RATING REPORT
(SUMMARY)

Borkum Riffgrund 2 Investor Holding GmbH (Project Lighthouse)

Senior Note Issuance

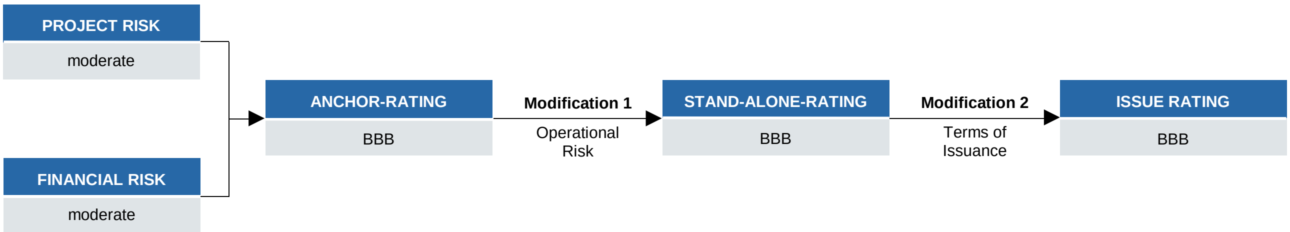
14 December 2017

EULER HERMES
Rating

A company of Allianz

Issue Rating

Borkum Riffgrund 2 Investor Holding GmbH Senior Secured Amortising Registered Notes (Project Lighthouse)		14 December 2017	BBB
		Issue rating	
		Outlook	stable
Industry	Offshore Wind Energy	Volume up to	€ 832 million



PROJECT RISK	moderate

- Project site with comparatively low resource risk
- No merchant risk until note matures (high fixed FiT)
- Moderate sustainability of operating cash flow due to largely fixed-fee O&M and a strong warranty agreement
- Low regulatory risks
- Moderate technical/operating risks

OPERATIONAL RISK	± 0

- Operational risks consistent with the anchor rating
- Construction and development risks largely mitigated by risk-adjusted contractual arrangements

FINANCIAL RISK	moderate

- Defensive gearing target
- Financial model demonstrates adequate risk bearing capacity and above-average resilience to variations
- Expected debt service coverage ratios show acceptable headroom above default thresholds

TERMS OF ISSUANCE	± 0

- Senior secured debt
- Stress-tested recovery rates of at least 50%
- Very manageable refinancing risk (bullet facility)
- Adequate cash distribution mechanism, covenants, liquidity facilities and termination rights

Rating rationale

Euler Hermes Rating assigns a BBB issue rating to the senior notes of Borkum Riffgrund 2 Investor Holding GmbH with a total amount of up to € 832m. Key rating considerations are a combination of moderate project risks, moderate financial risks and largely mitigated construction and development risks.

Moderate project risks due to moderate cash flow sustainability, low regulatory risks and moderate technical risks

Our assessment of **project risks** results in a **moderate** risk profile. Key drivers are a combination of a moderate sustainability of operating cash flow, low regulatory risks and moderate technical risks. In our view, the project site will benefit from very low wind related uncertainty and variability levels to the advantage of a comparatively high capacity factor. The project will further benefit from priority dispatch for renewable energies, regulated high fixed feed-in-tariffs (FiT) for a period of 9 years and 8 months followed by a regulated floor price against downside risk until the end of year 20, hence merchant risks during the ten-year note tenor will practically be eliminated in our view. Risks from typically very uncertain or highly volatile offshore operating expenditure budgets will be mitigated to a moderate extent via an initial 5-year service and warranty agreement by MHI Vestas together with a largely fixed-fee 20-year operating and maintenance agreement by Ørsted (formely DONG Energy). Potential counterparty risks regarding the service providers are low in our opinion, given their long standing track record, market position, credit standing and commitment to the project. Risks associated with the market/regulatory environment are generally low in Germany due to the established renewables act, legal security and a favourable political climate. Moreover we think that increased technical risks associated with only little operating data for the newly developed turbine model and potential grid connectivity issues with the TSO, will be mitigated to a moderate extent by the comprehensive warranty agreement with MHI Vestas and the established compensation mechanism with TenneT.

Moderate financial risks due to above-average resilience to variations of input factors and still acceptable headroom above default threshold

Our assessment of **financial risks** results in a **moderate** risk profile. We have applied single and multi-factor stress scenarios to selected key input parameters of the financial model (provided by GIP) and conducted sensitivity analyses. Specifically, we have tested the project's ability to withstand declines in revenues (resource risk) or increases in operating costs (budget flexibility) while maintaining sufficient liquid funds to repay the remaining debt load in compliance with the terms of issue. In our opinion, the financial model demonstrates an adequate risk bearing potential of Project Lighthouse with adequate debt service coverage ratios over the whole tenor of the senior note. Our view is underpinned by the above-average resilience to multiple variations of input factors and the still acceptable headroom above predetermined default thresholds. Only in somewhat unlikely downside scenarios the model shows tendencies of inadequate risk bearing potential with coverage ratios close to default thresholds and non-compliance with the terms. We also appreciate the defensive gearing constraint, which ensures adequate FFO/debt ratios.

Operational risks and the assessment of the terms of issuance do not trigger a rating modification

Our assessment of **operational risks** and the **terms of issuance** do not lead to rating modifications. Based on our assessment, we generally expect an appropriate handling of operational risks in Project Lighthouse. Regarding construction risks, we value the main mitigating factors like risk-adjusted contractual arrangements, low permit risks and low counterparty risks. Based on the terms of issuance we see a standard set of applicable creditor protection clauses with adequate financial covenants. Regarding the investment structure we value the senior secured ranking and the restrictive cash distribution order with strict priority for debt service, sufficient reserve account requirements and dividend distribution hurdles. Refinancing risks concerning the scheduled bullet facility are low in our opinion, due to a proportionately small bullet amount, the long remainder of the permitted project lifetime (25 years), downside protection from regulated floor prices and the absence of further external debt. In our default assessment on the potential development of the net asset value of Project Lighthouse, we found that a potential liquidation scenario would most likely result in debt recovery rates of at least 50%.

Appendix 1: Execution

Analysts

- Matthias Peetz, Senior Analyst / Project manager
- Torsten Schellscheidt, Senior Analyst

Rating committee

- Dörte Mählmann, Director
- Holger Ludewig, Director

Principal sources of information

- Financial Model as of 01 November 2017 prepared by Global Infrastructure Partners (GIP)
- Yield Assessment as of 26 January 2017 prepared by Ørsted
- Independent Yield Assessments as of 03 February 2017 prepared by external technical consultants
- Technical Due Diligence Review as of 27 January 2017 prepared by external technical consultants
- Legal Fact Book as of 27 January 2017 prepared by external legal advisors
- Tax Fact Book (24 January 2017) and Tax Structure Paper (27 January 2017) prepared by external tax advisors
- Lender Information Memorandum as of 11 March 2017 prepared by Ørsted and its exclusive financial advisor
- Ad-hoc Review Report regarding ST3 Offshore insolvency issue (03 Nov 2017) prepared by the lenders technical advisor
- Construction Agreement plus Schedules (Execution Version as of 04 August 2017)
- Operation and Maintenance Agreement plus Schedules (Execution Version as of 03 August 2017)
- Power Purchase Agreements (Post-Notary Versions as of 11 August 2017)
- Share Purchase Agreement (Post-Notary Version as of 11 August 2017)
- Shareholders Agreement (Post-Notary Version as of 11 August 2017)
- Turbine Accreditation Services Agreement (Post-Notary Version as of 11 August 2017)
- Common Terms Agreement (Execution Version as of 11 December 2017)
- Master Definitions Agreement (Execution Version as of 11 December 2017)
- Subscription Agreement (Execution Version as of 11 December 2017)
- Security Trust and Intercreditor Agreement (Execution Version as of 11 December 2017)

Rating methodology

- Euler Hermes Rating GmbH Generic Project Rating Methodology of April 2017 (https://www.ehrg.de/seiten/Projektrating_2017.pdf)
- Euler Hermes Rating GmbH Issue Rating Methodology of December 2014 (http://www.ehrg.de/seiten/Methodology%20Issue%20Rating%202014.pdf)

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Appendix 2: Rating categories

Category	Explanation
AAA	In the opinion of EHRG, AAA rated entities demonstrate an excellent credit quality and the lowest default risk.
AA	In the opinion of EHRG, AA rated entities demonstrate a very high credit quality with a very low default risk.
A	In the opinion of EHRG, A rated entities demonstrate a high credit quality with a low default risk.
BBB	In the opinion of EHRG, BBB rated entities demonstrate a medium credit quality with a moderate default risk.
BB	In the opinion of EHRG, BB rated entities demonstrate a medium-low credit quality with a slightly increased default risk.
B	In the opinion of EHRG, B rated entities demonstrate a low credit quality with an increased default risk.
CCC	In the opinion of EHRG, CCC rated entities demonstrate a very low credit quality with a high default risk.
CC	In the opinion of EHRG, CC rated entities demonstrate a very low credit quality, an event of default is very likely.
C	In the opinion of EHRG, C rated entities demonstrate a very low credit quality, an event of default is imminent.
D / SD	D rated entities have defaulted, as defined by the rating agency. The rated entity is assigned an SD rating (Selective Default) if it has only defaulted on certain debt obligations.
PLUS (+) **MINUS (–)**	Rating categories from AA to CCC are modified by a PLUS (+) or MINUS (-), where required, in order to show their relative position within the rating category.

Appendix 3: Definitions and financial ratios

Annual Debt Service Coverage Ratio (ADSCR)

ADSCR
Numerator
Annual Cash flow Available for Debt Service (CFADS)
Denominator
Annual Debt Service (scheduled interest plus principal payments)

Note Life Coverage Ratio (NLCR)

NLCR
Numerator
Discounted annual CFADS over remaining Note Life
Denominator
Remaining Net Debt Balance

Adjusted Funds from Operations (FFO) / Total Debt

FFO/Debt
Numerator
Annual CFADS less scheduled interest payments (= adjusted FFO)
Denominator
Remaining Debt Balance

Disclaimer

Global Infrastructure Management, LLC (client) engaged Euler Hermes Rating GmbH to conduct a rating of the issuance (rated entity) of Borkum Riffgrund 2 Investor Holding GmbH (issuer) on 29 June 2017. Interviews with representatives of the issuer were conducted between 29 June 2017 and 30 September 2017.

The Rating Committee of Euler Hermes Rating GmbH reviewed the rating process, issued the rating notation and approved the rating report in its current form on 14 December 2017. This rating report was given to the client on 14 December 2017, thereby concluding the rating process.

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Euler Hermes Rating GmbH

Hamburg, 14 December 2017

