

Rating object	Rating information	
PNE AG Creditreform ID: 2350060811 Incorporation: 1995 Based in: Cuxhaven, Germany Main (Industry): Renewable Energies CEO/CFO: Markus Lesser (CEO), Jörg Klawat (CFO), <u>Rating object:</u> Long-term Corporate Issuer Rating: PNE AG	Corporate Issuer Rating: BB / positive	Type: Update solicited
	Rating date: 15. Mai 2020 Monitoring until: 26.02.2024 Rating Methodology: CRA „Corporate Ratings“ CRA „Rating criteria and definitions“ Rating history: www.creditreform-rating.de	

Summary

Company

As one of the most experienced project developers, PNE AG and the PNE AG Group (“PNE”) plan and implement wind farm projects on land (onshore) and at sea (offshore). The focus is on the entire value chain and includes the development, project planning, implementation, financing and sale of wind farms and substations, as well as repowering, operation and technical and commercial operations management. PNE is active at home and abroad in 14 countries - 12 countries after the future elimination of Bulgaria and Hungary - and on three continents. As the economic development in Bulgaria and Hungary has fallen short of expectations, PNE will consequently withdraw from these regions.

PNE has reached the mark of more than 5,500 MW (up to April 2019: 5,200 MW) of successfully completed projects, and was therefore able to significantly increase performance compared to the previous year. In the offshore sector, eight projects (four of which are already in operation) have been successfully carried out through the entire approval process, and PNE is also active here as a service provider. Existing business has so far accounted for a comparatively small share of sales revenue; however, the establishment of an own wind farm portfolio is being pushed, with the goal of developing an output of 500 MW by 2023. As of March 2020, the Company’s own nine wind farms had a capacity of 130.1 MW. The balance sheet as of December 31, 2019 shows the expansion of the portfolio in the item "Property, plant and equipment", which at EUR 157.6 million more than doubled compared to the previous year (EUR 79.19 million), which includes the Company’s own wind farms in the amount of EUR 143 million. In response to market developments, the new strategic orientation as a clean energy solution provider encompasses almost the entire value chain of renewable energies.

In the financial year 2019, PNE achieved an overall group output of approx. EUR 169.37 million (previous year: EUR 106.44 million) and a consolidated annual result after profit transfer of approx. EUR 0.69 million (previous year EUR -1.04 million).

Rating Result

This rating attests PNE a satisfactory level of creditworthiness. Positive factors of the current rating are the positive operating business development in the past financial year, the continued excellent liquidity, and the business development planned for the first quarter of 2020. Basically, the activities pursued in the on- and offshore wind project business, as well as the orientation as a clean energy solution provider, are associated with a variety of risks and corresponding effects on the asset, financial, earnings, and business and liquidity situation. As expected, the expansion of PNE’s own wind farm portfolio will have a negative impact on balance sheet indicators but will lead to more stable earnings for the individual financial years in the medium to

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long term. In addition, the sales, cost and earnings components are easier to plan. The initially deteriorated balance sheet figures also cover the improved financing structure of PNE AG since 2018, which results from a reduction in bond liabilities by EUR 50 million and a reduction in interest expenses to $\frac{1}{4}$ of the original amount. The rating includes the tightened national and international framework and competitive conditions, the geopolitical framework in the relevant target markets, and the implementation of strategic measures to maintain competitiveness, including the associated risks. The current global economic uncertainties against the background of the COVID 19 pandemic currently have a dampening effect. This can result in risks related to a deteriorating economic environment for PNE. This is checked regularly as part of ongoing reviews.

Overall, due to the convincing business model of PNE and despite the current uncertainties from the COVID 19 pandemic, we confirm the rating with BB.

Outlook

The outlook for the rating for the next 12 to 18 months remains positive. Reasons for this are the Company's currently adequate liquidity, its new strategic direction which should expand and strengthen the existing business, as well as the further expansion of its wind farm portfolio and the associated creation of assets and lower earnings volatility.

Relevant rating factors

Table 1: Financials I Source: PNE AG (Group) Annual report 2019, standardized by CRA

PNE AG Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.12. (IFRS)	CRA standardized figures ¹	
	2018	2019
Sales (million EUR)	91.38	132.80
EBITDA (million EUR)	16.50	31.59
EBIT (million EUR)	-2.00	7.31
EAT (million EUR)	-2.41	1.35
EAT after transfer (million EUR)	-1.04	0.66
Total assets (million EUR)	372.70	484.69
Equity ratio (%)	37.74	29.68
Capital lock-up period (days)	59.70	96.96
Short-term capital lock-up (%)	39.58	18.57
Net total debt / EBITDA adj. (factor)	4.01	7.57
Ratio of interest expenses to total debt (%)	4.56	3.60
Return on investment (%)	1.99	2.69

Reference:

The relevant rating factors (key drivers) mentioned in this section are predominantly based on internal analyses and evaluations of the rating process as well as the derived valuations of the analysts participating in the rating and - if applicable - other rating committee members. The fundamental external sources used are specified in the section "Regulatory requirements" and "Rules on the presentation of credit ratings and rating outlooks".

- + Liquidity base
- + Balance sheet equity strengthening
- + Increased return on investment
- Volatile key performance in multi-year comparison due to the previously relevant activity as a project developer
- Cross-period interpretation of financial figures report required
- Debt ratios

¹ For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt considers all balance sheet liabilities. Therefore, the key financial figures shown often deviate from the original values of the company.

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

General rating factors

- + Positive track record in the area of on- and offshore wind as well as in technical and commercial operational management; experience also in the field of solar power
- + Established market participant, industry-experienced management, full service provider
- + Well-filled project pipeline (> 5,000 MW)
- + Capital market access, investor network
- + Participation in the international growth market of renewable energies, onshore wind farms, and in power plants with clean energy
- + Climate change as a growth driver for renewable energies
- Business risk in the core business (project business)
- Establishment of the new strategy as a clean energy solution provider still under construction
- High dependence on the political and regulatory environment, new business, and on permits
- Competitive and price pressure from tendering procedures
- Currently high volatility of the key financial indicators / cash flows as of the reporting date
- High pre-financing and capital requirements / bullet financing risks also in the context of building up own wind farm portfolio

Current rating factors

- + Scheduled development of results in the individual business units "Project Development", "Services" and "Power Generation" in the first quarter of 2020
- + Based on this, and a continued course of business development in the current financial year, the target corridors with regard to EBITDA and EBIT for the whole of 2020 should be achievable
- + Forecast Group EBITDA and Group EBIT of EUR 15 to 20 million and EUR 5 to 10 million respectively
- + Sustainable and successful optimization of interest costs through new bond
- + Very strong liquidity position
- + Approval and / or implementation of onshore projects
- Increasing market and competition risks in the on- and offshore core market in Germany, in the established foreign markets, and in the new target markets
- Devaluation risks due to pending constitutional complaint regarding several projects
- Liquid effects from possible additional tax payments (WKN GmbH)
- Generation permits
- Postponement of project rights sales and project implementations due to the COVID 19 pandemic

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

Prospective rating factors are factors and possible events which – according to the analysts as of the date of the rating – would most likely have a stabilizing or positive effect (+), or a weakening or negative effect (-) on future ratings if they occurred. This is not an exhaustive 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.

Prospective Rating factors

- + More stable results and cash flows as well as minimization of market risks can be expected through the establishment of the new strategy
- + Development of own power generation capacities including purchase and repowering activities
- + Expansion of national and international activities to generate higher-margin locations and projects in a competitive environment
- + Expansion of the service business
- + Development of more effective projects and reduction of project costs for successful participation in tendering systems (tender markets)
- + Innovation activities in the offshore core market of Germany
- + Growing demand and increasing need for renewable energies
- + Development of photovoltaic projects

- The volatility in the sales and earnings figures due to the new strategy will likely not be reduced in the short term, but rather in the medium term
- Initial strain on balance sheet ratios from establishment and financing of own wind farm portfolio
- Increasing structural and competitive cost pressures; general price increases
- Political and geopolitical framework conditions, particularly in foreign markets, involve uncertainties and risks
- Drawdowns from (performance) guarantees
- Compliance with covenants
- Bad investment

ESG-factors

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of PNE AG we have identified ESG factors with significant influence on the following categories, of which their influences are described in the chapters listed below.

(E) Environment (S) Social (G) Governance

- + (E): [Wind power], see „Business risks“in full rating report.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here:

<https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Rating-methodiken%20EN/The%20Impact%20of%20ESG%20Factors%20on%20Credit%20Ratings.pdf>

Business development and outlook

PNE generated consolidated sales revenue of EUR 132.8 million in the 2019 financial year (previous year: EUR 91.4 million). The total operating performance amounted to EUR 169.4 million after EUR 106.4 million in the previous year. EBIT amounted to EUR 19.0 million (previous year: EUR 18.5 million before non-operating depreciation of property, plant and equipment in the amount of approx. EUR 11 million) and was therefore within the planned EBIT range of 15 to 20 Million euros. Consolidated net income was EUR 0.7 million, which was again above the negative EAT of the previous year, but still significantly below the previous year's results. This shows the

high level of volatility in earnings so far. The significant increase in sales compared to the previous year resulted mainly from project sales. The nominal output of the projects completed, sold or started totaled 450.8 MV by the 2019 financial year (2018: 235.7 MW) and could thus be almost doubled. In addition, successful tenders were achieved in Germany and Poland with a volume of 162.6 MW.

The following tables show the business development in 2019 compared to the previous year.

Table 2: The development of business of PNE AG | Source: Annual reports 2018 und 2019 of PNE AG (Group)

PNE AG				
In million EUR	2018	2019	Δ	Δ %
Sales	91.4	132.8	41.4	45.3
EBITDA	27.3 ²	31.6	4.3	15.8
EBIT	18.5 ³	19.0	0.5	2.7
EBT	-2.0	7.31	9.3	>100
EAT	-2.4	1.35	3.8	>100

Table 3: The development of business of PNE AG | Source: Annual reports 2018 und 2019 of PNE AG (Group)

PNE AG				
In million EUR	2016 (1st)	2017 (1st)	2018 (1st)	2019 (1st)
Revenue	248.6	114.1	91.4	132.8
EBITDA	109.9	28.6	27.3 ⁴	31.6
EBIT	97.1	23.1	18.5 ⁵	19.0
EBT	81.6	14.1	-2.0	7.31
EAT	67.1	14.2	-2.4	1.35

Table 4.1: The development of corporate divisions | Source: Annual report 2019 der PNE AG (Group)

PNE AG (Group) business unit reporting 2018 and 2019 (before consolidation)				
In million EUR	Projecting 2019	Projecting 2018	Power Generation 2019	Power Generation 2018
Sales external	100.1	68.8	16.9	12.2
Sales internal	61.6	18.0	0	4.4
Changes in inventories	-9.6	7.8	0	0
Other operating income	2.3	3.6	2,4	1,6
Gross performance	154.4	98.2	19.4	18.2
Earnings from operating activities	23.4	6.6	6.3	8.1

² Before non-operational depreciation of property, plant and equipment in the amount of EUR 11 Mio.

³ Before non-operational depreciation of property, plant and equipment in the amount of EUR 11 Mio.

⁴ Before non-operational depreciation of property, plant and equipment in the amount of EUR 11 Mio.

⁵ Before non-operational depreciation of property, plant and equipment in the amount of EUR 11 Mio.

Table 4.2: The development of corporate divisions | Source: Annual report 2019 der PNE AG

in million EUR	Services 2019	Services 2018
Sales external	15.8	10.4
Sales internal	2.1	0.9
Changes in inventories	0	0
Other operating income	0.5	0.6
Gross performance	18.4	11.9
Earnings from operating activities	2.4	2.6

The PNE Group's net assets, financial position and results of operations are characterized by the development of its own wind farm portfolio with a target volume of up to 500 MW by 2023. This will have a fundamental impact on the balance sheet in the short to medium term, which will be clearly evident in the Show balance sheet as of December 31, 2019. The strategically-motivated realignment of the operative business should continue to progress by expanding the range of services and opening up new markets and technologies (solar, hydrogen, etc.).

In the first quarter of 2020, the construction of wind farms in Sweden and Poland on behalf of customers was continued. The construction of three further wind farms with a nominal output of 38.5 MW began in Germany.

In the first three months of the 2020 financial year, PNE achieved an EBIT of EUR -1.4 million (previous year with consolidated sales of EUR 15.8 million (previous year: EUR 28.0 million) and an EBIT of EUR -1.4 million (previous year: EUR 2.3 million). Although the projected sales and earnings figures are below the corresponding previous year's values, they are, nevertheless, in the forecast. Both the balance sheet and profit and loss account for the first quarter of 2020 are shaped by the further expansion of the Company's own wind farm portfolio. For 2020 as a whole, PNE projects an EBITDA of EUR 15 to 20 million and an EBIT of EUR 5 to 10 million.

Appendix

Rating history

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

Table 6: Corporate SME Issuer Rating der PNE AG

Event	Rating created	Publication	Monitoring until	Result
Initial rating	07. Apr. 2015	www.creditreform-rating.de	06. Apr. 2016	BB-

Regulatory requirements

The present rating is a solicited rating in the regulatory sense. Creditreform Rating AG was mandated on 21 January 2019 by PNE AG conduct a corporate issuer⁶ and monitoring of the company.

⁶ In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

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 2016 to 2019.

A management meeting did take place at 16.04.2020 by Videoconference within the framework of the rating process with the participation of the following people:

- Markus Lesser, Vorsitzender des Vorstandes (CEO) der PNE AG
- Jörg Klowat, Vorstand Finanzen (CFO) der PNE AG
- Thorsten Fastenau, Executive Vice President Project Development Offshore der PNE AG
- Roland Stanze, Geschäftsführer (COO) der WKN GmbH
- Gabriel J. Meurer, Geschäftsführer (CFO) der WKN GmbH
- Dr. Rolf Bungart, Executive Vice President Project Development Onshore National der PNE AG
- Dr. Jan Messer, Head of Legal der PNE AG
- Dr. Toralf Pohl, Executive Vice President International Project Development der PNE AG

In addition to the documents from the previous years and the monitoring during the years, PNE AG provided the following information as part of the update:

List of documents

Accounting and controlling

- Bericht über die Prüfung des Konzernabschlusses zum 31.12.2019 für die PNE AG
- Bericht über die Prüfung des Jahresabschlusses zum 31.12.2019 für die PNE AG
- Geschäftsbericht 2019 der PNE AG
- Bericht über die Prüfung des Jahresabschlusses zum 31.12.2019 für die WKN GmbH
- Soll-/Ist-Vergleich 2019, Debitoren-/ Kreditorenliste
- Dokumentationen des Risikomanagements
- Konzernplanung 2020 – 2022, Stand 29.01.2020
- Projektübersichten
- Quartalsbericht Januar bis März 2020

Finance

- Bankenspiegel, Bürgschaften, Haftungen
- Kredit-/Darlehensverträge
- Wertpapierprospekte (Stammaktien, Wandelschuldverschreibungen, Anleihe)
- Liquiditätsplanungen

Additional documents

- Handelsregisterauszug, Satzung
- Konzernorganigramm(e) nebst Aktionärsstruktur, Mitarbeiterorganigramm(e)
- Protokolle zu den Aufsichtsratssitzungen der PNE AG
- Informationen zu Rechtsstreitigkeiten, Versicherungsübersichten
- Pressemitteilungen, Sachverhaltsklärende Korrespondenzen

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document:

Rating methodology	Version number	Date	Website
Corporate Ratings	2.3	29.05.2019	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Rating-methodiken%20EN/Rating%20Methodology%20Corporate%20Ratings.pdf
Rating Criteria and Definitions	1.3	January 2018	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Rating-methodiken%20EN/CRAG%20Rating%20Criteria%20and%20Definitions.pdf

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

Name	Funktion	Email-Adresse
Holger Becker	Lead-Analyst	h.becker@creditreform-rating.de
Rudger van Mook	Analyst	r.vanMook@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Funktion	Email-Adresse
Christian Konieczny	PAC	r.konieczny@creditreform-rating.de

On 15 Mai 2020, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 15 Mai 2020. There has not been a subsequent change to the rating. The rating report was made available to the company.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

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 is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

ESG-facros

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here:

<https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Rating-methodiken%20EN/The%20Impact%20of%20ESG%20Factors%20on%20Credit%20Ratings.pdf>

Conflicts 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, Creditreform Rating AG 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, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG 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 Information 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 the 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 Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

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