

RATING REPORT
(SUMMARY)

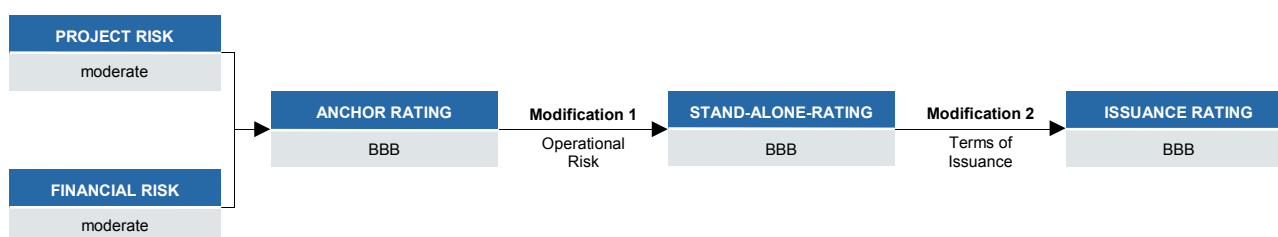
**Borkum Riffgrund 2
Investor Holding GmbH
(Project Lighthouse)
Senior Note Issuance**

17 December 2020



Issuance Rating (Summary)

Borkum Riffgrund 2 Investor Holding GmbH Senior Secured Amortising Registered Notes (Project Lighthouse)		17 December 2020	BBB
		Issuance Rating	
		Outlook	stable
Industry	Offshore Wind Energy	Nominal Volume	€ 815m



PROJECT RISK	moderate
<ul style="list-style-type: none"> 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
<ul style="list-style-type: none"> Operational risks are consistent with the anchor rating 	

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

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

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 potential technical risks associated with the 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 robust performance and adequate future risk bearing potential

We assess the **financial risk** profile as **moderate**. Following a prolonged ramp-up period in 2019 shaped by recurring and unexpected grid outages, energy curtailments and technical issues, the key drivers of our assessment are the robust financial performance during 2020 and our future expectation on adequate debt service coverage ratios under conservative rating case assumptions. Despite lower than expected wind speeds during Q2/Q3 2020, recurring energy curtailments and a few non-compensable grid disruptions / negative price events throughout the year, we expect that revenues and operating profits for the full year 2020 will be in line with our rating case budget, mainly because of exceptionally good wind conditions monitored during Q4/2020. The senior notes have been serviced according to schedule and we expect a comfortable coverage for the next payment date (31 Dec 2020), mainly based on notably high cash inflows during Q4/2020, verified by high reported cash reserves at the beginning of December 2020. For future periods we expect an overall adequate risk bearing potential with adequate debt service coverage ratios of 1.35x 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%.

Upgrade / Downgrade Factors

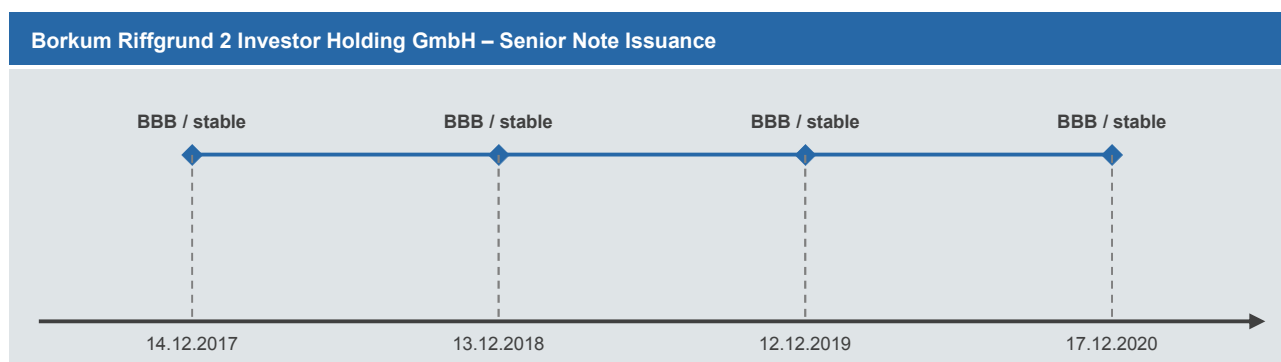
Factors that could lead to an Upgrade

- Sustained improvement of the project's operating performance or significant reduction in debt with a positive impact on the stand-alone credit profile (ADSCR avg. > 1.55x; NLCR > 1.60x; FFO/Debt > 45%)
- Sustained improvement of the project's net asset value (e.g. through deleveraging or rising power futures prices) with a positive impact on the expected recovery rate (>70%)

Factors that could lead to a Downgrade

- Sustained deterioration of the project's operating performance as a result of e.g. shrinking (turbine) availabilities, declining capacity factors or cost overruns with a negative impact on the project's stand-alone credit profile (ADSCR avg. < 1.25x; NLCR < 1.35x; FFO/Debt < 20%)
- Growing number of non-compensable disruptions (e.g. through more frequent and lengthy periods of negative wholesale power prices or maintenance downtimes caused by unexpected technical problems)
- Adverse regulatory changes (e.g. renewable energy act compensation rules) with retrospective effects on grid connected wind farms
- Sustained deterioration of the project's net asset value (e.g. through falling power futures prices or revised expectations on the project lifetime) with a negative impact on the expected recovery rate (< 50%)

Rating History



Appendix 1: Execution

Analysts

- Matthias Peetz, Senior Analyst (Lead Analyst)
- Karl Holger Möller, Senior Analyst

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Rating committee

- Dörte Mähmann, Director
- Holger Ludewig, Director

Rating, Solicitation, Principal Sources of Information

- This credit rating has been issued in accordance with the CRA Regulation.

Solicited Rating

Unsolicited Rating

No participation of the rated entity or related third party

With participation of the rated entity or related third party

Access to internal documents

Access to management

- Prior to its publication the rating was disclosed to the rated entity. During this period, the rated entity had the opportunity to review the rating and to verify the underlying assumptions. Following this review, the rating was not amended.
- Principal sources of information:
 - Annual Financial Statements as of 31 December 2019 – Borkum Riffgrund 2 Offshore Wind Farm GmbH & Co. oHG
 - Annual Financial Statements as of 31 December 2019 – Borkum Riffgrund 2 Investor Holding GmbH
 - Budget 2020 & Estimates 2021-22 – Borkum Riffgrund 2 Offshore Wind Farm GmbH & Co. oHG
 - Quarterly / Financial Reports Q1/2020, Q2/2020, Q3/2020 – Borkum Riffgrund 2 Offshore Wind Farm GmbH & Co. oHG
 - Financial Model of as of 17 August 2020
 - Bank statements – Borkum Riffgrund 2 Offshore Wind Farm GmbH & Co. oHG – 30 Sep 2020 and 30 Nov 2020
 - Bank statements – Borkum Riffgrund 2 Investor Holding GmbH – 17 Nov 2020 and 07 Dec 2020

Rating methodologies and definitions

- Methodology: Project Rating Methodology (General) of November 2017 (https://www.ehrq.de/seiten/Methodology_Project_Rating_20171114.pdf)
- Methodology: Project Rating Methodology (Renewable Energy) of April 2018 (https://www.ehrq.de/seiten/Methodology_Project_Rating_Renewables_2018_v2.pdf)
- Methodology: Issue Rating Methodology of November 2017 (https://www.ehrq.de/seiten/Methodology_Issue_Rating_20171114.pdf)
- Basic principles for Assigning Credit Ratings and Other Services as of July 2020 (https://www.ehrq.de/seiten/Principles_200701.pdf)
- Guidance Regarding the Consideration of ESG Factors in Euler Hermes Rating Credit Ratings as of March 2020 (https://www.ehrq.de/seiten/ESG_2020.pdf)

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Appendix 2: Rating categories*

Category	Explanation
AAA	In the opinion of EHR, AAA rated entities demonstrate an excellent credit quality and the lowest default risk.
AA	In the opinion of EHR, AA rated entities demonstrate a very high credit quality with a very low default risk.
A	In the opinion of EHR, A rated entities demonstrate a high credit quality with a low default risk.
BBB	In the opinion of EHR, BBB rated entities demonstrate a medium credit quality with a moderate default risk.
BB	In the opinion of EHR, BB rated entities demonstrate a medium-low credit quality with a slightly increased default risk.
B	In the opinion of EHR, B rated entities demonstrate a low credit quality with an increased default risk.
CCC	In the opinion of EHR, CCC rated entities demonstrate a very low credit quality with a high default risk.
CC	In the opinion of EHR, CC rated entities demonstrate a very low credit quality, an event of default is very likely.
C	In the opinion of EHR, 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.

* For more explanations and definitions please refer to: Basic principles for Assigning Credit Ratings and Other Services (https://www.ehrq.de/seiten/Principles_200701.pdf)

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

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 23 November 2020 and 25 November 2020. 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 17 December 2020. This rating report was given to the issuer or its representatives on 17 December 2020, thereby concluding the rating process.

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Hamburg, 17 December 2020