

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 29 September 2021¹

REGIONAL

ENEFIT GREEN (f. PROJECT SPRING)

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

As permitted by paragraph 2.6 of Section III of the Access to Information Policy, disclosure of this Board Report was deferred.

TABLE OF CONTENTS

Page

TABLE OF CONTENTS	2
ABBREVIATIONS / CURRENCY CONVERSIONS	3
PRESIDENT’S RECOMMENDATION	4
BOARD DECISION SHEET	5
ADDITIONAL SUMMARY TERMS FACTSHEET	6
1. STRATEGIC FIT AND KEY ISSUES	7
1.1 STRATEGIC CONTEXT	7
1.2 TRANSITION IMPACT	8
1.3 ADDITIONALITY	9
1.4 SOUND BANKING - KEY RISKS	9
1.5 SOUND BANKING: EQUITY CASE	11
2. MEASURING / MONITORING SUCCESS	11
3. KEY PARTIES	12
3.1 INVESTEE COMPANY	12
3.2 PARENT COMPANY	12
4. MARKET CONTEXT	12
5. FINANCIAL / ECONOMIC ANALYSIS	13
5.1 HISTORICAL FINANCIAL ANALYSIS	13
5.2 FINANCIAL PROJECTIONS	13
5.3 EXIT STRATEGY	13
5.4 PROJECTED PROFITABILITY FOR THE BANK	13
6. OTHER KEY CONSIDERATIONS	13
6.1 ENVIRONMENT	13
6.2 INTEGRITY	14
ANNEXES TO OPERATION REPORT	15
ANNEX 1 – TRANSITION IMPACT SCORING CHART	16
ANNEX 2 – SHAREHOLDING STRUCTURE	17
ANNEX 3 – PROJECT PIPELINE	18
ANNEX 4 – HISTORICAL FINANCIALS	19
ANNEX 5 – ESTONIA EQUITY MARKET AND INVESTOR BASE	20
ANNEX 6 – SUMMARY OF CGAP	24
ANNEX 7 – PROJECT IMPLEMENTATION	25

ABBREVIATIONS / CURRENCY CONVERSIONS

BV	Book Value	GWh	Gigawatt-hour
BVPS	Book Value per Share	HPP	Hydro Power Plant
CAPEX	Capital Expenditure	IFI	International Financial Institution
CAPM	Capital Asset Pricing Model	IFRS	International Financial Reporting Standards
CEE	Central Eastern Europe	IPO	Initial Public Offering
CF	Cash Flow	IRR	Internal Rate of Return
CfD	Contract for Difference	KPI	Key Performance Indicator
CGAP	Corporate Governance Action Plan	MW	Megawatt
CHP	Combined Heat and Power	MWe	Megawatt Energy
COD	Commercial Operation Date	MWth	Megawatt Thermal
COVID	Coronavirus disease	ND	Net Debt
CO2	Carbon dioxide	O&M	Operations and Maintenance
D&A	Depreciation and Amortisation	P/E	Price to Earnings
DCF	Discount Cash Flow	PPA	Power Purchase Agreement
DSCR	Debt Service Coverage Ratio	PLN	Polish Złoty
E&S	Environmental and Social	PV	Photovoltaics
EBIT	Earnings Before Interest and Tax	RAB	Regulated Asset Base
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation		
EPC	Engineering, Procurement & Construction		
ERP	Equity Risk Premium	RE	Renewable Energy
ESAP	Environmental and Social Action Plan	RES	Renewable Energy Sources
ESDD	Environmental and Social Due Diligence	RESS	Renewable Energy Support Scheme
EUR	Euro	SRSS	Structural Reform Support Service
EV	Enterprise Value	TC	Technical Cooperation
FCFE	Free Cash Flow to Equity	TSA	Turbine Supply Agreement
FCFF	Free Cash Flow to the Firm	TWh	Terawatt-hour
FiT	Feed-in Tariff	VAT	Value Added Tax
FiP	Feed-in Premium	WACC	Weighted Average Cost of Capital
GDP	Gross Domestic Product	WtE	Waste to Energy
GDR	Global Depository Receipt	WTG	Wind Turbine Generator
GW	Gigawatt		

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Enefit Green AS (the "Company"), a corporation incorporated in Estonia, are submitted for consideration by the Board of Directors.

The facility will amount to up to EUR 40 million for the subscription into the upcoming Initial Public Offering (the "IPO") of the Company. The offering will be listed on the Tallinn Stock Exchange. The IPO will involve the sale of up to 49 per cent of the Company's shares. [REDACTED].

The operation will enable the Company to finance the development of renewable energy projects in Central and Eastern Europe, with projects targeted mainly in Lithuania, Estonia and Poland. The Company would commit to invest an amount equal to the proceeds from the Bank's investment in greenfield wind projects located in the Bank's COOs excluding Estonia, thereby resulting in the Bank focusing its participation on the primary portion of the IPO. The expected transition impact of the Project stems from the *Green* and *Resilient* qualities. The operation will deliver climate mitigation benefits through new green investments (*Green*). The operation is 100% GET. The operation will also make an important contribution to the development of local equity capital markets, a key objective for the Bank in the Baltic countries. Local equity capital markets suffer from a lack of investable securities and poor secondary market liquidity (*Resilient*). Furthermore, the operation promotes gender equality as the Company will introduce improved HR standards on Gender-Based Violence and Harassment.

The operation will support one of the first partial privatisations of renewables assets owned by a state-owned utility company through an IPO and build on two recent successful partial private privatisation that the Bank supported in the last few years, namely the initial public offering of each of the Lithuanian state-owned energy company, Ignitis, and the Estonian ports operator, Port of Tallinn. The Bank's participation and associated corporate governance improvements will give additional confidence to institutional and retail investors.

I am satisfied that the operation is consistent with the Bank's Strategy for Estonia, the Bank's Energy Sector Strategy, the Green Economy Transition Approach 2021-2025, the Strategy for the Promotion of Gender Equality, the Local Currency and Capital Markets Development Initiative and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed equity investment substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

REGIONAL – Project Spring - DTM 52137	
Transaction / Board Decision	Board approval ² is sought for an equity investment of up to EUR 40m in favour of Enefit Green AS (the “Company”), a corporation incorporated in Estonia. The Bank’s investment is expected to represent up to 20% of the share issue. The shares will be listed on Nasdaq Tallinn Stock Exchange.
Client	Enefit Green AS, an Estonian state-owned renewable energy company owning and operating 457 MW of wind, solar, biomass and waste-to-energy assets in the Baltic countries and Poland. In FY2020, the Company achieved EUR 163m of revenues, EUR 110m EBITDA, and total assets stood at EUR 739m.
Main Elements of the Proposal	<p><u>Transition impact</u></p> <ul style="list-style-type: none"> - <i>Green</i>: the Project is 100% GET compliant, delivering climate mitigation benefits through new green investments in the CEE region. The EBRD proceeds would be expected to add [REDACTED] MW capacity, which would result in [REDACTED] CO2 emission savings [REDACTED]. - <i>Resilience</i>: the Project will contribute to local equity capital market development, which suffers from a lack of investable securities and poor secondary market liquidity. <p><u>Additionality</u></p> <ul style="list-style-type: none"> - Financing Structure: The Bank’s financing is expected to provide a valuable signal to the market, and close the funding gap. - Risk mitigation: The Bank’s involvement provides comfort to investors by mitigating non-financial risks. - Standard-setting: The Company seeks the Bank’s expertise on corporate governance improvements. The Bank will also support the Company to enhance its gender standards in line with international best practice. <p><u>Sound banking</u></p> <ul style="list-style-type: none"> - The Company has a large pool of portfolio and pipeline assets diversified over technology (wind, solar, CHPs) and region (Estonia, Latvia, Lithuania, Finland and Poland) which adds diversification benefits.
Key Risks	<p><u>Electricity price volatility risk</u>: [REDACTED].</p> <p><u>Pipeline execution and competition risks</u>: Rising competition in the sector could prevent the Company to develop its pipeline. <i>Mitigant</i>: the Company has a good pipeline of projects in the Baltic countries and Poland, and is in a position to compete in competitive government tenders in Poland.</p> <p><u>Government interference risk</u>: The government will remain a major indirect shareholder in the Company post IPO through Eesti and as a result may be able to act in its own interest. <i>Mitigant</i>: The IPO is expected to reduce the risk of government interference. The CGAP agreed with the Bank also includes aspects that mitigate that risk.</p>
Strategic Fit Summary	The Project is consistent with for the Bank’s Strategy for Estonia; the Energy Sector Strategy, the Green Economy Transition Approach 2021-2025, the Strategy for the Promotion of Gender Equality, the Local Currency and Capital Markets Development Initiative and with the Agreement Establishing the Bank.

² Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	<p>An equity investment of up to EUR 40m in the IPO of Enefit Green AS, the renewable energy subsidiary of Eesti Eergia AS (“Eesti”), the Estonian state-owned energy utility company (the “Project” or the “Transaction”).</p> <p>The Bank’s proposed investment is expected to represent up to 20% of the offering (implying up to 5.7% stake in the Company) and will be subject to scale back depending on the level of market interest. The Company is considering floating up to 49% [REDACTED] of its shares on the NASDAQ Tallinn Stock Exchange (TSE) through an issuance of primary and secondary shares [REDACTED].</p> <p>The IPO timetable is as follows:</p> <ul style="list-style-type: none"> - Intention to Float / publication of research report – 23 September; - Publishing of prospectus and price range supplement – 05 October; - Management Roadshow / Book Building – 5-15 October; - Pricing and allocation / Pricing statement publishing – 15 October.
Existing Exposure	Total amount debt: EUR 9 m (DTM 51126); current TIMS rating 70
Exit	[REDACTED]
EPF Eligible Investment	Yes
Potential AMI eligible financing	None
Use of Proceeds	[REDACTED]
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • Enefit Green as Issuer. • Citigroup, Nordea, and Swedbank as underwriter • Issuer’s legal counsels: Ellex Raidla and Cleary Gottlieb Steen & Hamilton • Underwriter’s legal counsels: Sorainen and Shearman & Sterling
Conditions to subscription	<ul style="list-style-type: none"> • Signing of the Framework Agreement between the Bank and the Company.
Key Covenants	<ul style="list-style-type: none"> • Environmental and Social Action Plan (ESAP), including gender additionality target. • Corporate Governance Action Plan (CGAP). [REDACTED].
Security / Guarantees	None
Other material agreements	None
Associated Donor Funded TC and co-investment grants/concessional finance	None

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Enefit Green's strategic direction

The strategic objective of Enefit's parent company Eesti Energia is to increase the production of renewable energy [REDACTED]. This will be implemented via Eesti Energia's renewables arm, Enefit Green, which has become the leading and most diversified renewable IPP in the Baltic countries, with 449MW energy capacity and 83 MW thermal capacity, following the acquisition of Nelja Energia's 287 MW wind farms in 2018.

The broader context for Enefit's green energy strategic direction is the 2018 EU New Renewable Energy Directive which commits the EU Member States to reach 32% of final energy consumption from renewables by 2030. This is one of two key demand drivers for renewables investments in Europe. The other is the growing competitiveness of renewable energy in an environment of stable and rising CO2 prices, due to the EU Emissions Trading Scheme. In this context it is important to note that key elements in the European Green Deal proposed in 2020 are proposals to increase the renewables target and tighten the Emissions Trading Scheme. These drivers will prompt very significant investment in renewable electricity generation (projected to provide more than 50% of EU electricity by 2030).

Enefit is therefore approaching the capital market to issue shares through the IPO to enable it to pursue its strategic objective of further growing its green generating capacity, primarily through expansion in the Baltic countries and Poland with the goal to secure [REDACTED] additional renewable energy capacity [REDACTED].

The Transaction will additionally support Enefit to update its Code of Ethics and Professional Conduct to include a Gender Based Violence and Harassment (GBVH) policy in line with international best practice as per the guidelines set in EBRD's GBVH toolkit. Training on this policy will be offered to all employees and contractors. The implementation of the policy will reduce the social barriers that affect women's rights and capabilities in the work place.

Effect on capital market development

Estonia's credit ratings stand at AA (positive outlook) by S&P, AA-(stable) by Fitch, and A1 (stable) by Moody's. However the local capital market in Estonia and the Baltic countries is constraint by its limited liquidity. The difficulties encountered by the Estonian companies in accessing capital markets come from the relatively small size of individual companies and of the Estonian market. This is therefore limiting the investor base to investors willing to expend the amount of resources necessary to conduct due diligence on both the country and the individual companies and to accept the limited liquidity that is associated with smaller issuers.

The proposed Transaction involves a partial privatisation, through an IPO, of up to 49 per cent shareholding in the Company, a major energy player in the Baltic countries. This will be one of the first partial privatisation of such scale via the stock exchange in a state owned energy company in the Baltic countries and if successful will set a good precedent for further involvement of private capital in state owned energy companies, especially in the context of reduced privatisation activity in the current COVID-19 crisis given depressed market values. Therefore the Transaction will set a good example of progressing with increasing the flow of private capital into the energy sector during the crisis.

The IPO will take place on the Tallinn Stock Exchange. Based on the current market capitalisation, the Company may become one of the largest companies listed on Nasdaq Tallinn and one of the four largest companies in the Baltic countries, thus facilitating the liquidity of the local capital market. [REDACTED]. If successful, the IPO will have a demonstration effect, showing that the privatisation of the state-owned enterprise can be successfully implemented via local stock exchanges, thus supporting capital markets development.

The Project is strongly aligned with the Memorandum of Understanding (MoU) signed in November 2017 among the three Baltic States and the Bank to jointly work on capital markets development, an initiative

strongly supported by the EC. By participating in the IPO, the Bank supports local capital market development. This complements, and validates, the Bank's sustained policy dialogue over recent years through various technical cooperation projects funded by the European Commission through DG Reform (formerly the Structural Reform Support Service (SRSS)). One such EU CMU project undertaken by EBRD³ on the development of the institutional investor base in the Baltic countries highlighted that over 90% of their investments were outside of the region and that there was a critical need to expand the range of investible instruments locally for investors such as domestic pension funds. The Bank's efforts have aimed at mobilising the investor base, expanding investment products and stimulating investor interest in the Baltic region.

Bank's Strategy for Estonia

The Transaction is in line with both Enefit's strategic direction and the efforts undertaken by the Bank to scale up renewable energy penetration in its COOs. Importantly, there are few listed companies exclusively active in renewable energy in the Bank's COOs, resulting in limited opportunities for investors in equity capital markets to access this asset class. Given the scale of investment funding required to meet renewable energy goals, expanding the range of funding mechanisms for the sector is a key goal. The Project is accordingly in line with the Energy Sector Strategy as well as supporting cross-border investment between COOs, the Green Economy Transition Approach 2021-2025, the Bank's Strategy for the Promotion of Gender Equality, the Local Currency and Capital Markets Development Initiative and with the Agreement Establishing the Bank.

1.2 TRANSITION IMPACT

Primary Quality: Green

Obj. No.	Objective	Details
1.1	The percentage of EBRD use of proceeds allocated to the project that qualifies as GET is 50% or higher.	The Transaction will be in line with the Bank's GET methodology, contributing to climate mitigation through adding new renewable energy capacity. The primary portion of the IPO proceeds will be used for the development, construction and operation of renewable energy projects including wind and solar in Poland, Lithuania, Estonia and Finland. The use of proceeds of the Bank's participation in the IPO will be used specifically for the wind projects in the Bank's countries of operation other than Estonia. The Bank's investments is expected to add [REDACTED] MW of capacity which will generate [REDACTED] GWh annually from green sources and contribute CO2 savings [REDACTED].

Secondary Quality: Resilient

Obj. No.	Objective	Details
2.1	This is an equity instrument contributing to capital market development.	The IPO will partially privatise state-owned assets through an equity offer to institutional and retail investors which will contribute to capital market development.
2.2	This is an equity issuance that will increase the company's free-float [REDACTED].	The IPO is expected to increase the Company's free float [REDACTED].
2.3	The issuance will be listed on the national exchange only.	The issuance will be listed on Tallinn Stock Exchange only.
2.4	It is expected that the issue will be included in a national index.	It is expected that the issue will be included in NASDAQ Baltics main index list.
2.5	The issuance will not involve any non-voting shares.	The Company is expected to have one class of shares with each share entitling the holder to one vote.

³ 'Improvement of the investment environment for institutional investors in Lithuania' (EBRD, 2018).

1.3 ADDITIONALITY

Identified triggers	Description
No triggers identified	n/a
Additionality sources	Description of additionality sources
Financing structure: EBRD offers a large volume instrument that fills a market funding gap and is required to structure the project.	The contemplated IPO offering will be one of the largest offerings in the Baltic countries and one of the first partial privatisation through an IPO of renewable assets of a state owned energy company in the Baltic countries and one of the very few in the Bank's COOs. The Transaction therefore has the potential to test market appetite and support the local capital market development. The Bank's involvement in the current partial privatisation process is seen as critical and vital to attract institutional and retail investors in the IPO and to make the listing a success.
Capital market: EBRD financing is expected to effectively ' close the funding gap ' and allows carrying out a successful book-building process .	The Bank's participation is necessary for the success of the IPO given the effect of the COVID-19 crisis on capital markets and investors' appetite. The current difficult environment is illustrated by the significant decline in IPO and additional offerings activities in Eastern Europe. This is demonstrated by the role the Bank played in the success of the previous IPO in the region namely Ignitis IPO, and Port Of Tallinn IPO.
Equity and private equity Lack of adequate local equity markets: EBRD's financing is required for the project to materialise.	The EBRD participation in the IPO is crucial to its success. The Bank will play an anchor role to support the bookbuilding process and have been engaged with the Company on improving its corporate governance scheme in order to make it attractive to investors. This is particularly relevant in the context of the IPO size and the expected market capitalisation of the Company post IPO. The Estonian equity market is small and underdeveloped with only 16 listings on the Main Market, 2 on the Secondary Market and 5 on the First North Baltic share list. Mainly due to the small size and low liquidity of the market, all major rating agencies such as MSCI, FTSE and S&P classify Estonia as a frontier market. The market liquidity is also concentrated with two constituents of MSCI Estonia Index covering approximately 85% of the Estonian equity universe. The IPO of the Company is expected to increase market liquidity, attract new domestic and international investors as well as, in the longer term, contribute to the possible index reclassification.
Standard-setting: helping projects and clients achieve higher standards. The Company seeks EBRD expertise on corporate governance improvements, including for climate risk management.	As part of the Bank's participation in the IPO, further improvements in corporate governance will be implemented through a Corporate Governance Action Plan (CGAP), which is summarised in Annex 6 and includes the approval of an annual investment policy by the supervisory board, external facilitated board evaluations, introduction of succession planning, introduction of a conflict of interest policy, and improvement of disclosure exceeding recommendations of the Estonian corporate governance code.
Client seeks/makes use of EBRD expertise on higher inclusion, gender standards and/or equal opportunities action plans.	The client commits to update its Code of Ethics and Professional Conduct to include a Gender-Based Violence and Harassment (GBVH) policy in line with international best practice as per the guidelines set in EBRD's GBVH toolkit. This policy will be extended to cover workers and contractors and training on this policy will be offered to all employees and contractors. HR personnel will also be trained on how to respond to GBVH. Moreover, the CGAP comprises gender considerations as the new nomination policy will include targets for achieving greater gender balance on the Supervisory Board and in senior management.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Pipeline realisation risk	Medium / Medium	The Company might not succeed in converting 100% of its wind and solar pipeline. Mitigant: The Company has significant experience in the renewables sector with 457 MW of installed green capacity and a 17-year track record of successfully acquiring, constructing and operating renewable energy generation assets. The Company has grown substantially with acquisition in 2018 of Nelja Energy, a renewable energy producer and developer, which added almost 300 MW to the portfolio. Since the acquisition, the Company has been successfully managing the portfolio and has started to develop its own pipeline [REDACTED].
Electricity price	High / Medium	Although most of the Company's production from wind is currently contracted, the wind portfolio has an average remaining incentive lifetime of 3.5 years.

volatility risk and subsidy risk		[REDACTED]. <i>Mitigant:</i> [REDACTED]. The Company has already signed a physical base load power sales agreement for electricity produced by two projects (Silale II and Akmene) [REDACTED]. Moreover, the Company is exploring renewable energy auctions for the pipeline projects, which would enable it to obtain new incentive scheme and introduce diversification benefits. In addition, although the Company will operate autonomously from its parent, it will still remain in majority ownership of Eesti which is a main electricity supplier and hence this further mitigates the price risk. [REDACTED].
Government interference risk	Medium / Medium	The government will remain an indirect majority shareholder in the Company post IPO and as a result may be able to act in its own interest to the detriment of minority shareholders. <i>Mitigant:</i> The IPO is expected to reduce the risk of government interference. In addition, the existing corporate governance structure and its further improvement through the implementation of the CGAP further mitigate this risk.
Availability of long term project debt financing in the Baltic countries	Medium / Medium	The Company might have limited opportunities for long term financing due to short/medium term offtake arrangements. <i>Mitigant:</i> Although the short/medium-term offtake contracts might not be bankable for project financing, the Company still has plenty of headroom for fresh debt to finance its growth plans on a corporate level. [REDACTED].
Operational and project life risk	Low / Medium	Although the wind portfolio is sizeable (398 MW), it is rather aged with some turbines almost 20 years old. [REDACTED]. Moreover, the bankruptcy of WinWind in 2013 resulted in termination of O&M services for 26% of the Company's wind generation capacity, which led to the availability risk being borne by the Company. <i>Mitigant:</i> Since the Company has taken over the maintenance of WinWind turbines (now managed by independent service providers), the availability has improved significantly [REDACTED]. Apart from WinWind turbines, the portfolio has a high level of availability [REDACTED] and the Company has not experienced any major faults. The Company has so far demonstrated it has an experienced management team with a solid operational track record and local know-how.

1.5 SOUND BANKING: EQUITY CASE

- **Attractive and growing renewables sector.** The Baltic countries and Poland have good wind resources with average ca. 3,000 full load hours per year. The region requires significant investment in renewable energy to meet the 2030 national RES goals (1.2 GW in Estonia, 0.8 GW in Latvia, 1.4 GW in Lithuania, and 11.2 GW in Poland).
- **Sizeable, geographically diversified operating portfolio.** Enefit Green operates the largest onshore wind portfolio in the Baltic countries, coupled with solar and CHP totalling 457 MW of operating capacity with a 16-year average operating asset life remaining. The portfolio assets are located across Estonia, Latvia, Lithuania and Poland with a new addition expected in Finland.
- **Sizable pipeline of 600 MW of advanced onshore wind and solar generating capacity and an additional 3.2 GW of longer-term pipeline including 2.1 GW off-shore wind.** [REDACTED].
- **Strong cash generation enabling strong dividend potential** going forward. [REDACTED]. **Strategic partnership with a blue chip parent company** (having inter alia access to end customers) is one of the key competitive advantages of the company and mitigating factors for the merchant electricity price risk.
- **An experienced management, development and operating team with a proven track record and extensive local know how.**

2. MEASURING / MONITORING SUCCESS

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
- Successful IPO	- Successful execution of the IPO	[REDACTED]
- Growth of green generation assets [REDACTED]	- Completion of projects currently under construction, further pipeline development and conversion, Megawatt added	[REDACTED]

Primary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	Donor
1.1	Renewable energy capacity installed (MW)	Increased renewable installed capacity.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Renewable energy - electricity produced (MWh/year)	Increased renewables generation.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.3	CO2e emissions reduced (tonnes/year)	Annual associated direct CO2 savings.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	Donor
2.1	National or international benchmark index included	To be included in NASDAQ Baltic main index	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Issuance listed on a national or/and international exchange	The issuance is to be listed on Tallinn Stock Exchange.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.3	Increase in Free Float Market Capitalisation	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Additional Indicators

Type	Monitoring indicator	Details	Baseline	Target	Due date
Advisory & Policy Indicators	Practices of the relevant stakeholder improved (equal opportunity practices of the client)	Enefit will improve its HR policies and practices on GBVH. Training on GBVH will be provided to all employees and contractors.	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES**3.1 INVESTEE COMPANY**

Enefit Green AS (the “Company”) is a renewable energy subsidiary of Eesti Energia AS (“Eesti”), an Estonian integrated energy utility company. [REDACTED]. Eesti started its renewables business in 2002 and established the Company in 2016 as its dedicated renewables subsidiary by consolidating its renewables portfolio. The Company enlarged its scale by acquiring Nelja Energia, the Baltic countries based local renewables developer in 2018 and a solar portfolio in Poland in 2019.

The Company produces electricity primarily from wind, as well as municipal waste, biomass, and solar in Estonia, Latvia, Lithuania and Poland. As of July 2021, the Company has 457 MWe of total capacity of electricity generation as well as 81 MWth thermal capacity of heat production. The Company categorises its business segments by technology as below:

- **Wind segment:** As of July 2021, the Company has 23 wind parks in operation in Estonia and Lithuania, with aggregate installed capacity of 398 MW.
- **Solar segment:** As of July 2021, the Company has solar farms with aggregate capacity of 30 MW in Estonia and Poland.
- **CHP segment:** The Company operates Combined Heat and Power (CHP) facilities in Estonia (Iru Waste-to-Energy CHP and Paide biomass CHP) and Latvia (biomass CHP facilities in Valka and Broceni). Additionally, the Company also has a wood pellet production facility in Latvia (Broceni) whose product is used for feedstock of biomass power plants. As of July 2021, the aggregate installed capacity of these production facilities is 28 MW of electricity generation and 81 MW of heat production.
- **Other segment:** Other segment includes a hydroelectric facility with aggregate production capacity of 0.4 MW and Ruhnu renewable energy solution (consisting of wind turbine, a battery bank, two solar facilities and three diesel generators) with aggregate production capacity of 0.3 MW, both operating in Estonia.

In addition, the Company has a significant and sizable near term and long term pipeline for greenfield renewables in the Baltic States, Poland and Finland. The details of the Company’s pipeline is presented in Annex 3.

3.2 PARENT COMPANY

Eesti Energia AS (“Eesti”) is an integrated energy utility company fully owned by the Estonian State via the Ministry of Finance. Eesti engages in (i) the electricity distribution network operations in Estonia via its subsidiary Elektrilevi OU, (ii) the electricity sales and trading business with the brand of “Enefit” in the Baltic countries, Sweden and Finland, (iii) large scale electricity and heat production in Estonia and (iv) the renewables business via Enefit Green which will be partially privatised through the proposed IPO. On a consolidated basis, Eesti generated EUR 834 million revenue and EUR 213.6 million EBITDA in 2020.

4. MARKET CONTEXT

The **Baltic countries** had renewables support schemes such as FiT/FiP with 12-year tenors in the past 4-5 years. These supporting schemes enabled the development of many small-scale utility (larger than 1MW but less than 20MW) onshore wind power projects across the region, especially in Lithuania and Estonia. New auctions have been introduced with FiP as the support scheme. In spite of the potential price risk, developers in the region are also looking to develop merchant wind power projects to take advantage of the good wind resources and decreasing capex. Corporate PPAs are also an alternative for those projects to benefit from the associated stable cash flows.

In the Baltic countries, electricity is freely traded in the wholesale market Nord Pool which includes the Nordic countries. The price in the market is volatile year by year depending on the weather in the region, mainly driven by rainfall affecting hydro power plants; the major source of electricity in the Baltic and Nordic states. In 2018 and 2019, electricity prices ranged between 40 – 50 EUR/MWh throughout the two years due to the dry weather, whereas the range was between 35 – 40 EUR/MWh in 2016 and 2017. Heating demand also affect electricity prices in the region. In 2020, due to the demand shock from the COVID-19 crisis, the average electricity price significantly dropped to 34 EUR/MWh. In 2021, the demand has recovered from the pandemic (in addition to a severe winter) so that the price has increased to 59 EUR/MWh in YTD.

Poland: The Polish authorities have introduced a new auction-based support system. The new support system has a sliding feed-in-premium over a market price (CfD). Such premium is awarded in competitive auctions for up to 15 years period (from the date of the first sale of electricity, but not later than December 31, 2035), [REDACTED].

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 HISTORICAL FINANCIAL ANALYSIS

[REDACTED]

5.2 FINANCIAL PROJECTIONS

[REDACTED]

5.3 EXIT STRATEGY

[REDACTED]

5.4 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (2019 ESP). The proceeds of the Bank's investment in equity through the IPO will be used for energy efficiency measures and support future renewable energy projects, notably greenfield wind in the Baltics and Poland. In line with capital market transaction rules, the Bank's environmental and social due diligence (ESDD) was undertaken by ESD specialists based on a review of publicly available documents, questionnaires and discussions with the Company's EHS management. The due diligence was also undertaken in accordance with Covid-19 guidance for ESDD. The Bank has provided financing to the Company in the past, and the Company has been implementing ESAP requirements on time. Annual monitoring reports confirm that the Company is in compliance with the Bank's PRs and has been developing corporate sustainability reporting. An adequate assessment of environmental and social risks and impacts of this Project in accordance with the Bank's 2019 ESP was carried out for this transaction, however, there might be a need for additional monitoring and site visits once travel is possible.

The Bank's ESDD included a corporate audit as well as a review of the planned capex investments. Enefit has a dedicated EHS management team, which is developing corporate EHS management systems and has the institutional capacity to implement the Bank's PRs. [REDACTED]. Based on the current ESDD results the ESAP was updated and agreed with the Company in principal to structure the Project to meet the Bank's PRs. Due to the equity nature of the investment, the PRs and ESAP apply to all of the Client's operations. Additionally, ESAP includes requirement to strengthen non-financial reporting in line with best practices and EU law and associated guidance on climate related information. The Company commits to implement TCFD and report in line with the recommendations by 2023. In terms of future solar development the Company will implement a procurement policy to ensure that the supply chains includes a review for sustainability issues as well as human rights in compliance with the EU guidance on human rights and supply chains. The EBRD proceeds will not be used for any Category A projects and the Company will not invest in any coal or gas fired units in the future. Any future Projects will be screened in line with EBRD requirements and information published in line with National, EU and the Bank's requirements. [REDACTED]. The review of the current

renewable portfolio, inclusive of the greenfield wind farms in Lithuania, are not located in Natura 2000 areas. [REDACTED].

The Bank will monitor the Company's performance through reviewing annual reports prepared by the Company and site visits as deemed necessary.

6.2 INTEGRITY

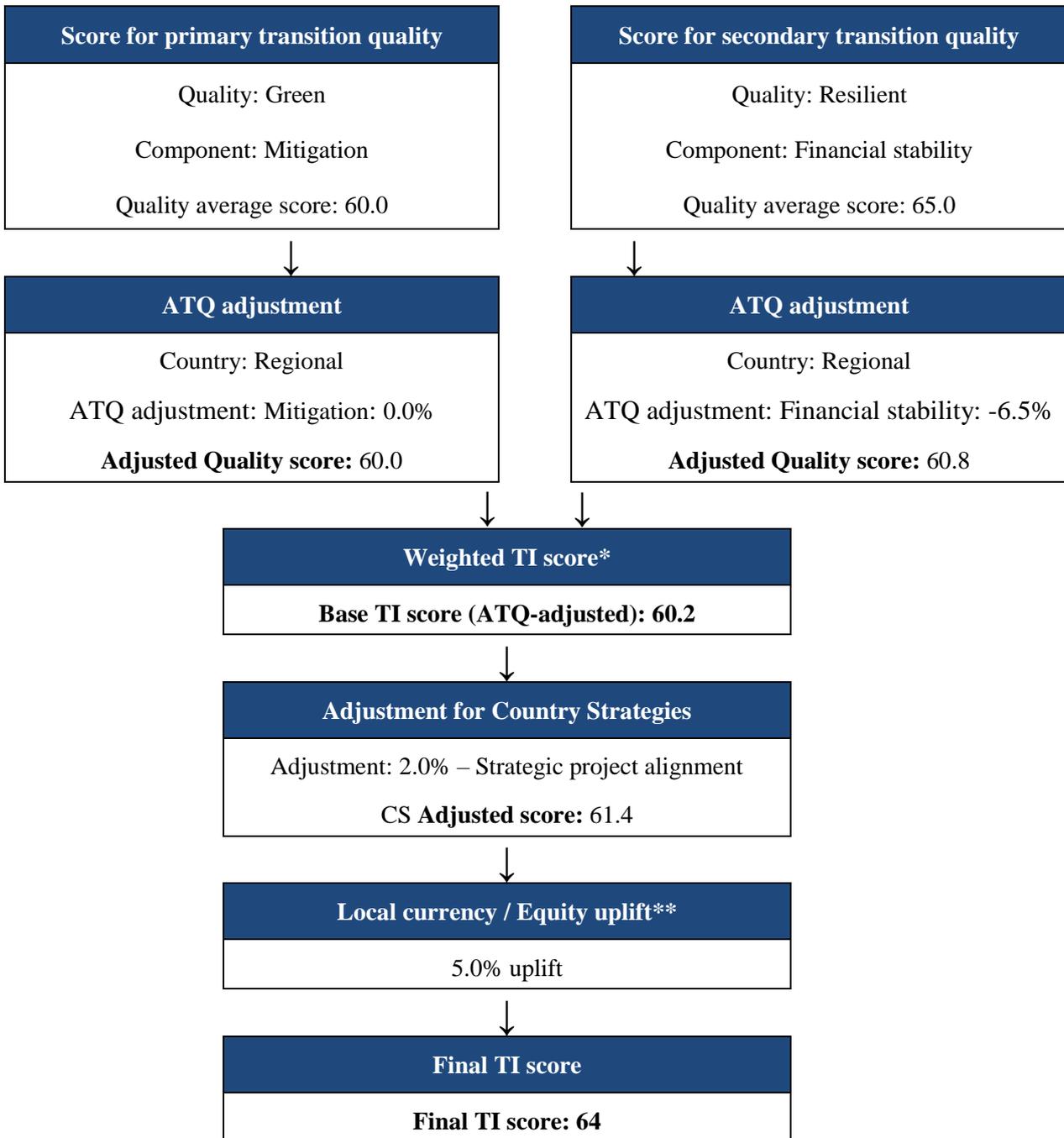
In conjunction with OCCO, updated integrity due diligence was undertaken on Enefit Green, its shareholder Eesti Energia (100% state-owned), subsidiaries and senior management. [REDACTED]. This project does not pose an unacceptable integrity or reputational risk to the Bank. Enefit Green has been a client of the Bank since April 2020 and the experience to date has been positive. [REDACTED].

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the project, and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the project.

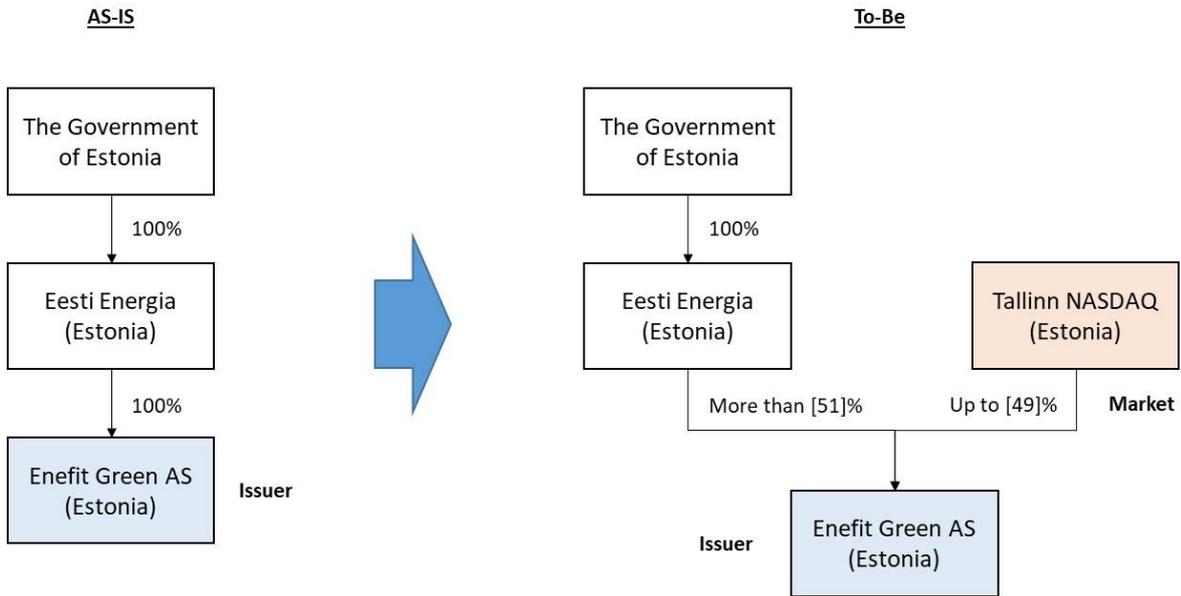
ANNEXES TO OPERATION REPORT

ANNEX 1	TRANSITION IMPACT SCORING CHART
ANNEX 2	SHAREHOLDING STRUCTURE
ANNEX 3	PROJECT PIPELINE
ANNEX 4	HISTORICAL FINANCIALS
ANNEX 5	ESTONIA EQUITY MARKET AND INVESTOR BASE
ANNEX 6	SUMMARY OF CGAP
ANNEX 7	PROJECT IMPLEMENTATION

ANNEX 1 – TRANSITION IMPACT SCORING CHART



ANNEX 2 – SHAREHOLDING STRUCTURE



ANNEX 3 – PROJECT PIPELINE

[REDACTED]

ANNEX 4 – HISTORICAL FINANCIALS

[REDACTED]

ANNEX 5 – ESTONIA EQUITY MARKET AND INVESTOR BASE

1) Enefit Green in Estonia

The Estonian equity market is small and underdeveloped with altogether 23 companies listed on the Nasdaq Tallinn markets (16 on the Main Market, 2 on the Secondary Market and 5 on the First North Baltic share List). Mainly due to the small size and low liquidity of the market, all major rating agencies such as MSCI, FTSE and S&P classify Estonia as a frontier market. The market liquidity is also concentrated with two constituents of MSCI Estonia Index⁴ covering approximately 85% of the Estonian equity universe.⁵

The IPO of Enefit Green is expected to increase the market liquidity, attract foreign investors and contribute to the possible index reclassification.

- **Market liquidity:** The market liquidity is driven by the large-cap companies that attract the largest international investors. The more large-cap companies are listed on a market the more international attention is given to the market. Enefit Green would be the 2nd largest market cap issuer on the Nasdaq Tallinn market and the 4th largest issuer in terms of total market cap on the whole Nasdaq Baltic⁶ List – 5.82% of the total market cap of the Baltic List

	ISSUER NAME	MARKETPLACE	INDUSTRY	CAPITALIZATION (EURm)	% OF MARKET CAP
1	Ignitis grupė	Vilnius market Baltic Main List	Energy	1657	16.07%
2	Telia Lietuva	Vilnius market Baltic Main List	Telecommunications	1200	11.65%
3	LHV Group	Tallinn market Baltic Main List	Financials	895	8.69%
4	Enefit Green	Tallinn market Baltic Main List	Energy	600	5.82%
5	Tallinna Sadam	Tallinn market Baltic Main List	Industrials	514	4.99%
6	Tallink Grupp	Tallinn market Baltic Main List	Consumer Discretionary	472	4.58%
7	Siaulių bankas	Vilnius market Baltic Main List	Financials	429	4.16%
8	Latvijas Gāze	Riga market Baltic Secondary List	Utilities	423	4.10%
9	LITGRID	Vilnius market Baltic Secondary List	Utilities	406	3.94%
10	Tallinna Kaubamaja Grupp	Tallinn market Baltic Main List	Consumer Discretionary	403	3.91%

As of 27 July 2021, Source: Nasdaq Baltic

- 1) **Foreign investors:** It is highly likely that the Enefit Green will be part of various country, regional and thematic indices with its size, which will bring in a significant investment flow from international passive investment. For instance, Enefit Green will be amongst the largest regional energy sector representatives taking into account also the Polish, the Czech and the Hungarian markets.

⁴ Only eligible securities meeting various MSCI requirements can be included in the MSCI country index.

⁵ <https://www.msci.com/documents/10199/5916a160-231f-420a-a69d-af4ea4c114c9>

⁶ Nasdaq Baltic operates three stock exchanges in Estonia, Latvia and Lithuania.

	ISSUER NAME	COUNTRY	MARKET CAP (EURm)
1	CEZ	CZ	12,385
2	MOL	HU	5,326
3	PGE	PL	3,524
4	Ignitis	LT	1,657
5	Tauron	PL	1,242
6	Enea	PL	808
7	Energa	PL	703
8	Polenergia	PL	703
9	Enefit Green	ES	600

As of 27 July 2021, Source: Nasdaq Baltic, PSE, GPW, BSE

All the other energy sector companies have a significant role in the regional indexes, meaning that the two new issuers will also become important investment target for the investors.

- 2) **Index-reclassification:** Index-reclassification to emerging market has been one of the most important goals in Estonia in recent years. Once the Enefit Green becomes listed via IPO, Nasdaq Tallinn will be one step closer towards MSCI emerging market. There has been ongoing discussions among Nasdaq Baltic countries to have a regional index which can classify the region as an emerging market with the increased number of eligible securities and liquidity. The addition of Enefit Green will also strengthen the case for the regional index. **The index-reclassification will make a significant influence to EBRD's exit strategy, as its impact on the market liquidity will be considerable⁷.**

2) IPOs of SOEs and equity market development

There is strong a relationship between IPO based privatisation programs (in other words Share Issue Privatisation – SIP) and the stock market development especially in the early stage of capital market development like the case of Baltic countries.

- Privatised SOEs are often the most valuable companies in a country: for instance, seven out of the ten largest non-U.S. (including Germany and France) stocks are from the IPOs of SOEs and the 25 largest--and 35 of the 39 largest--common stock issues in history have all been the result of privatisations.
- Usually only the SOEs are large enough to raise the foreign investors' appetite substantially.
- The share issue programs shows the citizens that significant returns can be achieved by getting involved in the capital market. As a result, a robust domestic retail investor base can emerge.
- EBRD participation often creates a signalling effect and leads to a significant level of oversubscription both from retail and institutional investors (e.g. recent experience with Port of Tallinn IPO).
- It demonstrates to private entrepreneurs how to benefit from the capital market, which stimulates the emerging demand for equity investments.

3) Absorption capacity of the investor base on the Baltic markets

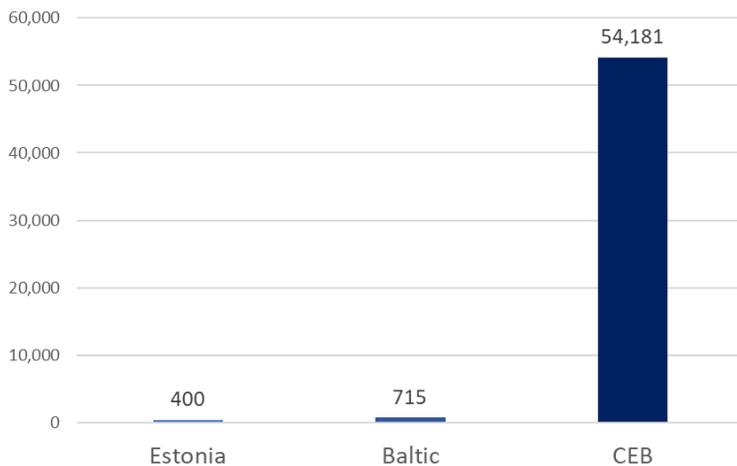
Although the Enefit Green is expected to be the 2nd largest issuer of the Nasdaq Tallinn market but the large size of the deal is not unique in the region taking into account the recent transactions on the Baltic markets. The largest issuer, LHV Bank went public in 2016 while Port of Tallinn had a

⁷ Index-reclassification can only happen in the medium/ long term with additional sizable IPOs.

successful IPO in 2018 with a EUR 145 million transaction. Besides that, the region witnessed its largest IPO in 2020 when Ignitis went public in Lithuania.

[REDACTED]The total institutional investor base (taking into account both the local and the international institutions) of the Tallinn equity market has app. USD 400 million equity investment in Estonia while in the whole Baltic market the invested amount is app. USD 715 million. However, the Baltic countries are considered to be part of the Central European region (together with Poland, Hungary and other countries) where the total institutional investor base has more than USD 54 billion equity investment. Moreover, the Enefit Green IPO has a very strong ESG label that will further increase the demand for the shares.

Institutional investor base in Estonia, the Baltic market and in Central Europe (including the Baltic countries) - USD million



Source: EBRD Investor Base Study, 2020

The success of the recent IPOs in the Baltic countries and the large pool of capital of the CEB region proves that the investor base is not a bottleneck here and the development of the regional equity market is hindered by the insufficient supply of instruments. The potential success of the Enefit Green can convince further companies to use the public capital market more extensively.

Appendix: Recent listings in Estonia (Nasdaq Tallin)

Saunum Group AS

Total market cap: EUR 21.5 million

Core business: Development of a heating solution for small scale saunas

Date of Admission to Trading: 18.12.2020 (First North Share List)

Market: Nasdaq Tallinn

Other listings: -

Background Information

Saunum Group AS (Saunum) is an Estonian sauna technology company founded in 2014 that is mainly concentrated on the development of electric heaters, sauna indoor air conditioners and sauna automatics. Reason for making the company and its products unique is the fact that all Saunum devices are equipped with unique patented air circulation devices that mix the sauna air in even temperatures from the floor up to the ceiling. This mechanical solution ensures an even and healthy sauna climate throughout the steam room. The sauna and all the assembly plants of the sauna partners are located in Estonia (Tallinn and Harju County).

ELMO Rent AS

Total market cap: EUR 13.7 million

Core business: providing of environmentally friendly vehicle sharing services

Date of Admission to Trading: 01.07.2021 (First North Share List)

Market: Nasdaq Tallinn

Other listings: -

Background Information

ELMO Rent is an Estonian company founded in 2013, and its main field of activity is the provision of environmentally friendly vehicle sharing services and the development of related innovative technologies, such as a vehicle fleet IT operation system, car controller, and remote-controlled vehicle technology.

Being one of the pioneers in the sharing of electric cars in the world, today Elmo Rent AS combines in its business model a revolutionary solution of sharing economy, electric cars, and remote-control technology. The remote-controlled vehicle is one of the competitive advantages of Elmo Rent AS, providing a simpler, cheaper, scalable and legally more smoothly integrating solution than a self-driving vehicle.

Estonian Japan Trading Company AS

Total market cap: EUR 120 thousand

Core business: Diversified Financial Services

Date of Admission to Trading: 24.03.2021 (First North Share List)

Market: Nasdaq Tallinn

Other listings: -

Background Information

Estonian Japan Trading Company AS is a subsidiary of Japanese public limited company MBK Co., Ltd., which is listed at Tokyo Stock Exchange. The company is established in the second half of 2020. Its main business activities are the development of trade between Estonia and Japan, including bringing Estonian handicraft and design products to the Japanese market as well as investments in Estonian companies that have a potential to expand its business to Japanese market

ANNEX 6 – SUMMARY OF CGAP

[REDACTED]

ANNEX 7 – PROJECT IMPLEMENTATION

Procurement classification – *Private*

Procurement arrangements:

Private Sector Procurement

The Project is classified as Private for procurement purposes.

While the Company remains indirectly state controlled by the Government of Estonia, it is subject to bankruptcy or insolvency law. Furthermore, the use of proceeds is in EBRD's countries of operation outside of Estonia, where the Company needs to operate on a fully competitive basis. Accordingly, this operation is considered a private sector operation for purposes of the PP&R.

After the IPO, as a listed company traded in Nasdaq Tallinn Stock Exchange, the Company will commit to the market standard procurement practice to procure works, goods and services at fair market prices. In the prospectus, the Company states that;

When a tender is announced for which a given project or multiple projects would be suitable, the Group responds with a bid by leveraging its early project development experience, obtaining management validation and developing budgeting and financial models. If the Group wins a tender, it works to construct the asset through an integrated process of competitive procurement and financing, partnering with industrial contractors and suppliers for construction and seeking lending arrangements on market terms.

[REDACTED]