for M&A, in addition to taxation for organizational restructuring, if knowledge concerning taxation for silent partnerships and other vehicles is lacking, risks inherent in the scheme may be overlooked.

Risk analysis from the perspective of international taxation is also necessary for deals that involve foreign investors (inadequate capital taxation system, excess interest payment taxation system, withholding taxes, etc.). Furthermore, there have been cases of clients being proposed schemes devised solely for formal applicability with the provisions of taxation laws, that ignore taxation risks such as the risk of identification as a donation and the denial of action or calculation. Accordingly, accounting and taxation advice

based on economic reasonableness and the true intent of taxation provisions is necessary to ensure that clients do not become involved in such schemes.

On these points, at Tokyo Kyodo Accounting Office, our basic policy is that there are no boundaries between divisions based on practices, and that each member is involved in services across multiple practices, without boundaries such as accounting and taxation. At the same time, it is also our policy to ensure thorough work in both accounting and taxation. This makes it possible for us to offer a broad range of services with advanced expertise, by creating small teams with a single point of contact, and it is a major strength of our firm.

- Power generation projects
Solar power, land and offshore wind power, batteries for grid storage, biomass, geothermal, hydropower, thermal power generation, etc.
- Concessions
Airports, roads, waterworks, etc.
- PFI
Educational and cultural facilities, sewage works and other public and public welfare facilities, communications satellites, etc.
- Others
Tourist spot redevelopment, bulk terminals, etc.

2 Our policy is to thoroughly explore both accounting and taxation factors. We are able to offer a broad range of services with advanced expertise, by creating small teams.

In project finance, lenders and equity investors provide funds based only on cash flows from the underlying project. Accordingly, compared with corporate finance, cash flow models (business income plans) tend to be objective and detailed, while also being generic enough to withstand various forms of stress analysis.

Such plans must therefore incorporate taxes in a detailed but also generic manner, but even for project operators that understand every aspect of the project, it is difficult to reflect accounting and taxation matters in cash flow models. Accordingly, it is common practice to entrust this work to accounting and taxation experts.

The entrusted accounting and taxation experts must not only understand the accounting and taxation treatment of projects and schemes, but must also understand the structure used for the calculation of cash flow models, and possess logical thinking capabilities to appropriately reflect these aspects. Our ability to address these challenges could be described as another major strength of Tokyo Kyodo Accounting Office.

- Structured finance accounting and taxation advice
- Finance and taxation due diligence (mainly for M&A)
- Shares (equity interests), business valuation (mainly for M&A and calculation of going value)
- Accounting and taxation verification for cash flow models (business income plans)
- Preparation of reports on the results of accounting and taxation verification of cash flow models (business income plans)
- Preparation of cash flow models, etc., particularly in relation to solar power and other forms of renewable energy
- Preparation of written opinions on accounting and taxation matters