

INVESTOR REPORT FOR GREATER GABBARD OFTO Plc

As at SEPTEMBER 2016

General Overview

Present Status:

Investors: Equitix Capital Investors UK Cable Limited and Equitix Transmission 2 Limited

O&M Contractor: Balfour Beatty Utility Solutions Limited

O&M Guarantor: Balfour Beatty Group Limited

Security Trustee: Deutsche Trustee Company Limited

Principal Paying Agent: Deutsche Bank London Branch

Technical Adviser: Mott MacDonald Limited

Insurance Adviser: Willis Limited

Ratings by Moodys Investors Services Limited: A3

Outstanding Principal Amount: £282,984,777.12 as at 30 September 2016 (after a principal repayment of £4,298,533.85 on 30 September 2016). The undrawn PBCE amount as at 30 September 2016 after the senior debt principal payment is £43,092,450.

General Performance

The OFTO has achieved excellent availability over the period. This year required planned outages on all circuits to undertake five year major maintenance. This maintenance cycle starts from the commissioning date of the asset and will recur on a 5 yearly basis. These planned works cover the whole Transmission Asset both onshore and offshore requiring outages on all three Export Circuits and the Galloper Interconnector Circuit.

The planned Availability for August 2016 was 93.5% and the actual outturn Availability for August 2016 was 95.7%, indicating time efficient delivery of the outage works. The annual Availability for 2016 assuming no unplanned events till the end of 2016 will be 99.78%.

During the outage works, tests indicated a number of serving faults on all three export circuits at the Transition Joint Bay indicating these are most likely caused during construction. Given the headroom on rating for the onshore cable, no derating of the Export Circuits is required. Rectification of the faults will require outages of 2 to 3 days per circuit and will be implemented, subject to a technical review of risk and need, as part of the pre-emptive works programme for Export Circuit 2(see below).

Post-close Developer completion works are complete with the exception of:

- Business records including technical drawings and documents. Although the OFTO has adequate records to safely operate the asset, there are a number of gaps in the records. The OFTO has agreed to undertake that work at the Developer's cost. Works have progressed and will complete early 2017.
- The Helideck on GASUB Offshore Substation Platform is to be reclassified to a Heli-Hoist Only Platform (HHOP). The Developer was required to certify the Helideck to landing use but technical problems prevented this from being possible. Both parties agree that it is not necessary to operate a helideck on both platforms (IGSUB & GASUB). Gabbard is the only Transmission Offshore asset to have helidecks. Variations have been prepared and TA consent

obtained to enable reclassification. Works will complete mid 2017 subject to commercial/contractual approval.

Spares procurement is underway.

Monitored Operating Costs remain between the 80% and 120% band as required by the project agreements.

The construction of the Galloper Windfarm development (led by RWE) adjacent to Greater Gabbard is under construction. The windfarm connects into the same National Grid Substation as Greater Gabbard and there are works that interface with the Greater Gabbard OFTO as follows:

- Galloper Windfarm Export Cable Crossing
- Galloper Windfarm Feeder Circuits proximity works
- National Grid Licenced connection works

These works are managed under existing agreements with appropriate protections and consents in place. The key risks to the OFTO are the onshore export cable crossing and offshore cable works within 250m of the OFTO's subsea export cables. The OFTO continues to be fully consulted and involved with these works which are being managed well by Galloper (RWE) and National Grid. The first GWF submarine export has been installed from the Transition Joint Bay, the second circuit is to be installed in spring 2017. The HDD crossing of the Gabbard onshore export cables is complete and installation of the onshore cables will complete in 2016. Design of the onshore cable routes at Leiston is nearing completion and installation will complete in 2017.

Export Cable 2 has suffered fibre losses since monitoring began in June 2014. Measurements indicate all fibres were broken at 1.3km from the Onshore Substation which is in the nearshore area approximately 460m from the land/subsea transition joint bay. There are 3 export circuits each with 48 core fibre connections to the IGSUB Offshore Substation. Fibre services from Circuit 2 have been transferred to the other two circuits which remain healthy and stable. Ongoing periodic monitoring of healthy fibres is being undertaken every 3 months. No loss of export power has been experienced and therefore availability has been unaffected. The OFTO is aware of instances where failure of the fibre optic circuits have been associated with a failure of the power core on other OFTO assets. Greater Gabbard OFTO has commissioned an independent report to determine what constitutes Good Industry Practice to resolve the problem. Given the risks of a power core failure, the report recommends a pre-emptive repair in spring/summer 2017. Greater Gabbard OFTO is now planning the repair and will obtain the required TA consents for Emergency Capital Expenditure and changes to Key Assumptions once details are known and prior to committing any expenditure.

Regulatory and business update

1. There have been no new significant regulatory and business and performance developments since the previous Investor Report in March 2016.
2. There have been no significant announcements/publications by the Authority by or relating to the Security Group since the previous Investor Report in March 2016.

Current Hedging Position

3. A hedging agreement is in place to swap c64% of revenue over the life of the senior debt term on a pari passu basis to mitigate risks associated with lower than expected RPI.

Current availability / drawn amounts under the PBCE

4. The European Investment Bank (the PBCE Provider) has provided a letter of credit for an amount of £43,092,450 (the PBCE Letter of Credit) as at 30 September 2016 as a form of subordinated credit enhancement for the Issuer in relation to the bonds and the hedging arrangements. No amounts have been drawn from the letter of credit as at 30 September 2016.

Ratios

5. We confirm that the ratios (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: | 1.20x | 1.10x | 3.28x | 1.05x |
| Historic DSCR: | 1.23x | 1.10x | 3.41x | 1.05x |
| Debt Life Cover Ratio: | 1.36x | 1.15x | 1.51x | 1.05x |

6. We confirm that the Ratios have been calculated using the most recently available financial information required to be provided by the Obligor under Schedule 2 (Obligor Covenants) of the Common Terms Agreement.

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

The numerator excludes the PBCE letter of credit facility

Senior Debt excludes mark-to-market liabilities under hedging agreements

- (a) Projected DSCR - 1.20

| | |
|----------------------------------------|--------|
| <u>Net Cashflow (Oct 16 – Sept 17)</u> | 24,404 |
| Debt Service (Oct 16 – Sept 17) | 20,411 |

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 Emergency Reserve Account (ERA), Decommissioning Reserve Account (DRA) and Working Capital Reserve Account (WCRA)

Debt Service includes all schedules 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 – 1.23

| | |
|-----------------------------------------|--------|
| <u>Net Cash flow (Oct 15 – Sept 16)</u> | 24,589 |
| Debt Service (Oct 15 – Sept 16) | 20,033 |

- (c) Debt Life Cover Ratio (DLCR) – 1.36

| | |
|-----------------------------------------------------------------------------------------|---------|
| NPV of Net Cash flow plus DSRA, ERA, WCRA plus residual balance of operating account | 385,890 |
|-----------------------------------------------------------------------------------------|---------|

| | |
|-------------|---------|
| Senior Debt | 282,985 |
|-------------|---------|

We confirm that:

- (d) No Default has occurred and is continuing,
- (e) the statements set out in this Investor Report are accurate in all material respects;
- (f) No Restricted Payment has been made since the previous Investor Report in March 2016.

Yours faithfully,



Director

Signing without personal liability, for and on behalf of **Greater Gabbard OFTO Plc** for and on behalf of each Obligor

Date. *29th September 2016.*