

CREDIT OPINION

16 April 2018

Update

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RATINGS

Elering AS

Domicile	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

Discussion of Key Credit Factors

Summary

Elering's credit profile is underpinned by (1) the low business risk profile of its regulated transmission network operations; (2) the generally supportive regulatory framework, which provides for visibility of cash flows, albeit under a less prescriptive system of tariff calculation and application than seen elsewhere in Europe (leaving year-on-year tariff application decision at Elering's sole discretion); and (3) a conservative financial risk profile.

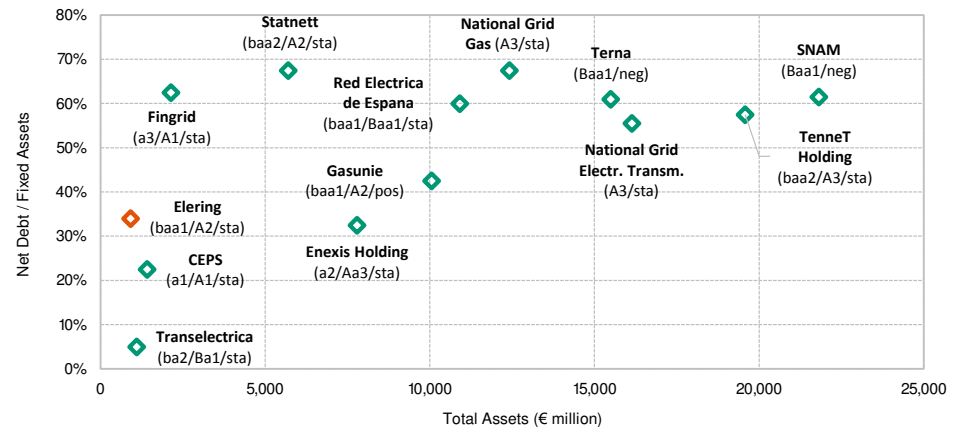
At the same time, Elering's credit quality is constrained by (1) the company's small scale with total reported assets of €910 million as of 31 December 2017; (2) the continued challenges of integrating Estonia's into the wider European energy transmission system; and (3) the expected moderate deterioration in credit metrics from strong 2017 levels, reflecting negative free cash flow generation over 2018-19.

Elering's profile benefits from the potential support from its 100% owner, the Government of Estonia. The government's supportive stance towards the company was evidenced by a €40 million equity injection paid over 2015-16 to support the acquisition of gas transmission assets, and another €40 million equity contribution paid in March 2018 to provide Elering with additional funding ahead of its forthcoming investments.

Exhibit 1

Elering's credit profile is constrained by the company's small size compared to European peers, but benefits from a relatively low leverage

Total Assets (last reported, as adjusted) versus Net Debt / Fixed Assets (forward-looking, as adjusted)



Note: The ratio of net debt to fixed assets used represents the mid point of Moody's forward view estimates as published in latest credit opinions and ratings are expressed as Baseline Credit Assessments (if applicable) and assigned final ratings. Source: Moody's Investors Service

Credit Strengths

- » Low-risk nature of monopoly electricity and gas transmission network operations regulated under a fairly well developed and transparent regime
- » Expectation of high likelihood of government support given Elering's strategic importance to Estonia's economy

Credit Challenges

- » Execution risks related to substantial investment programme mitigated by risk sharing with partners, construction guarantees and EU funding support
- » Moderate decline in regulatory returns from electricity transmission activities given the low interest-rate environment, mitigated by expected lower future funding costs and higher earnings from gas transmission

Rating Outlook

The outlook on Elering's ratings is stable, reflecting our expectation that Elering will exhibit a financial profile commensurate with the guidelines for the current rating of funds from operations (FFO)/net debt in the mid to high teens in percentage terms and FFO interest cover of 3.5x to 4.5x, and that the company will continue to prudently manage its liquidity position.

Factors that Could Lead to an Upgrade

Before we would consider any positive movement in the rating, we would expect to see Elering consistently maintain FFO interest cover above 4.5x and FFO/net debt at least in the twenties in percentage terms.

Factors that Could Lead to a Downgrade

The rating could come under downward pressure if Elering's FFO interest cover were to fall below 3.5x, or FFO/net debt were to decline to the low teens (in percentage terms) for a sustained period. Downward pressure could also be exerted on the rating as a result of (1) a deterioration in the credit quality of the government of Estonia; (2) a reduction in the government support assumptions currently incorporated into our credit assessment; or (3) a materially unfavourable change in the regulatory framework leading to a significant increase in the company's business risk.

Key Indicators

Exhibit 2

Strong credit metrics in 2017 as weaker cash flows were offset by lower net debt levels (see note 1 below)

Elering's key adjusted indicators

	12/31/2017	12/31/2016	12/31/2015	12/31/2014	12/31/2013
FFO Interest Coverage	5.4x	5.7x	5.9x	6.7x	6.9x
Net Debt / Fixed Assets	32.4%	42.0%	41.8%	44.6%	49.1%
FFO / Net Debt	20.8%	17.6%	18.4%	21.8%	21.1%
RCF / Net Debt	12.6%	7.8%	12.1%	21.8%	21.1%

Notes: [1] The company reclassified €40 million of long-term financial assets into short-term deposits in 2017. This benefited adjusted net debt under Moody's calculation; [2] 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™

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 for the most updated credit rating action information and rating history.

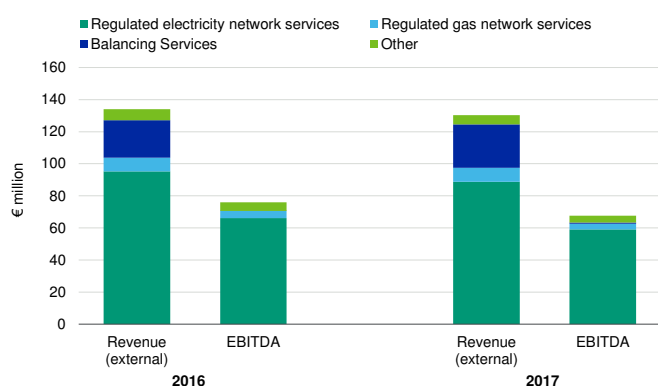
Profile

Elering AS is the owner and operator of Estonia's 5,403 km high-voltage electricity transmission network. In addition, Elering is present in the gas segment, following the acquisition of a 100% stake in the Estonian gas transmission operator from Fortum and Gazprom. Elering is 100% owned by the Government of Estonia (A1 stable).

The Estonian electricity transmission network was built as part of the north-western common power system of the former Soviet Union and the average age of the transmission assets is around 30 years. The transmission system is connected to Latvia and Russia, as well as to Finland through two submarine cables, Estlink 1 (350 MW) and Estlink 2 (650 MW). The gas transmission network comprises 885 km of pipelines and is connected to Latvia and Russia. This includes two gas transit pipelines in South-East Estonia, which became part of Elering's regulated asset base in July 2017. Both electricity and gas transmission activities are regulated by the Estonian Competition Authority.

Exhibit 3

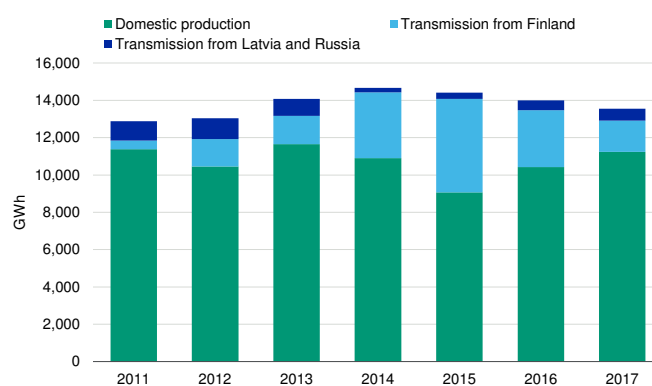
Electricity transmission accounts for the bulk of Elering's earnings Revenue and EBITDA breakdown



Source: Elering

Exhibit 4

A third of transported electricity come from imports/transit Electricity transmission volumes



Source: Elering

Detailed Credit Considerations

Low business risk profile underpinned by good visibility of cash flows and supportive, albeit evolving, regulatory framework

We consider electricity and gas network operations to be generally characterised by low business risk due to 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. Whilst electricity transmission operations are the principal source of earnings, gas transmission operations, acquired in 2015, are expected to grow from a small base of 5.3% of EBITDA in 2017.

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 Estonian Competition Authority (ECA). Whilst the regulatory framework is fairly well developed and based on generally used principles of a return on a Regulated Asset Base (RAB), we note that ECA introduced a lighter-touch approach to regulation in 2013. As a result, the previous three-year regulatory periods no longer apply and tariffs are not subject to automatic annual adjustments. Instead, Elering approaches the regulator for a review of tariffs on an ad hoc basis when it thinks it is appropriate to do so. Such form of regulation gives Elering more discretion in its approach to tariff changes, but it also somewhat reduces the overall transparency of the rate setting process.

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 weighted average cost of capital (WACC) applied to the company's RAB. The WACC allowance is generally reset by ECA every year and is 4.46% for electricity in 2018. The corresponding rate for the gas segment has historically been slightly higher and stood at 4.51% in 2018.

The actual return incorporated into electricity transmission tariffs over 2014 - H1 2017 was based on the rate of 6.74% reflecting a tariff application submitted by Elering with respect to the 2014 calendar year and therefore was higher than the regulatory WACC in the

years after 2014. New tariffs, applied from 1 July 2017, now incorporate a lower WACC, reflecting lower interest rates, and are down by 7.6% compared to previous tariffs. The company's decision to apply for new tariffs was driven by the agreement reached with the ECA to extend the remaining life of certain older assets (transmission assets as determined by the regulator in 2002; prior to Elering's separation from Eesti Energia AS in 2010) from less than two years (until March 2019) to three years and a half (until end-2020). As a result, the drop in depreciation component of the allowed revenues on the "old" assets (amounting to €15 million) should be spread more evenly over the period, thus allowing the company to avoid a sharp decline in earnings from 2019.

Notwithstanding the above, the Estonian parliament is working on an amendment to the Electricity Market Act which would introduce a principle that electricity RAB should be equal to the accounting value of assets, excluding assets financed with investment grants or income from cross-border capacity auctions. This is similar to the calculation of RAB in the gas segment. If introduced, the amendment will extend the regulatory lifetime of older assets beyond 2020, thus increasing the level of allowed revenues in the beginning of the next decade. Regardless of whether the amendment is adopted, we expect Elering to maintain a solid financial profile post-2020, allowing the company to meet the covenant levels defined in its loan documentation.

Exhibit 5

In spite of decreasing WACC, Elering has maintained higher profitability by not applying for new tariffs each year
Regulatory versus actual WACC levels (electricity)

Tariff year	2012	2013	2014	2015	2016	2017	2018
Risk-free rate	3.58	3.35	2.81	2.33	1.92	1.47	1.47
Country risk premium	1.90	2.04	1.51	0.99	0.70	0.78	0.78
Debt premium	0.90	1.03	1.03	0.92	1.08	1.08	1.08
Cost of debt	6.38	6.43	5.35	4.24	3.70	3.33	3.33
Risk-free rate	3.58	3.35	2.81	2.33	1.92	1.47	1.47
Country risk premium	1.90	2.04	1.51	0.99	0.70	0.78	0.78
Market risk premium	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Beta	0.74	0.76	0.76	0.72	0.70	0.67	0.67
Cost of equity	9.18	9.20	8.12	6.92	6.13	5.60	5.60
Gearing	0.50	0.50	0.50	0.50	0.50	0.50	0.50
WACC, nominal pre-tax	7.78	7.81	6.74	5.58	4.92	4.46	4.46
WACC, current tariffs	7.78	7.81	6.74	6.74	6.74	6.74 / 4.46	4.46

Notes: [1] In 2017, the WACC of 4.46% is applied only from 1 July 2017; [2] Risk free rate is based on the 5-year average of the 10-year German government bond yield.

Source: Elering, Moody's Investors Service

Falling interest rates reflected in the lower WACC, combined with a moderate decrease in electricity RAB, should lead to a decline in allowed returns from electricity activities in the next few years, if tariff renewals take place on a yearly basis. Overall, EBITDA from regulated electricity transmission could fall by up to €10 million by 2019 from 2017 levels of €59 million, based off these assumptions. However, we note that the regulator decided not to update the WACC in 2018, so the allowed rate of return has remained unchanged from 2017 levels for both electricity and gas.

The impact on cash flows should be partially mitigated by the expected increase in gas transmission earnings, driven by a growing RAB. In addition, we expect the company to refinance its €225 million bond due 2018 (currently bearing a coupon rate of 4.625%) at a lower rate of interest, thus mitigating the lower WACC.

The contribution from gas transmission assets to consolidated EBITDA should increase from 5.3% in 2017 to around 15% over the next few years given the expected growth in the gas RAB and falling earnings from electricity transmission activities. Earnings from gas transmission will be boosted in 2018 as a result of new tariffs that will take effect on 1 July 2018. An increase of 39.8% was approved by the regulator to compensate Elering for expected lower volumes (compared to previous regulatory assumptions) and higher operating expenditure.

The regulatory approach to operating costs is generally supportive. Operating costs are no longer subject to efficiency requirements (previously subject to decreases in real terms on an inflation adjusted, CPI-X, basis). Additionally, the full annual cost of network losses is passed through to customers in tariffs.

The company has some exposure to electricity and gas volumes. From 2013, tariffs have been calculated taking account of the average of domestic volumes over the three years preceding the year of the tariff application (vs. only one year, as previously applied). This helps to mitigate the financial impact of year-on-year fluctuations. If actual transmission volumes are different from the assumptions embedded in the tariff calculations, Elering bears the relative loss or collects the relative gain in income. From 2020, changes may be introduced to gas regulation to incorporate cross border flows which may fluctuate more than purely domestic volumes, which may have an effect on revenues.

We note the decrease in electricity transit volumes over 2015-17, which was mainly driven by the commissioning of a new interconnector between Lithuania and Sweden in 2016. However, this change in volume was considered in conjunction with the tariff revision in 2017. An increase in domestic consumption in the medium term could be positive for earnings.

Net investments expected to remain fairly high over 2018-22 period

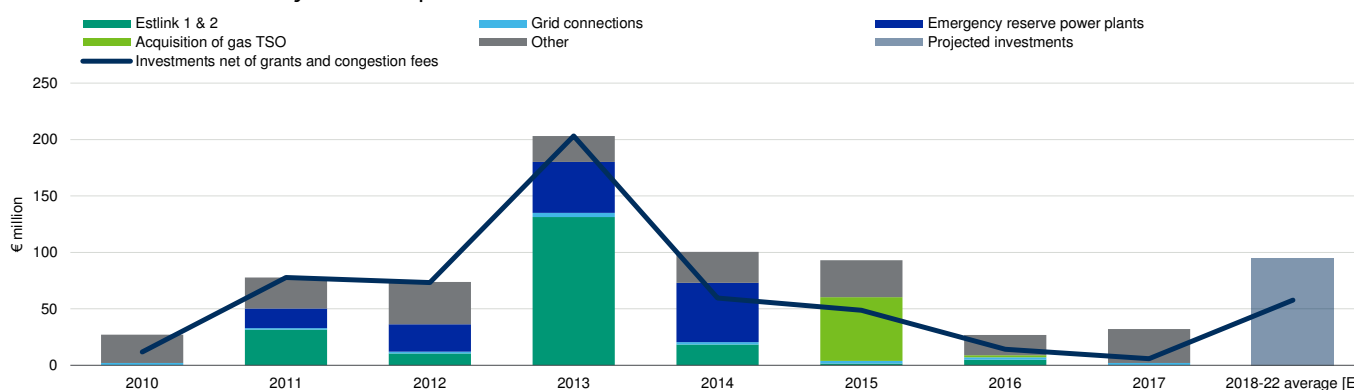
Elering's investments have been high in the recent past, considering the company's relatively small size. Total capital expenditures and acquisitions in 2013-17 were over €500 million, with the majority of spending occurring in 2013-14. Capital expenditure during the last 5-year period was reduced by some €124 million reflecting the financial support received from the EU and congestion fees from cross-border transmission capacity auctions.

The main investment projects in the electricity segment were completed by the December 2014 year end. They included (1) a second undersea cable between Estonia and Finland - Estlink 2 (€160 million); (2) the purchase of the Estlink 1 cable (€38 million); and (3) the construction of two emergency reserve power plants, with a cumulative capacity of 250 MW (€135 million). Regular maintenance investments to replace the ageing transmission equipment and develop the grid amounted to some €27 million per year for the electricity and gas transmission segments combined. Furthermore, in 2015, the company acquired a 100% stake in the Estonian gas transmission system operator, for a cash consideration of €53.7 million.

Exhibit 6

EU funding and congestion fees reduce Elering's net financial commitments stemming from its capital investment programme

Historical investments and Moody's forward expectation



Note: Congestion fees are deducted from gross capex levels only from 2014.

Source: Elering, Moody's Investors Service

Elering has embarked on a number of larger projects to be implemented over the medium term. These are designed to promote further integration of Baltic and Nordic energy markets and include the following initiatives: (1) Balticconnector - a bi-directional 77 km gas subsea pipeline connecting Estonia and Finland, to be implemented with a Finnish partner Baltic Connector Oy¹, (2) EstLat Gas - reinforcement of the Estonian gas transmission system in order to enable a more efficient use of the Balticconnector pipeline, and (3) EstLat OHL - a third 330 kV electricity transmission line between Estonia and Latvia, with most of investment spending to be incurred by the Latvian TSO, Augstsprieguma tikls AS.

The combined size of these three projects is around €480 million, which is quite significant in the context of Elering's size. Nonetheless, these projects will be completed in conjunction with partners, and the company's actual contribution will be limited to sections built on the Estonian territory (plus 50% of Balticconnector's offshore part), characterised by a lower degree of complexity compared to other sections. Elering's financial contribution (as shown in the table below) will be complemented by EU financial support. In addition, for electricity interconnectors, the financing shortfall should be recovered by way of congestion revenues. Finally, the construction for interconnectors will be contracted out with various guarantees in place to limit exposure to project execution risks. Any amounts not covered by EU funding will be added to the RAB. This is most relevant for the gas interconnectors and will drive a significant increase in RAB from 2017 levels.

Exhibit 7

Elering's key investment projects in the medium term relate to increasing electricity and gas interconnection capacity

Overview of investment projects including Elering's estimated share in net capex

In € million	Description	Partners	Gross capex (Elering's share)	EU funding	Net capex (Elering's share)
Gas					
Balticconnector (2018-19)	2.3 bcm subsea gas pipeline between Estonia and Finland with accompanying land-based sections in both countries.	Baltic Connector Oy (Finland)	135	98	37
EstLat Gas (2018-20)	Enhancement of the Estonian-Latvian interconnection (part of the Balticconnector project).	-	43	19	24
Electricity					
EstLat OHL (2018-20)	Third electricity interconnection between Estonia and Latvia to increase transmission capacity by up to 600 MW.	Augstspriegumataikls AS (Latvia)	79	49	30

Note: Elering's net contribution to EstLat OHL should be financed with received congestion income. As a result, the project will not be included in the company's regulated asset base.

Source: Elering, European Commission, Moody's Investors Service

We expect the peak of investments to occur around 2018-19, with a gradual decline thereafter assuming no major delays in the implementation of key projects. Over the longer term, we expect the company to redirect its investment focus towards the desynchronisation of the Baltic countries' power networks from Russian and Belarusian grids. We understand that both the final shape of the process and the required investment spending is still being discussed, and that no major capital expenditure should be incurred before the early 2020s.

Cash-flow based metrics expected to deteriorate modestly from current levels

In light of the implementation of its sizeable investment programme, Elering's debt has increased from €190 million, prior to the issuance of a €225 million bond in July 2011, to reach €362 million as of 31 December 2017. Cash-flow based credit metrics deteriorated over 2015-16, mainly due to a change in accounting treatment of congestion fees, which are now excluded from group revenues, and thus do not contribute to cash flows from operating activities. Instead, this income from cross-border capacity auctions is recognised as part of investing cash flows and is used to fund the construction of new interconnectors.

Nonetheless, future amortisation of congestion income should boost company EBITDA, and therefore our key metrics based on funds from operations, but we point out that this effect will be reversed as part of working capital movements reflected in cash from operations.²

We expect cash flow from regulated transmission activities to reduce for the reasons described earlier, which however should be counterbalanced by lower funding costs. Nonetheless, net capital expenditures (after EU grants and congestion fees) of over €120 million per year (on average) during 2018-19 will likely exceed operating cash flow. We note that EU grants awarded to support cross-border electricity and gas projects tend to be paid retrospectively, so this could result in some annual volatility in Elering's net debt levels. The company should return to positive free cash flow generation post-2019 as the level of investments is expected to reduce.

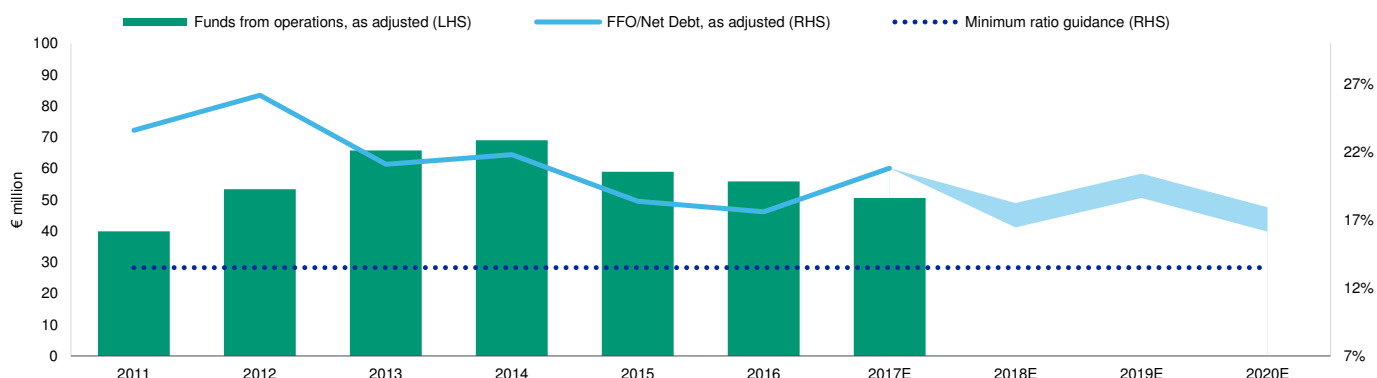
We expect Elering's metrics to moderately deteriorate from strong 2017 levels and to be somewhat variable for the reasons described earlier. The effect of increased investments on the company's financial profile should be mitigated by the €40 million capital injection from the government paid in 2018 to support the large investment programme, designed to further integrate the Estonian energy system with the wider Nordic/Baltic region. This benefit is partially offset by dividend outflow (for example, €20 million was paid in Q2 2017 on 2016 results).

The ratio of net debt to fixed assets should decline driven largely by growth in fixed assets. We expect that net debt/RAB (not published) to be weaker than net debt/fixed assets as most of the interconnectors will not form part of the RAB, as described earlier. On the other hand, the company will not earn a return on investments financed by either EU funds or congestion income. Leverage ratios, will remain moderate compared with other EU peers (see Exhibit 1).

Exhibit 8

We expect FFO/net debt to remain within the rating guidance over the medium term

FFO/net debt versus guidance



Note: [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.

Source: Moody's Financial Metrics™, Moody's forward view

Government support assumption results in rating uplift

Elering's A2 rating incorporates two notches of uplift from its standalone credit quality, which we express as a baseline credit assessment (BCA) of baa1. The uplift to the BCA reflects the credit quality of its 100% owner, the government of Estonia (A1 stable) and our assessment of high probability of governmental support for the company in the event of financial distress.

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. The government also has a strong track record of support to the company. It issued two comfort letters to the creditors of long-term loans and increased the company's share capital by €5.8 million and €9.9 million in 2010 and 2011 respectively. Also, in order to support the acquisition of gas transmission assets in 2015, the government contributed a total of €40 million in equity, with the final tranche of €32 million paid in June 2016. A further equity injection of €40 million was provided in March 2018 as described earlier.

We consider there to be a high probability of support for Elering if such were needed, which reflects the company's strategic importance for the economy and its status as a provider of vital services. Furthermore, we understand that there are currently no privatisation plans and the government of Estonia will remain the sole shareholder of Elering.

Liquidity Analysis

As of 31 December 2017, Elering's cash balance amounted to a sizeable €82.0 million, up from €53.0 million at 31 December 2016. In addition, the company had €40 million of short-term deposits, which matured in January 2018.

Furthermore, Elering has access to €200 million of committed back-up credit facilities that can be drawn until July 2018. These were put in place in light of the forthcoming refinancing of a €225 million bond (see below), to address any timing issues with regard to market conditions as the internal cash generation is insufficient to meet this year's bond maturity. We expect these facilities to remain undrawn given the company's intention to issue a new bond in amount similar to existing notes.

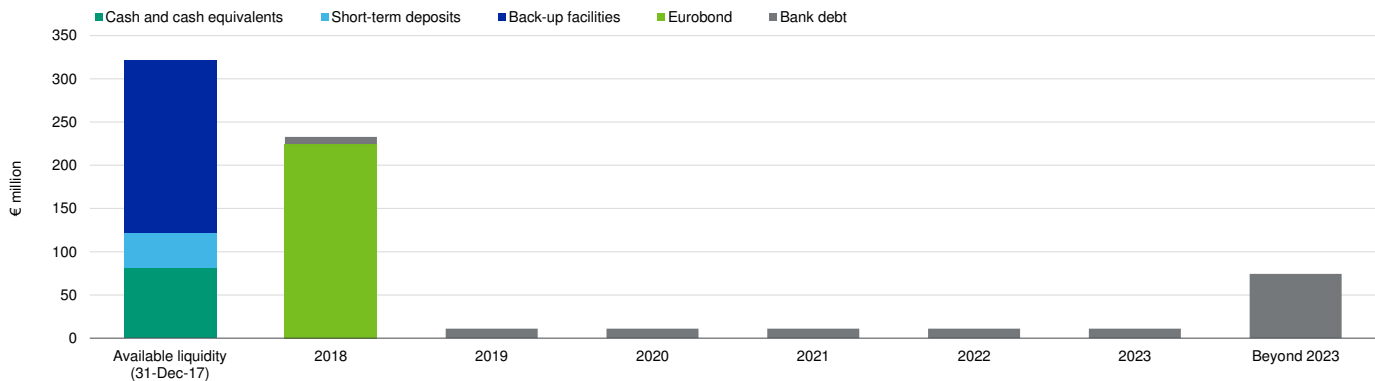
The majority of outstanding debt is represented by its €225 million 4.625% notes due in July 2018, as well as drawdowns under European Investment Bank (EIB) and Nordic Investment Bank (NIB) facilities, which have a scheduled amortisation profile (maturity dates between 2025-33). We note that the EIB and NIB facilities include the following financial covenants: Equity/Assets of more than

30% (38% at 31 December 2017, as reported), and net debt/EBITDA of less than 6.0x (4.1x at 31 December 2017, as reported). We expect headroom under the covenants to remain adequate in the near-to-medium term.

Exhibit 9

Debt profile reflects €225 million Eurobond maturing in July 2018

Debt maturities and available liquidity



Source: Elering

Rating methodology and scorecard factors

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

Based on the company's historical and forecasted financial results, the rating methodology grid indicates a factor outcome of A2, which is above the assigned BCA of baa1. Elering's BCA reflects its relatively small size compared to Western European peers, its operations being concentrated in a relatively small economy, as well as execution risks related to a substantial investment programme.

Exhibit 10
Rating Grid
 Elering AS

Regulated Electric and Gas Networks Industry Grid [1][2]	Current FY 12/31/2017		Moody's 12-18 Month Forward View As of April 2018 [3]	
	Measure	Score	Measure	Score
Factor 1 : Regulatory Environment and Asset Ownership Model (40%)				
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
Factor 2 : Scale and Complexity of Capital Program (10%)				
a) Scale and Complexity of Capital Program	Baa	Baa	Baa	Baa
Factor 3 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 4 : Leverage and Coverage (40%)				
a) FFO Interest Coverage (3 Year Avg)	5.7x	Aa	8x	Aaa
b) Net Debt / Fixed Assets (3 Year Avg)	38.8%	Aa	34% - 35%	Aa
c) FFO / Net Debt (3 Year Avg)	18.8%	A	17% - 20%	Baa / A
d) RCF / Net Debt (3 Year Avg)	10.7%	Baa	11% - 14%	Baa
Rating:				
Indicated Rating from Grid Factors 1-4		A2		A2
Rating Lift				
a) Indicated Rating from Grid		A2		A2
b) Actual Baseline Credit Assessment / Rating Assigned				baa1 / A2
Government-Related Issuer	Factor			
a) Baseline Credit Assessment	baa1			
b) Government Local Currency Rating	A1			
c) Default Dependence	Very High			
d) Support	High			
e) Final Rating Outcome	A2			

Note: [1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations; [2] As of 12/31/2017; [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 11

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

Source: Moody's Investors Service

Appendix

Exhibit 12

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



Estonia-Latvia third interconnection

--- 330 kV overhead line



Source: ENTSO-E, Elering

Exhibit 13

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



Source: Baltic Connector Oy

Exhibit 14

Elering AS

Peer Comparison Table

	Elering AS A2 Stable			Fingrid Oyj A1 Stable			Statnet SF A2 Stable			CEPS, a.s. A1 Stable			Eurogrid GmbH Ba1 RUR-DNG		
	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-15	FYE Dec-16	LTM Jun-17	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-15	FYE Dec-16	LTM Jun-17
(in € millions)															
Revenue	127.0	134.0	130.3	600.2	586.1	672.0	642.1	702.7	736.6	486.1	457.1	477.4	9,448	9,434	9,433
EBITDA	77.1	76.6	68.3	275.5	261.3	273.8	353.6	374.0	416.7	124.2	134.0	159.4	56	364	398
EBITDA Margin %	60.7%	57.1%	52.4%	45.9%	44.6%	40.7%	55.1%	53.2%	56.6%	25.5%	29.3%	33.4%	0.6%	3.9%	4.2%
Total Debt	380.7	369.8	364.9	1,165.3	1,134.4	1,110.1	2,468.4	3,336.1	3,457.6	116.8	235.4	221.4	1,978	2,880	2,881
Net Debt	320.2	316.8	242.9	1,049.0	1,054.7	1,026.3	2,230.2	3,015.4	3,071.5	42.9	142.0	193.0	969	1,658	1,295
FFO Interest Coverage	5.9x	5.7x	5.4x	8.4x	8.4x	10.7x	7.0x	6.7x	6.8x	-624.0x	177.3x	95.3x	13.4x	5.9x	5.4x
FFO / Net Debt	18.4%	17.6%	20.8%	21.1%	19.2%	21.0%	14.0%	10.6%	11.1%	263.3%	87.5%	78.6%	41.8%	17.6%	22.0%
RCF / Net Debt	12.1%	7.8%	12.6%	14.9%	10.7%	11.5%	12.5%	9.3%	9.9%	262.5%	64.0%	67.1%	31.6%	11.6%	14.3%
Net Debt / Fixed Assets	41.8%	42.0%	32.4%	61.8%	61.5%	60.3%	58.2%	64.5%	64.8%	4.1%	11.7%	15.1%	27.2%	39.7%	30.7%
Net Debt / EBITDA	4.2x	4.1x	3.6x	3.8x	4.0x	3.7x	6.8x	8.0x	7.6x	0.3x	1.0x	1.2x	17.4x	4.6x	3.3x

Note: 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 15

Elering AS

Key Indicators

€ Millions	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
INCOME STATEMENT							
Revenue	94.2	108.9	133.8	129.2	127.0	134.0	130.3
EBIT	29.3	42.1	53.7	50.8	39.7	37.9	33.2
EBITDA	50.6	64.6	77.2	82.2	77.1	76.6	68.3
Interest Expense	10.7	11.0	11.2	12.0	12.0	11.8	11.5
BALANCE SHEET							
Total Debt	222.3	227.6	313.0	348.4	380.7	369.8	364.9
Cash & Cash Equivalents	53.6	24.0	1.1	31.9	60.5	53.0	122.0
Total Liabilities	296.3	290.3	396.0	475.4	534.0	557.0	566.0
Net PP&E	409.1	457.4	634.7	709.0	765.8	753.7	748.7
Total Assets	485.1	512.1	664.8	788.6	863.0	905.8	911.9
CASH FLOW							
Funds from Operations (FFO)	39.8	53.3	65.8	69.0	58.9	55.8	50.6
Cash Flow From Operations (CFO)	38.5	45.0	80.7	60.6	56.5	57.2	59.2
Cash Dividends - Common	-	-	-	-	-20.0	-31.0	-20.0
Retained Cash Flow (RCF)	39.8	53.3	65.8	69.0	38.9	24.8	30.6
Capital Expenditures (*)	-69.4	-77.8	-188.5	-64.8	4.2	-13.8	-5.3
Free Cash Flow (FCF)	-30.9	-32.8	-107.8	-4.3	40.7	12.4	33.8
FFO / Net Debt	23.6%	26.2%	21.1%	21.8%	18.4%	17.6%	20.8%
RCF / Net Debt	23.6%	26.2%	21.1%	21.8%	12.1%	7.8%	12.6%
FCF / Net Debt	-18.3%	-16.1%	-34.6%	-1.3%	12.7%	3.9%	13.9%
PROFITABILITY							
EBIT Margin %	31.1%	38.6%	40.1%	39.3%	31.3%	28.3%	25.5%
EBITDA Margin %	53.7%	59.3%	57.7%	63.6%	60.7%	57.1%	52.4%
INTEREST COVERAGE							
FFO Interest Coverage	5.0x	5.9x	6.9x	6.7x	5.9x	5.7x	5.4x
LEVERAGE							
Debt / EBITDA	4.4x	3.5x	4.1x	4.2x	4.9x	4.8x	5.3x
Net Debt / EBITDA	3.3x	3.2x	4.0x	3.9x	4.2x	4.1x	3.6x
Debt / Book Capitalization	54.1%	50.6%	53.8%	52.7%	53.6%	51.5%	51.3%
Net Debt / Fixed Assets	41.2%	44.5%	49.1%	44.6%	41.8%	42.0%	32.4%

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

(*) Capex is net of EU grants and cross-border congestion fees.

Source: Moody's Financial Metrics™

Exhibit 16

Elering AS

Adjusted Net Debt Calculation

(in € Millions)	FYE Dec-11	FYE Dec-12	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17
As Reported Debt	221.6	227.0	312.4	347.9	379.2	367.4	362.3
Operating Leases	0.6	0.5	0.6	0.6	1.5	2.4	2.6
Moody's-Adjusted Debt	222.3	227.6	313.0	348.4	380.7	369.8	364.9
Cash & Cash Equivalents	-53.6	-24.0	-1.1	-31.9	-60.5	-53.0	-82.0
Non-Standard Adjustments	-	-	-	-	-	-	-40.0
Moody's-Adjusted Net Debt	168.7	203.6	311.8	316.6	320.2	316.8	242.9

Note: 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 17

Elering AS**Adjusted EBITDA Calculation**

(in € Millions)	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
As Reported EBITDA	50.5	64.5	77.1	82	78.6	76	67.7
Operating Leases	0.1	0.1	0.1	0.1	0.4	0.6	0.7
Unusual	0	0	0	0	-1.9	0	-0.1
Moody's-Adjusted EBITDA	50.6	64.6	77.2	82.2	77.1	76.6	68.3

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

Source: Moody's Financial Metrics™

Moody's Related Research

Rating Action

- » [Moody's upgrades Elering's ratings to A2; stable outlook, 11 September 2015](#)

Outlook

- » [Regulated electric and gas networks - EMEA - 2018 outlook stable with good cash flow visibility, but declining allowed returns, 11 December 2017](#)

Sector In-Depth

- » [Regulated Electric and Gas Utilities and Networks - Global - Prudent regulation key to mitigating risk, capturing opportunities of decarbonization, 2 November 2017](#)
- » [Energy transition presents long-term risks for European regulated energy networks, 13 June 2017](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Endnotes

- 1 Company established by the Finnish government following the withdrawal of the gas TSO, Gasum Oy from the project.
- 2 Since July 2014, received congestion fees (i.e. income from cross-border capacity auctions) have been accounted for as part of investing cash flows. As a result, they are no longer recognised in the income statement and the operating section of the cash flow statement. However, if congestion proceeds are used to finance the construction of new cross-border capacities, they are recognised in the income statement similarly to investment grants (i.e. credited to income over the estimated useful life of the asset).

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