

Rating object	Rating information	
PNE WIND AG (Group) -PNE-	Rating / outlook: BB / positive	Type of rating: Follow-up rating Solicited
Creditreform ID: 2350060811 Est. in: 1995 (Main) industry: Renewables Executive Board: Markus Lesser, CEO Jörg Klawat, CFO Kurt Stürken, COO	Completed on: 27 March 2018 Monitoring period until: 26 March 2019 Date of release: 28 March 2018 Rating methodology: CRA "Corporate Ratings" Rating history: www.creditreform-rating.de	

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Abstract

Company

PNE, one of the most experienced project development companies, designs and develops onshore, as well as offshore, wind farms. Their focus lies on the entire value chain including the development, project design, project management, financing and sale of wind farms and transformer stations; as well as the repowering and operating (technical and business management). PNE conducts its business on both the domestic and the international markets, operating on three continents. The total output capacity of wind farm projects that have been successfully completed by PNE amounts to more than 2,600 MW. Six offshore projects have so far been successfully steered through the permission process of Germany's Federal Maritime and Hydrographic Agency. PNE also operates as a service provider for the offshore wind power industry. The portfolio business accounts for a relatively small part of the corporate revenues. In reaction to the prevailing trends on the industry's market, PNE has performed a strategic realignment and started to focus on the entire renewables value chain. In the business year 2017, PNE operated with a workforce of – on average – 362 employees and generated Group revenues with a total volume of approx. EUR 177.41 million (2016: approx. EUR 250.17 million) and a net profit of approx. EUR 17.08 million (2016: approx. EUR 68.97 million).

Rating Result

This rating attests PNE a satisfactory level of creditworthiness and a medium default risk. The rating reflects the strong operational and financial trends of the two most recent reporting periods as well as the strong development of the balance sheet and the corporate liquidity. In principle, the company's activities in the onshore and offshore wind energy business as well as its plans to establish itself as a "Clean Energy Solution Provider" entail a wide range of risks and have potential effects on corporate earnings as well as on its financial and liquidity situation. Taking these risks into account as well as the fact that PNE will be able to redeem the bond, which reaches its date of maturity in late May 2018, from its currently available liquidity alone, we have decided to confirm the company's current rating of BB. We believe that this rating correctly reflects the stringent requirements of the market, the political climates and conditions of the relevant target markets and the need to implement new strategies in order to remain competitive.

Outlook

Taking an overall view of the company's situation, we have provided an outlook of "positive" for our latest one-year rating. This mainly reflects the plans for a strategic realignment and the impending improvement of the financial profile, which is expected for late May when the company is expected to redeem its bond.

Analysts

Sascha Pomorin
Lead Analyst

Rudger van Mook
Analyst

Neuss, Germany

Rating-Relevant Factors

- + Improvement of several financial ratios in 2016 and 2017
- + Liquidity
- + Net debt

- Volatile development of financial ratios over the past few years which reflects the risks of a company that conducts its main business in the field of project development
- The financial ratios must be interpreted by taking an integrated view covering several reporting periods

Please note:

Following CRA's method of standardizing information from annual financial statements, equity volumes are adjusted to reflect the capitalized goodwill and deferred taxes.

Excerpts from the financial ratio analysis Based on the consolidated Group accounts as of 31 December (IFRS)	Standardized balance sheet	
	2016	2017
Balance sheet total	EUR 361.45 million	EUR 418.19 million
Revenues	EUR 248.58 million	EUR 114.08 million
EBITDA	EUR 109.95 million	EUR 28.62 million
EBIT	EUR 97.08 million	EUR 23.13 million
EAT	EUR 67.08 million	EUR 14.24 million
Equity ratio	45.12 %	39.51 %
Return on assets	23.05 %	5.82 %
Return on sales	26.81 %	8.02 %
Net debt / EBITDA adj.	0.46	1.97
Ratio of interest expenses to debt	8.74 %	4.23 %

General Underlying Factors

- + Good track record in the onshore and offshore wind power industry as well as in the field of technological and commercial operational management; the company has also experience in the solar power industry
- + Well-established player in the market with a management whose individual members have many years of experience within the industry; full service provider
- + Project pipeline
- + Capital market access and a network of existing investors
- + Participation in the international renewables market with onshore and offshore wind farms that show a solid potential for further growth; also participation in clean energy power stations
- The core business (project development) entails certain business risks
- The new business strategy of providing clean energy solutions must still be implemented
- High level of dependence from the political and regulatory environment, the development of new business opportunities and the procurement of permissions
- Competitive and pricing pressure through tendering processes
- Financial ratios / cash flows are subject to high levels of day-to-day volatility
- High levels of capital requirements including pre-financing arrangements; financing risks as several financial obligations reach maturity at roughly the same time

Factors for the 2018 Rating

- + Key figures from the two most recent reporting periods
- + Onshore projects that have received a permission or are in the process of being implemented, including projects to build up the 200 MW wind farm portfolio
- + Further milestone payments in the offshore segment are anticipated/possible
- + The redemption of the bond (with a total volume of EUR 100 million) is mandatory; due to the available liquidity; replacement capital has already been partially procured
- Forecasted Group EBIT between EUR 10 and 16 million for 2018
- Increasing market and competitive risks in the onshore and offshore business to the company's domestic core market (Germany), its existing foreign markets and the new markets it intends to develop
- Procurement of permits
- No share participation in, and no reliable cash flows from the project portfolio which has been fully sold to third parties

Prospective Rating Factors

- + Through its new corporate strategy, the company is planning to generate more stable results and cash flows, and intends to minimize its market risks
- + Build-up of self-owned power generation capacities through purchases and repowering activities
- + Upscaling of activities on both the domestic and foreign markets to increase the number of high-profit sites / projects with a view to improving the company's competitiveness
- + Development of the service business
- + Development of more effective projects / reduction of project costs to improve the company's prospects in tendering procedures
- + Innovation activities in the company's offshore core market Germany
- + Longer-term participation in portfolio facilities possible

- Quantifiable results of the new corporate strategy will not immediately materialize
- The build-up and (pre-)funding of a European wind farm portfolio by 2020 may temporarily adversely affect certain key figures (until the exit date)
- Increasing cost pressures due to the level of competition and underlying structures; general price development
- Compensation claims may be difficult to enforce in the offshore segment (WindSeeG); it seems uncertain whether permits can be procured for alternative forms of use (impairment risks)
- Uncertainty of political framework conditions, specifically on some of the foreign markets
- Possibility of demands for the payment of tax arrears (WKN AG)
- Compliance with covenants

Business Development and Outlook

In the business year 2017, PNE generated a sales revenues with a total volume of approx. EUR 114.1 million (2016: EUR 248.6 million). Following several successful transactions in late 2017, the Group's EBIT rose to EUR 23.1 million, exceeding the most recent released forecasts. The Group's surplus amounted to EUR 17.08 million (2016: EUR 68.97 million), which means that 2017 was another successful business year for PNE. Comparisons with the record year of 2016 are misplaced, since the 2016 result reflected the sale of a significant part of the corporate project portfolio which had been built up over a number of years and reporting periods.

The current plan of building up an European onshore portfolio by 2020 (with a total output capacity of approx. 200 MW) with a view to subsequent distribution activities will once again have fundamental consequences. As of the end of 2017, projects with a total output capacity of 43 MW are already in place. The strategically motivated realignment of the operational business is intended to involve an expansion of the company's service range, the penetration of new markets and the application of new technologies (solar, etc.). For the current business year (2018), PNE is targeting an EBIT between EUR 10 and 16 million and the maintenance of a project pipeline with an (at least) stable level of output capacity (in terms of total MW).

PNE has a positive outlook for the subsequent years.

Appendix

Regulatory Disclosure

On February 15, 2018, the management of PNE WIND AG (“PNE“) requested Creditreform Rating Agency (“CRA“) to perform this corporate rating (follow-up rating) of PNE WIND AG (Group).

The rating was performed in accordance with the CRA methodology for “Corporate Ratings” and the document on “Fundamental Elements and Principles of the Rating Process” of Creditreform Rating AG.

One important source of information was the interview with senior management representatives conducted on March 12, 2018 in Cuxhaven. This interview was attended by:

- Markus Lesser, Chairman of the Board (CEO) of PNE WIND AG
- Jörg Klawat, CFO of PNE WIND AG
- Kurt Stürken, COO of PNE Wind AG
- Thorsten Fastenau, Executive Vice President of the Offshore Wind Division of PNE WIND AG
- Roland Stanze, COO of WKN AG
- Gabriel J. Meurer, CFO of WKN AG

The documents provided for the purpose of the rating – in addition to and complementing the documents that had been submitted for previous ratings – included the following:

Documents
Accounting and Controlling
<ul style="list-style-type: none">▪ Audit report about the PNE WIND AG Group’s consolidated annual financial statement as of 31 December 2017▪ Audit report about PNE WIND AG’s annual financial statement as of 31 December 2017▪ Management report for 2017▪ Audit report about the WKN AG Group’s consolidated annual financial statement as of 31 December 2017▪ Audit report about WKN AG’s annual financial statement as of 31 December 2017▪ Target-actual comparisons, lists of debtors and creditors for 2017▪ Risk management documentations▪ Business plans of the Group for the period 2018 – 2020 as of 19 January 2018▪ Project summaries▪ Management report for the month of January 2018, quarterly reports for Q3 2017 and Q1 2011, financial report for the six-month period and report for Q2 2017
Financial Documents
<ul style="list-style-type: none">▪ Lists of institutional creditors, guarantees, liabilities▪ Credit / loan contracts▪ Securities prospectuses (ordinary shares, convertible bonds, bond)▪ Liquidity planning
Other Documents
<ul style="list-style-type: none">▪ Excerpt from the trade register, Articles of Association▪ Group organigram(s) explaining the shareholder structure, employee organigram(s)▪ Minutes of supervisory board meetings of PNE WIND AG▪ Fact sheet, investor relations presentations, webcast presentations▪ Information about ongoing legal disputes, overview of insurance policies▪ Press releases, internal information, correspondence

The documents and information provided by the company under review complied with the requirements of the Creditreform Rating AG methodology. The rating was performed in accordance with the methodology for corporate ratings.

The methodology used by Creditreform Rating AG for this rating and the document on “Fundamental Elements and Principles of the Rating Process” can be accessed in full on the following web page:

www.creditreform-rating.de/de/regulatory-requirements/.

The rating was performed by the analysts Sascha Pomorin and Rüdger van Mook.

On March 27, 2018, the rating was presented by the analysts to the Rating Committee and determined in a conclusive resolution. The result of the rating was communicated to the company under review on the same day. The company was provided with the full Rating Report, a Rating Summary and a Rating Certificate. The Rating Report was originally released in German. Any dispute over conflicting interpretations or readings of the rating shall be settled on the basis of the original Rating Report.

The issuer and all concerned parties were provided with a copy of the report prior to its release. For at least one full working day, they had the opportunity of contesting the report's findings and of supplying additional information. The rating was not changed or amended following this review.

Since 2011, Creditreform Rating AG has been registered as a rating agency and is allowed to perform rating activities in compliance with EU Regulation (EU) No 1060/2009 (the "EU Rating Regulation"). This registration allows Creditreform Rating AG ("CRA") to perform ratings in the countries of the European Union while obliging it to comply with the rules and provisions of the EU Rating Regulation.

Conflicts of Interest

The rating process failed to identify any conflicts of interest liable to influence the analyses and assessments of the rating analysts, of CRA members of staff or of other natural persons who provide services to CRA or who are controlled by CRA and who are directly involved in rating activities, or of the persons who approve ratings and rating outlooks.

CRA shall always disclose any ancillary services that may have been provided in addition to the rating activities and shall specify any such services in the Rating Report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of ratings shall be governed by the internal process regulations for the Rating Committee. All ratings and rating outlooks shall be unanimously approved by the Rating Committee.

CRA used the following key information sources in the preparation of this rating:

1. Annual financial statement
2. Website
3. Internet research

When disclosing the credit rating, CRA stated clearly and prominently any attributes and limitations of the credit rating or rating outlook. CRA considers satisfactory the quality of information available on the rated entity (the rating object). The available historical data of the rating object were equally deemed satisfactory by CRA.

The rating was not changed in the period between the announcement of the rating to the rated entity and the publication of the rating on the CRA website.

The "Basic Data Card" specifies the main methodology that was used for the purposes of the rating or the version of the rating methodology and details of where to find a comprehensive description of the method(s) in question.

If more than one method has been used for the purposes of the rating or if the specification of a single main method is liable to misguide the investor – i.e. to lead him to overlook or misconstrue important aspects of the rating including important amendments and modifications – CRA shall have to identify such use of multiple methods in the Rating Report and explain in what way these methods or these other aspects have been taken into account for the purposes of the rating. The Rating Report shall have to include a note to this effect.

The Report explains the relevance of the various rating categories, the definitions of default or debt collection and suitable risk warnings, including a sensitivity analysis of the relevant basic

assumptions such as mathematical or correlation assumptions, and ratings for worst case and best case scenarios.

The date on which the rating was first published and the date of the rating's most recent update including any rating outlooks (if applicable) are clearly and prominently identified in the "Basic Data Card". This Card clearly identifies the date on which the rating was first published under "initial rating" and specifies any amendments or updates of the rating and the rating outlook as (for example) "update", "upgrade or downgrade", "not rated", "confirmed", "selective default", or "default", where applicable.

If a rating outlook is provided, the time horizon for this outlook (the date by which an amendment of the rating may be expected) is specified in the "Basic Data Card".

According to Article 11 (2) of EU Regulation (EU) No 1060/2009, registered and duly certified credit rating agencies shall make available in a central repository established by ESMA information on their historical performance data including the ratings transition frequency and information about credit ratings issued in the past and on their changes. The credit rating agencies shall provide information to that repository on a standard form as provided for by ESMA. ESMA shall make that information accessible to the public and shall publish summary information on the main developments observed on an annual basis. This information can be accessed by using the following link:

<https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

Default definitions and their explanations for each relevant rating methodology are displayed on the CRA website. Additional information is available in the document on "Fundamental Elements and Principles of the Rating Process", which is also available on the CRA website.

Rating History

Event	Initial Rating	Monitoring	Follow-up Rating
Result	BB-	BB- (watch)	BB-
Rating Date	7 April 2015	19 November 2015	5 April 2016
Publication Date	7 April 2015	19 November 2015	5 April 2016

Event	Monitoring	Follow-up Rating
Result	BB-	BB / stable
Rating Date	17 May 2016	3 April 2017
Publication Date	17 May 2016	3 April 2017

Disclaimer

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Creditreform Rating AG

Contact details

Creditreform Rating AG
Hellersbergstraße 11
D - 41460 Neuss
Germany

Phone +49 (0) 2131 / 109-626
Fax +49 (0) 2131 / 109-627
Email info@creditreform-rating.de
Internet www.creditreform-rating.de

CEO:
Dr. Michael Munsch
Chairman of the Supervisory Board:
Prof. Dr. Helmut Rödl
HRB 10522, Amtsgericht Neuss
(Magistrates' Court)

PNE WIND AG
Peter-Henlein-Straße 2 - 4
D - 27472 Cuxhaven
Germany

Phone +49 (0) 4721 / 71806
Fax +49 (0) 4721 / 718444
Email: info@pnewind.com
www.pnewind.com

Executive Board: Markus Lesser, Jörg
Klowat, Kurt Stürken
Chairman of the Supervisory Board: Per
Hornung Pederson
HRB 110360, Amtsgericht Tostedt
(Magistrates' Court)