

Rating
Report Summary

wpd AG

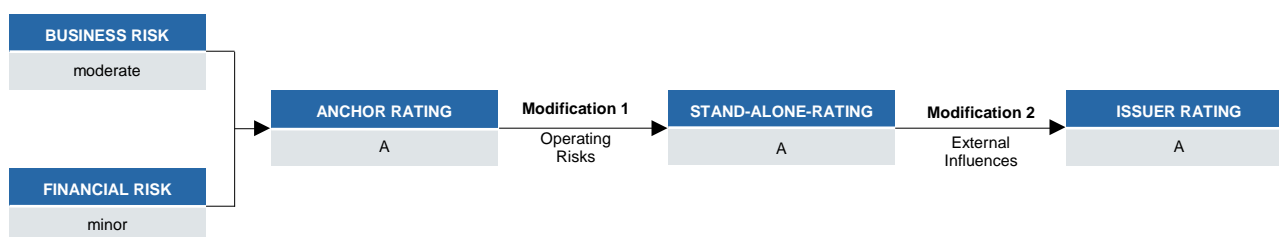
April 28, 2017



EULER HERMES
Rating

Issuer Rating

| | | | |
|---------------|--|-------------------|----------|
| wpd AG | | April 28, 2017 | A |
| | | Issuer Rating | |
| | | Outlook | stable |
| Industry | Development and operation of wind power projects in the onshore and off-shore area | Employees in 2016 | 585 |



| | |
|---|-----------------|
| BUSINESS RISK | moderate |
| <ul style="list-style-type: none"> wpd Group's market-leader position in Germany An increasing international diversification Own extensive portfolio Increasing market risks due to the deteriorating general conditions in the project-related area Interest rate risks | |

| | |
|---|------------|
| OPERATING RISKS | - 0 |
| <ul style="list-style-type: none"> In general, the appropriate handling of operating risks while maintaining residual size-specific personnel dependencies | |

| | |
|--|--------------|
| FINANCIAL RISK | minor |
| <ul style="list-style-type: none"> A very good capital structure High income and cash flows from the project development's business High income and liquidity reserves in company's own portfolio | |

| | |
|--|------------|
| EXTERNAL INFLUENCES | ± 0 |
| <ul style="list-style-type: none"> No rating-relevant external influences | |

Rating History

| | | | |
|---------|-----------------|-----------|----------------|
| | August 29, 2003 | 2004–2016 | April 28, 2017 |
| Rating | A | A | A |
| Outlook | stable | stable | stable |

Rating Rationale

Euler Hermes Rating rewards the credit standing of wpd AG with an 'A'. We are expecting that this rating will remain stable over the next twelve months.

A moderate business risk, based on a very good market position and own portfolio, while being dependent on external general conditions

In our opinion, wpd AG is altogether exposed to a moderate **business-related risk**. Thereby, the project development business (*Development*) and operations (*Asset*) are characterized by quite different business risk profiles: wind farms in the company's own portfolio generate relatively stable and sustainable cash flows. We regard as positive the independent financing, pre-defined compensation amounts, purchase commitments, and relative independence from changes in underlying conditions, and a great degree of stability and sustainability as a result. wpd has a well-diversified portfolio at its disposal. In our opinion, the *Asset* sector is altogether exposed to a minor business risk. The business-related risk in the *Development* sector is higher, based on the project-related risk, dependence on underlying conditions and availability of site locations as well as high pre-funding requirements, in case of uncertainties associated with the realization of projects. In our opinion, the introduction of tender-bid proceedings is going to result in increased pressures on the competition and margins. However, in our opinion, based on its market position, personal and financial resources and its current network, wpd is presently positioned very well, and is pursuing a plausible success-promising, strategic direction, in order to be able to bear the increased risks. If, based on the shift in general environment conditions, the effects affecting the competition and margin situation are stronger than we expected, or provided it is necessary to take higher risks to maintain the very good standing concerning financial performance or cash flows, such impacts would affect the rating.

A minor financial risk, based on a very good capital structure and financial flexibility

According to our assessment, wpd is exposed to a minor financial risk. In particular, we hereby assess positively the very strong earning power. The lasting stable feed-in revenues in the *Asset* sector provide for a solid earnings basis. Moreover, very high income and cash flows are generated by project sales that take place within the *Development* sector on an irregular basis. Here, an adequate foundation is formed by the extensive own portfolio and extensive national and international project pipeline, which provide for the high income and liquidity reserves. We rate the capital structure, debt-relief potential and interest cover ratios as very good, in consideration of hidden reserves and business-typical features as well; however, these are expected to decline during the projection period. The financial debt mainly applies to the funding of company's own portfolio, which is characterized by non-recourse financing deals. In that case it is necessary to consider that the stable feed-in revenues result from the company's own portfolio. Moreover, the available liquid means and lines of credit offer a very good financial flexibility. In general, wpd has presently considerable buffers, in order to absorb deteriorations in the market and competitive environments.

No anchor-rating modifications

According to our understanding, the corporate group has suitable structures, processes and systems at its disposal. In our opinion, the operating risks are generally in line with the anchor rating. No rating relevant external factors are present. As a result, the anchor rating was not modified.

Company

Main business: Project development and operation of wind turbines

wpd AG (hereafter referred to as "wpd" or "wpd Group"), which was founded in 1996, is an international developer and operator of wind farms in the onshore and offshore areas. In its capacity as planner, project manager and operator, in the past, the Group has planned, economically conceptualized and realized projects with a total rated output of approximately 3.6 gigawatt. The home market of wpd Group is Germany. The international activities particularly focus on Europe; in addition to the activities in Taiwan, Canada, Chile and in the United States. In Europe, wpd Group is one of the leading project developers of wind farms. During the fiscal year in 2016, wpd AG employed 585 employees.

Sector Development: project development and sales of wind farms

The *Development* sector entails the planning and construction of wind farms, construction of wind farm infrastructure, and structuring of funding as well as selling of wind farms to institutional investors, in particular. In 2016, additional activities were launched in the photovoltaic field. The focus is initially on Taiwan, France, and on the United States. The activities of the Group primarily cover the following sectors

- Onshore wind national
- Onshore wind international
- Offshore wind
- Photovoltaic

Sector Asset: Operation of wind farms

The *Asset* sector includes the long-term operation of company's own onshore wind farms, which are located both in the home country and abroad. wpd's wind farm portfolio includes wind farms in Germany and Europe (France, Croatia, Belgium, Poland, Finland), Canada and Taiwan. On December 31, 2016, the company's own portfolio of wind farms totaled 1,371 MW (gross), or 1,090 MW (net), respectively; with nearly a half of those located in Germany. The gross figures also include a complete portfolio of investments owned by the company and accounted for at equity. With the successive expansion of the company's own portfolio, wpd continues to expand its position as an independent power producer (Independent Renewable Power Producer—IRPP).

Shareholders and material subsidiaries

The original shareholders, Mr. Gernot Blanke, Dr. and Mr. Klaus Meier, Dr., each hold 50 % of shares in wpd AG. The company functions as a holding and owns 100 % of shares in each of the following companies: wpd offshore GmbH (*Wind Offshore*), wpd onshore GmbH & Co. KG (*Wind Onshore Germany*), and wpd wind worldwide GmbH (*Wind Onshore Future Markets*) as well as wpd Nordamerika holding GmbH. Further, wpd AG owns 67 % of shares in wpd europe GmbH (*Wind Onshore Europe and Canada*). The remaining 33 % of shares is held by the Stadtwerke München GmbH (SWM).

Executive management

The Board members of wpd AG are Mr. Gernot Blanke, Dr. and Mr. Hartmut Brösamle, Dr. In addition to Mr. Meier, Dr., who acts as Chairman of the Supervisory Board, the committee includes Mr. Rainer Büssenschütt (Credit Management Supervisor at Sparkasse Bremen) and Bernd Karstedt (shareholder at DS Diersch & Schröder GmbH & Co. KG).

Execution of the Rating

This report represents a highly abridged summary of the complete rating report issued on April 28, 2017. The full rationale for the rating notation is given in the complete rating report that was presented to the company and has not been published by Euler Hermes Rating GmbH.

wpd AG (client and rated entity) engaged Euler Hermes Rating GmbH to conduct a rating on February 10, 2017. The company was visited on April 6, 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 April 28, 2017. This rating report was given to the client on May 22, 2017, thereby concluding the rating process.

The rating is Euler Hermes Rating GmbH's opinion of the creditworthiness of a rating subject. It is not a statement of fact. Euler Hermes Rating GmbH is not engaged in buying or selling securities. Its rating report is neither a prospectus nor a substitute for information assembled and presented by companies or issuers for investors regarding the purchase of a security or for assessing the creditworthiness of a rated entity. The rating is not a recommendation to participate in certain facilities. All recipients of the information must conduct their own independent analyses, credit assessments and other verifications and evaluations that are customary and necessary in order to reach a final decision about participating in certain facilities.

The rated entity is solely and exclusively liable for any errors and omissions in the documents and information openly and willingly provided to us in response to our requests for information. The rated entity has reviewed the rating report and certified that all the information considered in the rating report is accurate and complete in all significant respects, no significant aspects have been concealed and any forward-looking statements are based on plausible, verifiable and current data and were prepared by the rated entity exercising reasonable and commercial care. The rated entity's representatives have issued a written certification of completeness to Euler Hermes Rating GmbH. However, the rated entity cannot be held liable if actual results differ from the forward-looking statements presented in this document, particularly the projections. Forward-looking statements and projections may be adversely affected by unforeseeable events and changes in the economic environment. Euler Hermes Rating GmbH assumes no liability for the accuracy of the information it considers when issuing a rating and extends no guarantee whatsoever that the information is explicitly or implicitly correct, timely, complete, suitable for the market or fit for any particular purpose.

The rating is published on Euler Hermes Rating GmbH's website (www.eulerhermes-rating.com) or published for subscribers (e.g. on a portal), it will be followed by a subsequent one-year monitoring process. During this period, the rated entity and the environment in which it operates will remain under observation. The representatives of the rated entity remain subject to a full disclosure obligation during this period. Any change in Euler Hermes Rating GmbH's rating assessment will result in a change in the published rating notation, meaning that the rating notation shown on the internet represents the current rating assessment at all times. The rating will only remain published after the end of the monitoring period if the rating process is repeated.

Please note that summaries of contracts, laws and other documents contained in the rating report cannot replace careful study of the complete texts. Euler Hermes Rating GmbH cannot guarantee that the information used to prepare this report has not changed since it was collected and is still accurate at the time of publication. Euler Hermes Rating GmbH is under no obligation to complete the information that it considered when issuing the rating.

The dissemination and use of this rating report may be prohibited by law in certain jurisdictions. Euler Hermes Rating GmbH therefore recommends that any persons who come into the possession of this information inquire about and comply with any prohibitions that may be in place. Euler Hermes Rating GmbH assumes no liability of any kind with respect to the dissemination and use of the rating in any jurisdiction whatsoever.

Euler Hermes Rating GmbH

Hamburg, May 22, 2017

Analysts

Silke Naused, Senior Analyst and Project Supervisor
Kai Gerdes, Director

Rating Committee

Holger Ludewig, Director
Matthias Peetz, Senior Analyst

Key Information Sources

- Consolidated financial statements 2014, 2015, 2016
- Extracts from the internal reporting
(e.g. interim business development 2016, bank overview, etc.)
- Market analyses
- Corporate planning
- Documents pertaining to structure under corporate law
- Interviews with management

Rating Methods

Issuer credit ratings by Euler Hermes Rating GmbH as of May 2016
(<http://www.ehrg.de/seiten/Methodik2016.pdf>)

Appendix 1: Rating Categories

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