

RATING REPORT  
(SUMMARY)

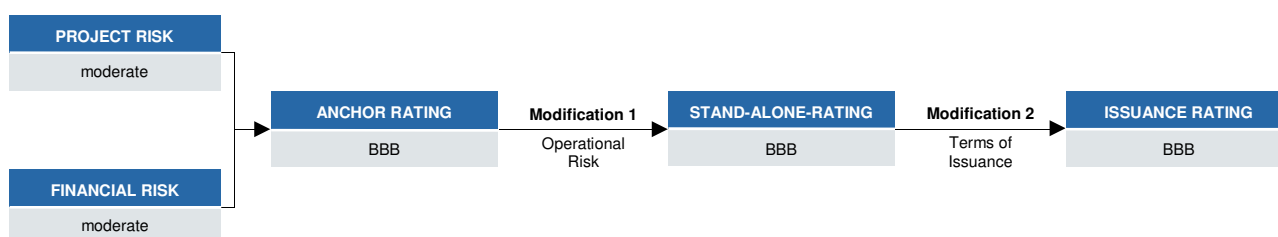
**Borkum Riffgrund 2  
Investor Holding GmbH  
(Project Lighthouse)  
Senior Note Issuance**

12 December 2019



# Issuance Rating (Summary)

<b>Borkum Riffgrund 2 Investor Holding GmbH Senior Secured Amortising Registered Notes (Project Lighthouse)</b>		12 December 2019	<b>BBB</b>
		Issuance Rating	
		Outlook	stable
Industry	Offshore Wind Energy	Nominal Volume	€ 815m



<b>PROJECT RISK</b>	<b>moderate</b>
<ul style="list-style-type: none"> <li>Project site with comparatively low resource risk</li> <li>No merchant risk until note matures (high fixed FIT)</li> <li>Moderate sustainability of operating cash flow due to largely fixed-fee O&amp;M and a strong warranty agreement</li> <li>Low regulatory risks</li> <li>Moderate technical/operating risks</li> </ul>	

<b>OPERATIONAL RISK</b>	<b>± 0</b>
<ul style="list-style-type: none"> <li>Operational risks are consistent with the anchor rating</li> </ul>	

<b>FINANCIAL RISK</b>	<b>moderate</b>
<ul style="list-style-type: none"> <li>Amortization (88%) within the regulated income period</li> <li>Sufficient coverage ratios for debt service under conservative rating case assumptions</li> <li>Financial model sustains downside scenarios without making use of reserve accounts</li> <li>Robust short-term liquidity profile</li> </ul>	

<b>TERMS OF ISSUANCE</b>	<b>± 0</b>
<ul style="list-style-type: none"> <li>Senior secured status</li> <li>Expected recovery rate at least 50%</li> <li>Manageable refinancing risk of balloon payment</li> <li>Adequate cash distribution mechanism, reserve accounts, covenants and termination rights</li> </ul>	

## Rating Rationale

Euler Hermes Rating confirms the **BBB issuance rating for the senior notes issued by Borkum Riffgrund 2 Investor Holding GmbH. Key rating considerations are a combination of moderate project risks, moderate financial risks, low operational risks and adequate terms of issuance with adequate recovery expectations.**

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

We assess the **project risk** profile as moderate. 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 benefits from very low wind related uncertainty and variability levels to the advantage of a comparatively high capacity factor. The project further benefits from priority dispatch for renewable energies, regulated high fixed feed-in-tariffs (FiT) for a period of 9 years and 10 months followed by a regulated floor price against downside risk until the end of year 20. Hence, merchant risks during the note tenor are largely eliminated in our view. Risks from typically very uncertain or highly volatile offshore operating expenditure budgets are 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. Potential counterparty risks regarding these 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 technical risks associated with the newly developed turbine model, or potential grid connectivity issues with the TSO, are mitigated to a moderate extent by the comprehensive warranty agreement with MHI Vestas and the established compensation mechanism with TenneT.

***Moderate financial risk due to adequate risk bearing potential and legitimate compensation claims***

We assess the **financial risk** profile as **moderate**. Key drivers are our future expectations on adequate debt service coverage ratios under conservative rating case assumptions and accrued compensation claims during ramp-up. Despite struggling with a troubled ramp-up period shaped by recurring and unexpected grid outages, energy curtailments and technical issues, we expect the actual revenues and operating profits for 2019 to remain just slightly below the rating case budget. This is mainly because the project operators claimed some notable compensation payments for 2019 from the TSO which were still not recognised in the interim accounts. The senior notes have been serviced regularly and we expect an adequate coverage for the first debt repayment date (Dec 2019), considering the reported cash reserves and the expected operating cash flow during Q4/2019. For future periods we expect an overall adequate risk bearing potential with adequate debt service coverage ratios of 1.34x on average over the remaining tenor of the senior note. Our expectations are based on conservative modelling assumptions (rating case) and additional stress test scenarios with variations of selected key input parameters, which demonstrated that the project could sustain prolonged downside scenarios on energy yield, park availability, wake losses or the OPEX budget without making use of the contractual debt service reserve accounts.

***Operational risks and the assessment of the terms of issuance do not trigger rating modifications***

Our assessment of the **operational risks** and the **terms of issuance** did not identify any relevant factors that would require a modification of the overall rating outcome. 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. In our assessment on the potential development of the net asset value of the project rights, we found that a hypothetical liquidation scenario would most likely result in recovery rates of at least 50%.

## Rating History

	14 December 2017	13 December 2018	12 December 2019
<b>Issuance Rating</b>	BBB	BBB	BBB
<b>Outlook</b>	stable	stable	stable

## Appendix 1: Execution

### Analysts

- Matthias Peetz, Senior Analyst / Project Lead
- Silke Naused, Senior Analyst

### Rating committee

- Dörte Mählmann, Director
- Holger Ludewig, Director

### Principal sources of information

- Annual Financial Statements as of 31 December 2018 – Borkum Riffgrund 2 Offshore Wind Farm GmbH & Co. oHG
- Annual Financial Statements as of 31 December 2018 – Borkum Riffgrund 2 Investor Holding GmbH
- Budget 2019 & Estimate 2020-21 – Borkum Riffgrund 2 Offshore Wind Farm GmbH & Co. oHG
- Quarterly O&M / Financial Report Q4/2018, Q1/Q2/Q3/2019 – Borkum Riffgrund 2 Offshore Wind Farm GmbH & Co. oHG
- Financial Model of as of 24 May 2019
- Bank statements 31.10.2019 – Borkum Riffgrund 2 Offshore Wind Farm GmbH & Co. oHG
- Bank statements 28.11.2019 – Borkum Riffgrund 2 Investor Holding GmbH
- 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
- 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 Project Rating Methodology (General) of April 2017 ([https://www.ehrg.de/seiten/Methodology\\_Project%20Rating\\_20171114.pdf](https://www.ehrg.de/seiten/Methodology_Project%20Rating_20171114.pdf))
- Euler Hermes Rating GmbH Issue Rating Methodology of December 2014 ([https://www.ehrg.de/seiten/Methodology\\_Issue%20Rating\\_20171114.pdf](https://www.ehrg.de/seiten/Methodology_Issue%20Rating_20171114.pdf))

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## Appendix 2: Rating categories

Category	Explanation
<b>AAA</b>	In the opinion of EHRG, AAA rated entities or obligations demonstrate an excellent credit quality and the lowest default risk.
<b>AA</b>	In the opinion of EHRG, AA rated entities or obligations demonstrate a very high credit quality with a very low default risk.
<b>A</b>	In the opinion of EHRG, A rated entities or obligations demonstrate a high credit quality with a low default risk.
<b>BBB</b>	In the opinion of EHRG, BBB rated entities or obligations demonstrate a medium credit quality with a moderate default risk.
<b>BB</b>	In the opinion of EHRG, BB rated entities or obligations demonstrate a medium-low credit quality with a slightly increased default risk.
<b>B</b>	In the opinion of EHRG, B rated entities or obligations demonstrate a low credit quality with an increased default risk.
<b>CCC</b>	In the opinion of EHRG, CCC rated entities or obligations demonstrate a very low credit quality with a high default risk.
<b>CC</b>	In the opinion of EHRG, CC rated entities or obligations demonstrate a very low credit quality, an event of default is very likely.
<b>C</b>	In the opinion of EHRG, C rated entities or obligations demonstrate a very low credit quality, an event of default is imminent.
<b>D / SD</b>	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.
<b>PLUS (+) MINUS (-)</b>	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)

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

### Note Life Coverage Ratio (NLCR)

<b>NLCR</b>
<b>Numerator</b>
Discounted annual CFADS over remaining Note Life
<b>Denominator</b>
Remaining Net Debt Balance

### Adjusted Funds from Operations (FFO) / Total Debt

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

## Disclaimer

On 29 June 2017 Euler Hermes Rating GmbH was engaged to provide regular ratings on the senior note issuance (rated obligation) issued by Borkum Riffgrund 2 Investor Holding GmbH (issuer).

Interviews with the issuer or its representatives were conducted between 18 November 2019 and 4 December 2019. 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 12 December 2019. This rating report was given to the issuer or its representatives on 13 December 2019, thereby concluding the rating process.

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Hamburg, 13 December 2019