

CREDIT OPINION

24 August 2020

Update

✓ Rate this Research

RATINGS

Elering AS

Domicile	806383161, Estonia
Long Term Rating	A2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Elering AS

Update following rating affirmation at A2 with a stable outlook

Summary

Elering AS' (Elering) credit profile is underpinned by the low business risk profile of its regulated transmission network operations; the flexible and generally supportive regulatory framework, although visibility into cash flow is lower than that of other European regulatory regimes, given that tariff changes may be requested year-on-year; and a solid financial profile.

At the same time, Elering's credit quality is constrained by the company's small size with total reported assets of €1,026 million as of 30 June 2020; and the execution risks related to sizeable investments that serve to integrate Estonia into the continental European electricity transmission system. While the capital spending programme is large, we expect leverage, measured as funds from operations (FFO)/net debt, to remain relatively stable over the next two to three years, given that the investments will be predominantly funded from non-debt sources, namely EU grants and congestion revenue.

Elering's credit profile benefits from our assumption of a high probability of support from its 100% owner, the Government of Estonia (A1 stable).

Exhibit 1

Elering is small compared with its European peers, but benefits from relatively low leverage  
Total assets (last reported, as adjusted) versus net debt/fixed assets (forward looking, as adjusted)



The ratio of net debt to fixed assets used represents the midpoint of Moody's forward view estimates as published in latest Credit Opinions and ratings are expressed as Baseline Credit Assessments (BCA), if applicable and assigned final ratings.

Source: Moody's Investors Service

## Credit strengths

- » The low-risk nature of monopoly electricity and gas transmission network operations, which are regulated under a fairly well-developed and transparent regime, although cash flow visibility is limited by potential annual tariff changes
- » Our expectation of a high likelihood of government support, given Elering's strategic importance to Estonia's economy

## Credit challenges

- » Execution risks related to a substantial investment programme, mitigated by risk sharing with partners, construction guarantees and EU funding support
- » Likely moderate decline in returns on the regulatory asset base (RAB), resulting from the reduction in the weighted average costs of capital (WACC)

## Rating outlook

The outlook on Elering's rating is stable, reflecting our expectations that Elering will exhibit a financial profile commensurate with the guidelines for the current rating of FFO/net debt at least in the high teens in percentage terms and continue to manage its liquidity prudently.

## Factors that could lead to an upgrade

To consider a rating upgrade, we would expect Elering to consistently maintain FFO/net debt of at least 25%, underpinned by the absence of significantly adverse changes in the regulatory framework.

## Factors that could lead to a downgrade

The rating could come under downward pressure if Elering's FFO/net debt were to decline to below high teens in percentage terms for a sustained period. Pressure could also be exerted on the rating as a result of a deterioration in the credit quality of the Government of Estonia; a reduction in the government support assumptions currently incorporated into our credit assessment; or a significantly unfavourable change in the regulatory framework, leading to a significant increase in the company's business risk.

## Key indicators

Exhibit 2

**Elering AS: Leverage likely to remain stable despite large investments because these are predominantly funded by own cash flow and non-debt sources**

Elering's key adjusted indicators

	2015	2016	2017	2018	2019	2020E	2021E
FFO/Net Debt	18%	18%	21%	18%	19%	17% - 20%	17% - 20%
FFO interest Cover	5.9x	5.7x	5.4x	7.8x	25.1x	28x - 32x	26x - 30x
RCF/Net Debt	12%	8%	13%	11%	9%	10% - 13%	10% - 13%
Net debt / Fixed Assets	42%	42%	32%	35%	33%	33% - 36%	30% - 33%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. For definitions of Moody's common ratio terms, please see the accompanying [User's Guide](#).

Source: Moody's Financial Metrics™

## Profile

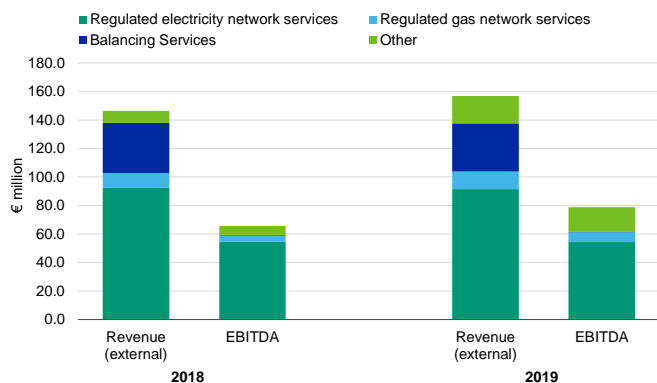
Estonia-based Elering AS (Elering) is the owner and operator of Estonia's electricity and gas transmission networks and provides balancing services for both grids. The company also acts as clearing agent for the Estonian support scheme for renewable power and cogeneration of heat and electricity. The 5,419-kilometre (km)-long power transmission system is connected to Latvia and Russia, as well as to Finland through two submarine cables, Estlink 1 (350 megawatts [MW]) and Estlink 2 (650 MW). The gas

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

transmission network comprises 997 km of pipelines and is connected to the same three countries. The company is 100% owned by the Government of Estonia. The electricity transmission segment is the main contributor to revenue and EBITDA, whereas the low share of gas transmission revenue and EBITDA reflects the minor role of this fuel in the Estonian economy. The company's balancing and clearing services are both zero-profit activities. The transmission activities are regulated by the Estonian Competition Authority (ECA).

Exhibit 3

### Electricity transmission accounts for the bulk of Elering's earnings Revenue and EBITDA breakdown

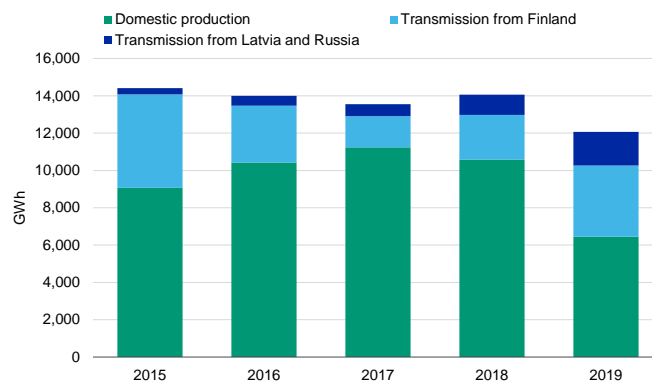


Source: Elering, annual report 2019

Exhibit 4

### Loss of competitiveness of domestically generated power leads to the increasing share of imports/transit within transported electricity

#### Electricity transmission volume



Source: Elering, annual reports

## Detailed credit considerations

### Low business risk profile, underpinned by a supportive regulatory framework, although flexible approach to tariff setting reduces visibility into cash flow

Electricity and gas network operations are generally characterised by a low business risk because of their regulated nature and cash flow visibility. Elering's credit profile is underpinned by the regulated income earned from its electricity and gas transmission assets. While electricity transmission operations are the principal source of earnings, gas transmission operations are likely to increase in importance, given the formation of the new trilateral gas market with Latvia and Finland on 1 January 2020.

We view the regulatory framework in Estonia as supportive of Elering's credit quality. Gas and electricity transmission network activities are subject to the same regulatory principles and oversight by the ECA. The framework is fairly well developed, based on generally used principles of a return on the RAB and since 2013, governed by a "light touch" approach. This means that either Elering or the ECA can request a review of tariffs on an ad hoc basis when either of them thinks it is appropriate to do so. While this approach gives Elering flexibility and discretion to seek tariff changes, the company is also exposed to potentially adverse tariff adjustments sought by the ECA. We regard the overall transparency of the rate-setting process and cash flow visibility as lower than those of other European regulatory frameworks that abide by multiyear regulatory periods.

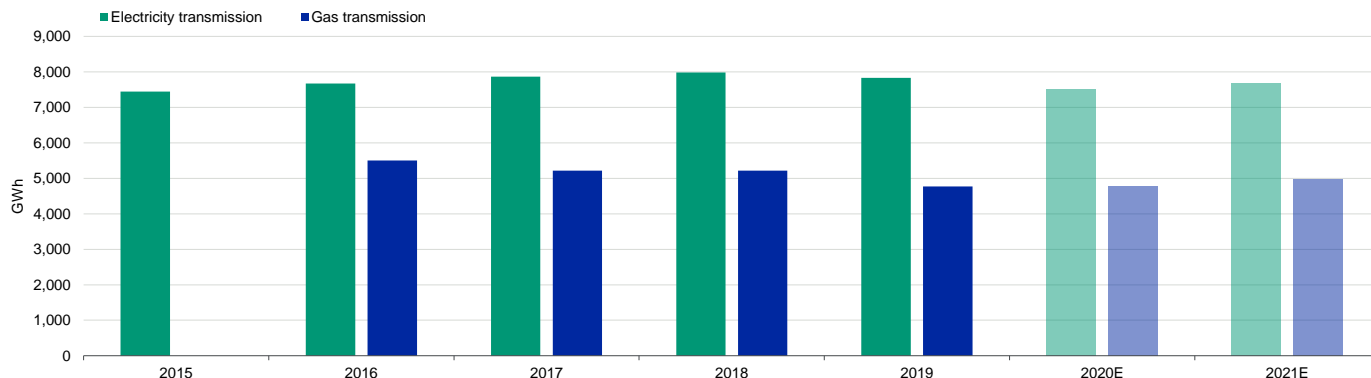
With respect to both electricity and gas transmission activities, Elering is allowed to cover its costs over time and realise a reasonable return based on the WACC applied to the company's RAB, which is reflected in the tariff decisions over the past few years. Given that the tariffs in both electricity and gas lack capacity components, the company is fully exposed to volume risk, mitigated by the option to request a new tariff, if actual transmission volumes develop adversely to the assumptions embedded in the tariff calculations.

In the electricity segment, volume is on a moderate medium-term growth trajectory, driven by Estonia's positive GDP development. In 2020, however, we expect a decline in real GDP by 7.8%, resulting from the coronavirus pandemic, which, together with increased distributed generation, could cause transmitted volume to fall by around 4%. For 2021, we expect GDP to grow by 4.0%, which should be reflected in a moderate transmission volume growth of around 2%.

By contrast, the gas volume transmitted through Elering's grid for domestic consumption declined in 2019 because of a warm winter, and we expect similar volumes in 2020, given mild temperatures; the coronavirus pandemic is not an important driver. Growth prospects for gas in Estonia are low, given that demand for gas is driven by cogeneration (around 40%-45%) and industrial uses (20%-25%). The Estonian subsidy regime for highly efficient cogeneration plants provides incentives to substitute gas as fuel with biomass, and in the industrial sector, the biggest consumer, a large fertiliser company ceased production a few years earlier, which left a significant gap.

Exhibit 5

**Transmission volumes of power are likely to recover after 2020, while gas demand is likely to stagnate**  
**Domestic consumption in GWh**



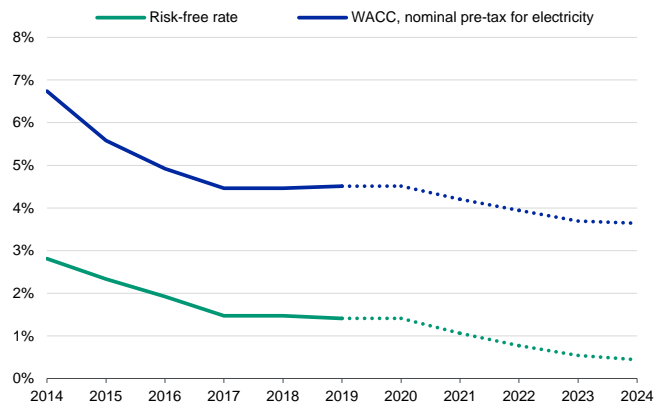
Gas transmission grid was purchased only in 2015.  
 Sources: Elering and Moody's Investors Service

The regulatory approach to operating costs is generally supportive because they are adjusted for inflation, but not subject to efficiency requirements. Network losses are permitted to be passed through to customers on the basis of average costs over the 12 months preceding a tariff decision.

Elering's allowed revenue in the regulated business depends, in part, on the evolution of the respective electricity and gas RAB and WACC. The latter has been on a decline as a result of the steady decrease in the risk-free reference rate, the 10-year German government bond yield. The decision by the ECA to start calculating the risk-free rate based on a rolling 10-year average from 2020, compared with a rolling five-year average until 2019, will temporarily halt, but not alter, the downward trend of the WACC.

Exhibit 6

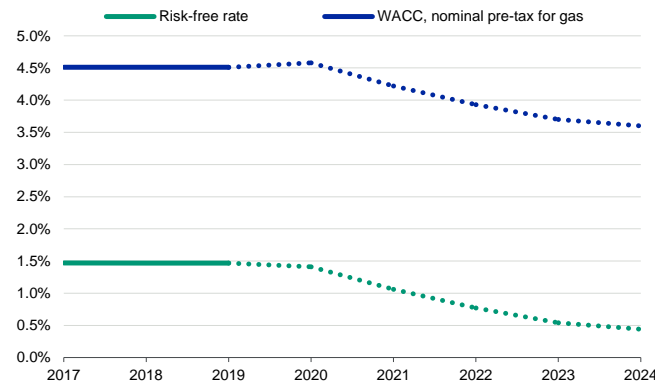
**Evolution of WACC and risk-free rate for electricity transmission activities**



Sources: Elering and Moody's Investors Service

Exhibit 7

**Evolution of WACC and risk-free rate for gas transmission activities**



Sources: Elering and Moody's Investors Service

The RAB development is determined by additions of eligible grid investments, divestments and depreciation. Assets financed with investment grants or income from cross-border capacity auctions (congestion fees) do not accrue to the RAB. From 2021, depreciation applied to the electricity RAB will cease to be based on regulatory values, and in line with the gas RAB, accounting depreciation will be applied. Since the current regulatory depreciation assumes 40-year asset lives, which for most assets is longer than under accounting standards, we expect the ECA to accept an increase in the depreciation component under electricity tariffs effective after 2020.

### **New electricity tariff from 2021 likely to incorporate higher WACC and depreciation, but earnings effect will be muted by lower volume**

The current electricity transmission tariffs have been in force since 1 July 2017. Given that the revised calculations of WACC and depreciation from 2020 respectively 2021 are positive for Elering, the company, in March 2020, applied for a new tariff, effective from 1 January 2021.

While details are under negotiation, we expect Elering's capital returns to benefit from the shift to accounting-based depreciation and higher WACC. The overall effect will depend on the volume of investments that accrue to the RAB, which we expect to exceed depreciation on an accumulated level over the next few years, given the increased spending on assets in the context of the synchronisation with the continental European grid.

We also expect the ECA to concede an increase in the operating expense component of the tariff, thus accommodating higher costs for staff and others, while we assume only a moderate upward adjustment for grid losses. Given the growth trend of transmission volumes, losses in watt hour terms are likely to increase, but electricity spot prices in 2020, which form the base for the new tariff, are unlikely to surpass the levels of 2016-17, which are incorporated in the current tariff.

While the above changes are overall accretive to earnings, we assume that Elering's electricity EBITDA from 2021 is likely to decrease moderately, because updated transmission volume assumptions will exceed actual amounts. The reason lies in the ECA's approach to base volume assumptions for new tariffs on the average transmitted volumes of the three years preceding the tariff change, which means for the 2021 tariff, the base period is 2017-19. The drop in 2020 volumes and a gradual recovery over the next two to three years infer an undershooting of volumes compared with the tariff assumption. For 2020, we expect a small improvement in EBITDA, based on lower costs for grid losses and slightly higher income from the release of deferred income stemming from grants.

### **New gas tariff and revenue from the new trilateral gas market are positive drivers for cash flow**

Earnings from gas transmission have been increasing since 2018 as a result of three tariff increases, with the most recent one taking effect on 1 January 2020. The main reason for the frequent tariff requests lies in decreasing transmitted volume (compared with the previous regulatory assumptions) for domestic consumption as described above.

Since the beginning of 2020, the segment's earnings have begun to benefit from increased cross-border flows. The driver is the inception of the trilateral common gas market among Estonia, Finland and Latvia, with entry and exit points only in relation to other countries. Revenue is shared among the gas transmission grid operators of the three countries, generating additional income for Elering, which is favourably located between its partners and, thus, benefits from augmented transit flows.

Assuming the continued willingness of the ECA to accommodate any further decrease in domestic gas transmission in new tariffs and additional earnings from the new trilateral gas market, we expect Elering's gas earnings to grow moderately over the coming years.

### **Investments likely to remain high over 2020-24, but funding by EU grants and congestion fees contain leverage**

Elering's investments over the next five years amount to roughly €490 million, of which around €340 million will be spent on cross-border projects. Two major projects that stand out will promote Estonia's energy integration with its neighbours and Western Europe.

- » First, the Baltic countries are preparing to synchronise their electricity systems with the continental European frequency area by year-end 2025. The aim of the project is the desynchronisation with Russia<sup>1</sup>. The first phase of the project, whose total costs are projected at around €1.65 billion, started in 2018. Elering's share in the project includes the replacement of large parts of the electricity transmission network that was built as part of the northwestern common power system of the former Soviet Union. Therefore, the average age of the transmission assets is around 30 years. Thematically linked to the synchronisation project but financially separate is the company's ongoing construction of a third interconnection with Latvia (capacity of up to 600 MW), which will allow for a subsequent renovation of the existing two connections.

- » The second project is the trilateral gas market involving Estonia, Finland and Latvia. Estonia, as the country in the middle, is involved in key interconnection projects with its Finnish and Latvian counterparts. The “Balticconnector,” a bidirectional 77 km gas subsea pipeline between Estonia and Finland started operations in December 2019. The Estonian and Latvian interconnection (EstLat Gas) capacity is also in the process of being expanded. The remaining work on these projects, which mostly concerns compressor stations, should be completed in 2020 and account for around €40 million of the investments.

These projects will be completed in conjunction with partners, and construction will be contracted out with technical guarantees in place to limit exposure to project execution risks.

Exhibit 8

#### Elering's investment plans are sizeable and focused on the multicountry Baltic Synchronisation project

€ million	2019	2020 - 2024	2025+	Total
Estonian-Latvian third electricity interconnector	54	26	0	80
Baltic Synchronisation - share Estonia	0	272	99	371
Estonian-Finnish gas interconnector	118	22	0	140
Estonian-Latvian gas interconnector	30	18	0	48
GIPL (Gas Interconnection Poland–Lithuania)	0	2	0	2
<b>Total gross Cross Border investments</b>	<b>202</b>	<b>340</b>	<b>99</b>	<b>641</b>
Total EU grants	80	220	61	361
<b>Total net Cross Border investments (1)</b>	<b>122</b>	<b>120</b>	<b>38</b>	<b>280</b>
Ordinary Investments (2)	23	153	-	-
<b>Total net investments</b>	<b>145</b>	<b>273</b>	<b>-</b>	<b>-</b>

(1) In addition to EU grants, Elering benefits from congestion fees, which, in accordance with EU legislation, must be used primarily to increase cross-border transmission capacity. As of year-end 2019, Elering has accrued €88 million.

(2) According to Elering, ordinary investments should amount to around €30 million per annum.

Sources: Elering's 2019 annual report and Moody's Investors Service

Funding for these cross-border investments in 2020-24 comes from Elering's own cash flow and also, to a significant degree, from EU grants under the Connecting Europe Facility (CEF) for Energy. The eligible project costs of the Baltic Synchronisation project are 75% covered by grants. In May 2020, the member countries of the synchronisation project submitted their application for grants for the second phase to the CEF. The third power interconnector with Latvia has a grant commitment for 65% of eligible costs. In addition, for electricity interconnectors, the financing shortfall should be partially recovered by way of congestion revenue. Any amount of cross-border project spending not covered by EU funding or congestion revenue will be added to the respective RAB.

#### Leverage metrics likely to deteriorate modestly from the current levels, but still within guidance

Elering's leverage, as expressed through FFO/net debt, is likely to slightly deteriorate from the 2019 level over the next two to three years, but we expect it to remain within our guidance. While we expect FFO to increase in 2020 from that a year earlier, driven by lower grid loss expenses, a small increase in gas earnings and higher depreciation, an expected temporary increase in debt, caused by pre-funding of grants, will overall lead to higher leverage.

For 2021, we assume lower earnings in the electricity segment, caused by an adverse deviation of transmitted volumes compared with the assumptions under the new tariff, and higher price-driven costs for grid losses, both of which may not be fully offset by increased earnings from the gas segment. As grants will be paid out, we assume debt levels will decline, but this may not be sufficient to improve leverage.

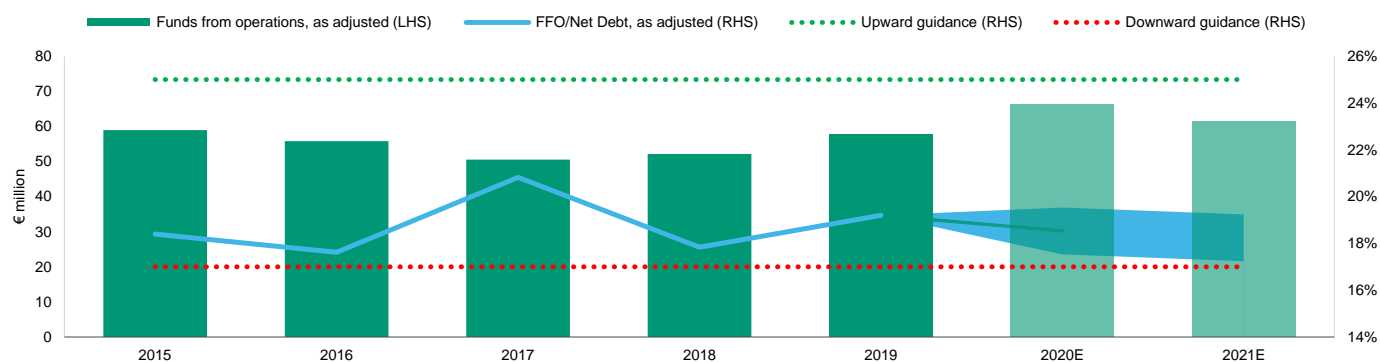
Depending on the progress of the Baltic Synchronisation project and the timing of the payouts of the grants, leverage is bound to fluctuate through 2025 when the project is planned to be completed. Given that the approval for the lion's share of the EU grants is in place and assuming a gradual recovery of the economy after 2020, which should lead to concurrent earnings growth, we expect a medium-term stabilisation in leverage at around 20%, which is moderate compared with its other EU peers (see Exhibit 1).

The net debt-to-fixed assets ratio should see an uptick in 2020, driven by temporarily higher debt (see above), before settling in the low 30s in percentage terms. Elering's net debt/RAB (not published) is likely to be weaker than net debt/fixed assets as the share of interconnector projects, funded by grants and congestion fees, will not form part of the RAB.

Exhibit 9

### We expect FFO/net debt to remain within the rating guidance

#### FFO/net debt versus guidance



[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Sources: Moody's Financial Metrics™ and Moody's Investors Service forward view

### Government support assumption results in rating uplift

Elering's A2 rating incorporates a one-notch uplift from its standalone credit quality, which we express as a Baseline Credit Assessment (BCA) of a3. The uplift to the BCA reflects the credit quality of its 100% owner, the Government of Estonia, and our assessment of the high probability of government support for the company in the event of financial distress, as well as our view of very high default dependence between Estonia and Elering.

As a fully state-owned company, Elering is subject to special governance rules stipulated in the State Assets Act, based on which shareholder rights are conferred to the Ministry of Economic Affairs and Communications. Although the Government of Estonia does not provide any explicit guarantees, Elering's operations are considered of vital importance to the Estonian economy and the Baltic Synchronisation project is viewed as a matter of national security by the Estonian government.

The government also has a strong track record of support to the company, including a total of €80 million of equity injection between 2015 and 2018 to support the acquisition of gas transmission assets and other large investments. Furthermore, there are currently no privatisation plans, and the Government of Estonia will remain the sole shareholder of Elering.

### Liquidity analysis

As of 30 June 2020, Elering's cash balance amounted to €24.0 million and the company could resort to various committed, undrawn bilateral bank facilities in an aggregate amount of €70 million, which fall due in early 2023.

Together with the company's strong cash flow from regulated earnings, income from committed CEF grants and congestion fees, Elering is able to fund its upcoming investments as well as scheduled repayments of around €11 million per annum under various long-term loans granted by the [European Investment Bank](#) (Aaa stable) and by the [Nordic Investment Bank](#) (Aaa stable), with maturity dates between 2025 and 2033. While some share of CEF grants will have to be pre-funded with the bank facilities because grants are only paid out in arrears, we do not expect any significant funding needs over the next couple of years.

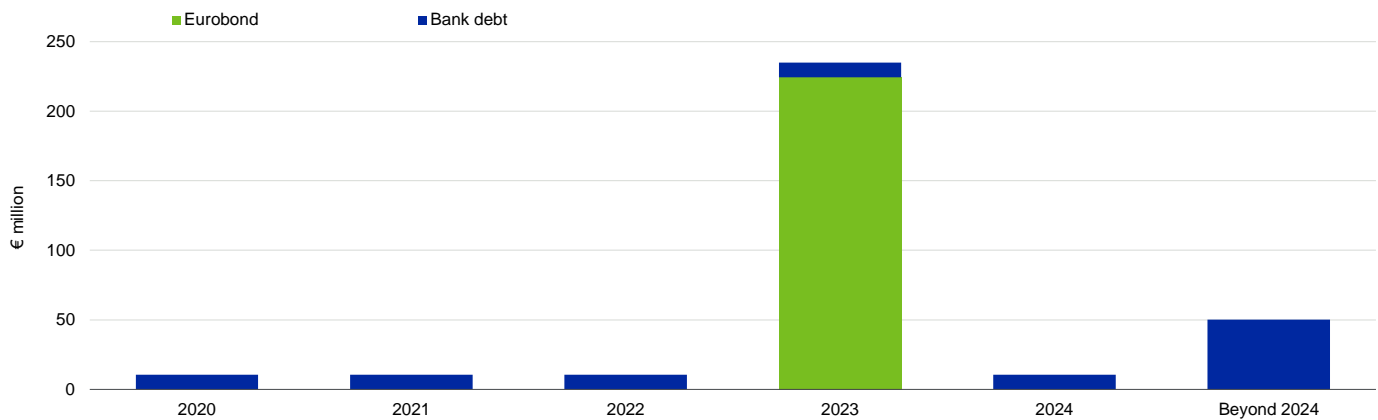
The company's next major debt maturity is its five-year €225 million bond in May 2023, with a coupon of 0.875%.

The loans extended by the European Investment Bank and by the Nordic Investment Bank include the following financial covenants: equity/assets of at least 30% and net debt/EBITDA of a maximum 7.0x. We expect the buffer under the covenants to remain adequate over the next few years.

Exhibit 10

**Debt profile reflects the €225 million eurobond maturing in May 2023**

Debt maturities and available liquidity



Source: Elering

**Methodology and scorecard**

Elering is rated in accordance with the [Regulated Electric and Gas Networks](#) rating methodology, published in March 2017, and the [Government-Related Issuers](#) rating methodology, published in February 2020.

The scorecard-indicated outcome is A2, which is above the assigned BCA of a3. Elering's BCA also reflects its relatively small size compared with that of its continental European peers, the concentration of its operations in a small economy and the execution risks related to its substantial investment programme.



Exhibit 11

## Rating factors

Elering AS

Regulated Electric and Gas Networks Industry Scorecard [1][2]		Current FY 12/31/2019	Moody's 12-18 Month Forward View As of August 2020 [3]
Factor 1 : Regulatory Environment and Asset Ownership Model (40%)	Measure	Score	Measure Score
a) Stability and Predictability of Regulatory Regime	A	A	A A
b) Asset Ownership Model	Aa	Aa	Aa Aa
c) Cost and Investment Recovery (Ability and Timeliness)	A	A	A A
d) Revenue Risk	A	A	A A
<b>Factor 2 : Scale and Complexity of Capital Program (10%)</b>			
a) Scale and Complexity of Capital Program	Baa	Baa	Baa Baa
<b>Factor 3 : Financial Policy (10%)</b>			
a) Financial Policy	Baa	Baa	Baa Baa
<b>Factor 4 : Leverage and Coverage (40%)</b>			
a) FFO Interest Coverage (3 Year Avg)	8.4x	Aaa	26x - 32x Aaa
b) Net Debt / Fixed Assets (3 Year Avg)	33.4%	Aa	30% - 36% Aa
c) FFO / Net Debt (3 Year Avg)	19.2%	A	17% - 20% A
d) RCF / Net Debt (3 Year Avg)	10.9%	Baa	10% - 13% Baa
<b>Rating:</b>			
Scorecard-indicated outcome from Grid Factors 1-4		A2	A2
<b>Rating Lift</b>	-	-	- -
a) Scorecard-indicated outcome from Grid		A2	A2
b) Baseline Credit Assessment			a3
<b>Government-Related Issuer</b>	<b>Factor</b>		
a) Baseline Credit Assessment	a3		
b) Government Local Currency Rating	A1		
c) Default Dependence	Very High		
d) Support	High		
e) Final Rating Outcome	A2		

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 12/31/2019. [3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Investors Service

## Ratings

Exhibit 12

Category	Moody's Rating
<b>ELERING AS</b>	
Outlook	Stable
Issuer Rating -Dom Curr	A2
Senior Unsecured -Dom Curr	A2

Source: Moody's Investors Service

Appendix

Exhibit 13

Estonia's electricity transmission system and location of the third Estonia-Latvia interconnection project



Estonia-Latvia third interconnection

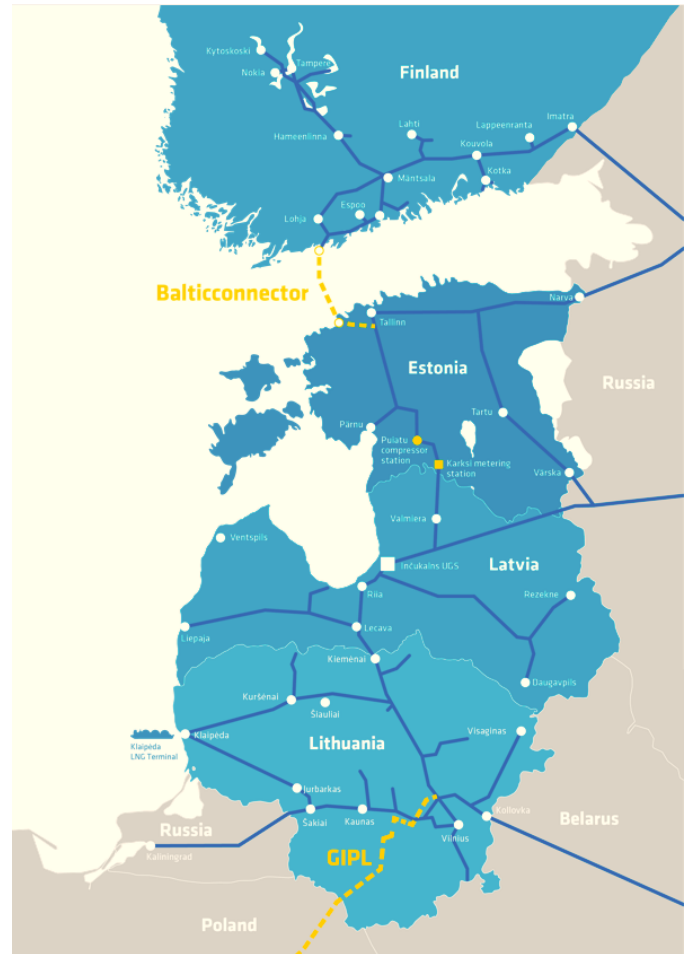
--- 330 kV overhead line



Sources: ENTSO-E and Elering

Exhibit 14

Gas transmission system in the Baltics and location of the Balticconnector project



Source: Baltic Connector Oy

Exhibit 15

**Elering AS**

Select historical Moody's financial data

(in EUR millions)	2015	2016	2017	2018	2019
<b>Income Statement</b>					
Revenue	127	134	130	143	142
% Change In Sales (YoY)	-1.7%	5.5%	-2.7%	9.7%	-0.6%
EBITDA	77	77	68	66	68
EBITDA Margin %	60.7%	57.1%	52.4%	46.1%	48.0%
EBIT	40	38	33	31	31
EBIT Margin %	31.3%	28.3%	25.5%	21.7%	22.0%
Interest Expense	12	12	12	8	2
Net Income	22	18	17	18	24
<b>Balance Sheet</b>					
Cash & Cash Equivalents	60	53	122	63	42
Current Assets	91	105	153	102	87
Net Property Plant and Equipment	766	754	749	832	920
Non-Current Assets	772	801	758	847	937
Total Assets	863	906	912	949	1,024
Current Liabilities	29	34	269	40	57
Long-Term Debt-Gross	381	370	365	355	343
Non-Current Liabilities	505	523	297	525	579
Total Liabilities	534	557	566	565	636
Total Equity	329	349	346	385	388
Total Liabilities & Equity	863	906	912	949	1,024
<b>Cash Flow</b>					
Funds From Operations	59	56	51	52	58
Cash Flow From Operations	56	57	59	34	62
Capital Expenditures	-4	14	5	105	53
Dividend	20	31	20	20	29
RCF	39	25	31	32	28
FCF	41	12	34	-90	-20
FFO / Net Debt	18.4%	17.6%	20.8%	17.8%	19.2%
RCF / Net Debt	12.1%	7.8%	12.6%	11.0%	9.4%
FCF / Net Debt	12.7%	3.9%	14.2%	-30.9%	-6.8%
<b>Interest Coverage</b>					
EBITDA / Interest Expense	6.4x	6.5x	5.9x	8.6x	28.5x
(FFO + Interest) / Interest Expense	5.9x	5.7x	5.4x	7.8x	25.1x
<b>Leverage</b>					
Debt / EBITDA	4.94x	4.83x	5.34x	5.38x	5.03x
Net debt / EBITDA	4.15x	4.14x	3.56x	4.43x	4.41x
Net Debt / Fixed Assets	41.8%	42.0%	32.4%	35.1%	32.7%

All metrics are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

(\*) Capital expenditure is net of EU grants and cross-border congestion fees.

Source: Moody's Financial Metrics™

Exhibit 16  
Elering AS  
Peer comparison

(in € millions)	Elering AS A2 Stable			CEPS, a.s. Aa3 Stable			Fingrid Oyj A1 Stable			Statnett SF A2 Stable			Eurogrid GmbH Baa1 Stable			LTM Jun-20
	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-18	FYE Dec-19		
Revenue	147.3	168.8	159.1	516.9	608.2	661.4	759.3	1,007.1	883.7	859.8	1,063.8	1,003.9	12,176.7	12,016.7	12,435.7	
EBITDA	77.1	77.9	76.4	165.1	236.5	233.7	303.9	354.6	269.6	475.6	653.7	635.6	778.2	652.6	660.1	
EBITDA Margin %	52.4%	46.1%	48.0%	31.9%	38.9%	35.3%	40.0%	35.2%	30.5%	55.3%	61.4%	63.3%	6.4%	5.4%	5.3%	
Total Debt	438.1	405.6	385.4	233.5	261.4	345.8	1,333.0	1,240.5	1,257.2	4,450.7	4,903.0	5,210.5	3,287.6	3,264.4	4,135.5	
Net Debt	291.6	333.9	337.9	203.6	212.4	177.0	1,232.4	1,143.0	1,164.2	4,186.3	4,501.7	4,960.6	1,484.1	2,374.1	3,306.9	
FFO Interest Coverage	5.4x	7.9x	25.7x	77.5x	108.4x	141.3x	13.5x	15.1x	14.5x	5.9x	6.6x	5.5x	6.1x	7.6x	9.5x	
FFO / Net Debt	20.8%	17.8%	19.2%	73.3%	107.0%	116.2%	21.5%	24.2%	18.8%	8.4%	11.3%	10.0%	24.0%	19.0%	17.0%	
RCF / Net Debt	12.6%	11.0%	9.4%	61.8%	95.9%	91.1%	11.9%	6.9%	2.0%	7.4%	10.5%	8.9%	15.7%	13.4%	12.1%	
Net Debt / Fixed Assets	32.4%	35.1%	32.7%	15.1%	12.7%	11.0%	60.3%	60.5%	61.9%	69.7%	66.6%	66.2%	26.9%	40.9%	56.1%	
Net Debt / EBITDA	3.6x	4.4x	4.4x	1.2x	0.8x	0.8x	3.8x	3.3x	4.3x	8.7x	7.3x	7.8x	2.0x	3.6x	4.9x	

All metrics are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. FYE = Financial year-end.  
Source: Moody's Financial Metrics™

Exhibit 17  
Elering AS  
Adjusted net debt calculation

(in EUR Millions)	31/12/2015	31/12/2016	31/12/2017	31/12/2018	31/12/2019
<b>As Reported Debt</b>	<b>379.2</b>	<b>367.4</b>	<b>322.3</b>	<b>353.7</b>	<b>343.3</b>
Operating Leases	1.5	2.4	2.6	1.1	
<b>Moody's-Adjusted Debt</b>	<b>380.7</b>	<b>369.8</b>	<b>324.9</b>	<b>354.8</b>	<b>343.3</b>
Cash & Cash Equivalents	60.5	53.0	82.0	62.7	42.3
Non-Standard Adjustments			-40.0		
<b>Moody's-Net Debt</b>	<b>320.2</b>	<b>316.8</b>	<b>202.9</b>	<b>292.1</b>	<b>301.0</b>

All metrics are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.  
Source: Moody's Financial Metrics™

Exhibit 18  
Elering AS  
Adjusted EBITDA calculation

(in EUR Millions)	31/12/2015	31/12/2016	31/12/2017	31/12/2018	31/12/2019
<b>As Reported EBITDA</b>	<b>78.6</b>	<b>76.0</b>	<b>67.7</b>	<b>65.7</b>	<b>78.7</b>
Operating Leases	0.4	0.6	0.7	0.3	
Unusual	-1.9	0.0	-0.1	0.0	-10.5
<b>Moody's-Adjusted EBITDA</b>	<b>77.1</b>	<b>76.6</b>	<b>68.3</b>	<b>65.9</b>	<b>68.2</b>

All metrics are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.  
Source: Moody's Financial Metrics™

## Endnotes

- 1 Estonia's projects are part of a broader agreement signed in 2018 among Poland, Estonia, Lithuania and Latvia through which the Baltics will be connected to continental Europe through Poland by 2025. As part of the project, the capacity on the LitPol interconnector between Lithuania and Poland will expand from the current 500 MW to 2 GW by 2025. These countries also plan to build a subsea cable to improve integration because a single connection to the European grid could threaten the security of supply in Baltic region if there was an outage.

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