

Rating object	Rating information	
<b>PNE AG (Group)</b>  Creditreform ID: 2350060811 Incorporation: 1995 Based in: Cuxhaven, Germany (Main) Industry: Renewable Energies CEO: Markus Lesser (CEO), Jörg Klowat (CFO), Kurt Stürken (COO)	Corporate Issuer Rating:	Type: Update solicited
	<b>BB / positive</b>	
Rating Date: 30.04.2019 Monitoring until: 26.02.2024 Rating Methodology: CRA "Corporate Ratings" CRA "Rating criteria and definitions" Rating history: www.creditreform-rating.de		
<u>Rating objects:</u> Long-term Corporate Issuer Rating: PNE AG (Group)		

## Summary

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### Company

PNE AG respectively PNE AG Group ("PNE"), one of the most experienced project development companies, designs and develops onshore, as well as offshore, wind farms. Its 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. PNE also operates as a service provider for the offshore wind power projects. 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 2018, PNE operated with a workforce of – on average – 366 employees and generated Group revenues with a total volume of approx. EUR 106.44 million (2017: approx. EUR 177.41 million) and a net profit of approx. EUR -1.05 million (2017: approx. EUR 17.08 million).

### Rating result

This rating attests PNE a satisfactory level of creditworthiness. Positive factors for this rating are the stable operating business development of the past fiscal year, the improvement of the financing structure on PNE AG level and the very good liquidity position. The pursued activities of PNE AG in the onshore and offshore wind project business as well as the future strategy as a Clean Energy Solution Provider entail various risks that might affect the asset, financial and earnings position as well as the business and liquidity position. The expansion of the wind farm portfolio 2020 had the expected negative impact on the key balance sheet figures. This also conceals the improved financing structure of PNE AG, which results from the reduction of the bond liabilities by EUR 50 million and a reduction of the interest expenses to one fourth of the original amount. The Rating assessment considers the intensified national and international conditions of competition as well as the political parameters of the relevant target markets and the implementation of strategical measures to maintain the ability to compete, including the related risks.

The value adjustment of three offshore projects also had a dampening effect on the rating. As a result, we set the unchanged rating of BB.

#### Outlook

The 12 to 18 months outlook of the rating remains positive. Decisive for this are the strong liquidity position, especially the strategic focus, which should expand and strengthen the existing business, as well as the continuous expansion of the wind farm portfolio 2020 and the related creation of asset values.

#### Relevant rating factors

Table 1: Financials | Source: PNE AG (Group) Annual report 2018, standardized by CRA

#### Excerpts from the Financial Key Figures Analysis 2018

- + Liquidity
- + Equity Ratio
- Volatile development of financial ratios in the multi-year comparison based on the project development business
- The financial ratios must be interpreted by taking an integrated view covering several reporting periods.
- Profitability ratios

PNE AG (Group) Selected key figures of the financial statement analysis Basis: Annual accounts of 31.12. (IFRS, Group)	CRA Standardized figures <sup>1</sup>	
	2017	2018
Sales (million EUR)	114.08	91.98
EBITDA (million EUR)	28.62	27.25
EBIT (million EUR)	23.13	18.54
EAT (million EUR)	14.24	-2.41
Total assets (million EUR)	418.19	372.70
Equity ratio (%)	39.51	37.74
Capital lock-up period (days)	80.93	59.70
Short-term capital lock-up (%)	101.52	39.58
Net Debt/ EBITDA adj. (Factor)	1.97	3.99
Ratio of interest expenses to debt (%)	4.23	4.56
Return on Investment (%)	5.82	1.99

#### Note:

**General rating factors** summarize the key issues that – according to the analysts as per the date of the rating – have a significant or long-term impact on the rating, positive (+) as well as negative (-).

**Current rating factors** are the key factors that have, in addition to the underlying rating factors, an impact on the current rating.

#### General rating factors

- + Track Record in the on- & offshore wind power industry as well as in the field of technological and commercial operational management, 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
- + Well-filled project pipeline
- + Capital market access and a network of existing investors
- + Participation in the international renewables market with onshore and offshore wind farms that shows a solid potential for further growth; also participation in clean energy power stations

<sup>1</sup> For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, the analytical equity ratio, deferred tax assets, goodwill, and the development costs which are included in the intangible assets are subtracted from the original equity. Deferred tax liabilities are added to the equity. With the calculation of Net Debt all balance sheet liabilities are taken into account. As a result, the key financial figures shown often deviate from the original values of the Company. In addition, the impairment of EUR 10.75 million on the inventories of offshore projects was reclassified to extraordinary expenses.

- The core business (project development) entails certain business risks
- The new business strategy of providing clean energy solutions has to be established
- 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; Block maturity financing risks

#### Current rating factors (Rating 2019)

- + Redemption of the EUR 100 million bond and improvement of financing structure
- + Sustainable optimization of interest costs based on new issued bond
- + Very good liquidity position
- + Key figures from the 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
- + Forecasted Group EBIT between EUR 15 and 20 million for 2019
- 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
- Impairment on inventories of 3 offshore projects or project companies
- Liquid effects of possible demand of back taxes (WKN GmbH)
- Procurement of permits

#### 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
- Realisation of measurable results of the new corporate strategy rather expected in the medium term
- The build-up and (pre-)funding of a European wind farm portfolio 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); uncertainty whether permits can be procured for alternative forms of use (impairment risks)
- Uncertainty of political framework conditions, specifically on some of the foreign markets
- Utilization of performance bond respectively guarantees
- Compliance with covenants

**Prospective rating factors** are factors and possible events that – according to the analysts as per the date of the rating – would most likely have a stabilizing or positive effect (+) and a weakening or negative effect (-) on future ratings, if they occurred. This is not a full list of possible future events with potential relevance for future ratings. Circumstances can arise that are not included in the list of prospective factors whose effects are impossible to assess at the time of the rating, either because these effects are uncertain or because the underlying events are deemed unlikely to occur.

- Misinvestments offshore USA / Foreign risks in general

### Business development and outlook

In the business year 2018, PNE generated sales revenues with a total volume of approx. EUR 91.4 million (2017: EUR 114.1 million). The total operating performance amounted to EUR 111.8 million compared to 186.9 million in the previous year. Due to an extraordinary impairment of inventories regarding three offshore projects amounting to EUR 10.75 million, the originally reported EBIT amounted to EUR 7.8 million (previous year EUR 23.1 million) and was therefore below the planned EBIT range of EUR 10 to 16 million. The Group's surplus amounted to EUR -1.0 million, which means that 2018 was significantly below the previous year's surplus (2017: EUR 17.1 million). Despite the impairment effects, is the past financial year considered a successful business year. Especially project sales abroad rose and accounted for around 37% of sales. The total output of projects that have been completed, sold or started construction amounts to 235.7 MW, which roughly equals the previous year's output of 233.6 MW. Furthermore, two milestone payments of offshore projects totaling approximately EUR 8.1 million were realized. The outstanding shares of WKN GmbH were acquired as part of the strategic realignment. The service portfolio was expanded through the acquisitions of MEB Safety Services GmbH (i.a. equipment inspection) and argus GmbH (obstacle and night marking).

Table 2: Business Development 2015 to 2018 of PNE AG (Group) | Source: Various annual reports of PNE AG

PNE AG (Group)				
In EUR million	2015 (Actual)	2016 (Actual)	2017 (Actual)	2018 (Actual)
Sales	109.5	248.6	114.1	91.4
EBITDA	19.7	109.9	28.6	27.3
EBIT	9.8	97.1	23.1	18.5
EBT	-4.9	81.6	14.1	-2.0
EAT	-1.4	67.1	14.2	-2.4

Table 3: The development of segments of PNE AG | Source: Annual Report PNE AG 2018

PNE AG (Group) segment reporting 2017 und 2018				
In EUR million	Projecting 2018	Projecting 2017	Power Generation 2018	Power Generation 2017
Sales external	79.2	106.5	12.2	7.6
<i>thereof Foreign Sales</i>	<i>37%</i>			
Sales internal	18.9	81.4	5.1	0.7
Changes in inventories	7.8	-0.2	0	0
Other operating income	4.2	9.2	1.6	1.6
Gross performance	110.1	196.9	18.9	9.9
Earnings from operating activities	9.1	31.0	7.4	1.1

The PNE Group's net assets, financial position and results of operations are partly characterized by the development of an European onshore portfolio with a target volume of 200 MW and by the purpose of subsequent commercialization. This will have fundamental short- and medium term effects on the balance sheet, although the effects of the past business year remained below our expectations due to project postponements. At the end of January 2019, projects with a total output of 64.8 MW had already been completed for the wind farm portfolio. The strategically motivated realignment of the operating business should continue to expand the service portfolio and the development of new markets and technologies (solar, hydrogen, etc.). PNE plans a group EBIT of EUR 15 to 20 million as well as at least stable MW figures of the project pipeline for the current financial year 2019.

PNE anticipates positive subsequent years.

## Appendix

### Rating history

The rating history is available under <https://www.creditreform-rating.de/de/ratings/published-ratings/>

Event	Rating Date	Publication date	Monitoring period	Result
Initialrating	07. Apr. 2015	<a href="http://www.creditreform-rating.de">www.creditreform-rating.de</a>	06. Apr. 2016	BB-
Update	30.04.2019	<a href="http://www.creditreform-rating.de">www.creditreform-rating.de</a>	26. Feb. 2024	BB / positive

### Regulatory requirements

The management of PNE AG (Group) has commissioned us to provide them with a follow-up rating of PNE AG (Group).

The rating is based on the analysis of quantitative and qualitative factors as well as the assessment of industry-relevant factors. The quantitative analysis refers to the consolidated financial statements for the years 2015 to 2018.

Important source of information was the management meeting, which took place at 1 April 2019 in Cuxhaven. The following persons were present:

- Markus Lesser, CEO of PNE AG
- Jörg Klowat, CFO of PNE AG
- Kurt Stürken, COO of PNE AG
- Thorsten Fastenau, Head of Offshore Wind Division of PNE AG
- Roland Stanze, COO of WKN GmbH
- Gabriel J. Meurer, CFO of WKN GmbH

The rating was carried out by analysts Simon Cordes and Rudger van Mook.

In addition to the documents available from previous years, the company provided the following additional information as part of the rating process:

#### Documents

##### Accounting and Controlling

- Audit Report PNE AG Consolidated Financial Statements as of 31 December 2018
- Audit Report PNE AG Financial Statements as of 31 December 2018
- Annual Report 2018 of PNE AG
- Audit Report WKN GmbH Financial Statements as of 31 December 2018
- Target-actual comparison 2018, Lists of debtors and creditors for 2018
- Risk Management Documentations
- Business plans of the Group for the period 2019-2021 as of 23 January 2019
- Konzernplanung 2019 – 2021, effective 23 January 2019
- Project Overview
- Monthly Report January 2019

##### Financial Documents

- Lists of institutional creditors, guarantees, liabilities
- Credit / loan contracts
- Securities prospectuses (ordinary shares, convertible bonds, bond)
- Liquidity planning

##### Additional Documents

- 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 AG
- Information about ongoing legal disputes, overview of insurance policies
- Press releases, internal information, correspondence

The rating was conducted on the basis of Creditreform Rating's "Corporate Ratings" methodology. A complete description of Creditreform Rating's rating methodologies is published on the following internet page: [www.creditreform-rating.de](http://www.creditreform-rating.de).

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodology. A complete description of Creditreform Rating's rating methodologies and Creditreform's basic document "Rating Criteria and Definitions" is published on the following internet page:

[www.creditreform-rating.de/en/regulatory-requirements/](http://www.creditreform-rating.de/en/regulatory-requirements/)

The rating was presented to the rating committee on 30 April 2019 and determined in a conclusive resolution. The result of the rating was communicated to the company under review on the same day. The company has received the rating result, along with the key reasons that led to the rating. There was no subsequent change in the rating.

The rating will be monitored until 26 February 2024.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

#### Please note:

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.

#### **Conflict of interests**

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

#### **Rules on the presentation of credit ratings and rating outlooks**

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our 'Rating Committee' policy, all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

##### Corporate Issuer rating:

1. Annual report
2. Website
3. Internet research

##### Corporate Issue rating:

1. Issuer corporate rating incl. information used for the Issuer corporate rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the CRA website. Furthermore, CRA considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The 'Basic Data' information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the 'Basic

Data' card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within 'Basic Data' information card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

An explanatory statement of the meaning of Creditreform's default rates are available in the credit rating methodologies disclosed on the website.



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