

INVESTOR REPORT FOR WODS TRANSMISSION PLC

For the period ending 30 June 2018

General Overview

Present Status:

Investors: **3i Infrastructure plc and PPP Equity PIP LP**

O&M Contractor: **Orsted West of Duddon Sands (UK) Limited and Scottish Power Renewables (WODS) Limited**

O&M Guarantors: **Orsted Wind Power Holdings A/S and Scottish Power UK PLC**

Security Trustee: **HSBC Corporate Trustee Company (UK) Limited**

Principal Paying Agent: **HSBC Bank PLC**

Technical Adviser: **Ove Arup & Partners Limited**

Insurance Adviser: **Marsh Ltd**

Ratings by Moody's Investors Service Limited: **A3**

Outstanding Principal Amount: **£230,470,134 as at 30 June 2018 (after a principal repayment of £3,901,175 on 29 June 2018).**

General performance

WoDS Transmission PLC's ("WoDST") operational performance has exceeded expectations and has recorded 99.69% transmission system availability since asset transfer on 25 August 2015 through to 27 June 2018. WoDST has also achieved 100% transmission system availability for the period 21 December 2017 (being the day immediately following the end of the availability period reported in the last Investor Report) through to 27 June 2018. As previously reported, there was an unplanned outage on one circuit that affected availability for around 43 hours in March 2017, for which an Exceptional Event claim was lodged with the Gas and Electricity Market Authority ("the Authority") to allow for the impact of this outage to be excluded from the availability incentive mechanism. Following a detailed investigation, the most likely root cause of this outage was identified as the incorrect operation of an offshore distance protection relay. The relay was subsequently removed from the offshore location and replaced with a new relay of the same type. The recovered relay has been tested by the manufacturer to determine a root cause. The manufacturer's report is in the process of being finalised and it is expected that the outcome of the manufacturer's conclusions will form the basis of a detailed follow-on Exceptional Event claim to the Authority which is expected to be submitted in the near future.

The O&M Contractor continues to deliver health and safety management in relation to the offshore transmission assets owned by WoDST. Health and safety performance since asset transfer has been good with no RIDDOR reportable incidents for WoDST. However, a person engaged by the WoDS O&M Contractor and employed by a third-party for WoDS related work was injured disembarking from a transfer vessel in October 2017 which resulted in a lost time injury of more than 3 days. This was a reportable incident to the Health and Safety Executive by his employer. Following an investigation, the O&M Contractor and the vessel operator have changed their procedures and policies to prevent a recurrence.

Following completion of the agreed works as required under the Cable Burial Agreement (the "CBA"), the Barrow Crossing Agreement (the "BCA"), together with the agreed additional works to address a further instance of seabed scour at KP 8.8, seabed surveys of the BCA Area were undertaken during spring 2017 and autumn 2017 in accordance with the terms of the BCA relating to the determination of the Maintenance Cost Estimate. The spring and autumn 2017 reports have been received and analysed. These reports, together with earlier surveys and the original achieved depth of burial reports provided by the vendors of the offshore transmission system (the "Vendors") have been used to support current discussions relating to the Maintenance Cost Estimate with the Vendors.

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General performance (continued)

Under the BCA, the survey results are used to determine the estimated cost of any ongoing Maintenance Works required over the remaining period of the Offshore Electricity Transmission Licence ("the Licence") to be paid to WoDST by the Vendors as a one-off lump sum (the "Maintenance Cost Estimate"). WoDST therefore engaged Offshore Wind Consultants Limited who alongside Ove Arup Limited (in their capacity as Lender's Technical Adviser), are providing technical advice to WoDST and supporting WoDST in its discussions with the Vendors. In early 2018 it was not possible to agree with the Vendors an appropriate figure for the Maintenance Cost Estimate and therefore under the provisions of the BCA and with the support of our advisers, the Expert Determination process was triggered. WoDST has retained the services of Fenwick Elliot to provide legal advice and support it through the process. Under the terms of the BCA, advisor costs are recoverable from the Vendor. WoDST and the Vendors will jointly appoint an independent expert whose determination of the Maintenance Cost Estimate will be binding on the parties and this process is likely to be concluded later this summer.

During August 2017, minor oil leaks on an offshore and onshore transformer were investigated and actions taken to remediate them. As a result of these proactive measures the oil leaks on the onshore transformer have been resolved and the small oil leak on the offshore transformer is being managed in conjunction with the manufacturer. The transformer in question is still under warranty and a defect notice has been issued.

In relation to the Sulphur hexafluoride ("SF₆") gas leaks on certain 400kV switchgear located in the onshore substation, the work carried out by the manufacturer on the 400kV switchgear in August 2017 did not fully resolve the SF₆ leaks which were detected at that time. The switchgear has therefore been the subject of a more detailed and thorough inspection by both National Grid Electricity Transmission plc ("NGET"), who supplied and installed the switchgear, and the manufacturer of the switchgear. Following these inspections, additional leaks have been confirmed in a number of locations associated with the SF₆ gas connections external to the main switchgear housings. NGET has also suffered SF₆ gas leaks with around 40% of NGET owned switchgear gas zones on adjacent apparatus affected by leaks, three of these zones required outages in May 2018 to remove gas connectors as part of the investigations into the cause of the leaks by the manufacturer of the gas fittings. There have been no unplanned operational outages to date and gas pressures continue to be closely monitored. NGET have confirmed to WoDST that they are managing these leaks consistent with NGET's own internal policies and procedures.

WoDST has retained the services of a specialist organisation with significant and relevant experience of gas insulated switchgear to advise on and help manage the root cause analysis, the development of a robust remediation plan and support an Exceptional Event claim under the provisions the Licence. We have already notified the Authority that we consider the SF₆ leaks to be caused by equipment defects that meet the definition of an Exceptional Event under the Licence. Following the conclusion of the root cause analysis we expect to make a follow-on Exceptional Event claim to the Authority for all outages caused by any works associated with remediation of the SF₆ leaks to be excluded from the calculation of availability under the availability incentive mechanism.

WoDST is also pursuing a warranty claim against NGET under the provisions of the original contract for the supply and installation of the 400kV switchgear and the necessary defect notices have been issued. WoDST has also registered warranty claims and submitted defect notices in relation to corrosion and minor leaks on the SF₆ 13.9kV circuit breakers associated with both Static Var Compensators operated by WoDST. The 13.9kV circuit breakers will be repaired when there is an opportunity to take an outage linked to the 400kV circuits.

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General performance (continued)

WoDST continues to manage and discharge its transferred obligations under the Marine Licence successfully and is procuring a pre-emptive marine licence with the Marine Management Organisation to cover for anticipated planned maintenance and for unplanned works such as marine cable faults, this follows good industry practice.

There have been no material communication or reports delivered by WoDST or the National Electricity Transmission System Operator pursuant to the terms of any Transaction Authorisation since the date of the last Investor Report.

Regulatory and business update

1. There have been no new significant regulatory, business and performance developments since the last Investor Report except as disclosed under “General Performance” above.
2. There have been no significant announcements/publications by the Authority by or relating to the Security Group since the last Investor Report.
3. Since the last Investor Report, there have been no changes to the members of the Board of WoDST.

Current Hedging Position

4. An inflation hedging agreement is in place to swap a portion of the revenues over the life of the fixed rate secured bonds due August 2034.

Current availability / drawn amounts under the PBCE

5. The European Investment Bank (the PBCE provider) has provided a letter of credit that allows WoDST, in specified circumstances, to draw down certain amounts. At 30 June 2018, WoDST was entitled (subject to specified conditions) to draw down under the letter of credit a maximum amount with a value equivalent to 15% of the outstanding principal amount of the fixed rate secured bonds due August 2034. No amount of the PBCE letter of credit has been drawn down as at the date of this report and WoDST has no current plans to draw down under this facility.

Project Documents

6. There have been no amendments to, or replacement of, any Project Document since the last Investor Report.

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Ratios

7. We confirm that the ratios calculated as at 30 June 2018 (together the **Ratios**) are as detailed in the tables below:

Ratio	Ratio for Relevant Period/Date (excluding undrawn PBCE)	Lock-Up Ratio Level (excluding undrawn PBCE)	Ratio for Relevant Period/Date (including undrawn PBCE)	Default Ratio Level (includes undrawn PBCE)
Projected DSCR:	1.18	1.10x	3.31	1.05x
Historic DSCR:	1.20	1.10x	3.41	1.05x
Debt Life Cover Ratio:	1.31	1.15x	1.46	1.08x

8. We confirm that the Ratios have been calculated using the most recently available financial information required to be provided by the Obligors under Schedule 2 (Obligor Covenants) of the Common Terms Agreement. The undrawn PBCE amount included in the calculation of the relevant Ratios included within the table at paragraph 7 of the Investor Report amounted to £34,570,520. All ratios have been calculated based on actual data through to 31 March 2018 and forecast data through to 30 June 2018 and thereafter.

9. We set out below the computation of the Ratios for your information:

- (a) Projected DSCR – 1.18 (excluding undrawn PBCE)

Net Cashflow (Jul 18 – Jun 19) £19,184k

Debt Service (Jul 18 – Jun 19) £16,240k

Net Cashflow is comprised of Gross Revenue less Operating Costs, Capital Costs and Taxes.

Gross Revenue is net of RPI swap payments and movements in and out of the Decommissioning Reserve Account (DRA) and Working Capital Reserve Account (WCRA).

Debt Service includes all scheduled payments of interest and principal payable in respect of senior debt and any termination payments then due and payable under any hedging agreement.

- (b) Historic DSCR – 1.20 (excluding undrawn PBCE)

Net Cashflow (Jul 17 – Jun 18) £18,793k

Debt Service (Jul 17 – Jun 18) £15,643k

- (c) Debt Life Cover Ratio – 1.31 (excluding undrawn PBCE)

NPV of Net Cashflow plus DSRA, MRA, WCRA
Plus, the residual balance of proceeds account £301,861k

Senior Debt £230,470k

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10. We confirm that:

- (a) No Default has occurred and is continuing;
- (b) The statements set out in this Investor Report are accurate in all material respects;
- (c) The amount of any Restricted Payment made since the date of the last Investor Report amounted to £1,479,000.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'M. Edward', is written over a dotted line.

Director

Signing without personal liability, for and on behalf of **WoDS Transmission PLC**

28 June 2018

