CREDIT OPINION
11 June 2024

Update

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RATINGS

Eesti Energia AS

Domicile	Estonia
Long Term Rating	Baa3
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

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

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Eesti Energia AS

Update to credit analysis

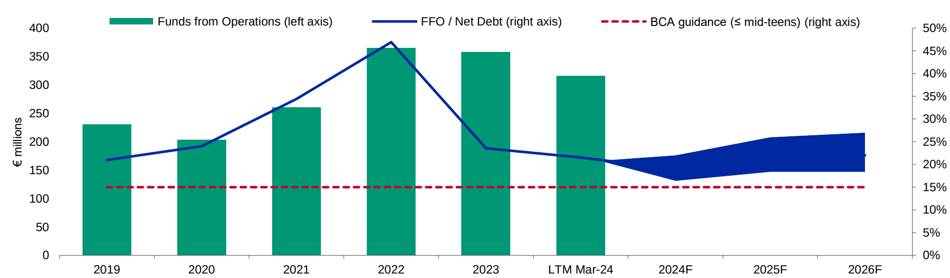
Summary

Eesti Energia AS' credit profile is underpinned by our assumption of a high probability of support from its 100% owner, the Government of Estonia (A1 stable), reflecting the group's pivotal role in Estonia's energy strategy; the sustained strong earnings contribution from its lower-risk regulated network activities; and its sizeable and growing share of income from renewable power generation, which mostly benefits from support schemes.

However, Eesti Energia's credit quality is constrained by the short remaining life of its oil shale-based electricity generation activities; the ongoing volatility in earnings in shale oil-related activities, driven by significant fluctuations in commodity prices; the lead time to achieve income from the large capital spending programme required to migrate to a lower-carbon business profile, which will result in higher financial leverage over time; and the company's small size in Europe's evolving electricity markets.

Exhibit 1

We expect Eesti Energia's credit metrics to remain aligned with our ratio guidance



All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are financial year-end unless indicated. LTM = Last 12 months.
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

The Baa3 rating benefits from a three-notch uplift from the company's baseline credit assessment (BCA) of ba3, given the high probability of government support in case of financial distress.

Credit strengths

» Dominant position in Estonia's energy sector as both the largest power producer and miner of oil shale, the country's main commodity

» Government support for the company's transition strategy, underpinned by a track record of equity injections and dividend restraint

» Sizeable EBITDA contribution from lower-risk electricity distribution and renewables under support schemes, although subsidies will gradually expire

Credit challenges

» Short remaining asset life of oil shale-based electricity generation units that will be phased out by 2030

» Exposure of earnings to volatile global oil prices through shale oil activities

» Large, transition-related investment programme will absorb cash flow over the next two to three years

» Relatively small size, which leaves the company vulnerable to changes in the regional electricity markets

Rating outlook

The stable outlook on Eesti Energia's rating reflects our expectation that the company will continue to benefit from high support from its owner, the Estonian government. The current BCA reflects our expectation that the company will be able to maintain its leverage, expressed as funds from operations (FFO)/net debt, at least in the midteens in percentage terms.

Factors that could lead to an upgrade

Upward pressure on Eesti Energia's rating is unlikely to materialise in the medium term, but could develop in the long term through a successful execution of the investment programme, and maintenance of good liquidity and a financial profile comfortably and sustainably in excess of the current guidance. A one-notch upgrade of the company's BCA may not necessarily lead to a higher rating.

Factors that could lead to a downgrade

Eesti Energia's BCA could come under pressure if the company fails to maintain a financial profile commensurate with the current guidance, that is, if its FFO/net debt were to remain below the midteens in percentage terms; the company's liquidity were to deteriorate; or there were significant adverse changes in the market or the regulatory environment in which the company operates that are not addressed through adequate adjustment of the financial profile. A one-notch downgrade of the company's BCA may not necessarily lead to a rating downgrade.

The rating could be downgraded if Eesti Energia were to demonstrate a significantly lower BCA that was not compensated by some form of support from the Estonian government; its structural subordination were to increase significantly; or the credit quality of the Estonian government or the support assumptions currently incorporated into our assessment were to weaken considerably.

Key indicators

Exhibit 2
Eesti Energia AS

	2019	2020	2021	2022	2023	LTM Mar-24	Moody's 12-18 month forward view
(CFO Pre-W/C + Interest) / Interest Expense	7.7x	7.2x	10.2x	20.0x	1.9x	4.0x	4x - 5x
(CFO Pre-W/C) / Net Debt	21.0%	24.0%	34.4%	70.6%	4.4%	16.0%	19% - 22%
RCF / Net Debt	15.8%	24.0%	34.4%	39.8%	18.2%	16.0%	13% - 17%

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are financial year-end unless indicated. LTM = Last 12 months.
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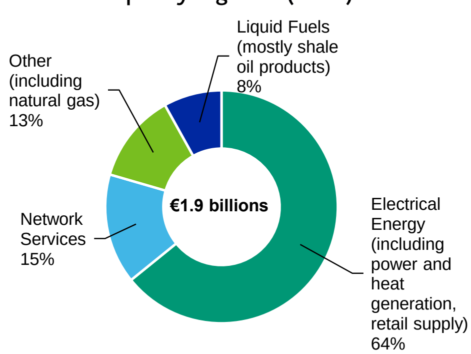
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Profile

Eesti Energia AS is the dominant vertically integrated utility in Estonia. It also owns and operates most of the country's electricity distribution network via its subsidiary Elektrilevi OU.

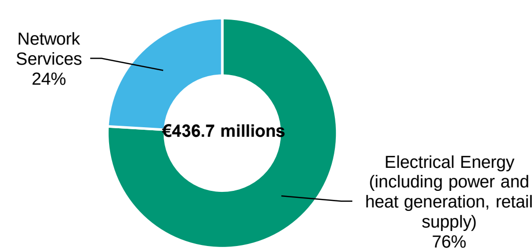
The group owns and operates thermal electricity generation facilities of around 1.3 gigawatts (GW), consisting of the older, mostly oil-shale-fired Eesti and Balti power plants (together Narva plants) and the co-fired Auvere plant, which was commissioned in 2018. 1.0 GW of Eesti Energia's thermal power generation capacity is currently kept in reserve and is not operating. Eesti Energia is also the largest miner of oil shale, the country's primary commodity, which is a fuel source for electricity generation and the base input for the group's shale oil production. Enefit Green AS (EGAS), 77.2% owned by Eesti Energia, owns and operates a 515-megawatt (MW) renewables portfolio, consisting of mostly onshore wind farms in the Baltics, and of cogeneration plants with 24 MW of power generation capacity and 50 MW of heat production capacity. Eesti Energia is 100% owned by the Estonian government.

Exhibit 3
Eesti Energia's revenue split by segment (2023)



Sources: Company filings and Moody's Ratings

Exhibit 4
Eesti Energia's reported EBITDA split (2023)



EBITDA for the remaining segments is negative and therefore is not displayed.
Sources: Company filings and Moody's Ratings

Detailed credit considerations

Eesti Energia's credit quality benefits from high government support

Eesti Energia's Baa3 rating incorporates a three-notch uplift from the group's baseline credit assessment (BCA) of ba3. This reflects the credit quality of the Estonian government, which owns 100% of Eesti Energia's shares, and our assessment of a high probability of government support for the group in the event of financial distress and a moderate level of default dependence (that is, the degree of exposure to common drivers of credit quality).

Eesti Energia is highly important to the state, given the group's pivotal role in the electricity and shale oil sector in Estonia. This was demonstrated by the government's measures to strengthen the company's capital base, such as a €125 million equity injection for strategic investments in April 2020 and dividend restraint over the last two years, and by the government's support for the group's strategy to shift its focus to shale oil production away from oil shale power generation (OSPG), and to expand the renewables business, including the state-sanctioned listing of a minority stake in EGAS in 2021.

Phaseout of oil-shale-based power generation is key challenge, while competition from regional low-carbon generation can strain earnings

Unlike the generation profile of the wider Baltic and Nordic area, which is marked by the dominance of less carbon-intensive hydro and nuclear power, Eesti Energia's fuel mix is still primarily based on oil shale. The carbon intensity of OSPG from the older Narva plants is between 1.0 tonne and 1.3 tonnes of CO_2 per megawatt hour (MWh), which is higher than that of lignite plants. Accordingly, phasing out OSPG and replacing it with carbon-free renewables production assets by 2030 is a vital component of Eesti Energia's strategy to reach carbon neutrality in electricity production by 2035.

The company's strategy ties into Estonia's goal to fully meet electricity consumption in the country with renewable electricity by 2030. Consequently, these policy decisions mean a sharp reduction in the remaining lifetime of OSPG assets, which was underscored in Q4 2023, when the company recorded a €620 million impairment charge on its OSPG plants. Accordingly, a successful implementation of Eesti Energia's ambitious renewables growth strategy is key to protecting the group's cash flow generation profile in the long run. This is the company's main challenge until the end of this decade.

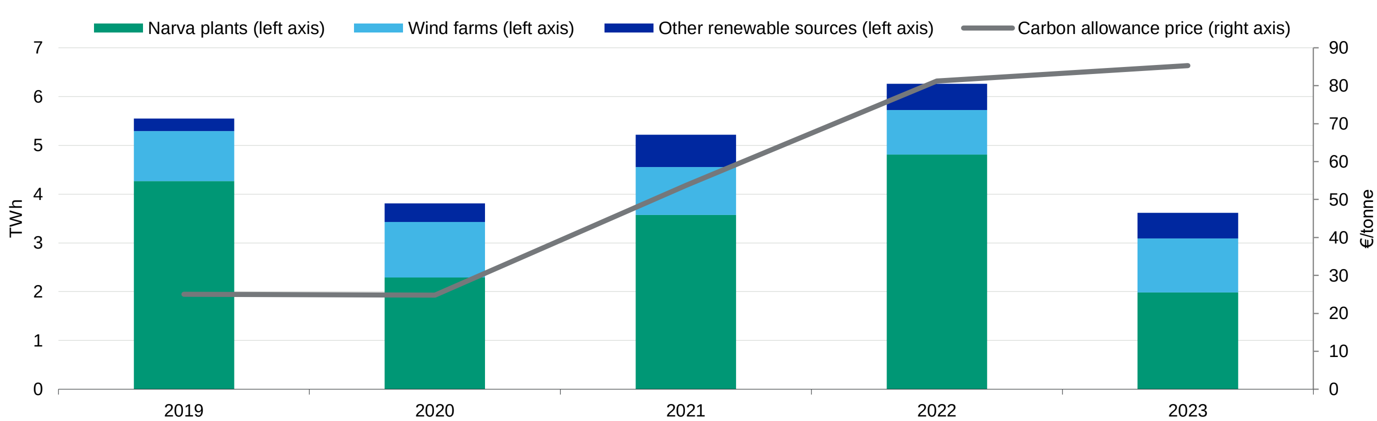
Notwithstanding these long-term challenges, OSPG's high carbon intensity generally creates a structural cost disadvantage for the company against low-carbon plants in the region. Accordingly, the company has been seeking to mitigate the persistent pressure on its earnings from OSPG by decommissioning the most emission-intensive units over the past few years; investing in efficiency-enhancing refurbishments; and diversifying the fuel mix of the operating units to oil shale gas and biomass. On the other hand, Eesti Energia has to maintain and operate 1,000 MW thermal capacity for security of supply reasons through 2026.

Over the last few years, the increase in the carbon price was reflected in lower OSPG output volumes. However, the very high gas prices in 2022 more than offset the lower carbon intensity of gas-fired power plants, making OSPG more profitable than gas-based power production (see Exhibit 6). As a result, Eesti Energia produced about 30% more electricity from OSPG in 2022 than in 2021, accounting for around 70% of Estonia's total electricity generation. The increased OSPG output is also mirrored in a 31% increase in oil shale extraction volume. This altogether pushed up Eesti Energia's carbon emissions in 2022. With the reduction in power prices and broadly stable carbon price levels, OSPG output in 2023 reduced 56% again from the 2022 level.

Exhibit 5

Eesti Energia's OSPG output is generally inversely correlated with carbon prices

Electricity generation output per fuel



Biomass and shale gas accounted for around one-third of the fuel mix in 2021, allowing for higher OSPG output despite the rise in carbon allowance prices in that year.
Sources: Company filings and Moody's Ratings

We expect the company to continue to substitute oil shale with less carbon-emitting fuels like shale gas and biomass to ensure Narva plants' profitability. Although we expect OSPG's earnings and profitability over the next 12 months to be partly secured by hedges, the earnings prospects for the company's OSPG segment remain overall negative over the next few years given the EU's policy support for carbon prices and our expectation that gas prices will remain lower than in 2022. Therefore, Eesti Energia's cost-saving and modernisation measures are prudent, and we expect the company and its owner to review the capacity mandate regularly to minimise potential negative earnings.

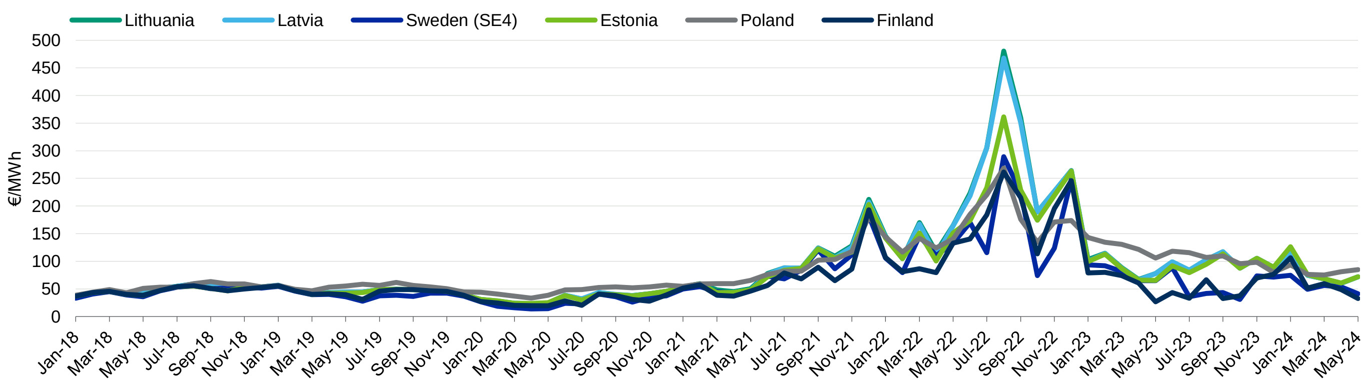
The company's small scale leaves it exposed to changes in the evolving regional electricity markets

Eesti Energia had total assets of €4.8 billion as of 31 December 2023. Its small size relative to several European utility peers therefore leaves it more vulnerable to changes in the regional electricity markets. Electricity markets in the Baltic countries are well integrated among themselves and also with the Nordic countries and Poland through the common Nord Pool trading platform and the 2.2 GW interconnection capacity through the EstLink (Finland-Estonia), NordBalt (Lithuania-Sweden) and LitPol (Lithuania-Poland) cables, commissioned between 2014 and 2016. The import capacity into the Baltics is around 25% of the Baltic region's total generation capacity, resulting in limited cross-border congestion and growing convergence of regional day-ahead electricity prices until year-end 2021; Polish prices have generally been higher than Baltic and Nordic prices.

Exhibit 6

The general close alignment of Baltic and Nordic wholesale prices reflects high interconnection levels

Nord Pool spot day-ahead prices



Sources: Company filings, Nord Pool spot and Moody's Ratings

Generally, the Nordic countries generate electricity of around 20 terawatt hours (TWh) per year in excess of their own consumption. The low-variable-cost nature of Nordic electricity strains Baltic domestic thermal capacity, such as OSPG, which in turn results in Baltic countries' regular net imports of 10-20 TWh per year.

Ambitious expansion plans for renewable power generation capacity

Since 2019, Eesti Energia has consolidated its activities in renewable power generation and district heating sourced from combined heat and power plants (CHPPs) in the EGAS subgroup. EGAS is the group's platform for renewables growth, particularly targeting onshore wind and solar opportunities in the Baltics and the Baltic Sea region. In October 2021, 22.8% of EGAS was listed on the Tallinn stock exchange, through a combination of disposal of existing shares by Eesti Energia and issue of new shares, generating total proceeds of €175 million, of which €100 million flowed as fresh equity to EGAS. IPO proceeds are partly earmarked to fund growth investments into renewables generation assets.

EGAS' current renewables portfolio of around 515 MW installed capacity (across on- and offshore wind, solar) benefits from a significant, although declining, fixed-revenue component under feed-in tariff and feed-in premium schemes. New projects are generally 60% supported by power purchase agreements (PPAs), mainly with Eesti Energia as the principal off-taker for the first five to seven years of production.

EGAS is pivotal for Eesti Energia's strategic objective of increasing the share of electricity production from renewables to 100% by 2035 from an average of around 30% over 2020-22. In support of that goal, Eesti Energia announced in May 2022 the objective to quadruple renewables generation capacity by 2026 to 1.9 GW, a sharp increase from the previous target of 1.1 GW by 2025. However, after the very high and volatile power prices in 2022 enabled EGAS to sign a considerable amount of attractively priced PPAs, end-customer demand for PPAs declined in 2023. In response to this, EGAS revised its goal to achieve 1.7 GW of installed capacity by 2026, including 0.5 GW of capacity still awaiting a final investment decision (FID), contingent on securing PPAs.

We estimate the planned renewable capacity expansion to require investments of around €1.2 billion over 2023-27 and EGAS' capacity additions to account for most of Eesti Energia's consolidated growth investments over that period. We expect these investments to weigh on Eesti Energia's consolidated credit profile over the next two to three years, as investments will be partly debt funded (at the EGAS level, with no parental support). However, because around 40% of targeted additional renewable capacity has no FID status yet, there is some flexibility in the capital spending plan.

The current renewables portfolio and regulated cash flow from district heating, predominantly from the Iru waste-fired CHPP plant in Tallinn, which also benefits from support payments, support cash flow stability, a credit positive.

Shale oil earnings are exposed to maritime fuel demand and environmental standards

Eesti Energia is the largest domestic miner of oil shale, which is used as fuel in OSPG and as feedstock to produce shale oil products, namely fuel oil and naphtha (together making up shale oil), with carbon emissions being generated in the production process. Shale oil is a key component of maritime bunker fuel, appreciated for its low-sulphur content, which has gained importance since 2020 when the threshold for sulphur in marine fuels was reduced to 0.5% from 3.5%.

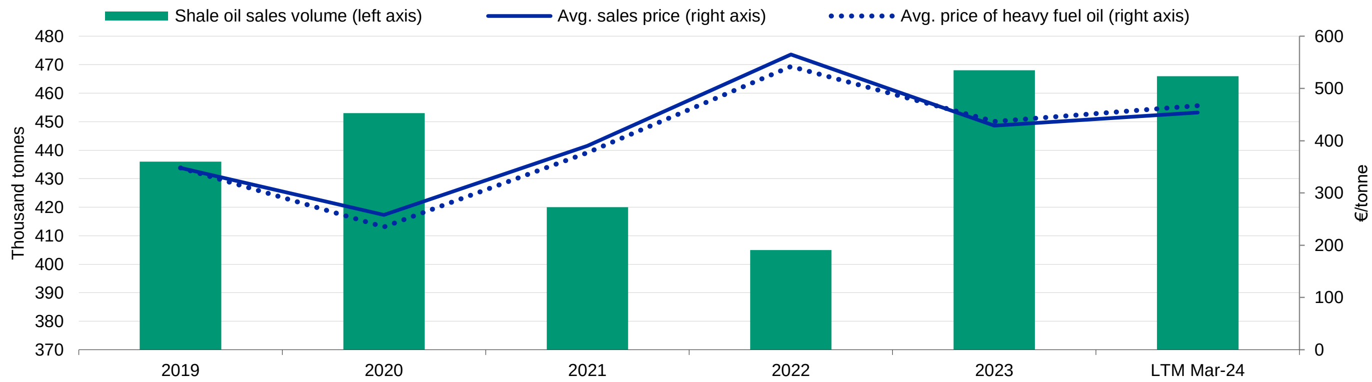
Eesti Energia is operating two shale oil plants with an aggregate processing capacity of around 450,000 tonnes. Given the gradual exit from the OSPG segment, which is freeing up mined oil shale volumes, and the competitiveness of shale oil as low-sulphur feedstock, the company in 2020 started the construction of a third shale oil plant, Enefit-282, which could increase total capacity to around 730,000 tonnes by late 2024, the currently anticipated commissioning date. The Estonian government in April 2020 injected equity of €125 million, which would cover nearly 42% of the planned investment costs of the project of around €300 million.

In 2021, the company revealed its long-term strategy to become carbon neutral by 2045 and to phase out shale oil production by 2035. The intention is to gradually replace oil shale with shredded used tyres and waste plastics as feedstock for the newer oil plants under a circular-economy approach. The assumption is that the shale oil extracted from these resources will transition from being used to produce maritime fuel to being utilized for the creation of other chemical products.

The company's sale price of shale oil is linked to that of heavy fuel oil (see Exhibit 7) and, to a lesser degree, to naphtha, both being hedging reference products for Eesti Energia. As of year-end 2023, the company's output volumes expected for 2024 under the assumption of full capacity utilisation were largely hedged. However, proxy hedging shale oil does not completely insulate earnings from fluctuations. This is especially true in periods of price volatility, which can reduce price correlation between shale oil and its proxy commodities. Additionally, not all derivative transactions entered into by Eesti Energia qualify for hedge accounting under IFRS, meaning that those derivatives' mark-to-market valuations are earnings effective before the derivative transaction has been settled which can create a temporary mismatch between earnings and operating cash flow generation.

Accordingly, the profitability of the group's shale oil business is exposed to volatile oil prices; mining costs for oil shale, which are relatively stable; resource fees paid on mined oil shale and linked to market prices of the fuel oil; and carbon prices, which are mitigated by the free allowances received under the EU's carbon leakage rules. Reported EBITDA in 2023 for this segment was €0.8 million (2022: €-12 million).

Exhibit 7
Eesti Energia's achieved sales price development is closely aligned with the heavy fuel oil price trend



Periods are financial year-end unless indicated. LTM = Last 12 months.
Average sales price includes gains on derivatives.
Sources: Company filings and Moody's Ratings

The company's strategy to increase shale oil production means a shift of resources to a higher-risk activity because there is some risk of adverse changes to environmental laws and a likely decline in the number of free carbon allowances under the carbon leakage rules beyond 2025. These risks are mitigated by lower carbon intensity than OSPG; the economic value of byproducts, namely oil shale gas, ash and rock; and fuel cost advantages in the medium term from replacing some oil shale with shredded used tyres and recycled plastics. Overall, we expect significant volatility in the segment's earnings contributions over the next few years.

Regulated electricity distribution activities add some stability to cash flow

Eesti Energia, through its fully owned subsidiary Elektrilevi, is the largest power distribution network operator in Estonia with a share of around 90% of distributed volumes, or 6.5 TWh, in 2023. The distribution segment accounted for 24% of the company's reported EBITDA with €106 million in 2023, up 103% from the level in 2022. This was driven by a combination of a higher tariff on average of around 25%; and normalising market conditions in 2023 after unusually low EBITDA in 2022, also because of high power prices, which increased costs, particularly to cover physical network losses.

Tariffs charged by the distribution network operator are subject to regulation by the Estonian Competition Authority. The regulatory framework is fairly well developed and based on generally used principles of a return (measured as the weighted average cost of capital, or WACC) on a regulatory asset base (RAB). Since 2013, the regulator has adopted a light-touch approach and there are no set regulatory periods; the company may apply for a change in tariffs when it deems justified. We expect the 2023 tariff increase and the 2023 WACC increase from 4.61% to 6.27% (pretax, nominal) to support earnings over the coming 18 months. Simultaneously, we expect the actual WACC rate to remain unchanged over the same period.

We also expect continued moderate RAB growth through modernisation investments in excess of depreciation, and a gradual increase in distributed volumes driven by GDP growth to drive earnings growth.

Overall, regulated activities support the company's business profile by adding to cash flow stability and visibility. Therefore, the separation of Elektrilevi from the Eesti Energia group, which has recently been discussed by the Estonian government, would be a material credit negative for the company's business risk profile, if it were to occur.

Earnings contribution from retail supply will remain low

Eesti Energia is the leading electricity supplier in Estonia, with a market share of around 54% as of 31 December 2023, and holds strong positions in Latvia and Lithuania with nearly 29% and 14% of the end-customer markets, respectively. In the Baltics, the company has opportunities to build sales volume and market share with competitive prices, especially among households in Lithuania because this market segment is in the process of liberalisation.

Outside the Baltics, the company sells electricity to business customers only in Poland. As of the end of May 2024, it decided to divest retail operations in Finland, where historically only a very minor portion of Eesti Energia's retail supply earnings were generated. Apart from electricity supply, in some countries, the company offers related services, such as micro-photovoltaic installations, e-mobility charging solutions, heating and cooling services, and gas supply.

Retail supply is a higher-risk activity given the potentially significant working capital requirements. We expect the cash flow contribution from retail activities to be moderate, because Eesti Energia's select retail markets are highly competitive, which weighs on margins.

Credit metrics to remain within guidance despite negative free cash flow from large investments

Eesti Energia's credit metrics, measured as FFO/net debt, in 2023, were strong at around 23.6% (see Exhibit 1). The main drivers were a margin expansion in the Electricity segment and an earnings recovery within the Distribution segment, which compensated for a margin contraction within shale oil production and natural gas supply. Overall, Moody's-adjusted EBITDA expanded to €451 million from €425 million in 2022.

In line with Eesti Energia's reporting, EBITDA in 2023 includes non-cash mark-to-market revaluation effects of around positive €291.1 million for unsettled derivatives outside the IFRS hedge-accounting rules. We include the reversal of these non-cash gains in the cash flow statement as changes in other asset and liabilities. Together with changes in working capital, this treatment explains the difference between FFO (€358 million) and operating cash flow (€16 million), and ratios such as FFO/net debt (23.6%) and cash flow from operation pre-working capital/net debt (4.4%), all for 2023 using Moody's-adjusted financial data.

For 2024, we expect consolidated FFO/net debt to remain in the high teens to low-20s in percentage terms. We expect high capital spending from the group's ambitious investment programme to result in negative free cash flow, despite forecast FFO of around €250-300 million in 2024.

While we expect free cash flow to remain negative for the next few years, gradually growing earnings from growth investments will help FFO/net debt remain in the low- to mid-20s in percentage terms over the coming two to three years, which is comfortably above the negative guidance for the current BCA of at least midteens in percentage terms. However, earnings will remain exposed to volatility, namely the development of energy prices (including carbon emission certificates), which have reduced and become less volatile than the extreme situation seen throughout 2022 after the start of the military conflict in Ukraine.

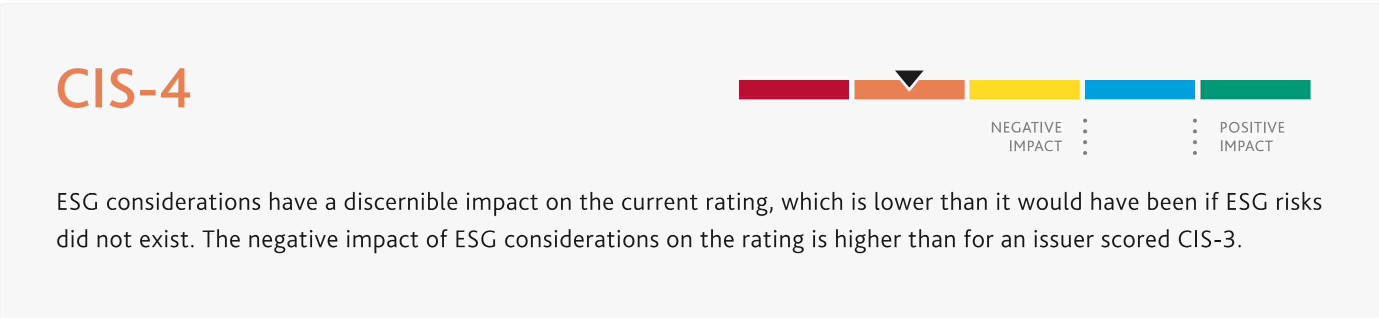
Mitigants to the volatility include the company's use of its flexibility in delaying capital spending to manage the financial leverage, and the government owner's continued adjustment of the dividend policy to the company's investment plans. Eesti Energia targets maximum leverage of 3.5x net debt/EBITDA and is committed to retaining its investment-grade credit ratings.

Beyond their financial policy, different loan agreements oblige Eesti Energia to comply with maintenance covenants set at 3.5x net debt/ EBITDA and 5.0x EBITDA/ interest expenses, which are tested semi-annually. At end of March 2024, Eesti Energia was covenant compliant. Notwithstanding, risen interest rates, an anticipated commodity price-driven reduction in EBITDA for the year 2024 and the lead time to achieve income from the large capital spending program could lead to covenant breaches in 2024 and beyond, unless mitigated. Moody's understands that the company is in negotiation with its lender banks regarding the temporary relaxation of covenant levels.

ESG considerations

Eesti Energia AS' ESG credit impact score is CIS-4

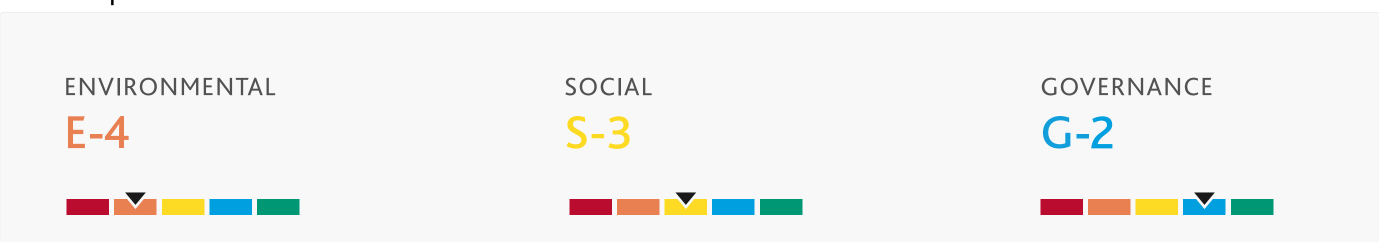
Exhibit 8
ESG credit impact score



Source: Moody's Ratings

Eesti Energia's ESG Credit Impact Score of 4 indicates that its ESG attributes have a discernible negative impact on its rating. Its score reflects highly negative environmental, moderate social as well as low governance risks. The effect of ESG risks to the rating is partly mitigated by our expectation that its government shareholder would support the company, if this were to become necessary.

Exhibit 9
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Eesti Energia's **E-4** score reflects the company's exposure to carbon transition risk, as a still large, though declining, share of power generation stems from its carbon intensive oil-shale fueled power plants and because its shale oil-based liquid fuel products are exposed to stricter environmental policies. However, the share of renewable generation in Eesti Energia's capacity mix mitigates the carbon exposure to some degree.

Social

Eesti Energia's **S-3** score reflects on one hand risks related to employees' health & safety stemming from its oil shale mining operations, which cannot be fully mitigated, though we acknowledge the company's long track record of operating these assets without negative incidents. In addition, social risks also relate to demographic & social trends, which include adverse regulatory decisions or government intervention in regulatory affairs. Estonia's light-touch regulatory framework has allowed the company to recover its costs in a timely manner, but still lacks transparency compared with Western European peers, not the least due to the absence of fixed regulatory periods and clearly defined building blocks for the tariffs.

Governance

Eesti Energia's **G-2** score reflects our view of Eesti Energia's solid financial policy which balances shareholder and creditor interests and includes a commitment to an investment grade credit rating. Given Eesti Energia's status as a fully state-owned company, the company's boards lack independence, but this is mitigated by an “owner's expectation” policy that seeks to balance commercial and energy policy goals, acknowledging that Eesti Energia has to defend its position in a competitive market environment.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

As of the end of March 2024, Eesti Energia reported consolidated cash of €130.9 million. Out of this, €35 million was at EGAS. Additionally, the group had available €320 million of committed revolving credit facilities — €270 million is available to Eesti Energia (€105 million drawn, maturing between 2025 and 2026) and €50 million to EGAS (€30 million drawn). Moreover, EGAS had €285 million of committed but undrawn investment loans at hand, which mature in 2034.

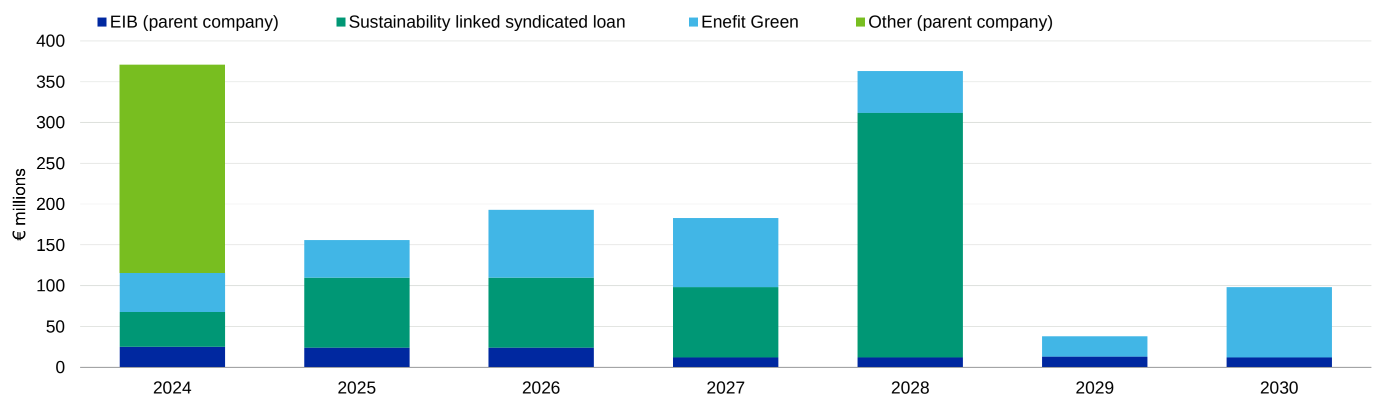
This compares with outstanding debt of €1,591 million, out of which €1,097 million was outstanding at the parent company, and the remainder at EGAS. The group's debt maturity profile is currently well spread. After a €150 million Swedbank loan was refinanced in April 2024 until 2027 from its original maturity in June 2024, Eesti Energia's largest upcoming bulk maturity is in 2028, when €300 million of Eesti Energia's originally €600 million syndicated loan will fall due.

EGAS' outstanding debt of €494 million relates mainly to bilateral bank financings. Overall, we expect available resources and generated cash to be sufficient to cover the company's liquidity requirements over the next 12-18 months.

Exhibit 10

Eesti Energia's maturity profile is well spread after the €150 million loan refinancing

Annual debt maturities as of 31 March 2024



Sources: Company filings and Moody's Ratings

Structural considerations

Since the listing of a 22.8% minority share of Enefit Green AS in October 2021, lenders to the parent company are exposed to structural subordination risk. Given that the majority of the Eesti Energia's earnings continue to be generated by fully controlled subsidiaries that are debt free, we currently do not apply notching at the holding company level.

Methodology and scorecard

The principal methodologies used in rating Eesti Energia are the rating methodology for Unregulated Utilities and Unregulated Power Companies, and the Government-Related Issuers rating methodology.

Based on the company's forecast financial results, the scorecard-indicated outcome is Ba1, which is above the assigned BCA of ba3. Eesti Energia's BCA also reflects the transition risk arising from the shift to increased shale oil production and renewable power generation, accompanied by a comprehensive investment programme, while being significantly exposed to commodity prices and market developments in the wider Nordic/Baltic electricity market.

Exhibit 11

Rating factors

Eesti Energia AS

Unregulated Utilities and Unregulated Power Companies Industry	Current LTM Mar-24		Moody's 12-18 month forward view	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Scale ($ billions)	B	B	B	B
Factor 2 : Business Profile (40%)				
a) Market Diversification	Ba	Ba	Ba	Ba
b) Hedging and Integration Impact on Cash Flow Predictability	Baa	Baa	Baa	Baa
c) Market Framework & Positioning	B	B	B	B
d) Capital Requirements and Operational Performance	Ba	Ba	Ba	Ba
e) Business Mix Impact on Cash Flow Predictability	Baa	Baa	Baa	Baa
Factor 3 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 4 : Leverage and Coverage (40%)				
a) (CFO Pre-W/C + Interest) / Interest (3 Year Avg)	7.7x	Baa	4x - 5x	Baa
b) (CFO Pre-W/C) / Net Debt (3 Year Avg)	32.3%	Baa	19% - 22%	Baa
c) RCF / Net Debt (3 Year Avg)	29.4%	A	13% - 17%	Baa
Rating:				
a) Scorecard-Indicated Outcome		Baa3		Ba1
b) Actual Baseline Credit Assessment Assigned				ba3
Government-Related Issuer	**Factor**			
a) Baseline Credit Assessment	ba3			
b) Government Local Currency Rating	A1			
c) Default Dependence	Moderate			
d) Support	High			
e) Actual Rating Assigned	Baa3			

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
LTM = Last 12 months.
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Appendix

Exhibit 12

Peer Comparison

Eesti Energia AS

	Eesti Energia AS			PGE Polska Grupa Energetyczna S.A.			CEZ, a.s.			Hrvatska Elektroprivreda d.d.			Latvenergo AS		
	Baa3 Stable			Baa1 Stable			Baa1 Negative			Baa2 Positive			Baa2 Stable		
	FY	FY	LTM	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY
(in $ millions)	Dec-22	Dec-23	Mar-24	Dec-21	Dec-22	Dec-23	Dec-21	Dec-22	Dec-23	Dec-20	Dec-21	Dec-22	Dec-21	Dec-22	Dec-23
Revenue	2,338	2,061	1,978	13,683	16,541	22,871	10,166	13,827	15,860	1,980	2,334	3,369	1,260	1,941	2,200
EBITDA	448	487	437	2,378	2,192	2,466	3,048	5,730	5,787	648	547	(606)	179	361	648
Total Debt	1,131	1,871	1,729	2,826	2,166	3,964	8,312	11,606	9,732	802	805	1,754	914	946	708
Net Debt	831	1,679	1,587	1,208	(477)	2,537	7,092	9,989	9,245	222	147	1,303	803	826	577
(CFO Pre-W/C + Interest) / Interest Expense	20.0x	1.9x	4.0x	49.5x	10.5x	9.7x	11.8x	15.5x	9.4x	20.9x	17.5x	-12.2x	25.3x	33.6x	20.7x
FFO / Net Debt	46.9%	23.6%	21.5%	248.3%	-233.0%	97.4%	38.3%	55.3%	37.4%	301.6%	344.1%	-48.0%	31.7%	44.3%	99.1%
RCF / Net Debt	39.8%	18.2%	16.0%	248.2%	-233.0%	97.4%	20.2%	43.9%	-0.1%	253.1%	257.4%	-48.0%	17.4%	35.2%	69.9%
Net Debt / EBITDA	1.8x	3.4x	3.7x	0.5x	-0.2x	1.0x	2.3x	1.7x	1.6x	0.3x	0.3x	-2.1x	4.7x	2.3x	0.9x

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 13

Moody's-adjusted net debt reconciliation

Eesti Energia AS

(in € millions)	2019	2020	2021	2022	2023	LTM Mar-24
As reported debt	**1,135.8**	**1,014.4**	**956.5**	**1,059.4**	**1,694.1**	**1,600.8**
Non-Standard Adjustments	-	-	-	-	-	-
Moody's-adjusted debt	**1,135.8**	**1,014.4**	**956.5**	**1,059.4**	**1,694.1**	**1,600.8**
Cash & Cash Equivalents	(34.6)	(166.9)	(198.0)	(280.5)	(174.5)	(130.9)
Moody's-adjusted net debt	**1,101.2**	**847.5**	**758.5**	**778.9**	**1,519.6**	**1,469.9**

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are financial year-end unless indicated. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 14

Moody's-adjusted EBITDA reconciliation

Eesti Energia AS

(in € millions)	2019	2020	2021	2022	2023	LTM Mar-24
As reported EBITDA	**256.4**	**212.8**	**320.0**	**425.7**	**451.9**	**403.7**
Interest Expense	(1.1)	(0.9)	(0.8)	(0.8)	(1.2)	(1.2)
Unusual Items	(3.0)	-	(5.3)	-	-	-
Moody's-adjusted EBITDA	**252.3**	**211.9**	**313.9**	**424.9**	**450.7**	**402.5**

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are financial year-end unless indicated. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 15

Overview on select historical Moody's-adjusted financial data

Eesti Energia AS

(in € millions)	2019	2020	2021	2022	2023	LTM Mar-24
INCOME STATEMENT						
Revenue	926	834	1,313	2,218	1,906	1,823
EBITDA	252	212	314	425	451	403
EBIT	64	51	142	248	264	223
Interest Expense	34	33	28	29	76	79
Net income	31	18	98	184	44	2
BALANCE SHEET						
Total Debt	1,136	1,014	957	1,059	1,694	1,601
Cash & Cash Equivalents	35	167	198	281	175	131
Net Debt	1,101	848	759	779	1,520	1,470
Net Property Plant and Equipment	2,914	2,920	2,986	3,258	3,136	3,293
Total Assets	3,466	3,684	4,381	5,499	4,790	4,733
CASH FLOW						
Funds from Operations (FFO)	231	204	261	365	358	316
Cash Flow From Operations (CFO)	174	313	179	510	16	111
Dividends	57	-	-	56	82	82
Retained Cash Flow (RCF)	174	204	261	310	276	235
Capital Expenditures	(155)	(174)	(219)	(455)	(692)	(691)
Free Cash Flow (FCF)	(38)	139	(40)	(0)	(758)	(662)
FFO / Debt	20.3%	20.1%	27.3%	34.5%	21.1%	19.8%
FFO / Net Debt	21.0%	24.0%	34.4%	46.9%	23.6%	21.5%
RCF / Net Debt	15.8%	24.0%	34.4%	39.8%	18.2%	16.0%
FCF / Net Debt	-3.4%	16.4%	-5.3%	0.0%	-49.9%	-45.0%
PROFITABILITY						
EBIT Margin %	6.9%	6.1%	10.8%	11.2%	13.9%	12.2%
EBITDA Margin %	27.3%	25.4%	23.9%	19.2%	23.7%	22.1%
INTEREST COVERAGE						
(FFO + Interest Expense) / Interest Expense	7.7x	7.2x	10.2x	13.6x	5.7x	5.0x
LEVERAGE						
Debt / EBITDA	4.5x	4.8x	3.0x	2.5x	3.8x	4.0x
Net Debt / EBITDA	4.4x	4.0x	2.4x	1.8x	3.4x	3.7x
Net Debt / Fixed Assets	37.8%	29.0%	25.4%	23.9%	48.5%	44.6%
Debt / Book Capitalization	38.5%	33.4%	27.8%	25.3%	45.4%	43.8%

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are financial year-end unless indicated. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Ratings

Exhibit 16

Category	Moody's Rating
EESTI ENERGIA AS	
Outlook	Stable
Issuer Rating	Baa3
ST Issuer Rating	P-3

Source: Moody's Ratings

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