

PROSPECTUS



ELERING AS

(incorporated as a public limited liability company under the laws of the Republic of Estonia)

€225,000,000 0.875 per cent. Notes due 2023

Issue price: 99.907 per cent.

The €225,000,000 0.875 per cent. Notes due 2023 (the "**Notes**") are issued by Elering AS (the "**Issuer**").

The Issuer may, at its option, redeem all, but not some only, of the Notes at any time (i) at par plus accrued interest, in the event of certain tax changes, or (ii) at the Relevant Early Redemption Amount (as defined in, and all as further described under "*Terms and Conditions of the Notes - Redemption and Purchase*"). In addition, upon the occurrence of a change of control of the Issuer and, in certain circumstances, a related ratings downgrade (as further described under "*Terms and Conditions of the Notes - Redemption at the Option of the Holders on a Change of Control*") holders of the Notes may require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) the Notes at par plus accrued interest. The Notes mature on 3 May 2023.

This document has been approved by the United Kingdom Financial Conduct Authority, in its capacity as the United Kingdom competent authority (the "**UK Listing Authority**") for the purposes of Directive 2003/71/EC, as amended (the "**Prospectus Directive**") and relevant implementing measures in the United Kingdom, as a prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of the Notes. Applications have been made for the Notes to be admitted to listing on the Official List of the UK Listing Authority (the "**Official List**") and to trading on the Regulated Market of the London Stock Exchange plc (the "**London Stock Exchange**"). The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2014/65/EU (as amended, "**MiFID II**").

The Notes are expected to be rated A2 (stable) by Moody's Investors Service Limited ("**Moody's**"). The Issuer has been assigned a rating of A2 (stable) by Moody's. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Moody's is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). As such, Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation.

The Notes will initially be represented by a temporary global note (the "**Temporary Global Note**"), without interest coupons, which will be deposited on or about 3 May 2018 (the "**Closing Date**") with a common safekeeper for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note (the "**Permanent Global Note**" and, together with the Temporary Global Note, the "**Global Notes**"), without interest coupons, not earlier than 40 days after the Closing Date, upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances - see "*Summary of Provisions relating to the Notes while represented by the Global Notes*".

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Joint Lead Managers (as defined in "*Subscription and Sale*") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (within the meaning of Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

An investment in Notes involves certain risks. Prospective investors should have regard to the factors described under the heading "Risk Factors" on page 2.

Joint Lead Managers and Joint Bookrunners

DANSKE BANK

J.P. MORGAN

The date of this Prospectus is 30 April 2018

This Prospectus comprises a prospectus for the purposes of Article 5 of the Prospectus Directive.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated in it by reference (see "*Documents Incorporated by Reference*"). This Prospectus should be read and construed on the basis that such documents are incorporated in, and form part of, the Prospectus.

The Issuer, having made all reasonable enquiries, confirms that this Prospectus contains all material information with respect to the Issuer and the Notes (including all information which, according to the particular nature of the Issuer and of the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Notes), that the information contained or incorporated in this Prospectus is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Prospectus are honestly held and that there are no other facts the omission of which would make this Prospectus or any of such information or the expression of any such opinions or intentions misleading. The Issuer accepts responsibility accordingly.

Save for the Issuer, no party has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Managers as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes. No Joint Lead Manager accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes or their distribution.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Joint Lead Managers.

Neither this Prospectus nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Joint Lead Managers that any recipient of this Prospectus or any other information supplied in connection with the offering of the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Joint Lead Managers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Joint Lead Managers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in the Notes of any information coming to their attention.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Joint Lead Managers do not represent that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Joint Lead Managers which is intended to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any

applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the European Economic Area, the United Kingdom and the Republic of Estonia. See "*Subscription and Sale*" for a further description of certain restrictions on the offering and sale of the Notes and on distribution of this document.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a "**retail investor**" means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MIFID II product governance / Professional investors and eligible counterparties only target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

In connection with the issue of the Notes, J.P. Morgan Securities plc as Stabilisation Manager (the "**Stabilisation Manager**") (or persons acting on behalf of the Stabilisation Manager) may over-allot notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

All references in this document to "**euro**" and "**€**" refer to the currency introduced at the start of the third stage of European economic and monetary union, as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998, on the introduction of the euro, as amended.

All references to the "**Issuer**" and the "**Company**" refer to Elering AS and (if applicable) its subsidiaries from time to time. As at the date of this Prospectus, Elering AS has no subsidiaries.

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PRESENTATION OF FINANCIAL INFORMATION

This Prospectus presents certain information that has been extracted without material adjustment from the audited financial statements of the Issuer as at and for the year ended 31 December 2017 (the "**2017 Financial Statements**") and the audited consolidated financial statements of the Issuer as at and for the year ended 31 December 2016 (the "**2016 Financial Statements**" and together with the 2017 Financial Statements, the "**Financial Statements**"). The Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS**") and are incorporated by reference into this Prospectus.

Certain arithmetical data presented in the Prospectus, including financial and operating information, has been subject to rounding. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables in the Prospectus may not conform exactly to the total figure given.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Risk Factors

Factors that may affect the Issuer's ability to fulfil its obligations under or in connection with the Notes

Risk of fluctuating revenues / unanticipated increase in costs or decrease in income

As almost all of the costs of the Company are fixed costs (i.e. they are not dependent on the volumes of transmitted energy (i.e. electricity and gas)), the Company is especially vulnerable to any decline in revenues. The occurrence of any such decline would result in the corresponding reduction of net profit.

Network tariffs are calculated based on the actual average amount of the last 3 years' transmitted energy. In the periods when the economy is declining, the amount of actual transmitted energy may fall short of the amount used in the calculation of tariffs, resulting in decreased revenue.

Currently, nearly 100 per cent. of the tariffs are based on domestic consumption, which is more stable than cross border transmission. However, there is no guarantee that the electricity network tariffs will continue to be based on domestic consumption in the future. In relation to gas network tariffs, a new tariff system will be introduced from 2020 which will be more dependent on cross border flows. As revenues are calculated based on the principles described above, if consumption is lower than expected in that period then revenues will be lower. As almost all costs are fixed a decrease in revenue will have a direct impact on profit. In the event that a significant part of electricity network tariffs were to be based on power generation or cross border energy flows (including congestion management i.e. revenue from the auction of cross border capacity which is used in calculating grid tariffs), revenue may fluctuate significantly more from year to year. Such fluctuating revenues, taken together with fixed costs, may have an adverse effect on the financial position of the Company.

Unanticipated increases in operating costs related to reserves, construction, counter-trade, labour costs or commodities; any unexpected repair or maintenance costs; decreases in energy consumption; or structural changes in energy flows may have negative effects on the Company's financial position. The sum of operation and maintenance costs that are recovered through the tariffs is fixed according to a standard methodology set by the Estonian Competition Authority (the "ECA"). In the event that actual costs are higher then there will be no compensation in the following years for the Company. Unanticipated increase in costs may occur due to several reasons: the increase in procurement prices; the emergencies in the network as a result of severe weather conditions; or breakage of submarine transmission cables etc.

The Company replaces energy lost through transmission by buying energy from the open market where the price can be volatile. If the energy prices are high this will result in increased costs to the Company and the recovery of these costs through the adjusted tariffs may be delayed. Any such delayed recovery of costs may have an adverse impact on the Company's financial position.

Risks related to the functioning of the electricity and gas systems

Major disturbances or power shortages in the Estonian energy systems could occur due to: severe and simultaneous faults in the electricity grid and/or gas network; the malfunctioning of the network control system; adverse weather conditions; terrorism or vandalism; human error; emergencies resulting in power generation failures in the power stations; or an external incident, any of which could prevent the operation of the grid in whole or partially. In certain cases (such as human error by the Company's employees) the

Company's customers may claim compensation for direct damages. Although the Company is prepared for these situations with various reserves, operational codes, manuals, emergency provisions and protective clauses in the network contracts, such disturbances or shortages may still occur and such occurrence could have a material adverse effect on the Company's financial position and results of operations or its reputation.

Risks related to changes in legislation or regulation

The Company operates as the sole electricity and gas transmission system operator in Estonia under licences granted to the Company for an unlimited period. However, changes in Estonian legislation or European regulation could result in the removal or suspension of the Company's licenses.

Unfavourable changes in either European regulation or Estonian legislation may have a material adverse effect on the Company's financial position. Stricter regulation on environmental matters and complicated permit processes for the building of new transmission equipment may negatively influence the Company's ability to fulfil its development targets and this may negatively influence the Company's financial position and/or reputation.

Electricity and gas network tariffs regulation risk

Although the current regulatory regime has been in place since 2003 and has so far proven to be stable, there are changes expected to the gas network tariff in 2020. Whilst these are not expected to have an impact on the Company, there is no guarantee that additional changes to the network tariff regulations will not be implemented in the future or what such additional changes will be. For a regulated company, revenue from tariffs is the major contributor to total revenues and hence profits. An unfavourable change in the tariff regulations could result in a significant decrease in the revenues and profit generated by the Company and weaken the Company's financial position.

Risks related to changes in Taxation

Currently, there is no corporate income tax levied by the Estonian authorities on reinvested profit but that may change in the future. Changes in applicable tax laws (in this regard or otherwise) may have an impact on the profitability of the Company.

Risk of breaching financial covenants

There are two financial covenants in the long-term loan agreements that the Company is required to meet: net debt to EBITDA and equity to assets ratios. Whilst the Company has not breached such covenants in the past, in the event that these covenants were to be breached, the relevant creditors would be able to declare an Event of Default pursuant to the relevant loan agreements and require prepayment of the entire outstanding amount, together with accrued interest. Due to the cross default clauses in such loan agreements and the Notes upon issue, the Company may need to refinance all outstanding debt. In such a situation there could be no assurance that the Company would be able to refinance such outstanding debt on terms acceptable to it, or at all, and accordingly would significantly impact on the ability of the Company to reach its repayment obligations, including in respect of the Notes. For further information please see "*The Business of Elering AS -Financing*".

Risks related to health and safety matters and the environment

The Company transmits electricity via high voltage lines and substations and gas via high pressure pipelines and pressure lowering stations. When working with high voltage, high pressure and large structures, there are inherent risks to persons and a risk of damage to property. Accidents may occur due to a fault in the Company's own energy system operation, due to the action or inaction of a third party or due to circumstances outside of the Company's control, such as adverse weather conditions. The effects of electric and magnetic fields or potential natural gas leaks pose further potential risks to the Company. In addition, the Company's equipment contains substances which are hazardous for the environment (such as sulfur hexafluoride, oil etc.) which, in case of a leak, may contaminate the environment. If any of these risks materialise, including any such damage to person or property, leaks, contamination or attribution of damage to the Company in respect of its operations, the Company could be exposed to significant liability, damages and/or clean up costs, as well as material adverse publicity from such events which may have a material adverse effect on the condition of the Company.

Interest rate risk

The Company has fixed and floating rate debt. Fixed rate debt (such as the Company's outstanding Eurobond) may result in financial losses in the event that the relevant market interest rate falls. Floating interest rate loans may result in financial losses in the event that the relevant market interest rate rises. Although the regulator's methodology takes the actual market interest rate into account while calculating the weighted average cost of capital for the Company, there may be a delay before the adjustment by the regulator, during which time the increased interest expense will not be completely covered by the tariffs and that may weaken the Company's financial position.

Refinancing risk

The Company has amortising and bullet repayment debt obligations. The Company has not breached such obligations in the past. In the event that the maturity date of a bullet debt falls during a period of unfavourable market conditions, the costs of refinancing, if available at all, may be significantly more and result in the weakening of the Company's financial position. For further information please see "*The Business of Elering AS - Financing*".

State Ownership

The sole shareholder of the Company is the Republic of Estonia acting through the Ministry of Economic Affairs and Communications and some of its representatives in the Supervisory Board are usually civil servants. As such, their decisions may not always be primarily or exclusively driven by profitability or other business considerations. State ownership of the Company may therefore negatively impact the Company's financial performance. The Ministry of Economic Affairs and Communications as shareholder has approved a document entitled "*Owner's expectations to Elering*" setting out its expectations including strategic and financial objectives for the Company. Currently, the Estonian Government allows the Company to be independent and to manage its activities in a manner consistent with its business strategy and in line with the Estonian Government's expectations for the Company. However, there is a risk that the shareholder's expectations referred to above may change or the Estonian Government may otherwise intervene in the conduct of the Company's business and if there was such a change or intervention, the Company may not receive fair and adequate compensation from the Estonian Government as sole shareholder, which could have a material adverse effect on the Company's business and financial position. There is also a risk that a larger than normal dividend could be requested by the Estonian Government as sole shareholder, which, if paid, could negatively impact the capital requirements of the Company. In addition, as at the date of this document, whilst there is no indication that the Estonian Government will divest any of its equity stake in the Company, any such divestment could affect the Company's borrowing costs, which could have a material adverse effect on the Company's business and financial position.

Power generation subsidies' administration risk

Pursuant to the energy subsidy scheme of the Republic of Estonia the Company collects subsidies from the electricity distribution companies and consumers, which the Company in turn pays out to the eligible power generation companies. The subsidy tariff is calculated by the Company for the whole calendar year, based on the Company's forecasts of the consumption and eligible generation in Estonia. In the event that the Company underestimates the amount of eligible generation and/or overestimates the consumption, the Company has to finance the deficit. However, both the surplus and deficit will be taken into account when calculating the following year's subsidy tariff.

The subsidy is a form of state aid for promoting renewable energy production in relation to which the European Commission has issued state aid decision SA.47354 (the "**EC State Aid Decision**"). The EC State Aid Decision provides the Republic of Estonia and the Company with a set of conditions which form the basis for determining which producers are entitled to the state aid. Interpretation of the EC State Aid Decision and the subsequent validation of producers on this basis is carried out on a case by case basis by the Company. There is therefore a risk that others may not interpret the conditions in the same way, and may seek compensation from the Company in respect to such interpretation.

Counterparty risk

In conducting its business the Company, as with any other business, faces counterparty risk. Counterparty risk may result in financial losses (including, but not limited to, funds deposited at banks, partners in long term

construction projects and transmission revenues to be received from customers as well as balancing service revenues received from balance providers). Although the Company monitors its counterparty risks and has a risk management policy that includes the management of counterparty risks, there is a possibility that if these risks are realised, they may impact the Company's financial performance.

Risks relating to processing of personal data

To fulfil its obligations as a transmission system operator the Company processes personal data. One of the main risks comes from the large-scale processing of data involved in operating and administering the exchange of electricity and gas metering data between market participants in the Electricity Data Hub and the Gas Data Hub. Additionally, the Company has several in-house registers in accordance with its responsibilities as the granting authority for renewable energy state aid and other public law obligations (i.e. the maintenance of the infrastructure of the Electricity Grid). Following European Union data protection reform, the regulation of processing personal data has become rigorous. After the implementation of European Union General Data Protection Regulation in 25 May 2018, the infringement of personal data processing rules could lead to an administrative fine of up to EUR 20,000,000, or in the case of an undertaking, up to 4 per cent. of the total worldwide annual turnover of the preceding financial year, whichever is higher. Although the Company seeks to comply with all applicable laws and regulations, if the Company was to be charged with such a fine or undertaking, this could adversely impact the Company's financial position.

Failure to attract and retain key personnel

Any limitations placed on the Company's ability to recruit and retain a skilled and experienced management team and operating staff may affect the Company's capability to implement its business strategy successfully. In an increasingly competitive environment, there is an increased risk of losing staff to competitors, who may be willing and able to pay higher salaries. The failure to attract and retain key personnel could have an adverse effect on the Company's business and financial position.

Risks relating to repayment of EU funding

The EU provides funding to the Company for a number of approved projects. To the extent that such projects do not perform in accordance with their objectives, there is a risk that the Company receives all of the funds necessary to complete a project, and may not be able to repay such funding if any amount is to be refunded which may have an adverse impact on the financial position on the Company and its ability to complete its intended project's plans according to its intended timetable.

Risks relating to information technology (IT) system failures

The Company's IT systems are critically important in supporting all of its activities. Failures in the Company's IT systems could result from technical malfunctions, human error, lack of system capacity, security or software breaches. The introduction of new technologies and the development of new uses expose the Company to new threats. Any failure or malfunctioning of the Company's IT systems could result in breaches of confidentiality, delays or loss of data which could have an impact on the administrative functioning and operations of the Company, and potentially cause damage to its reputation.

Risks relating to damage to infrastructure

Adverse weather conditions may result in the Company's property being damaged and this could have a number of consequences including the cost of repairs and reductions or delays in the Company's services for which the Company may be liable to provide compensation. In addition, any damage to the infrastructure of the Company, whether through lack of maintenance, accidents, adverse weather or any other cause may result in damage to third party infrastructure which the Company may be liable to repair or compensate for. In particular, any damage to the Baltconnector subsea gas pipeline may cause damage to the nearby third party infrastructure (including but not limited to the Nord Stream pipeline) as well as potential pollution caused by leaking gas from a damaged pipe which may lead to environmental fines for the Company.

Factors which are material for the purpose of assessing the market risks associated with the Notes

The Notes may be redeemed prior to maturity

The Notes contain an optional redemption feature, which is likely to limit their market value. At any time, the Issuer may, at its option, redeem all, but not some only, of the Notes at the Relevant Early Redemption Amount

(as defined in, and as further described under "*Terms and Conditions of the Notes – Redemption and Purchase – Redemption at the Option of the Issuer*"). Accordingly, the market value of the Notes generally will not rise substantially above the Relevant Early Redemption Amount, being the price at which the Notes can be redeemed. The Issuer may be expected to redeem the Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

In addition, if, as a result of any change in, or amendment to, the laws or regulations of the Republic of Estonia or any political subdivision or any authority thereof or therein having power to tax, or any change in the official interpretation of the laws or regulations of any such jurisdiction, which change or amendment becomes effective after 30 April 2018, on the next Interest Payment Date the Issuer would be required to make a withholding or deduction (in respect of which the Issuer will be required to pay additional amounts under Condition 7 in order that the net amounts received by Noteholders are the same as would have been receivable in the absence of the withholding or deduction), and the requirement to pay such additional amounts cannot be avoided by the Issuer taking reasonable measures available to it, the Issuer may, at its option, redeem all of the Notes in accordance with the conditions of the Notes. See "*Terms and Conditions of the Notes – Redemption and Purchase – Redemption for Taxation Reasons*" and "*Terms and Conditions of the Notes – Taxation*".

On any such redemption of the Notes, it may not be possible for a Noteholder to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and this may only be possible at a significantly lower rate.

Certification of non-Estonian residency in respect of Notes in definitive form

Holders should be aware that, if definitive Notes are issued, holders of any definitive Notes that are not held through Euroclear or Clearstream, Luxembourg will be required to present evidence of non-Estonian residency to the relevant Paying Agent in order to receive payments of interest in respect of the Notes free of Estonian withholding tax (which, as at the date of this Prospectus, is charged at a rate of 20 per cent.).

Risks related to the Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification

The terms and conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Change of law

The terms and conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

Denominations involve integral multiples: definitive Notes

The Notes have denominations consisting of a minimum of €100,000 plus one or more higher integral multiples of €1,000. It is possible that the Notes may be traded in amounts that are not integral multiples of €100,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than €100,000 in his or her account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes such that its holding amounts to at least €100,000. Further, a holder who, as a result of trading such amounts, holds an amount which is less than €100,000 in his or her account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to €100,000.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of €100,000 may be illiquid and difficult to trade.

Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer and payment

The Notes will be represented on issue by a Global Note which will be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Permanent Global Note, investors will not be entitled to receive definitive Notes. Each of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in the Global Notes held through it. While the Notes are represented by a Global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by a Global Note, the Issuer will discharge its payment obligation under the Notes by making payments to the common safekeeper for distribution through Euroclear and Clearstream, Luxembourg. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in a Global Note.

Sovereign Immunity and Immunity of Assets

Pursuant to Condition 14.4 the Issuer has irrevocably and unconditionally waived and agreed not to raise with respect to the Notes and the Coupons, to the extent permitted by applicable law, any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, should any such immunity become available to it.

There is no law or jurisprudence of Estonian courts in respect of sovereign, diplomatic or any other immunity. Accordingly, if, notwithstanding the provisions of Condition 14.4, the Issuer sought to claim immunity in respect of any action or proceeding brought in connection with the Notes, there is no guarantee that such claim of immunity by the Issuer would not be successful.

In addition, the Estonian Code of Enforcement Procedure of 2005 (*täitemenetluse seadustik*) provides a list of assets against which a claim for payment cannot be made and/or which may not be sold in the course of enforcement proceedings. Therefore, if the Issuer owns any assets the seizure or transfer of which is in conflict with good morals or public interest, such assets would be immune from the enforcement of any judgment or claim in respect of the Notes and the Coupons.

The Estonian Law on Restructurings

Pursuant to the Estonian Law on Restructurings (*Saneerimisseadus*) of 2008, as amended (the "**Restructuring Act**"), companies may make an application to court for the commencement of restructuring proceedings, and in the event that the court commences such restructuring proceedings, any enforcement proceedings against, or bankruptcy applications in respect of, such company will be stayed until the reorganisation plan is approved or restructuring proceedings are terminated. In addition, the Restructuring Act provides that, in connection with any reorganisation plan, creditors may agree to certain modifications to the terms of any obligations owed by the relevant company to its creditors.

Any application by the Issuer to the Estonian courts for the commencement of restructuring proceedings under the Restructuring Act would constitute an Event of Default under Condition 9.1. However, if restructuring proceedings were commenced and/or a reorganisation plan was approved by the relevant Estonian court in respect of the Issuer, there is no guarantee that Noteholders would be able to enforce the payment of amounts due and payable under or in respect of the Notes, either immediately or during restructuring proceedings. If approved by at least 50 per cent. of the creditors of the Issuer participating in the restructuring proceedings representing at least two-thirds of all claims or, if the creditors of the Issuer have been divided into groups for the purposes of the restructuring proceedings then upon consent of at least 50 per cent. of the creditors representing at least two-thirds of all claims in all groups of creditors (including creditors of the Issuer other than the Noteholders), amounts due and payable by the Issuer in respect of the Notes may also be subject to modification in connection with any such restructuring proceedings and/or reorganisation plan, including, *inter alia*, by way of an extension of the due date for the payment of any such amounts or a reduction in any such amounts.

Additionally, the Restructuring Act provides that any part of an agreement pursuant to which a creditor may terminate an agreement upon the commencement of restructuring proceedings by an Estonian court or upon the adoption by an Estonian court of a restructuring plan (*saneerimiskava*) is void under Estonian law (but without prejudice to the validity of the other terms of the agreement). While Condition 9.1 does not violate such provisions of the Restructuring Act, it is possible that an Estonian court may nonetheless interpret the Restructuring Act more widely to decide that a provision permitting the termination of an agreement upon an application to the Estonian courts for the commencement of restructuring proceedings is also void, despite there being no Estonian case law to this effect as at the date of this Prospectus.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Exchange rate risks and exchange controls

The Issuer will pay principal, premium (if any) and interest on the Notes in euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to euro would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal and/or premium (if any) payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal and premium (if any) than expected, or no interest, principal or premium.

Interest rate risks

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of them.

Credit ratings may not reflect all risks

Moody's is expected to assign a credit rating to the Notes. This rating may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to Moody's and ratings is set out on the cover of this Prospectus.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published, or are published simultaneously with this Prospectus, and have been filed with the Financial Conduct Authority, shall be deemed to be incorporated in, and to form part of, this Prospectus:

1. the audited annual financial statements (including the notes thereto) of the Issuer for the year ended 31 December 2017, together with the auditor's report thereon as set out on pages 37 to 89 of the Issuer's 2017 Annual Report;
2. the audited consolidated annual financial statements (including the notes thereto) of the Issuer for the year ended 31 December 2016, together with the auditor's report thereon as set out on pages 76 to 127 of the Issuer's 2016 Annual Report; and
3. the unaudited interim financial statements of the Issuer for the three months ended 31 March 2018.

Any statement made herein or in a document incorporated by reference or deemed incorporated herein by reference is deemed to be modified or superseded for purposes of this Prospectus if, and to the extent that, a statement contained in this Prospectus or in any other document subsequently incorporated or deemed incorporated by reference herein modifies or supersedes that statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus. Non-incorporated parts of the documents referred to above are either not relevant for investors or are covered elsewhere in the Prospectus.

Copies of documents incorporated by reference in this Prospectus can be obtained from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London and will be available for viewing on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to modification) will be endorsed on each Note in definitive form:

The €225,000,000 0.875 per cent. Notes due 2023 (the "**Notes**", which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 13 and forming a single series with the Notes) of Elering AS (the "**Issuer**") are issued subject to and with the benefit of an Agency Agreement dated 3 May 2018 (such agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") made between the Issuer and Deutsche Bank AG, London Branch as fiscal agent and principal paying agent (the "**Fiscal Agent**" and, together with any other paying agents appointed pursuant to the Agency Agreement, the "**Paying Agents**").

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement. Copies of the Agency Agreement are available for inspection during normal business hours by the holders of the Notes (the "**Noteholders**") and the holders of the interest coupons appertaining to the Notes (the "**Couponholders**" and the "**Coupons**" respectively) at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. References in these Conditions to the Fiscal Agent and the Paying Agents shall include any successor appointed under the Agency Agreement.

1. **Form, Denomination and Title**

1.1 **Form and Denomination**

The Notes are in bearer form, serially numbered, in the denominations of €100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000, each with Coupons attached on issue. No definitive Notes will be issued with a denomination above €199,000. Notes of one denomination may not be exchanged for Notes of any other denomination.

1.2 **Title**

Title to the Notes and to the Coupons will pass by delivery.

1.3 **Holder Absolute Owner**

The Issuer and any Paying Agent may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Note or Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon).

2. **Status**

The Notes and the Coupons are direct, unconditional and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

3. **Negative Pledge**

3.1 **Negative Pledge**

So long as any of the Notes remains outstanding (as defined in the Agency Agreement) the Issuer will ensure that no Relevant Indebtedness (as defined below) will be secured by any mortgage, charge, lien, pledge or other security interest (each a "**Security Interest**") upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Issuer or any of its Subsidiaries (as defined below) unless the Issuer, in the case of the creation of the Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:

- (a) all amounts payable by it under the Notes and the Coupons are secured by the Security Interest equally and rateably with the Relevant Indebtedness; or
- (b) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided as is approved by an Extraordinary Resolution (which is defined in the Agency Agreement as a resolution duly passed by a majority of not less than three-quarters of the votes cast at a meeting of the Noteholders with the requisite quorum as set out in Condition 12.1 (*Meetings of Noteholders*) or a resolution in writing signed by or on behalf of all the Noteholders) of the Noteholders.

3.2 Interpretation

For the purposes of these Conditions:

- (a) "**Relevant Indebtedness**" means (i) any present or future indebtedness (whether being principal, premium, interest or other amounts) which is in the form of or represented by any notes, bonds, debentures, debenture stock, loan stock or other securities which are for the time being, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market and (ii) any guarantee or indemnity of any such indebtedness; and
- (b) "**Subsidiary**" means, in relation to the Issuer, any company (i) in which the Issuer holds a majority of the voting rights or (ii) of which the Issuer is a member and has the right to appoint or remove a majority of the board of directors or (iii) of which the Issuer is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of the Issuer.

4. Interest

4.1 Interest Rate and Interest Payment Dates

The Notes bear interest from and including 3 May 2018 at the rate of 0.875 per cent. per annum, payable annually in arrear on 3 May in each year (each an "**Interest Payment Date**"). The first payment (representing a full year's interest) shall be made on 3 May 2019.

4.2 Interest Accrual

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal and/or premium (if any) in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Notes has been received by the Fiscal Agent and notice to that effect has been given to the Noteholders in accordance with Condition 11, except to the extent that there is any subsequent default in payment.

4.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated by applying the rate of 0.875 per cent. per annum to each €1,000 principal amount of Notes (the "**Calculation Amount**") and on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the "**Accrual Date**") to (but excluding) the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to (but excluding) the next following Interest Payment Date. The resultant figure shall be rounded to the nearest cent (half a cent being rounded upwards). The interest payable in respect of a Note shall be the product of such rounded figure and the amount by which the Calculation Amount is multiplied to reach the denomination of the relevant Note, without any further rounding.

5. **Payments**

5.1 **Payments in respect of Notes**

Payments of principal, premium (if any) and interest in respect of each Note will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Note, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

5.2 **Method of Payment**

Payments will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by euro cheque.

5.3 **Missing Unmatured Coupons**

Each Note should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of the relevant Note (whether or not the Coupon would otherwise have become void pursuant to Condition 8) or, if later, five years after the date on which the Coupon would have become due, but not thereafter.

5.4 **Payments subject to Applicable Laws**

Payments in respect of principal, premium (if any) and interest on Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 7.

5.5 **Payment only on a Presentation Date**

A holder shall be entitled to present a Note or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 4, be entitled to any further interest or other payment if a Presentation Date is after the due date.

"Presentation Date" means a day which (subject to Condition 8):

- (a) is or falls after the relevant due date;
- (b) is a Business Day in the place of the specified office of the Paying Agent at which the Note or Coupon is presented for payment; and
- (c) in the case of payment by credit or transfer to a euro account as referred to above, is a TARGET2 Settlement Day.

In this Condition:

- (i) **"Business Day"** means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place; and
- (ii) **"Target2 Settlement Day"** means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) system is open.

5.6 **Initial Paying Agents**

The name of the initial Paying Agent and its initial specified office are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents **provided that**:

- (a) there will at all times be a Fiscal Agent;
- (b) there will at all times be at least one Paying Agent (which may be the Fiscal Agent) having its specified office in a European city which, so long as the Notes are admitted to the official list of the UK Listing Authority, shall be London or such other place as the UK Listing Authority may approve; and
- (c) there will at all times be a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Issuer is incorporated.

Notice of any termination or appointment and of any changes in specified offices given to the Noteholders promptly by the Issuer in accordance with Condition 11.

6. **Redemption and Purchase**

6.1 **Redemption at Maturity**

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 3 May 2023 (the "**Maturity Date**").

6.2 **Redemption for Taxation Reasons**

If:

- (a) as a result of any change in, or amendment to, the laws or regulations of the Relevant Jurisdiction (as defined in Condition 7), or any change in the official interpretation of the laws or regulations of the Relevant Jurisdiction, which change or amendment becomes effective after 30 April 2018, on the next Interest Payment Date the Issuer would be required to pay additional amounts as provided or referred to in Condition 7; and
- (b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it,

the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 11 (which notice shall be irrevocable), redeem all the Notes, but not some only, at any time at their principal amount together with interest accrued to but excluding the date of redemption, **provided that** no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts, were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent a certificate signed by two Directors of the Issuer stating that the requirement referred to in (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of the change or amendment.

6.3 **Redemption at the Option of the Issuer**

The Issuer may, having given:

- (a) not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 11; and
- (b) notice to the Fiscal Agent not less than 15 days before the giving of the notice referred to in paragraph (a) above;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Notes at the Relevant Early Redemption Amount.

Any notice of redemption given by the Issuer under this Condition 6.3 which specifies a Relevant Early Redemption Amount that has been calculated pursuant to sub-paragraph (a)(ii) of the definition of "Relevant Early Redemption Amount" will override any Put Exercise Notice that has been given previously by a Noteholder pursuant to Condition 6.4 provided the Notes which are the subject of such Put Exercise Notice have not yet been redeemed on the relevant Put Redemption Date.

For the purpose of this Condition 6.3:

"Relevant Early Redemption Amount" means:

- (a) in relation to any date fixed for redemption which falls in the period up to and including 3 February 2023 (save for any redemption falling within sub-paragraph (c) below), such amount as is equal to the greater of the amounts in sub-paragraph (i) and (ii) below together with interest accrued to but excluding the date fixed for redemption:
 - (i) the principal amount outstanding of the Notes;
 - (ii) the price (expressed as a percentage (rounded to three decimal places, with 0.0005 being rounded upwards) as reported in writing to the Issuer by the Determination Agent) which is equal to the sum of the present values of the principal amount outstanding of the Notes at the date fixed for redemption and the Remaining Term Interest (exclusive of interest accrued to the date fixed for redemption) discounted to the date fixed for redemption on an annual basis at a discount rate equal to the Reference Bond Rate plus 0.15 per cent.;
- (b) in relation to any date fixed for redemption which falls in the period from but excluding 3 February 2023 to but excluding the Maturity Date, such amount as is equal to the principal amount outstanding of the Notes together with interest accrued to but excluding the date fixed for redemption; and
- (c) if, prior to the date of the giving of the notice referred to in paragraph 6.3(a) above, purchases (and corresponding cancellations) and/or redemptions have been effected in respect of 80 per cent. or more in principal amount of the Notes originally issued (which shall for this purpose include any further notes issued pursuant to Condition 13 and forming a single series with the Notes), such amount as is equal to the principal amount outstanding of the Notes together with interest accrued to but excluding the date fixed for redemption.

"Calculation Date" means the date which is the second TARGET2 Settlement Day prior to the date fixed for redemption.

"Determination Agent" means an investment bank or financial institution of international standing selected by the Issuer.

"Reference Bond" means the 0.000 per cent. German government bond due April 2023 with ISIN DE0001141778 (or, where the Determination Agent advises the Issuer that, for reasons of illiquidity or otherwise, such government bond is not appropriate for such purpose, such other government bond as the Determination Agent may recommend).

"Reference Bond Price" means, with respect to any date fixed for redemption, (A) the arithmetic average of the Reference Government Bond Dealer Quotations for such date fixed for redemption, after excluding the highest and lowest such Reference Government Bond Dealer Quotations, or (B) if the Determination Agent obtains fewer than four such Reference Government Bond Dealer Quotations, the arithmetic average of all such quotations.

"Reference Bond Rate" means, with respect to any date fixed for redemption, the rate per annum equal to the annual yield to maturity or interpolated yield to maturity on an "Actual/Actual (ICMA)" basis of the Reference Bond, assuming a price for the Reference Bond (expressed as a percentage of its principal amount) equal to the Reference Bond Price for such date fixed for redemption.

"Reference Government Bond Dealer" means each of five banks selected by the Determination Agent, or their respective affiliates, which are (A) primary government securities dealers, and their respective successors, or (B) market makers in pricing corporate bond issues.

"Reference Government Bond Dealer Quotations" means, with respect to each Reference Government Bond Dealer and any Calculation Date, the arithmetic average, as determined by the Determination Agent, of the bid and offered prices for the Reference Bond (expressed in each case as a percentage of its principal amount) at 11.00 a.m. (Frankfurt time) on the Calculation Date quoted in writing to the Determination Agent by such Reference Government Bond Dealer.

"Remaining Term Interest" means the aggregate amount of scheduled payment(s) of interest on the Notes for the remaining term of the Notes determined on the basis of a rate of 0.875 per cent. per annum from and including the date fixed for redemption.

6.4 **Redemption at the Option of the Holders on a Change of Control**

If, at any time while any of the Notes remains outstanding, there occurs (i) if at the relevant time there are any Rated Securities, both a Change of Control and, within the Change of Control Period, a Rating Downgrade in respect of that Change of Control or (ii) if at the relevant time there are no Rated Securities, a Change of Control (each of (i) and (ii), a **"Put Event"**), each Noteholder shall have the option (unless, prior to the giving of the Put Event Notice (as defined below), the Issuer shall have given notice under Condition 6.2 or 6.3) to require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) that Noteholder's Note(s) at their principal amount together with (or, where purchased, together with an amount equal to) interest accrued to (but excluding) the Put Redemption Date (as defined below). Such option (the **"Put Option"**) shall operate as set out below.

If a Put Event occurs the Issuer shall, within 14 days of the occurrence of such Put Event, give notice (a **"Put Event Notice"**) to the Noteholders in accordance with Condition 11 specifying the nature of the Put Event and the procedure for exercising the Put Option.

To exercise the Put Option, if the relevant Note is held outside Euroclear Bank S.A./N.V. (**"Euroclear"**) and Clearstream Banking S.A. (**"Clearstream, Luxembourg"**), the Noteholder must deliver such Note to the specified office of any Paying Agent, on a day which is a Business Day (as defined in Condition 5.5) in London and in the place of such specified office falling within the period (the **"Put Exercise Period"**) of 45 days after the date on which a Put Event Notice is given, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a **"Put Exercise Notice"**) and in which the holder may specify a bank account complying with the requirements of Condition 5 (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 6.4. All unmatured Coupons shall be dealt with as per the provisions of Condition 5.3. The Issuer shall redeem or, at its option, purchase (or procure the purchase of) the relevant Note on the date (the **"Put Redemption Date"**) being the fifteenth day after the date of expiry of the Put Exercise Period, unless previously redeemed or purchased and cancelled. The Paying Agent to which such Note and Put Exercise Notice are delivered shall issue to the Noteholder concerned a non-transferable receipt in respect of the Note so delivered. Payment in respect of any Note so delivered shall be made, if the holder duly specifies a bank account in the Put Exercise Notice to which payment is to be made on the Put Redemption Date, by transfer to that bank account (or, if an address is specified for payment by cheque, by cheque sent by first class post to such address) and, in every other case, on or after the Put Redemption Date, in each case against presentation and surrender or (as the case may be) endorsement of such receipt at any specified office of any Paying Agent, subject in any such case as provided in Condition 5. A Put Exercise Notice, once given, shall be irrevocable.

If the relevant Note is held through Euroclear or Clearstream, Luxembourg, to exercise the Put Option the Noteholder must, within the Put Exercise Period, give notice to the Fiscal Agent of such exercise in accordance with the standard procedures of Euroclear or Clearstream, Luxembourg, as applicable, (which may include notice being given on such Noteholder's instruction by Euroclear or Clearstream, Luxembourg or any common safekeeper for them to the Fiscal Agent by electronic means) in a form acceptable to Euroclear or Clearstream, Luxembourg, as applicable.

For the purposes of this Condition 6.4:

A **"Change of Control"** will be deemed to occur if (i) the Republic of Estonia ceases to own, directly or indirectly (through any governmental agency or political subdivision thereof) at least 51 per cent. of the issued share capital of the Issuer; or (ii) the Republic of Estonia ceases to have the power,

directly or indirectly, to cast, or control the casting of, at least 51 per cent. of the maximum number of votes that might be cast at a general meeting of the Issuer.

"Change of Control Period" means the period commencing on the first to occur of (i) a Change of Control and (ii) any official public announcement by the Issuer or any shareholder of the Issuer that states that a Change of Control shall occur and ending 30 days after the Change of Control occurs.

"Rated Securities" means (i) the Notes so long as they shall have an effective rating from any Rating Agency at the invitation of the Issuer and (ii) any unsecured and unsubordinated debt of the Issuer (or any Subsidiary of the Issuer which is guaranteed on an unsecured and unsubordinated basis by the Issuer) which is rated at the invitation of the Issuer (or such Subsidiary) by one or more of the Rating Agencies.

"Rating Agency" means Moody's Investors Service Limited ("**Moody's**"), and its successors.

A **"Rating Downgrade"** shall be deemed to have occurred in respect of a Change of Control if within the Change of Control Period the rating assigned to the Rated Securities by any Rating Agency is (a) withdrawn or (b) changed from an investment grade rating (Baa3, or its equivalent for the time being, or better) to a non-investment grade rating (Ba1, or its equivalent for the time being, or worse) or (c) (if the rating assigned to the Rated Securities by the relevant Rating Agency on the first day of the relevant Change of Control Period is below an investment grade rating (as described above)) lowered one full rating category (by way of example, from Ba1 to Ba2 or such lower or equivalent rating), provided that a Rating Downgrade otherwise arising by virtue of a particular change in rating shall be deemed not to have occurred in respect of a Change of Control if the Rating Agency making the change in rating to which this definition would otherwise apply has not announced or confirmed (whether publicly or in writing to the Issuer) that the withdrawal or the reduction was wholly or substantially the result of the Change of Control.

If the rating designations employed by Moody's are changed from those which are described in the definition of "Ratings Downgrade" above, the Issuer shall determine, the rating designations of Moody's as are most nearly equivalent to the prior rating designations of Moody's and this Condition shall be construed accordingly.

6.5 **Purchases**

The Issuer or any of its Subsidiaries (as defined above) may at any time purchase Notes (**provided that** all unmatured Coupons appertaining to the Notes are purchased with the Notes) in any manner and at any price. Such Notes may be held, reissued, resold or surrendered by the purchaser through the Issuer for cancellation. Notes held by or for the account of the Issuer or any of its Subsidiaries for their own account will cease to carry the right to attend and vote at meetings of Noteholders and will not be taken into account in determining how many Notes are outstanding for the purposes of these Conditions and the provisions of the Agency Agreement.

6.6 **Cancellations**

All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer or any of its Subsidiaries and are surrendered for cancellation by the Issuer will forthwith be cancelled, together with all relative unmatured Coupons attached to the Notes or surrendered with the Notes, and accordingly may not be reissued or resold.

6.7 **Notices Final**

Upon the expiry of any notice as is referred to in Conditions 6.2, 6.3 or 6.4 above the Issuer shall be bound to redeem the Notes to which the notice refers in accordance with the terms of such Conditions.

7. **Taxation**

7.1 **Payment without Withholding**

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the Relevant Jurisdiction,

unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Note or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note or Coupon; or
- (b) presented for payment in the Republic of Estonia; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Presentation Date (as defined in Condition 5).

7.2 Interpretation

In these Conditions:

- (a) "**Relevant Date**" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 11; and
- (b) "**Relevant Jurisdiction**" means the Republic of Estonia or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal, premium (if any) and interest on the Notes and Coupons.

7.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition.

8. Prescription

Notes and Coupons will become void unless presented for payment within periods of 10 years (in the case of principal and/or premium) and five years (in the case of interest) from the Relevant Date in respect of the Notes or, as the case may be, the Coupons, subject to the provisions of Condition 5.

9. Events of Default

9.1 Events of Default

The holder of any Note may give notice to the Issuer that the Note is, and it shall accordingly forthwith become, immediately due and repayable at its principal amount, together with interest accrued to the date of repayment, if any of the following events ("**Events of Default**") shall have occurred and be continuing:

- (a) if default is made in the payment of any principal, premium (if any) or interest due in respect of the Notes or any of them and the default continues for a period of 7 days in respect of principal or premium or 14 days in respect of interest; or
- (b) if the Issuer fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30

days following the service by any Noteholder on the Issuer of notice requiring the same to be remedied; or

- (c) if:
- (i) any Indebtedness for Borrowed Money (as defined below) of the Issuer or any of its Subsidiaries becomes, or becomes capable of being declared, due and repayable prematurely by reason of an event of default (however described);
 - (ii) the Issuer or any of its Subsidiaries fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment, as extended by any originally applicable grace period;
 - (iii) any security given by the Issuer or any of its Subsidiaries for any Indebtedness for Borrowed Money becomes enforceable; or
 - (iv) default is made by the Issuer or any of its Subsidiaries in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person;

provided that the amount of Indebtedness for Borrowed Money referred to in subparagraphs (i) to (iii) above and/or the amount payable under the guarantee or indemnity referred to in (iv) above, individually or in the aggregate, exceeds EUR10,000,000 (or its equivalent in any other currency or currencies); or

- (d) if any order is made by any competent court or resolution is passed for the winding up or dissolution of the Issuer or any of its Subsidiaries; or
- (e) if the Issuer or any of its Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of Noteholders, or the Issuer or any of its Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (f) if (i) proceedings are initiated against the Issuer or any of its Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any of its Subsidiaries or, as the case may be, in relation to the whole or any part of the undertaking or assets of any of them or an encumbrancer takes possession of the whole or any part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of any of them, and (ii) in any such case (other than the appointment of an administrator), unless initiated by the relevant company, is not discharged within 30 days; or
- (g) if the Issuer or any of its Subsidiaries (or their respective directors or shareholders) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, without limitation, any application by the Issuer or any of its Subsidiaries for the commencement of restructuring proceedings pursuant to the Estonian Law on Restructurings (*Saneerimisseadus*) of 2008, as amended and/or the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors).

9.2 **Interpretation**

For the purposes of this Condition, "**Indebtedness for Borrowed Money**" means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities or any borrowed money or any liability under or in respect of any acceptance or acceptance credit.

10. **Replacement of Notes and Coupons**

Should any Note or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

11. **Notices**

11.1 **Notices to the Noteholders**

All notices to the Noteholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Issuer may decide. It is expected that publication will normally be made in the *Financial Times*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

11.2 **Notices from the Noteholders**

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Fiscal Agent or, if the Notes are held in a clearing system, may be given through the clearing system in accordance with the standard rules and procedures.

12. **Meetings of Noteholders and Modification**

12.1 **Meetings of Noteholders**

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of any of these Conditions or any of the provisions of the Agency Agreement. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that at any meeting the business of which includes the modification of certain of these Conditions the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting, and on all Couponholders.

12.2 **Modification**

The Fiscal Agent may agree, without the consent of the Noteholders or Couponholders, to any modification of any of these Conditions or any of the provisions of the Agency Agreement for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein. Any modification shall be binding on the Noteholders and the Couponholders and, unless the Fiscal Agent agrees otherwise, any modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 11.

13. **Further Issues**

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes, having terms and conditions the same as those of the Notes, or the same except for the amount of the first payment of interest, which may be consolidated and form a single series with the outstanding Notes.

14. **Governing Law and Submission To Jurisdiction**

14.1 **Governing Law**

The Agency Agreement, the Notes and the Coupons, and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Notes and the Coupons, are governed by, and will be construed in accordance with English law.

14.2 **Jurisdiction of English Courts**

- (a) Subject to Condition 14.2(b), the courts of England have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes or the Coupons (including any disputes relating to any non-contractual obligations arising out of or in connection with the Notes and the Coupons) and accordingly each of the Issuer, the Noteholders and the Couponholders submits to the exclusive jurisdiction of the English courts. The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum.
- (b) To the extent allowed by law, the Noteholders and the Couponholders may take any suit, action or proceeding arising out of or in connection with the Notes or the Coupons respectively (including any suit, action or proceeding relating to any non-contractual obligations arising out of or in connection with the Notes and the Coupons) (together referred to as "**Proceedings**") against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

14.3 **Appointment of Process Agent**

The Issuer hereby irrevocably and unconditionally appoints TMF Global Services (UK) Limited at its registered office for the time being as its agent for service of process in England in respect of any Proceedings and undertakes that in the event of such agent ceasing so to act it will appoint another person as its agent for that purpose. Nothing herein shall affect the right to serve process in any other manner permitted by law.

14.4 **Sovereign Immunity**

Should such immunity become available to the Issuer, to the extent permitted by applicable law the Issuer hereby irrevocably and unconditionally waives and agrees not to raise with respect to the Notes and the Coupons any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, including in relation to the recognition of any judgement or court order, and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

14.5 **Other Documents**

The Issuer has in the Agency Agreement submitted to the jurisdiction of the English courts and appointed an agent in England for service of process, in terms substantially similar to those set out above. In addition, the Issuer has, in such document, waived any rights to sovereign immunity and other similar defences which it may have.

15. **Rights of Third Parties**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL NOTES

The following is a summary of the provisions to be contained in the Temporary Global Note and the Permanent Global Note (together the "**Global Notes**") which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Notes.

1. **Exchange**

The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note on or after a date which is expected to be 12 June 2018 upon certification as to non-U.S. beneficial ownership.

The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only if:

- (a) an event of default (as set out in Condition 9) has occurred and is continuing; or
- (b) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available; or
- (c) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes in definitive form.

The Issuer will promptly give notice to Noteholders if an Exchange Event occurs. In the case of (a) or (b) above, the holder of the Permanent Global Note, acting on the instructions of one or more of the Accountholders (as defined below), may give notice to the Issuer and the Fiscal Agent and, in the case of (c) above, the Issuer may give notice to the Fiscal Agent of its intention to exchange the Permanent Global Note for definitive Notes on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Note may or, in the case of (c) above, shall surrender the Permanent Global Note to or to the order of the Fiscal Agent. In exchange for the Permanent Global Note the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Agency Agreement. On exchange of the Permanent Global Note, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Notes.

For these purposes, "**Exchange Date**" means a day specified in the notice requiring exchange falling not less than 30 days after that on which such notice is given, being a day on which banks are open for general business in the place in which the specified office of the Fiscal Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant clearing system is located.

2. **Payments**

On and after 12 June 2018, no payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal, premium (if any) and interest in respect of Notes represented by a Global Note will, subject as set out below, be made to the bearer of such Global Note and, if no further payment falls to be made in respect of the Notes, against surrender of such Global Note to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. The Issuer shall procure that the amount so paid shall be entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg and the principal amount of the Notes recorded in the records of Euroclear and Clearstream, Luxembourg and represented by such Global Note will be reduced accordingly. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of Euroclear and Clearstream, Luxembourg shall not affect such discharge. Payments of interest on the Temporary Global Note (if permitted by the first sentence of this

paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

3. **Accountholders**

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of Notes (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of that principal amount for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders and giving notices to the Issuer pursuant to Condition 6.4 and Condition 9) other than with respect to the payment of principal, premium and interest on the principal amount of such Notes, the right to which shall be vested, as against the Issuer solely in the bearer of the relevant Global Note in accordance with and subject to its terms. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note.

4. **Interest Calculation**

For so long as the Notes are represented by one or both Global Notes, interest payable to the holder of the relevant Global Note(s) on each Interest Payment Date will be calculated by applying the interest rate of 0.875 per cent. per annum to the outstanding principal amount of the Notes represented by such Global Note(s) and on the basis of (i) the actual number of days in the period from and including the Accrual Date to (but excluding) the date on which it falls due divided by (ii) the actual number of days from and including the Accrual Date to (but excluding) the next following Interest Payment Date, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and without any further rounding.

5. **Notices**

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 11 **provided that**, so long as the Notes are admitted to the Official List and to trading on the London Stock Exchange's regulated market, all requirements of the UK Listing Authority have been complied with. Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Whilst any of the Notes held by a Noteholder are represented by a Global Note, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Fiscal Agent and Euroclear and Clearstream, Luxembourg may approve for this purpose.

6. **Prescription**

Claims against the Issuer in respect of principal, premium (if any) and interest on the Notes represented by a Global Note will be prescribed after 10 years (in the case of principal and/or premium) and five years (in the case of interest) from the Relevant Date (as defined in Condition 7).

7. **Cancellation**

Cancellation of any Note represented by a Global Note and required by the Terms and Conditions of the Notes to be cancelled following its redemption or purchase will be effected by instruction by or on behalf of the Fiscal Agent to Euroclear and Clearstream, Luxembourg to make appropriate entries in their records in respect of all Notes which are cancelled.

8. **Put Option**

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, the option of the Noteholders provided for in Condition 6.4 may be exercised by an Accountholder giving notice to the Fiscal Agent in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common safekeeper for them to the Fiscal Agent by electronic means) of the principal amount of the Notes in respect of which such option is exercised and the Issuer shall procure that the portion of the principal amount of the relevant Global Note so redeemed shall be entered in the records of Euroclear and/or Clearstream, Luxembourg.

9. **Euroclear and Clearstream, Luxembourg**

Notes represented by a Global Note are transferable in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as appropriate.

10. **Eurosystem Eligibility**

The Global Notes will be issued in New Global Note (NGN) form. This means that the Notes are intended to be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg (each acting in its capacity as International Central Securities Depositary) and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem, either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria established by the European Central Bank from time to time.

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be applied by the Issuer to refinance existing indebtedness.

THE BUSINESS OF ELERING AS

Introduction

Overview

The Issuer's legal and commercial name is Elering AS (the "**Company**"). The Company is a public limited liability company (*aktsiaselts*), which is wholly-owned by the Republic of Estonia ("**Estonia**") and is engaged in the transmission of electric power and natural gas. The Company owns and operates the Estonian high voltage electricity transmission grid (the "**Electricity Grid**") and the Estonian high pressure natural gas transmission network (the "**Gas Network**"). The Electricity Grid unites power stations, electricity distribution networks and corporate consumers in an integrated electricity system, which is connected to the electricity transmission systems of neighbouring countries. The Gas Network unites gas distribution networks and corporate consumers in Estonia and is connected to the gas transmission networks of neighbouring countries. The Company is the sole electricity and gas transmission system operator ("**TSO**") in Estonia and has a natural monopoly in the transmission of electricity and gas within Estonia.

The Company is organised as a public limited liability company for an unlimited duration under the laws of Estonia. Its registered office is located at Kadaka tee 42, 12915 Tallinn, Estonia and its telephone number is +372 71 51222.

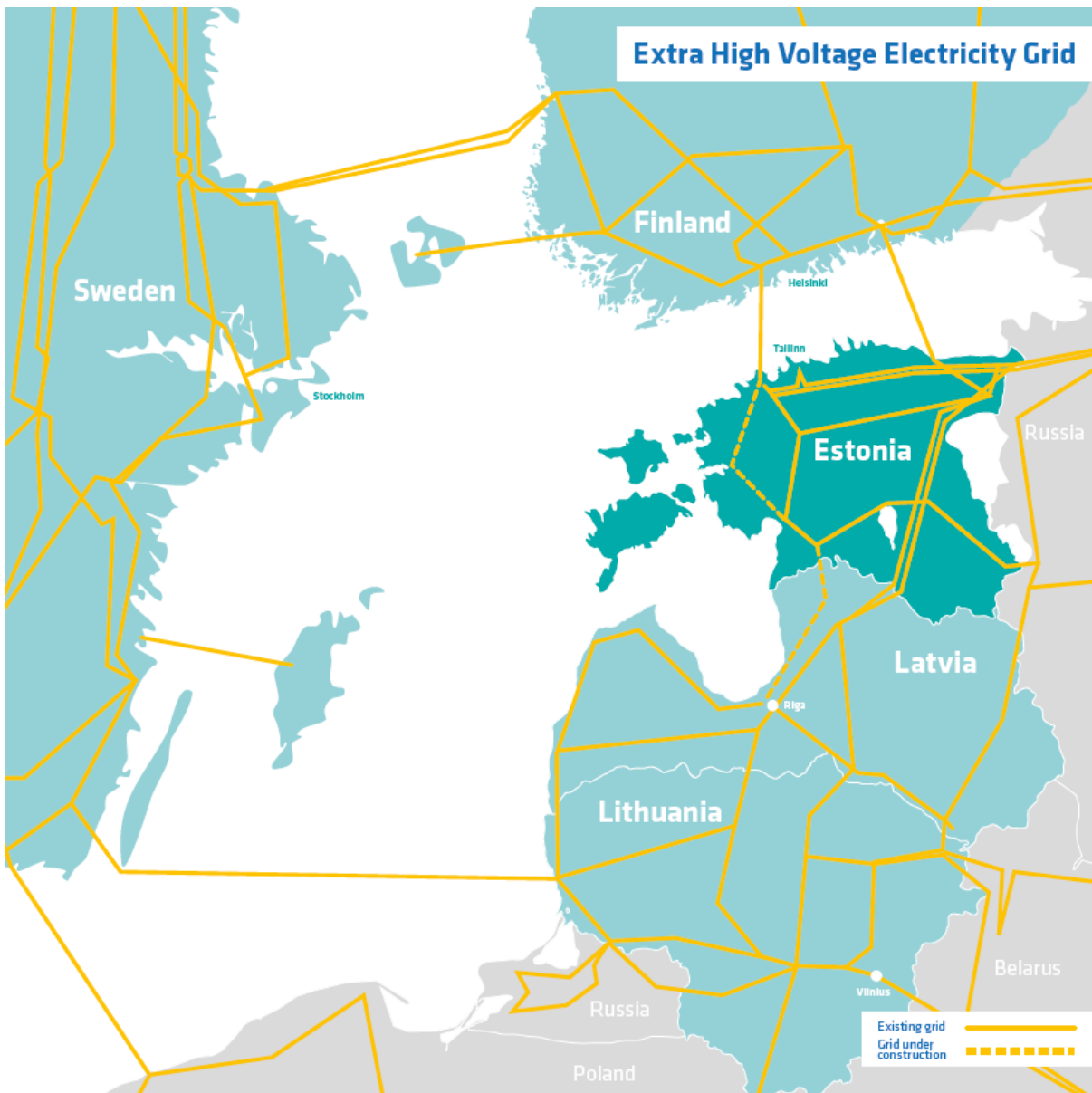
The Company has been assigned a rating of A2 (stable) by Moody's.

The Company is governed by the Estonian Commercial Code together with the specific obligations imposed by other legislation such as the Electricity Market Act 2003 (as amended, the "**EMA**"), the Natural Gas Act 2003 (as amended, the "**NGA**") and the State Assets Act 2009 (as amended, the "**SAA**"). The Company must comply with legislation applicable to public limited liability companies and, as a state-owned company, the Company must also comply with the additional corporate governance controls imposed by the SAA.

Under the Estonian Emergency Act 2007, the Electricity Grid and the Gas Network are considered vital infrastructure in Estonia; special public service duties are therefore imposed on the Company by law to maintain and develop the electricity and gas systems.

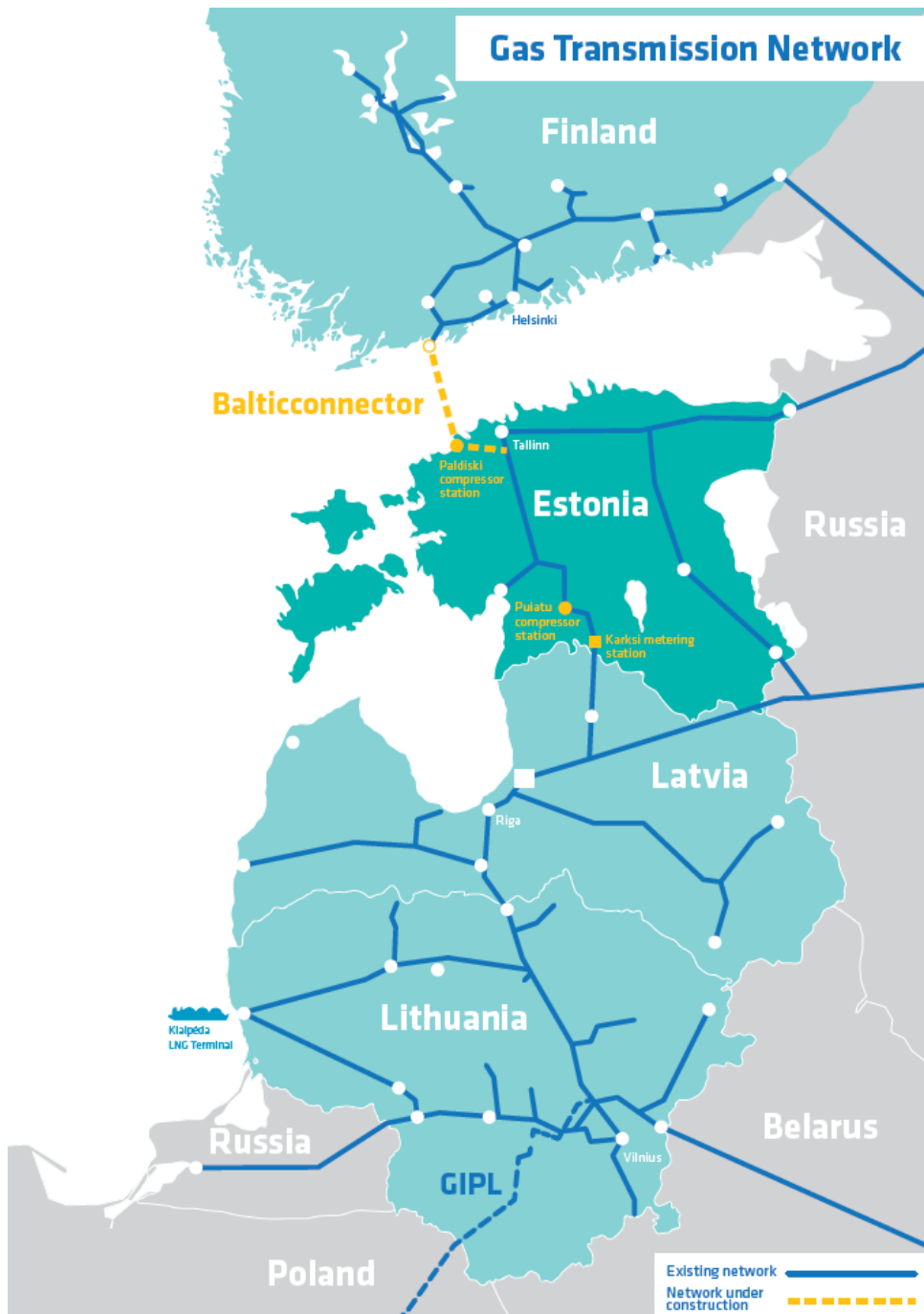
Following the consolidation of the Company and its subsidiaries in 2016 (see "*The Business of Elering AS – History*" below), the Company has no subsidiaries.

Electricity Grid



In addition to the extra high voltage lines and substations (220-450kV) illustrated in the diagram of the Electricity Grid above, the Company also owns and operates 110kV and 35kV lines and substations. The transmission lines total approximately 5,542 kilometres in length and the Company owns and operates 148 substations, 2 converter stations and a 250MW emergency reserve power plant (the "ERPP") as part of the Electricity Grid. The Electricity Grid connects to electricity grids in Latvia, Russia and Finland.

Gas Network



The Estonian gas transmission network comprises 885 km of gas pipeline, three gas-metering stations and 36 gas distribution stations. The Gas Network also connects to gas transmission networks in Latvia and Russia, as shown in the diagram of the Gas Network above.

The tables below show the recent financial performance of the Company for the years ended 2017 and 2016:

	As at and for the years ended 31 December	
	2017	2016
	<i>(EUR millions)</i>	
Revenue	130.3	134.0
Operating profit	33.1	37.8
Income tax expense	5.0	7.8
Profit for the year.....	17.1	18.7
Total equity.....	346.2	349.1
Total assets	909.6	903.7
EBITDA	67.8	76.0
Investments ⁽¹⁾	32.2	26.7
Dividends paid.....	20.0	31.0

	As at and for the years ended 31 December	
	2017	2016
	<i>(unaudited)</i>	
Return on Equity	4.9%	5.5%
Equity/Assets.....	38.1%	38.6%
Net Debt/EBITDA	4.1x	4.1x

⁽¹⁾ Investments refers to the amount spent during the relevant financial year on fixed assets.

Definitions

For the purposes of this section "*The Business of Elering AS*" the following defined terms shall be construed as follows:

"**EBITDA**" refers to operating profit plus depreciation, amortisation and impairment. EBITDA is calculated by the Company and is not a figure that has been audited.

"**Equity/Assets ratio**" has been calculated by the Company by dividing total equity by total assets as at the end of the relevant financial year.

"**Net Debt/EBITDA ratio**" has been calculated by dividing Net Debt by EBITDA, in each case as at the end of the relevant financial year. For the purposes of this Prospectus and the Net Debt/EBITDA ratio calculation, the Net Debt is calculated as follows:

	As at 31 December	
	2017	2016
	<i>(unaudited)</i>	
	<i>(EUR millions)</i>	
Borrowings (current)	232.8	5.7
Borrowings (non-current).....	129.4	361.7
Less: Cash and cash equivalents	(82.0)	(53.0)
Net Debt	280.2	314.4

"**Return on Equity**" refers to profit for the year divided by the average total equity during the relevant financial year.

"**Total Income**" means total revenue plus other income.

The Company's management evaluates the Company's results based on certain key performance measures, which are not sourced directly from the Financial Statements but are derived from the financial information contained therein. The measures listed above have not been audited or reviewed by an independent auditor and constitute alternative performance measures ("**APMs**") as defined in ESMA guidance. APMs are not defined in IFRS and should neither be treated as metrics of financial performance or operating cash flows nor deemed an alternative to profit. They are not uniformly defined and are calculated differently by other entities, and may therefore not be comparable with APMs presented by other entities, including companies operating

in the same sector as the Company. Such performance measures should only be read as additional information rather than instead of the financial information prepared in accordance with IFRS. The APMs listed above should not be given more prominence than measures sourced directly from the Financial Statements. The APMs should be read in conjunction with the Financial Statements.

In the Company's view, the APMs listed above provide the Company's management and investors, securities analysts and other parties with supplemental information related to the Company's results of operations, financial position or cash flows and are widely used by analysts, investors and other parties.

History

The Company was established on 24 March 2004 as a private limited liability company and operated under the legal name of Põhivõrk OÜ as a wholly-owned subsidiary of the state-owned Estonian energy utility company, Eesti Energia AS ("**Eesti Energia**"). On 18 June 2009, the commercial and legal name of the Company was changed to Elering OÜ.

Following the decision to separate the system management and transmission system assets from the rest of Eesti Energia, the Minister of Economic Affairs and Communications was authorised by the Government of Estonia to purchase the Company in 2009. Prior to the demerger, Eesti Energia was engaged in the production, sale and transmission of electric and thermal power. The decision to separate the system management and transmission system was part of the implementation of EC Directive 2009/72/EC, which requires that transmission system operators function independently from production and sales activities. To ensure compliance, the sale of the Company was completed on 27 January 2010.

On 8 April 2011, the Company was transformed from a private limited liability company into a public limited liability company and renamed Elering AS.

In 2015, the Company acquired all of the shares in AS Võrguteenus Valdu of which the gas transmission system operator Elering Gaas AS was a wholly-owned subsidiary. On 1 March 2016, AS Võrguteenus Valdu and Elering Gaas AS completed a merger with their parent company, the Company, and the Company has since been acting as a single transmission system operator of electricity and natural gas.

Main Activities

The Company is responsible for the day-to-day management of the Electricity Grid and Gas Network, including cross-border connections with neighbouring countries. Under Estonian law, the Company is prohibited from carrying on any business other than network business or certain other businesses directly related to the network business such as balancing services.

The Company's main activities are:

- operating and developing the Electricity Grid and Gas Network;
- securing the functioning of the Estonian electricity and gas systems by maintaining the short term energy balance; and
- developing and facilitating the functioning of the energy markets.

Public Service

The Company's activities in relation to the operation and administration of the Electricity Grid and Gas Network are considered to be "vital services" under the Estonian Emergency Act of 2007, as amended. As a provider of vital services, the Company must comply with several additional reporting requirements, including preparing risk assessments of the continuous operation of the vital services and an emergency plan for ensuring the continuous operation of the vital services.

Strategy

The underlying principle of the Company's strategy is to create value for its shareholder, the Republic of Estonia. In respect of the period from 2018 to 2027, the Company has also outlined its strategy as comprising the following:

Aims

- *Vision:* to be an innovative and efficient infrastructure company.
- *Mission:* to ensure the security of the energy supply to Estonian consumers through effective regional energy markets based on reliable energy networks and competent employees thus helping to support the competitiveness of the Estonian economy.

Values

- *Responsibility :* the Company's social responsibility is to ensure electricity and gas is supplied in an economically efficient manner.
- *Dedication:* the Company is committed to creating value for its clients and its clients' clients.
- *Openness:* the energy system is undergoing rapid change which the Company is dynamic and open to. The Company shall create new opportunities and support innovation in the energy sector.

In order to achieve the Company's strategic aims, the Company intends to focus on the following areas:

1. *Regionalisation:* furthering the Company's initiative to develop the Baltic-Nordic regional energy sector management and digitalisation of the energy network.
2. *Asset management:* developing and managing the Baltic-Nordic region's most efficient electricity and gas networks with an objective to take the lead in improvements to energy network management efficiency and adopting digitalisation technologies to expand asset lifespans.
3. *Customers and society:* ensuring that customers are satisfied with the Company's business; that stakeholders view the Company as a reliable partner and well-run company; and that society values the Company's contribution to socio-economic development through its provision of secure electricity and gas supplies, innovation, environmental awareness and reasonable prices.
4. *Energy markets:* ensuring security of supply through efficiently functioning regional energy markets, development of energy markets and digitalisation of energy data to enable energy to be available in economically efficient conditions. The distributors in Estonia have completed a programme to install smart meters to monitor energy consumption. The Company stores the data collected from such smart meters.
5. *Finance:* maintaining a strong credit rating and creating positive economic added value.
6. *Personnel:* offering the Company's employees opportunities for professional development and self-realisation through an inclusive management culture and solid team atmosphere.

Shareholder

The Company's share capital consists of 229,890 fully paid up shares, each with a nominal value of EUR 1,000. The Republic of Estonia is the sole shareholder in the Company and the Ministry of Economic Affairs and Communications (the "**Shareholder**") holds the shares of the Company on behalf of the Republic of Estonia and is the registered shareholder in the Estonian Central Depository for Securities.

The relationship between the Shareholder and the Company is conducted through the members of the Supervisory Board, who are nominated by the Shareholder according to suggestions made by an independent nomination committee for state-owned companies.

On 15 December 2010, the Supervisory Board approved the dividend policy of the Company. This dividend policy states that the amount of dividends will be determined so as to ensure that the Company is able to comply with its loan covenants, taking into account predetermined safety margins. The Company has two covenants in its loan contracts, relating to the level of: an Equity/Assets ratio and a Net Debt/EBITDA ratio.

Under the Estonian Commercial Code, the shareholders of a public limited liability company (including the State) are neither liable for the debts of the company nor obliged to supply additional capital in the event of a financial crisis. Save for an obligation of the Company to notify the Estonian Competition Authority should bankruptcy

procedures be initiated against it, there are no special laws for bankruptcy of public service entities, nor are there any derogations from the normal bankruptcy procedures.

The Government of Estonia views the operations of the Company as of vital importance to the national infrastructure and the Company is unaware of any plans that may result in a change of ownership. The Shareholder has publicly supported the Company's strategy on several occasions, including issuing three comfort letters to the creditors of long term loans and increasing the Company's share capital on five occasions since 2009 in the total amount of EUR 95.7 million.

Principal Areas of Business

The Company divides its activities into four areas of business: (i) electricity network services, (ii) gas network services, (iii) balancing services, and (iv) other services.

Summary of the Areas of Business

The following table shows the share of Total Income, EBITDA and operating profit in each of the Company's business areas for each of the years ended 31 December 2017 and 31 December 2016 (based on operating segments revised presentation basis – see Note 6 to the 2017 Financial Statements).

	Year ended 31 December 2017			Year ended 31 December 2016		
	Total Income	EBITDA	Operating Profit	Total Income	EBITDA	Operating Profit
Electricity network services	67.2%	87.3%	93.1%	70.1%	87.1%	91.5%
Gas network services.....	6.6%	5.3%	0.4%	6.4%	5.8%	2.3%
Balancing services.....	20.6%	1.2%	2.3%	17.2%	0.0%	-0.3%
Other services	5.5%	6.2%	4.2%	6.3%	7.0%	6.5%
Total.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The Company's Total Income, EBITDA and operating profit derive principally from the regulated network services, i.e. from the users of the Electricity Grid and Gas Network. In 2017, the regulated network services accounted for 73.9 per cent. of Total Income, 92.6 per cent. of EBITDA and 93.5 per cent. of operating profit. The most important business area is the electricity network service which accounted for 67.2 per cent. of Total Income, 87.3 per cent. of EBITDA and 93.1 per cent. of operating profit.

Balancing services for the year ended 31 December 2017, although noticeable in terms of revenue (20.6 per cent. of Total Income) had only marginal contribution to EBITDA (1.2 per cent.) and operating profit (2.3 per cent.). This is because of the nature of this service, as discussed below under "*Principal Areas of Business – Balancing Services*".

Electricity Network Services

The Company's most important business segment is the provision of electricity network services. Electricity network services accounted for 93.1 per cent. of operating profit, 87.3 per cent. of EBITDA and 67.2 per cent. of Total Income in 2017.

The EMA requires that any company providing electricity network services be licensed by the ECA to operate. Only one licence may be issued in Estonia at any one time and this was issued to the Company on 9 February 2006 for an indefinite period (replacing a fixed-term licence granted on 11 February 2004), which was subsequently replaced with a new termless licence issued by the ECA on 24 January 2014.

The Company was certified by the ECA according to the EU legislation on 20 December 2013. The electricity network service is provided through the Electricity Grid. Prior to reaching the retail distribution network, electricity generated by power generation plants is transferred by means of the Electricity Grid through high voltage transmission lines that connect the power generation plants with the medium voltage distribution networks and the largest industrial consumers. The Electricity Grid is essentially comprised of power lines and transformer substations, connecting high voltage lines with lower voltage installations.

The Electricity Grid comprises 148 substations and approximately 5,542 km of transmission lines at a rated voltage of 35kV, 110kV, 150 kV, 220kV, 330kV and 450kV.

The Electricity Grid is directly connected to the Russian, Latvian and Finnish electricity grids through a number of transmission lines and cables. These cross border connections form an integral part of the Electricity Grid and are used for several purposes, including:

- cross border electricity trade;
- mutual support with access to the emergency reserves of the neighbouring energy systems;
- shared system services such as voltage support and frequency regulation; and
- ordering an increase or decrease in electricity production from neighbouring countries with the purpose of maintaining the country's energy balance.

Interconnectors to Latvia and Russia consist of overhead transmission lines at a rated voltage of 330kV. Two interconnectors to Finland (Estlink 1 and Estlink 2) consist of 2 converter stations and transmission cables (both underground and submarine).

The ERPP, owned by the Company, is an integral part of the Electricity Grid. The sole purpose of this plant is to provide emergency backup power in the event that an existing power generating unit stops production unexpectedly. In such an event, it is intended that the ERPP will start generating electricity quickly in order to restore the country's power balance. As soon as the operator of the power plant that ceased production finds a replacement (by either commencing its own back-up unit or contracting from other power plants), the ERPP will stop producing electricity. The produced energy is sold as balancing energy to the balance provider whose client's power generating unit ceased production at a price set by the Company. The ERPP is considered part of the Electricity Grid and recognised by the regulator as a regulated electricity transmission asset.

The Company owns 100 per cent. of the Electricity Grid.

Gas Network Services

The Company's newest business segment is the provision of gas network services, which accounted for 6.6 per cent. of Total Income, 5.3 per cent. of EBITDA and 0.4 per cent. of operating profit in 2017. The NGA requires that any company providing gas network services be licensed by the ECA to operate. Only one licence may be issued in Estonia at any one time and this was issued to the Company on 23 December 2016 for an indefinite period. The Company was certified by the ECA according to the EU legislation on 22 December 2016.

The gas network services are provided through the Gas Network. Prior to reaching the gas distribution network, the gas is imported to Estonia and transferred by means of the Gas Network through high pressure (above 16 bar) pipelines that connect the interconnection points to the gas systems of the neighbour countries with the lower pressure distribution networks and the largest industrial consumers. The Estonian Gas Network comprises of 885 km of gas pipeline, three gas-metering stations and 36 gas distribution stations. At the gas-metering stations, measurements are made of the volume and quality of the gas entering the gas transmission network. At the gas distribution stations, the pressure of the gas coming from the transmission network and entering the distribution networks is lowered, measurement and aromatisation take place, and the consumption regime agreed with the clients is ensured.

The Company owns 100 per cent. of the Gas Network.

Balancing Services

The balancing services accounted for 20.6 per cent. of Total Income, 1.2 per cent. of EBITDA and 2.3 per cent. of operating profit in 2017.

Both electricity and gas balancing services have the same principles. In order for the Estonian energy system (both electricity and gas systems) to be in balance, each market participant has to be in balance - production and/or purchases of energy have to be balanced with consumption and/or sales of energy. As it would not be cost efficient for each market participant to take care of its balance, this service is usually provided by balance providers. Balance providers make the consumption and production forecasts for their clients and procure any required energy. The level of demand for energy cannot be accurately predicted at all times which results in imbalances in the balance providers' energy balances.

Pursuant to the EMA, the electricity balance of each market participant must be in hourly equilibrium and pursuant to the NGA, the gas balance must be in daily equilibrium (sum of 24 hours).

There are eight electricity balance providers in Estonia. During hours when the balance of a balance provider is negative, the Company sells to the market participant the missing amount and during hours when the balance of a balance provider is positive, the Company purchases the excessive amount.

There are nine gas balance providers in Estonia. During those days when the balance of a balance provider is negative, the Company sells to the market participant the missing amount and, during those days when the balance of a balance provider is positive, the Company purchases the excess amount.

The Company calculates the purchasing and selling prices of balancing energy on an hourly basis for electricity and on a daily basis for gas, calculated on a cost basis. The revenues from selling balancing energy are equal to the sum of the cost of purchasing balancing energy, inclusive of the nominal administration costs. As a result, the provision of the balancing services does not affect the Company's profitability. The potential credit risk of the balance providers is mitigated through the guarantees they have to provide to the Company according to the EMA and NGA.

Other Services

All other services are indirectly related to the network services and accounted for 5.5 per cent. of Total Income, 6.2 per cent. of EBITDA and 4.2 per cent. of operating profit in 2017. Such services include amongst other things:

- (a) The Company leasing fibre optic cables installed on the transmission lines to a telecom company, Tele2 AS, which uses them to supply communication services to its customers.
- (b) The Company recording revenue from the amortisation of received EU grants. This results from received EU grants initially being recorded in the Company's balance sheet as a long term liability but, once the construction of the corresponding asset is complete, the liability begins to amortise resulting in non-cash revenue in the Company's income statement.
- (c) The Company receiving connection fees from clients that request new connections to the Electricity Grid and for which the Company orders the construction of new transmission assets if required. Similarly, the EU pays non-refundable grants to the Company for constructing certain assets that meet the criteria set by the EU. After the commissioning of the assets, both the received funds and the constructed assets are amortised over the useful lifetime of these assets that generate non-cash revenue and cost (i.e. depreciation).
- (d) The Company delivering certain system services to the TSOs of neighbouring countries' energy systems. For example, the Company may mediate the up or down regulation services of the power stations in Estonia to the other TSOs at their request.

Energy Subsidy Scheme

The Company also has certain public service operations which do not generate revenue or incur costs.

In order to achieve the objectives set by the EU Renewable Energy Directive 2009/28/EC, the Republic of Estonia must ensure that the share of renewable energy accounts for 25 per cent. of the final consumption of energy, including 10 per cent. of fuels used in transport by 2020. In order to achieve this, the Republic of Estonia has established a subsidy scheme with a view to increase investments in the production of electricity from renewable energy sources and the efficient combined production of heat and power. The Company's role is to pay such subsidies and collect support tariff fees to finance the subsidies. Such support tariff fees are paid by all end-customers according to the volume of consumption of the network services. The Company receives support tariff fees from distribution network operators and the large industrial consumers directly connected to the Electricity Grid. In 2017, subsidies totalling EUR 78.3 million were paid, of which EUR 74.8 million was paid to renewable energy producers and EUR 3.5 million was paid in respect of small efficient co-generators. Of the subsidies paid to renewable energy producers, these subsidies were paid in respect of the following: wind turbines, amounting to EUR 30.2 million; biomass electricity generation, amounting to EUR 41.2 million; hydro-energy, amounting to EUR 0.9 million; solar power producers, amounting to EUR 0.3 million; and biogas electricity, amounting to EUR 2.2 million. As the Company is a paying agent, the subsidies collected and paid out are not shown in the income

statement of the Company. Where the amount of subsidies collected differs from that paid out, the difference will be taken into account by the Company in the calculation of the next year's subsidy tariff.

Recent Developments

Increase of the gas network tariffs

On 20 March 2018, the ECA approved the new gas network tariff application of the Company. The new tariffs will increase by about 39.8 per cent. and will take effect from 1 July 2018. See "*Regulation - Regulation of electricity and natural gas network tariffs*" for more information on the gas transmission tariffs currently in force as at the date of this Prospectus.

Revenue

Overview

For the year ended 31 December 2017, the Company generated Total Income of EUR 131.9 million, compared to EUR 135.9 million for the year ended 31 December 2016. The Company generated total profit for the year of EUR 17.1 million, compared to EUR 18.7 million in 2016.

The following table shows a breakdown of Total Income by source for the years ended 31 December 2017 and 2016:

	2017		2016	
	(€m)	(%)	(€m)	(%)
Regulated Electricity network services	88.7	67.2%	95.3	70.1%
Regulated Gas network services	8.7	6.6%	8.6	6.3%
Balancing services	27.2	20.6%	23.4	17.2%
Other services	7.3	5.5%	8.6	6.3%
Total Income	131.9	100.0%	135.9	100.0%

The Company's Total Income derives principally from the regulated network services i.e. from the users of the Electricity Grid and Gas Network. In 2017, the regulated network services accounted for 73.9 per cent. of Total Income.

A very high proportion (92.8 per cent.) of the regulated network services revenues is generated from the distribution network companies which are natural monopolies and therefore a stable source of revenue. The Company did not incur any bad debts in 2017 and the amount of overdue receivables at 31 December 2017 was 0.4 per cent. of the Company's revenue.

Although the Total Income from the non-regulated business segments (mainly the balancing services) accounted for 26.1 per cent. of Total Income, their share in EBITDA was only 7.4 per cent. and operating profit 6.5 per cent. as almost no profit is generated from the balancing services for the reasons described above under "*Principal Areas of Business – Balancing Services*".

Of the total sales revenue, EUR 112.9 million (86.6 per cent.) was generated in the Republic of Estonia in 2017 (compared to EUR 109.6 million (81.8 per cent.) in 2016). Lithuania accounted for EUR 10.2 million (7.8 per cent.) of the revenue in 2017, of which EUR 9.8 million (96.7 per cent.) was derived from Balancing Services (compared to EUR 11.0 million (8.2 per cent.) in 2016, of which EUR 10.2 million (92.8 per cent.) was derived from Balancing Services) and was the biggest market for the Company outside of the Republic of Estonia. Finland accounted for EUR 3.3 million (2.6 per cent.) in 2017 (compared to EUR 3.9 million (2.9 per cent.) in 2016) and Latvia accounted for EUR 2.7 million (2.1 per cent.) in 2017 (compared to EUR 3.0 million (2.2 per cent.) in 2016). From the Company's revenue earned outside of the Republic of Estonia, 79.0 per cent. was earned from the balancing service in 2017 (compared to 60.4 per cent. in 2016).

Electricity Network Services

In 2017, 67.2 per cent. of the Company's Total Income was generated from its regulated electricity network services, totalling EUR 88.7 million compared to EUR 95.3 million in 2016, including: EUR 87.9 million from regulated tariffs (compared to EUR 89.1 million in 2016) and EUR 0.8 million from the Inter-Transmission System Operator Compensation mechanism ("**ITC**") revenues (compared to EUR 6.1 million in 2016).

ITC is a mechanism for the compensation of cross-border energy flows, as designated by the EU regulation No. 838/2010, in which transmission system operators of over 30 countries participate. The mechanism works

under the principle that a transmission system operator of a country compensates, through the ITC fund, the other transmission network operators for additional expenses caused by cross-border energy flows where that country has exported or imported electricity during the reporting period, and a transmission system operator receives compensation from the fund if a transit flow caused by market participants of other countries has crossed the country.

The sum of payments to the ITC fund equals the sum of contributions from the fund. The Company has been a recipient from the fund as the Republic of Estonia has been mainly a transiting country. The sums received from the fund (as the sums of payments to the funds in countries, where applicable) are taken into account in the calculations of the domestic electricity network tariffs according to the EU regulation.

The decrease of EUR 5.3 million in ITC revenues from 2016 to 2017 is a result of the reduced electricity transit through the Republic of Estonia due to the completion of the NordBalt interconnector between Lithuania and Sweden. Prior to the NordBalt interconnector, the majority of electricity that Lithuania imported from the Nordic countries came from Finland through the Republic of Estonia which resulted in substantially higher transit volumes in the Republic of Estonia. As the ITC revenues are taken into account when calculating the electricity network tariffs, the decrease in the transit will not impact the profitability of the Company in the future.

The Company receives the majority of the electricity network service revenues from five electricity distribution network companies, which account for 93.6 per cent. of the Company's revenues generated by electricity network services. 22 other customers who are directly connected to the Electricity Grid account for 5.5 per cent. of electricity network services revenues and the remaining 0.9 per cent. comes from the ITC fund.

The Company's revenue from the electricity network service is regulated by the ECA. The permitted regulated revenue is calculated according to justified costs plus a reasonable return on the regulated assets. The return on assets (i.e. operating profit) is determined by multiplying the regulated assets by the weighted average cost of capital ("WACC"). The WACC is calculated by the regulator according to the public methodology of calculating the weighted average cost of capital for the network companies. For the purposes of the calculation, the cost of debt is based on the 5 year average of the 10 year German government bond yield to which a country risk margin and the company risk margin are added. For the purposes of the calculation of the cost of equity, the beta of similar companies is used, assuming the equity to assets ratio of 0.5. The current WACC for the electricity transmission network is set at 4.46 per cent. As a result of the above formulation, if there are investments in the network assets by the Company, this will increase the amount of regulated assets held by the Company and ultimately increase the regulated revenue of the Company as well.

Gas Network Services

In 2017, 6.6 per cent. of the Company's Total Income, EUR 8.7 million (compared to EUR 8.6 million in 2016), was generated from its regulated gas network services, including EUR 8.3 million from domestic network service with regulated tariffs (compared to EUR 8.6 million in 2016) and EUR 0.4 million from the gas transit (compared to nil in 2016).

For the year ended 31 December 2017, the Company received the bulk of the gas network service revenue from five gas distribution network companies which accounted for 87.1 per cent. of the Company's revenues generated by gas network services. Four other customers who were directly connected to the Gas Network accounted for 7.7 per cent. of gas network service revenues and the remaining 5.2 per cent. came from the Russian gas company, Gazprom, for the transit of gas.

The regulation of the gas network business is almost identical to that of the electricity network. The Company's revenue from the gas network service is regulated by the ECA. The permitted regulated revenue is calculated according to justified costs plus a reasonable return on the regulated assets. The return on assets (i.e. operating profit) is determined by multiplying the regulated assets by the weighted average cost of capital ("WACC"). The WACC is calculated on a similar basis to the WACC for the electricity transmission network. The current WACC for the gas transmission network is set at 4.51 per cent. As a result of the above formulation, if there are investments in the network assets by the Company this will increase the amount of regulated assets held by the Company and ultimately increase the regulated revenue of the Company as well.

The gas transit revenues are generated from two 21 km transit pipelines in the South-East region of Estonia that are not connected with the rest of the Company's Gas Network. The transit pipelines connect the Russian and Latvian gas systems. Until 1 July 2017 the transit revenue was not considered as a regulated revenue.

According to the amendment in the NGA, the transit pipelines were included in the regulated gas network assets and the transit revenue became part of the regulated network revenue.

Balancing Services

Balancing services accounted for 20.6 per cent. of Total Income, amounting to EUR 27.2 million in 2017 (compared to EUR 23.4 million in 2016). Revenue from the sale of balancing electricity and regulation services was EUR 21.2 million in 2017 (compared to EUR 22.9 million in 2016) and the revenue from the gas balancing service was EUR 6.0 million in 2017 (compared to EUR 0.5 million in 2016).

As described in the "*Principal Areas of Business – Balancing Services*" section above, the net profit generated by the balancing services is always close to zero. The increase in balancing revenues and costs were a result of a larger amount of forecast errors by the balance providers but its impact on the net profit of the Company was marginal.

Other Services

Revenue from other businesses (as described above under "*Principal Areas of Business – Other Services*") represented 5.5 per cent. of Total Income, EUR 7.3 million, in 2017 (compared to EUR 8.6 million in 2016).

The following table shows a breakdown of the revenue of "Other services" by source for the year ended 31 December 2017 and 31 December 2016 in EUR millions:

	2017	2016
	<i>(€m)</i>	
Lease of fibre optic cable	0.9	0.9
Non-cash revenues ⁽¹⁾	2.7	3.0
System services	2.8	3.1
Other services ⁽²⁾	0.9	1.6
Total other businesses	7.3	8.6

⁽¹⁾ Non-cash revenues includes revenue derived from the amortisation of government grants, connection fees and congestion income.

⁽²⁾ The transit revenue from the first half of 2017 (EUR 41 thousand) and in 2016 (EUR 668 thousand) has been included in the "Other services" line item.

Capital Expenditure

All the Company's capital expenditures can be divided in two ways:

- (a) regulated and non-regulated expenditures; and
- (b) regular and extraordinary investments.

For regulatory purposes, all the Company's assets are divided into two groups: regulated assets and non-regulated assets as depreciation and cost of capital of regulated assets are included in the network tariffs, whereas the cost of non-regulated assets is not. According to the regulation, investments that are financed through external sources (e.g. EU grants) should not be included in the regulated assets and therefore belong to non-regulated assets.

The following table shows the breakdown of future planned investment by the Company in regulated and non-regulated assets for the next five years:

€m	2018	2019	2020	2021	2022	Total
Investments in regulated assets	53	54	55	17	13	193
Investments in non-regulated assets	100	96	34	17	27	275
Total investments	153	150	89	34	41	467

Regular investments include the replacement of the aging assets or IT. Extraordinary investments are those that occur over a certain period of time and after that time the level of total investments will drop to the level of regular investments, unless new extraordinary investments are undertaken.

The following table shows the breakdown of future planned investment by the Company in regular and extraordinary investments for the next five years:

€m	2018	2019	2020	2021	2022	Total
Regular investments	27	23	50	16	13	130
Extraordinary investments	126	126	39	19	27	338
Total investments	153	150	89	34	41	467

The following table shows the total investments for the next five years, broken down both according to the regulatory purpose and the recurrence:

€m	2018	2019	2020	2021	2022	Total	Incl. regulated	Incl. non-regulated
Regular investments	27	23	50	16	13	130	130	0
Extraordinary investments:								
Estonia-Latvia OHL	37	24	18	0	0	79	0	79
Balticconnector	61	61	13	0	0	135	37	98
Estonia-Latvia gas interconnection	15	24	3	0	0	43	25	19
Other cross border investments	2	7	4	19	27	59	2	58
Other extraordinary investments	11	10	1	0	0	21	0	21
Total extraordinary investments	126	126	39	19	27	338	63	275
Total investments	153	150	89	34	41	467	193	275

Regular Investments

Regular investments are made into the regulated assets of the Electricity Grid and Gas Network. The purpose of these investments is to replace the aging transmission equipment and to develop the Electricity Grid and the Gas Network to meet the needs of growing domestic consumption. Other ordinary investments, such as investments in IT, also belong to this category. The Company is confident that the amount of regular investment in the five year investment plan is sufficient to maintain the required quality standards of the network service. The breakdown of regular investments between the Electricity Grid and the Gas Network is as follows:

€m	2018	2019	2020	2021	2022	Total
Electricity Grid	22	21	45	12	10	110
Gas Network	5	3	5	3	3	20
Total regular investments	27	23	50	16	13	130

Extraordinary Investments

There are two types of extraordinary investments: cross border investments and other extraordinary investments.

Cross border investments that are included in the five-year investment plan are made with the purpose of increasing the interconnector capacities of the Electricity Grid and Gas Network. Three major investment projects with this purpose are set out under the Energy Sector Development Plan of Estonia (the "**Development Plan**") which was approved by the Government of Estonia on 20 October 2017. All three projects are included in the Projects of Common Interest ("**PCI**") list of the EU Connecting Europe Facility ("**CEF**") programme and belong to both regulated and non-regulated categories. Only cross-border investments which are financed through grid tariffs are included as regulated investments; cross-border investments which are financed through other sources are included as non-regulated investments.

Pursuant to the Development Plan, the Company prepared a detailed plan of cross border investments and submitted it to the ECA along with the electricity and gas tariff applications in 2017 and 2018 respectively. The ECA approved the plans and these investments were included in the regulated network assets to the extent they are not financed by either EU grants or Congestion Income (defined below) as described in the following sections. This Development Plan includes the following investments:

The Estonia-Latvia electricity overhead line ("OHL")

The new 330kV electricity transmission overhead line will remove a bottleneck at the Estonia-Latvia border, increasing transmission power by up to 600 MW and create opportunities for connecting additional electricity producers to the power transmission grid in West-Estonia. The project consists of two parts: from Harku substation (in Northern Estonia) to Kilingi Nõmme substation (in Southern Estonia) and from Kilingi Nõmme substation to Riga TEC II power station in Latvia. The Company is responsible for constructing the OHL up to the border to Latvia. As the OHL is financed through EU grants and Congestion Income only, it will not be included in the regulated assets.

Balticconnector

The Company and the Finnish gas TSO Baltic Connector Oy are developing the Balticconnector transnational gas pipeline. The purpose of the Balticconnector natural gas pipeline project is to interconnect the Finnish and Estonian natural gas transmission networks and improve the energy security of the Baltic-Finnish region. Significant socio-economic benefits of the project have been highlighted for both sides and other Baltic countries.

The completion of the project will:

- Enhance the regional security of supply: the Balticconnector gas interconnector physically connects the Finnish and the Baltic Gas infrastructures. The added supply sources and supply routes will make the regional gas system more robust to different disruption situations and reduce costs from gas disruptions. In addition, Balticconnector is a part of the regional gas investment program, giving the Finnish gas market access to the Latvian Underground Gas Storage and Klaipeda liquefied natural gas ("LNG") terminal and gas from central Europe through the Gas Interconnection Poland-Lithuania ("GIPL"). Balticconnector also enables the security of supply cooperation between the TSOs of the four Member States.
- Integrate the regional markets: Balticconnector has a key role in the process to connect the Finnish and Baltic gas markets. Balticconnector, together with various improvements to the Baltic and Estonian gas networks, will connect the Finnish natural gas market to the Baltic gas market as well as link the region to European energy markets via the GIPL, the interconnector between Lithuania and Poland.
- Ending energy isolation: Balticconnector will physically integrate the Finnish and Baltic gas grids and bring an end to the energy island situation in Finland.
- Diversify gas supply: Balticconnector connects the Finnish gas grid to the Baltic gas network and thus enables supply diversification with the transfer of gas from the Central European gas system and globally sourced LNG from Klaipeda terminal between Finland and the Baltic States.
- Increase competition: through access to the European and global gas market, regional gas prices will decrease and the competitive advantage of natural gas compared to other fuels will improve. Global natural gas sourcing will narrow the current price gap between the regional and the global markets, especially in the Baltics. The larger interconnected market will allow for new investments in LNG terminals and bio methane.

The Balticconnector project consists of three major parts:

- 1) an onshore section in the Republic of Estonia (with a 700mm nominal diameter, up to 54 bar pressure and 55 km length);
- 2) an offshore section on the seabed of the Gulf of Finland (with a 500mm nominal diameter, up to 80 bar pressure and 77 km length); and
- 3) an onshore section in Finland (with a 500mm nominal diameter, up to 80 bar pressure and 21 km length).

The capacity of the pipeline will be 7.2 million cubic metres of gas per day and 0.3 million cubic metres gas per hour. In order to guarantee bi-directional gas flows, compressor and metering stations will be built on

Paldiski, Estonia and Inkoo, Finland. The Company will invest in the gas transmission facilities in Estonia and in half of the submarine pipeline up to an agreed point in the middle of the Finnish Gulf.

Estonian-Latvian Gas Interconnection Enhancement

The Estonia-Latvia Enhancement project's underlying aim is to improve the gas transmission infrastructure in order to promote gas flows in the Estonian-Latvian region and, as a result, develop the regional and European internal energy market. The Estonia-Latvia Enhancement project will allow bi-directional gas flow between Estonian and Latvian gas transmission systems (as required by the EU Regulation 994/2010) and increase the cross-border transmission capacity.

The Estonia-Latvia Enhancement project consists of a bi-directional gas metering station near the Estonia-Latvia border in Karksi and a bi-directional compressor station in Puiatu in South Estonia. The volume flows for such activities correspond to 10 million cubic metres of gas per day for the connection. In order to optimize the dimensions of the components of the pipeline, the pressure and compressor unit powers and pressure ratios have been chosen to take into account the current network configurations and optimising costs for the whole project. With the foreseen flow capacity for the Balticconnector, the Estonia-Latvia Enhancement project acts as an enabler project for the Balticconnector and lifts the bottleneck from the Estonian-Latvian border.

Other Cross Border Investments

Other cross border investments include renovations of the existing electricity transmission lines in Estonia which would increase the cross border transmission capacity, reactive power regulation equipment etc. All of them increase the cross border transmission capacity.

Other Extraordinary Investments

Other extraordinary investments mainly consist of the investments in assets, that are used for connecting the new equipment to the Electricity Grid and Gas Network at the request of clients, who pay for the investments fully (see "*Principal Areas of Business – Other services*" and "*Financing – Connection Fees*").

Financing

The Company has funded and expects to fund its capital expenditures using a combination of internally generated funds, increases in share capital, borrowings, congestion income, prepaid connection fees from clients and grants from the European Union.

Internally Generated Funds

The Company generates significant cash flows from its operating activities. In the financial year ended 31 December 2017, cash flow from operating activities for the Company was EUR 58.5 million. As the Company continues to invest in regulated assets, the regulated assets and tariff will increase and consequently the cash flow from operations as well.

Increases in Share Capital

The Shareholder has increased the share capital of the Company on five occasions since 2009, totalling EUR 95.7 million, in order to strengthen the Company's balance sheet in the light of forthcoming investments. The total share capital of the Company as at the date of this Prospectus is EUR 229.9 million.

Borrowings

The Company has four amortising bank loans with the total outstanding amount of EUR 137.6 million as at 31 December 2017. Two loan agreements are with the European Investment Bank ("**EIB**") in the total amount of EUR 104.6 million are maturing in 2030 and 2033. Two loan agreements are with the Nordic Investment Bank ("**NIB**") in the total amount of EUR 33.0 million and are maturing in 2025 and 2032.

The following table shows the combined repayment schedule of these loans until 2023:

	2018	2019	2020	2021	2022	Total
			<i>(€m)</i>			
Loan repayment.....	8.1	10.6	10.6	10.6	10.6	10.6

In addition to these bank loans, the Company has a Eurobond in the amount of EUR 225 million, maturing on 12 July 2018 (the "**Eurobond**"). In order to hedge the risk of refinancing the Eurobond, the Company entered in December 2017 into two loan agreements in a total volume of EUR 200 million with the repayment deadline being in March 2019. Both loan agreements are undrawn as at the date of this Prospectus. The Company has the right to draw the loans until the redemption deadline of the Eurobond.

Grants from the European Union

The EU makes available grants for certain projects which the EU considers will assist the achievement of EU energy objectives. The Company has concluded three agreements with the Innovation and Networks Executive Agency ("**INEA**"), an EU institution that finances the infrastructure projects with EU relevance. The following contracts have been concluded:

<u>Agreement No</u>	<u>Signing Date</u>	<u>Project</u>	<u>Grant (€m)</u>	<u>Received up to 31 December 2017 (€m)</u>
INEA/CEF/ENER/M2014/0029	13 May 2015	OHL	48.9	0.0
INEA/CEF/ENER/M2016/1158401 ...	21 October 2016	Balticconnector Estonia-Latvia	98.0	15.7
INEA/CEF/ENER/M2016/1158377 ...	15 December 2016	interconnector	18.6	6.1
Total.....			165.5	21.8

Connection Fees

As stated above (see "*Principal Areas of Business – Other services*"), the Company receives connection fees from clients that request new connections to the Electricity Grid before the Company orders a construction of new transmission assets necessary for that purpose.

The following table shows the expected connection fees that correspond to the planned investment in the connection assets for the next five years:

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Total</u>
Expected connection fees.....	10	9	0	0	0	19

(€m)

Congestion Income

If market participants place more requests (either through the power exchange Nord Pool Spot or through auctions arranged by the Company and the Latvian TSO) for cross-border transmission of electricity than is technically possible, transmission rights for cross-border electricity will be sold at special auctions in which 50 per cent. of the auction proceeds will be allocated to the transmission system operator of either country. Proceeds from such auctions are referred to in this Prospectus as "**Congestion Income**".

Net proceeds from auctions are recognised in compliance with Article 16 of European Parliament and Council Regulation (EC) No 714/2009, according to which Congestion Income should be utilised for the construction of new interconnection capacities. The Company generates a significant amount of Congestion Income from the auctions. As of 31 December 2017, the total collected Congestion Income was EUR 68.0 million (compared to EUR 62.5 million in 2016) of which EUR 61.8 million was unused (compared to EUR 57.8 million in 2016). In the financial year ended 31 December 2017, the collected Congestion Income was EUR 5.7 million (compared to EUR 13.0 million in 2016). This fund of Congestion Income (the "**Congestion Income Fund**") is used for investing in transmission assets that increase the cross border electricity transmission capacity.

Available Cash

As at 31 December 2017, the Company had available cash in bank deposits in the amount of EUR 122.0 million (compared to EUR 53.0 million in 2016). Of this available cash, EUR 22.0 million (compared to EUR 22.0 million in 2016) was received from EU grants and EUR 61.8 million (compared to EUR 57.8 million in 2016) was received from Congestion Income, as described above. Both of these sums are earmarked for investments in cross-border electricity transmission facilities.

Summary of Financing the Investments

As described in the "*Capital Expenditure*" section above, investments in the fixed assets can be divided into two categories: investments in regulated assets and investments in non-regulated assets. The total investments

in the regulated assets will be EUR 191 million in 2018-2022. These investments will be financed from the most recent increase by the Shareholder in the share capital of the Company (EUR 40.0 million) which was paid to the Company on 28 March 2018, and from cash flows from operations for the period 2018-2022 (EUR 58.5 million for the financial year ended 31 December 2017).

The total investments by the Company in the non-regulated assets will be EUR 275 million in 2018-2022, which will be financed from the following sources:

	<u>(€m)</u>
EU grants	141
Connection fees	19
Available in bank deposits	115
Total.....	275

Management

Overview

In the Company's shareholder meetings, the Shareholder is represented by, the Minister of Economic Affairs and Communications. The Minister exercises all of the Shareholder's powers in a general meeting and has authority to decide, with authorisation from the Government of Estonia, matters relating to the setting up, termination, consolidation and reorganisation of the Company, changing its charter, the election of members of the Supervisory Board and changing its share capital.

The Supervisory Board and the Management Board are responsible for the management of the Company. The Supervisory Board is constituted on the basis of the requirements specified in the Estonian Commercial Code, the SAA and the Company's Articles of Association.

The Management Board of the Company undertakes the day-to-day management of the Company and its rules of procedure are set out in the Estonian Commercial Code, the SAA and the Company's Articles of Association.

Supervisory Board

The Supervisory Board comprises three to five members. The number of members of the Supervisory Board are decided and elected by The Minister of Economic Affairs and Communications as the representative of the Shareholder, according to a suggestion made by the independent Nominating Committee of the state-owned enterprises. Compensation of the members of the Supervisory Board are determined by a directive of The Minister of Economic Affairs and Communications. Currently, the Supervisory Board of the Company has five members, appointed for a term of three years, and may be re-elected.

The Company's Articles of Association set out restrictions on the selection of members of the Supervisory Board.

The meetings of the Supervisory Board are held as needed, but no less than once every three months. The Supervisory Board is responsible for strategic planning and supervises the Management Board's activities. The Supervisory Board also monitors and approves decisions that are beyond the ordinary course of business activities.

The current members of the Company's Supervisory Board are set out below:

<u>Name</u>	<u>Position</u>	<u>Current Employment</u>
Timo Rajala	Chairman	CEO, Rajalimes Oy, consulting company in Finland
Timo Tatar	Member	Director of the Energy Department at the Ministry of Economic Affairs and Communications
Tarmo Porgand	Member	Deputy Head of State Assets Department at the Ministry of Finance
Indrek Kasela	Member	CEO of AS PRFoods, Estonia

Toomas Põld Member Enterprenuer, shareholder and the Member of the Supervisory Board of RRLektus AS, Estonia

The business address of each member of the Supervisory Board is Kadaka tee 42, 12915 Tallinn, Estonia.

No member of the Supervisory Board has any actual or potential conflict of interest between his or her duties to the Company and his or her private interests and/or other duties.

Management Board

The Management Board comprises three members elected by the Supervisory Board for a term of five years. The Chairman of the Management Board organises the work of the Management Board. The Management Board organises the everyday management and economic activities of the Company.

As with the Supervisory Board, the Articles of Association of the Company also set out certain requirements in relation to the selection of members of the Management Board.

The current members of the Management Board are set out below:

<u>Name</u>	<u>Date appointed from</u>	<u>Date appointed until</u>	<u>Position</u>	<u>Relevant Experience</u>
Taavi Veskimägi	1 December 2009	30 November 2019	Chairman	Minister of Finance, Member of Parliament
Peep Soone	2 August 2006	31 December 2019	Member	CFO of Elering since 2001
Kalle Kilk	13 February 2007	7 January 2020	Member	Head of Operational Planning since 2003

The business address of each member of the Management Board is Kadaka tee 42, 12915 Tallinn, Estonia.

No member of the Management Board has any actual or potential conflict of interest between his or her duties to the Company and his or her private interests and/or other duties. No member of the Management Board has any outside activities which are significant with respect to the Company.

Audit Committee

The Audit Committee was established by a resolution of the Supervisory Board dated 18 June 2010. The Audit Committee is comprised of five members, elected by the Supervisory Board for a term of three years, and may be re-elected. It is currently chaired by Timo Tatar and its other current members are Timo Rajala, Indrek Kasela, Tarmo Porgand and Toomas Põld.

The Audit Committee exercises supervision over the Company's internal accounting, risk management and internal controls policies and reports directly to the Supervisory Board. Most of the internal audits are outsourced to be performed by KPMG Baltics OÜ.

Risk Management

The Management Board is responsible for having in place a risk management policy (the "**Risk Management Policy**") to monitor and assess the risks that the Company faces. The Risk Management Policy is updated annually. The risk management and internal control system is based on the Enterprise Risk Management Model, developed by the Committee of Sponsoring Organisations of the Treadway Commission (a voluntary organisation that promotes good corporate governance).

Sirli Söömer has been appointed as the risk manager to implement the Risk Management Policy and reports to the Management Board. The risk manager is supported by risk administrators who include the head of the

Power System Control Centre of the electricity system, the head of the electricity markets department, the financial manager, the head of the legal division, the head of IT division and the strategy manager.

On the basis of the information received from the risk administrators, the risk manager prepares an overview of the functioning of the risk management of the Company. The risk manager then reports the risks to the Management Board twice a year. The report includes an overview of the identified risks, probability of risk occurrence, their potential impact on the Company's activities, and the control mechanisms for risk management.

The main categories of risks within which risk administrators identify and assess risks are as follows:

- risks to the sustainable functioning of a service of vital importance (i.e. security of the Electricity Grids and the Gas Network and risks related to the operation of the energy system);
- risks to the functioning of the main grid (i.e. related to identification of the balance, movement of market information and disclosure of data);
- financial risks (i.e. credit, liquidity, currency and other risks that have a direct impact on the financing and profitability of the Company);
- risks arising from the external environment (i.e. including regulatory, legal and other external risks over which the Company does not have any direct control); and
- strategy risks (i.e. risks related to the strategic planning of the Company, network planning, IT developments, work environment and personnel policy).

The risk manager meets with the Management Board once a year to discuss the identified risks. On the basis of information received, the Management Board reviews the identified risks and gives an assessment as to whether all relevant risks arising from the Company's activities have been taken into account. The Management Board then reports its conclusions to the Supervisory Board.

Employees

The Company employed an average of 214 full time employees in the year ended 31 December 2017. The Company considers that relations with the labour force and with unions are good and there have been no stoppages owing to employment disputes. The employees of the Company relating to maintenance work are predominately comprised of project team leaders for grid planning and maintenance. Construction and maintenance work (including emergency maintenance) are predominately subcontracted outside of the Company.

Insurance

The Company has an internal policy to insure assets with an individual value above a certain threshold and has decided to insure the ERPP in 2018 and the Balticconnector during its construction time. No other assets are currently insured as the assets of the Company (such as electricity transmission lines, gas pipelines and substations) consist of a large number of different installations located at a distance from each other which makes it unlikely that potential damage would spread from one installation to another.

SELECTED FINANCIAL INFORMATION

The selected financial information included below has been extracted without material adjustment from, and should be read in conjunction with the Company's financial statements as at and for each of the years ended 31 December 2017 and 31 December 2016 which are incorporated by reference into this Prospectus.

Statements of financial position

	31 December 2017	31 December 2016
	(€000s)	
ASSETS		
Current assets		
Cash and cash equivalents.....	81,997	52,997
Short term deposits.....	40,000	-
Restricted cash.....	-	21,778
Trade and other receivables.....	27,715	26,682
Inventories.....	3,727	3,543
Total current assets.....	153,439	105,001
Non-current assets		
Available-for-sale financial assets.....	1,946	1,946
Long term deposits.....	-	40,000
Property, plant and equipment.....	746,503	751,621
Intangible assets.....	7,755	5,153
Total non-current assets.....	756,204	798,721
TOTAL ASSETS.....	909,643	903,722
LIABILITIES		
Current liabilities		
Borrowings.....	232,824	5,704
Trade and other payables.....	36,000	27,963
Total current liabilities.....	268,824	33,667
Non-current liabilities		
Borrowings.....	129,439	361,685
Deferred income.....	165,191	159,296
Total non-current liabilities.....	294,630	520,982
TOTAL LIABILITIES.....	563,454	554,649
EQUITY		
Share capital.....	189,890	189,890
Statutory reserve capital.....	12,898	11,962
Retained earnings.....	143,402	147,220
TOTAL EQUITY.....	346,190	349,072
TOTAL LIABILITIES AND EQUITY.....	909,643	903,722

Statements of comprehensive income

	1 January 2017 - 31 December 2017	1 January 2016 - 31 December 2016
	(€000s)	
Revenue.....	130,349	134,012
Other income.....	1,586	1,879
Goods, raw materials and services.....	(49,905)	(46,662)
Other operating expenses.....	(6,374)	(5,457)
Staff costs.....	(8,049)	(7,807)
Depreciation and amortization.....	(34,486)	(38,128)
Operating profit.....	33,121	37,841
Financial income.....	71	18
Financial costs.....	(11,074)	(11,395)
Profit before income tax.....	22,118	26,463
Income tax expense.....	(5,000)	(7,750)
Profit for the year.....	17,118	18,713
Total comprehensive income for the year.....	17,118	18,713

Cash flow statements

	1 January 2017 - 31 December 2017	1 January 2016 - 31 December 2016
	(€000s)	
Cash flows from operating activities		
Profit before income tax	22,118	26,463
Adjustments for:		
- Profit from sale of property, plant and equipment	(53)	(32)
- Depreciation, amortisation and impairment	34,486	38,128
- Dividends received from long-term financial investments	(118)	(59)
- Government grants expended and amortised.....	(1,174)	(1,174)
- Interest expenses	11,068	11,390
- Interest income.....	(71)	(17)
- Changes in inventories	(184)	(182)
- Changes in receivables and prepayments related to operating activities	(1,825)	(70)
- Changes in liabilities and prepayments related to operating activities.....	8,709	1,972
- Changes in deferred income from connection and other service fees	1,401	(895)
Cash generated from operations	74,355	75,525
Income tax paid	(5,000)	(7,750)
Interest paid.....	(10,929)	(11,200)
Interest received	65	18
Net cash from operating activities.....	58,492	56,593
Cash flows from investing activities		
Purchases of property, plant and equipment and intangible assets.....	(31,118)	(25,872)
Grants to acquire non-current assets.....	21,117	-
Proceeds from sale of property, plant and equipment.....	271	510
Placing long term deposits	-	(40,000)
Dividends received from long-term financial investments	118	59
Congestion fees received.....	5,238	12,600
Net cash used in investing activities	(3,773)	(52,703)
Cash flows from financing activities		
Repayments of bank loans.....	(5,719)	(12,381)
Proceeds from contributions to equity.....	-	32,000
Dividends paid to company's shareholders	(20,000)	(31,000)
Net cash used in financing activities.....	(25,719)	(11,381)
Net increase/decrease in cash and cash equivalents.....	29,000	(7,491)
Cash and cash equivalents at the beginning of the year	52,997	60,489
Cash and cash equivalents at the end of the year.....	81,997	52,997

Statements of changes in equity

	Share capital	Unregistered share capital	Statutory reserve capital <i>(€000s)</i>	Retained earnings	Total equity
Balance as of 1 January 2016	149,890	8,000	10,743	160,726	329,359
Comprehensive income for financial year	-	-	-	18,713	18,713
Total comprehensive income for the period	-	-	-	18,713	18,713
Transactions with owners:					
Contributions to equity	40,000	(8,000)	-	-	32,000
Transfers to statutory reserve capital	-	-	1,219	(1,219)	-
Dividends paid	-	-	-	(31,000)	(31,000)
Total transactions with owners	40,000	(8,000)	1,219	(32,219)	1,000
Balance as of 31 December 2016	189,890	-	11,962	147,220	349,072
Comprehensive income for financial year	-	-	-	17,118	17,118
Total comprehensive income for the period	-	-	-	17,118	17,118
Transactions with owners:					
Transfers to statutory reserve capital	-	-	936	(936)	-
Dividends paid	-	-	-	(20,000)	(20,000)
Total transactions with owners	-	-	936	(20,936)	(20,000)
Balance as of 31 December 2017	189,890	-	12,898	143,402	346,190

REGULATION

EU Energy Regulation: The Third Energy Package

The European Union institutions have adopted the third legislative package (the "**Third Energy Package**") for the internal EU gas and electricity market, aimed at completing the liberalisation of both the electricity and the gas markets. The Third Energy Package consists of three regulations and two directives. The regulations became directly applicable in the Republic of Estonia as of 3 March 2011. The directives in the package are Directive 2009/72/EC, in relation to the electricity market, and Directive 2009/73/EC, in relation to the gas market. The transposition date for both directives was set for 3 March 2011 as well. By now, the Third Energy Package has been duly transposed into Estonian legal acts – mainly through the EMA and the NGA.

Regarding unbundling of TSOs, both the EMA and the NGA require implementation of ownership unbundling model foreseen in the Third Energy Package. This mainly means that the same person exercising control over an electricity or gas producer or supplier cannot exercise control or any other rights over the TSO and *vice versa*.

The Company acts as a sole TSO for both the electricity and gas markets. There are no other TSOs in Estonia. The Company has implemented and complies with the ownership unbundling rules imposed on electricity and gas TSOs. To complete the unbundling process, the shares of the state owned undertaking Eesti Energia, which is the largest energy producer and supplier in Estonia, were transferred from the Ministry of Economic Affairs and Communications to the administration of the Ministry of Finance. As a result, the Company and Eesti Energia have different ministers acting as their shareholder, which satisfies the Third Energy Package's ownership unbundling rules.

According to the EMA and NGA, the certification (i.e. verification of compliance with the unbundling rules) of TSOs is conducted through the procedure of applying for and granting of an activity licence for the provision of electricity and natural gas transmission services. The ECA has issued the relevant activity licences to the Company - on 24 January 2014 the Company was granted a new termless activity licence (replacing the previous termless activity licence from 9 February 2006, which superseded the previous fixed-term license granted on 11 February 2004) for the provision of electricity transmission services and on 23 December 2016 the Company was granted a termless activity licence for the provision of natural gas transmission services.

According to the EMA, the TSO may generate electricity to ensure the maintenance of the energy balance in the emergency reserve power plants in certain circumstances without violating the unbundling requirements.

Estonian electricity and natural gas market regulation

The Estonian electricity market is mainly regulated by the EMA and the natural gas market by the NGA and their implementing acts. The electricity market became fully opened – i.e. where all customers are free to choose and switch between different suppliers – in 2013. The gas market became fully opened in 2007, but real competition emerged only in 2014 when an LNG terminal was opened in Lithuania.

The ECA is responsible for the overall supervision and regulation of the Estonian electricity and natural gas sectors. According to law, the ECA must be independent and exercise its powers with impartiality while performing the functions imposed on it by the EMA and NGA.

The ECA's primary functions in the electricity and gas markets include, but are not limited to, the following duties:

- licencing – issuing and revoking activity licences, extending the terms of activity licences, establishing and amending the conditions thereof and monitoring compliance with the conditions of activity licences;
- price regulation – approving ex ante distribution and the transmission network tariffs, except for transmission charges for the transit of electricity, including ex post supervision; approving ex ante the TSO's methodology of calculating the prices of balancing gas and ex post supervision of the TSO's prices of balancing gas and electricity;
- access and contract terms – approving ex ante network operators' methodology of calculating connection fees, including ex post supervision, and the standard terms and conditions of their network agreements, including the TSO's balance agreements;

- unbundling and certification – verifying and certifying that the TSO complies with unbundling requirements;
- cross-border issues – performing functions imposed on the ECA by EU Regulations (EC) 714/2009 and (EC) 715/2009 and the EU legislation enacted on their basis, and also Regulation (EU) 1227/2011 (REMIT);
- dispute resolution - resolving disputes between electricity and gas market participants;
- regional cooperation – cooperating with the Agency for the Cooperation of Energy Regulators and other Member States' national regulatory authorities in order to perform its duties;
- general state supervision – exercising state supervision over compliance with the requirements provided in the EMA and NGA and the legislation enacted on the bases of these acts; and
- remedies and sanctions – imposing measures to remedy identified infringements of the law, including imposing sanctions.

The ECA has issued an activity licence to the Company for the provision of electricity and natural gas transmission services through the transmission network. The activity licences are for an unlimited duration.

The Company, as the transmission network operator, is also a system operator for both the electricity and natural gas markets. The statutory obligations of the Company as the TSO include, but are not limited to, the obligation to:

- collect renewable energy fee and pay renewable energy subsidies to renewable energy producers as foreseen in the EMA (subsidy is financed from the renewable energy fee payable by the end-customers according to the volume of consumption of the network services);
- issue guarantees of origin to the producers at their request certifying that the producer generated electricity from renewable energy sources or in efficient cogeneration regime or that the producer has produced biomethane;
- comply with the requirements established for providers of services of vital importance and providers of a service of general interest;
- ensure security of supply and balance of the electricity and natural gas systems at any moment in time, including entering into balance agreements with electricity and natural gas balance providers;
- procure and administer a gas stock to be used to ensure security of supply for protected customers in the event of a supply disruption; and
- participate in the inter-TSO compensation mechanism as set out in Regulation 714/2009.

All electricity and gas network operators have an obligation to develop the networks such that the continued provision of network services is ensured to all relevant market participants connected to the network.

Under the EMA, the liability of the TSO is limited to the direct proprietary damage and damages caused by the fault of the TSO. Under the NGA, the TSO is not liable for any damage incurred as a result of the performance of orders given by the TSO for ensuring the system's security of supply, except in the case where the actions or orders of the TSO have been unlawful.

Regulation of electricity and natural gas network tariffs

Tariff regulation rules are established with the EMA and NGA which stipulate general tariff regulation principles. More specific rules are stipulated in the tariff regulation methodologies adopted and published by the ECA and which include detailed rules on calculation of tariffs. The general aim of the tariff regulation principles is to enable the network operator to cover its reasonable costs which are necessary for the performance of its duties and to earn reasonable return on the regulated asset base ("**RAB**"). Electricity and natural gas transmission network tariffs need the prior approval of the ECA.

The regulation of the network tariffs is based on the revenue cap method. The allowed regulated revenue is the sum of justified costs (which is a reflection of actual costs) and a reasonable return (justified profitability) on the RAB. Reasonable return is defined as Operating profit (i.e. profit before interest expense and income tax) and is calculated according to the formula: Operating profit = RAB x WACC.

RAB for each year is found as the RAB at the end of previous year to which the sum of justified investments in the RAB during the next year are added. The Company includes an investment plan to the tariff application and the ECA investigates the proposed investments prior to approval of the tariffs. In case if making an investment takes several years, each year the RAB will increase by the amount, actually spent in that year. As a result, the investments in RAB are always rewarded as they earn exactly the same return as the existing RAB.

In the electricity network service, the RAB and the fixed assets of electricity transmission in accounting differ to some extent because of some simplifications, made by the ECA in the useful lifetimes of assets. As at 31 December 2017, the difference between the RAB and the book value of the fixed assets of the regulated electricity network business was less than 2 per cent.

In the gas network service, the NGA stipulates that the RAB is equal to the book value of the fixed assets in accounting.

WACC is calculated by the ECA based on the Capital asset pricing model ("**CAPM**") and disclosed in its methodology. The most important variable in this model is the market interest rate level (more specifically, the average yield of the 10-year German government bond for the last 5 years). For the purposes of the calculation of the cost of equity, the beta of similar companies is used, assuming the equity to assets ratio of 0.5. Current WACC is 4.46 per cent. for the electricity network and 4.51 per cent. for the gas network. Current beta is 0.670 for the electricity network and 0.668 for the gas network, which makes the cost of debt currently 3.33 per cent. for the electricity network and 3.42 per cent. for the gas network.

Network tariffs are calculated based on the actual average amount of the last 3 years' transmitted energy. Tariffs are calculated, dividing the regulated revenue by the transmission volumes. In both electricity and gas network regulation, the average of the last three calendar years' transmission volumes is used. In case if the actual transmission volumes differ from those, used in the calculation of tariffs, no ex post compensation is used.

There is no fixed expiry date of the tariffs. If the costs or revenues of the network operator have changed since the previous approval decision, the network operator is entitled (or obliged) to apply for approval of new tariffs. There is no automatic (e.g. annual) correction of tariffs. Amendment and approval of tariffs can only be initiated by network operator's own application. However, if the ECA has identified that the applicable tariffs do not comply with law, it can also order the network operator to submit a new tariff application for approval to the ECA.

The ECA approves tariffs with binding decisions which cannot be overruled by any other governmental authority, but can only be challenged in court by interested parties within 30 days from the decision date of the ECA.

The Company's electricity transmission tariffs currently in force was approved by the ECA on 6 July 2017 and include WACC of 4.46 per cent.

The Company's natural gas transmission tariffs currently in force was approved by the ECA on 30 July 2014 and include WACC of 5.63 per cent. The new gas network tariffs approved by the ECA on 20 March 2018 will take effect from 1 July 2018 and will include WACC of 4.51 per cent.

Estonian environmental legislation

The Company's operations are subject to environmental legislation and the Company has a responsibility to prevent any negative environmental effects. Estonian environmental legislation includes the Environmental Liability Act of 2007, as amended, which implements Directive 2004/35/EC of the European Parliament and of the Council on environmental liability with regard to the prevention and remedying of environmental damage.

The Company's activities give rise to several environmental risks, in particular but not limited to, due to noise generated from power transformers, electric and magnetic fields in the area surrounding power lines and oil contained in the electrical equipment in the Company's substations.

The Company is also engaged in the operation of a reserve power plant which gives rise to additional environmental risks such as the emission of pollutants.

To the best of its knowledge, the Company is currently in compliance with all Estonian environmental requirements.

Estonian occupational health and safety regulations

The Company's operations are subject to health and safety regulations. The Company transmits electricity via high voltage lines and substations and there is an inherent risk to employees of the Company, other personnel working in such an environment, as well as third persons and property. The gas transmitted via metal pipelines is explosive and in case of leakages, could be harmful to the health of persons and property exposed to it. Accidents may occur for a variety of reasons.

The Company is also engaged in the operation of a reserve power plant which may give rise to additional health and safety risks related to the generation of electricity.

According to the Occupational Health and Safety Act of 1999, as amended, an employer must ensure compliance with the occupational health and safety requirements in every aspect related to the work. Specific technical and safety requirements also arise from the Equipment Safety Act of 2015, from the regulations adopted by the Government of the Republic of Estonia based on the above referred acts, and the Estonian Grid Code.

To the best of its knowledge, the Company is currently in compliance with all Estonian occupational health and safety requirements.

THE REPUBLIC OF ESTONIA

The following information has been sourced from publicly available sources, as indicated, which the Issuer has not produced.

General Description

Estonia is located on the eastern coast of the Baltic Sea in the Nordic region. The territory of Estonia covers approximately 45,000 square kilometres and it is larger in area than Denmark, Switzerland or The Netherlands. Estonia is bordered to the north by the Gulf of Finland, to the west by the Baltic Sea, to the south by Latvia, and to the east by the Russian Federation. Its nearest overseas neighbour is Finland, which lies 85 kilometres across the Baltic Sea from Tallinn, Estonia's capital. According to Statistics Estonia (the Estonian government agency responsible for producing official statistics regarding Estonia), as of 1 January 2018 the population of Estonia was 1,318,705.

Estonia, along with Finland, Lithuania and Latvia, first attained independence in 1918. Estonia was later occupied by the Soviet Union in 1940 and regained its independence in 1991 with the collapse of the communist regime. In June 1992, Estonia replaced the Russian rouble with the Estonian kroon and immediately began a programme of free market reforms. On 1 January 2011, Estonia adopted the euro, becoming the seventeenth member of the euro zone.

Estonia's new constitution was introduced in 1992 and provides for a unicameral 101-seat Parliament (*Riigikogu*) whose members are elected directly by proportional representation. Traditionally, centre and right wing parties have been more popular in Estonia. The current Government is formed by the coalition of a centre wing Estonian Centre Party, a centre-right wing party the Pro Patria and Res Publica Union and a centre-left wing Social Democratic Party in the Parliament (*Riigikogu*).

According to Statistics Estonia, in 2017 the top destination countries for Estonia's exports were Finland (16 per cent. of Estonia's total exports), Sweden (14 per cent.) and Latvia (9 per cent.) and the main countries of consignment in 2017 were Finland (14 per cent. of Estonia's total imports), Germany (11 per cent.), and Lithuania (9 per cent.).

Estonia is a member of a number of international organisations including the European Union, the United Nations, the North Atlantic Treaty Organisation, the Organisation for Economic Co-operation and Development, the World Trade Organisation, the International Monetary Fund ("**IMF**"), the World Bank, European Bank for Reconstruction and Development and the Organisation for Security and Co-operation in Europe.

Estonia has been assigned the following credit ratings: A1 by Moody's Investors Service, AA- by Standard & Poor's and A+ by Fitch Ratings.

The Estonian Economy

Economic Growth

The following table shows the gross domestic product ("**GDP**") of Estonia as current prices for the years ended 2013 to 2017.

GDP (million euros)	2013	2014	2015	2016	2017
Seasonally and working day unadjusted	18,932.3	19,766.3	20,347.7	21,098.3	23,002.3
.....					
Seasonally and working day adjusted	18,923.9	19,755.2	20,341.5	21,091.2	22,990.3
.....					

Source: Statistics Estonia

General government gross debt to GDP

The following table shows the proportion of general government gross debt to GDP in Estonia and the Euro area for the years ended 2013 to 2017.

General government gross debt to GDP (per cent.)	2013	2014	2015	2016	2017
Estonia	10.2	10.7	10	9.4	8.7
Euro area.....	91.4	91.9	90	89	87.4

Source: IMF

Implemented state budget revenue and expense

The following table shows the amount of Estonia's total expenditure and surplus or deficit when compared to the implemented state budget revenue for the years ended 2010 to 2017.

	2010	2011	2012	2013	2014	2015	2016	2017
Total revenue	5,610,188.2	5,889,621.3	6,427,209.5	6,556,169.4	6,677,510.1	6,792,685.0	7,318,771.4	9,309,355.4
Total expenditure	5,392,756.4	6,120,633.1	6,567,208.5	6,853,021.5	6,488,412.4	7,157,330.5	7,326,755.1	9,242,134.1
Surplus/deficit	217,431.7	-231,011.8	-139,999.0	-296,852.1	189,097.6	-364,645.5	-7,983.8	67,221.3

Source: Statistics Estonia

Value added by economic activity

The following table shows the contribution to GDP by sector in 2017.

Sector	Contribution to GDP in 2017 (per cent.)
Construction	6.6
Wholesale and retail trade	11.8
Transportation and storage	7.6
Accommodation and food service activities	2.1
Information and communication	6.2
Financial and insurance activities	4.0
Real estate activities	9.8
Professional, scientific and technical activities	5.7
Agriculture, forestry and fishing	2.8
Mining and quarrying	1.2
Manufacturing	15.4
Electricity, gas, steam and air conditioning supply	3.0
Others	23.9

Source: Statistics Estonia

TAXATION

The following summary describes Estonian tax consequences to Noteholders. It is a general summary and should not be considered as a comprehensive description of all the tax considerations which may be relevant to a decision to purchase, own or dispose of the Notes. Purchasers of the Notes should consult with their tax advisers as to the consequences of holding or transferring Notes under the tax laws of the respective country of which they are resident for tax purposes.

The summary herein regarding taxation is based on the laws in force in Estonia as of the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis.

Taxation of interest

Estonian Resident Noteholders

Pursuant to Article 17 (1) of the Estonian Income Tax Act of 1999 (*tulumaksuseadus*), as amended (the **EITA**), income tax at the rate of 20 per cent. is charged on all interest received by natural persons who are resident in Estonia. Income tax payable in respect of interest payments to be made to Estonian residents is to be withheld by the Issuer. The Issuer will not withhold income tax if the Estonian resident Noteholder, who is a natural person, has notified the Issuer that the interest was received on financial assets acquired for money held in an investment account as specified in Article 17² of the EITA.

In general, interest income earned by resident legal entities is not subject to income tax. Such income is included in their profits and taxed upon distribution of profit pursuant to the respective procedures.

Non-resident Noteholders

The Issuer generally does not withhold any income tax on interest payments to non-residents i.e. non resident legal persons, who have not registered a permanent establishment in Estonia, and natural persons.

The income earned by non-resident Noteholders may be subject to taxation in their country of residence.

Taxation of capital gains

Estonian Resident Noteholders

The income earned by resident individuals from the sale or exchange of Notes is taxed as profit from the transfer of property which is subject to income tax at the rate of 20 per cent. A Noteholder has to declare the income and pay the income tax.

Pursuant to Article 37 (1) of the EITA, a resident individual has the right to deduct certified expenses directly related to the sale of Notes from the resident's gain or to add such expenses to the resident's loss. The gain or loss derived from the transfer of Notes is the difference between the acquisition cost and the sale price of the Notes.

Individual Noteholders may postpone the taxation of their income derived from the sale or exchange of the Notes, by using an investment account specified in Article 17² of the EITA for the purposes of making transactions with the Notes and depositing the proceeds from the transfer of Notes in the investment account. The moment of taxation of the financial income held in an investment account is postponed until such income is withdrawn from the investment account (i.e. the amount withdrawn from the account exceeds the amount which had been previously paid in to the account).

Income earned by resident legal entities from the sale of Notes is not subject to income tax. Such income is included in their profits and taxed upon distribution of profits pursuant to relevant procedures.

Non-resident Noteholders

Income earned from the sale or exchange of Notes is not subject to income tax in Estonia for non-resident Noteholders. The income earned by non-resident Noteholders may be subject to taxation in their country of residence.

Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**Participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of any Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Danske Bank A/S and J.P. Morgan Securities plc (together, the "**Joint Lead Managers**") have, pursuant to a Subscription Agreement (the "**Subscription Agreement**") dated 30 April 2018, jointly and severally agreed to subscribe or procure subscribers for the Notes at the issue price of 99.907 per cent. of the principal amount of Notes. The Issuer has agreed to pay the Joint Lead Managers a combined management and underwriting commission, and will also reimburse the Joint Lead Managers in respect of certain of their expenses, and has agreed to indemnify the Joint Lead Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder.

Each Joint Lead Manager has represented and agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

Prohibition of sales to EEA Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area. For the purposes of this provision, the expression "**retail investor**" means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (b) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

- (a) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom; and
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer.

Republic of Estonia

The offer of the Notes has not been and will not be registered under the Estonian Securities Market Act of 2001, as amended (the "**Securities Market Act**") as a public offering. Accordingly, each Joint Lead Manager has represented and agreed that it will not offer or sell any Notes, directly or indirectly, in Estonia or to or for the benefit of any resident of Estonia (which term as used in this paragraph means any person resident in Estonia, including any corporation or other entity incorporated under the laws of Estonia), or to others for re-offering or resale, directly or indirectly, in Estonia or to a resident of Estonia except in compliance with the Securities Market Act and any other applicable laws or regulations of Estonia.

General

No action has been taken by the Issuer or any of the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Joint Lead Manager has represented, warranted and agreed that it will not, directly or indirectly, offer or sell any Notes or distribute or publish this Prospectus or any other offering material relating to the Notes in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms. Persons into whose hands this Prospectus comes are required by the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

Authorisation

1. The issue of the Notes was duly authorised by a resolution of the Supervisory Board of the Issuer dated 27 September 2017.

Listing and admission to trading

2. Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market. The listing of the Notes is expected to be granted on or about 3 May 2018, subject only to the issue of the Temporary Global Note.

The total expenses related to the admission to trading of the Notes are expected to be approximately £4,200.

Clearing Systems

3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The ISIN for this issue is XS1713464102 and the Common Code is 171346410.

The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg.

No significant change

4. There has been no significant change in the financial or trading position of the Issuer since 31 March 2018 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2017.

Litigation

5. The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have, or have had in the recent past a significant effect on the Issuer's financial position or profitability.

Auditors

6. The auditors of the Issuer are AS PricewaterhouseCoopers (the "**Auditors**"), who have audited the Issuer's financial statements as at and for the year ended 31 December 2017 and the Issuer's consolidated financial statements as at and for the year ended 31 December 2016 (together, the "**Financial Statements**") in accordance with the International Standards on Auditing, and issued an unqualified audit report on those Financial Statements.

The business address of the Auditors is Pärnu mnt 15, 10141 Tallinn, Estonia. The Auditors have no material interest in the Issuer.

U.S. tax

7. The Notes (other than the Temporary Global Note) and Coupons will contain the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

Documents Available

8. For the period of 12 months following the date of this Prospectus, copies of the following documents will be available for inspection from the specified office of the Paying Agent for the time being in London:
 - (a) the constitutional documents of the Issuer (with an English translation thereof);
 - (b) the audited financial statements of the Issuer in respect of the financial year ended 31 December 2017 and the audited consolidated financial statements of the Issuer in respect of the financial year ended 31 December 2016, in each case, together with the audit reports in connection therewith. The Issuer currently prepares audited accounts on an annual basis;
 - (c) the unaudited interim financial statements of the Issuer as at and in respect of the three months ended 31 March 2018. The Issuer currently prepares unaudited interim accounts on a quarterly basis;
 - (d) the Agency Agreement; and
 - (e) the Temporary Global Note and Permanent Global Note.

Joint Lead Managers transacting with the Issuer

9. Certain of the Joint Lead Managers and their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services to the Issuer and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Joint Lead Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates. Certain of the Joint Lead Managers or their respective affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, any such Joint Lead Manager and/or affiliate would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the securities of the Issuer, including potentially the Notes. Any such positions could adversely affect future trading prices of the Notes. The Joint Lead Managers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Yield

10. On the basis of the issue price of the Notes of 99.907 per cent. of their principal amount, the yield on the Notes is 0.894 per cent. on an annual basis.

The yield is calculated on the Closing Date on the basis of the issue price of the Notes. It is not an indication of future yield.

Interests of natural legal persons involved in the issue of the Notes

11. Save for the commissions described under "*Subscription and Sale*" above, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.

LEI

12. The Legal Entity Identifier code of the Issuer is 894500CHL8J099IKJ580.

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THE ISSUER

Elering AS
Kadaka tee 42
12915 Tallinn
Estonia

JOINT LEAD MANAGERS AND JOINT BOOKRUNNERS

Danske Bank A/S
2-12 Holmens Kanal
DK-1092 Copenhagen K
Denmark

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

FISCAL AND PRINCIPAL PAYING AGENT

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

LEGAL ADVISERS

To the Issuer as to Estonian law

Advokaadibüroo Sorainen AS
Kawe Plaza, 7th floor
Pärnu mnt 15
Tallinn 10141
Estonia

To the Issuer as to English law

Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ
United Kingdom

To the Joint Lead Managers as to Estonian law

Ellex Raidla Advokaadibüroo OÜ
Roosikrantsi 2
10119 Tallinn
Estonia

To the Joint Lead Managers as to English law

Allen & Overy LLP
One Bishops Square
London E1 6AD
United Kingdom

AUDITORS OF THE ISSUER

AS PricewaterhouseCoopers
Pärnu mnt 15
10141 Tallinn
Estonia