

Rating report

27 June 2022

**EuroRating assigned 'BBB+' long-term credit rating
to secured fixed rate 2022-F2 series bonds issue
of the company Sustainable Capital PLC**

Public / Private rating	public
Continued / One off rating	continued (monitored rating)
Category	rating for a bond issue
Bonds issued by	Sustainable Capital PLC (United Kingdom)
Type of the rated bonds	secured fixed rate bonds
Bond series ISIN	GB00BPW5RV72
Type of the credit rating	long-term, international scale
Date of rating assignment	27 June 2022
Rating level	BBB+
Rating outlook	stable

Sustainable Capital PLC ('Sustainable Capital', 'the issuer') is a special purpose vehicle (SPV) established by Bedford Row Capital PLC (which acts only as bonds servicer to the issuer) to raise funds via bond issuance for several investment projects. The individual projects are legally separated from each other – their assets and liabilities are separated through the Supplemental Trust Deed. Thanks to the created 'sub-trust' the separated pools of assets cover the individual bond series. The projects are separated also at the organizational level – they have separate bank accounts, balance sheets, and financial control. The separation of assets and liabilities of the individual investment projects financed by bond issuance via Sustainable Capital is aimed at bondholders protection.

The 'BBB+' credit rating discussed in this report is a rating for a bond series (ISIN: GB00BPW5RV72) and relates to the issue of up to €150 million secured fixed rate bonds (series Sustainable Capital PLC 2022-F2) denominated in EUR, with the maturity term in 2034, issued by the company Sustainable Capital PLC, to raise funds for the company Eleon Green OÜ ('the borrower'), which intends to invest in construction of 28 wind turbines with a total capacity of 95.2 MW on the Aidu Wind Park grounds.

The presented credit rating does not relate to the credit risk (or probability of default) of the issuer. The rating concerns the risk of an ultimate loss of a part or all of the bonds' principal amount and the interest by the bondholders in the event of a default of the issuer.

Key rating drivers

Positive:

Solid security of the loan to the borrower: The proceeds from the bond issue of Sustainable Capital PLC will be borrowed to Eleon Green OÜ (the amount will be deducted in accordance with the facility agreement). The loan will be secured over the land mortgage, shares, bank accounts, the borrower existing and future assets and Power Purchase Agreement.

High stability of financing of the project: Assuming a successful issuance of the €150 million green bonds, the Aidu Wind Park project should have assured a very high stability of financing (the share of the long term capital in the balance sheet total should remain at very high level of 0.94-1).

High and safe DSCR ratio: Debt service coverage ratio in the conservative forecasted scenario should range from 2.1 in 2025 to 2.6 in 2034. This indicates, that Eleon Green on average should generate more than twice as much cash as is needed to repay the total financial obligations under the bonds each year.

High forecasted margin ratios: Assuming a timely completion of the construction of the wind farm, EBITDA and EBIT margins should reach very high levels since 2025, when the first 10 wind turbines will be commissioned and will remain at a very high level in subsequent years.

Project still qualifies to the subsidy scheme: Aidu Wind Park is one of the last remaining wind parks in Estonia, which still qualifies to the old Estonian subsidy scheme, where Elering AS (the government owned transmission system operator) is obligated to pay 53.7 €/MWh extra to the Nord Pool electricity spot price for next 12 years from the start of electricity production of each turbine.

Favourable changes in the politics of Estonia's government: Estonia's government has adopted the strongest green framework for the country called Green Turn which assumes a development of the Estonian economy into a competitive, low-carbon economy by the mid-century.

Growing demand for renewable energy: The Russian invasion in Ukraine has led many governments in the European Union to try to reduce dependence on natural gas from Russia, further boosting demand for renewable energy.

Eleon Group has a history of successful operations: The rated bond issuer's (Sustainable Capital PLC) credit risk and ability to timely repayments of the issued bonds depend fully on the credit risk of the borrower (Eleon Green OÜ). Eleon Green is part of Eleon Group, which has already formed several similar renewably energy projects in Estonia: Salme wind farm (2003), Nasva wind farm (2011) and Aburi wind farm (2015).

Experienced management team: The company was established by Oleg and Andres Sonajalg brothers, who are entrepreneurs with successful business track records and high standards of personal ethics. Since early 2000 they are involved in all aspects of the wind production value chain.

Eleon wind turbines are more efficient: Eleon wind turbines are 30% more efficient than similar wind turbines manufactured by competitors, thanks to patented technology that allows to build significantly lighter, taller and larger blades than any other wind turbine manufacturer.

External control over the use of funds: Eleon Green will use its funds as has been set out in the Investment Memorandum, for Sustainable Capital PLC 2022-F2 series. This means the funds can only be used for the development, construction and operation of Aidu Wind Farm, and may not be used in any manner other than in accordance with the Investment Memorandum.

Negative:

Relatively low initial equity financing: After the planned issuance of €150 million bonds, the equity share in the balance sheet total will decrease to only 25%. In the next two years (due to the expected losses) it should decrease further to 19%. Only from 2025 the value of equity and its share in the balance sheet total should be increasing.

Weak initial liquidity position of the company: Eleon Green currently holds almost no cash and its assets are almost entirely fixed. Therefore, the commencement of the construction of the wind farm is fully dependent on obtaining external financing (bonds issue). The company's liquidity position will strengthen only from 2026.

Rising costs of building wind farms: The market disruptions during the Covid-19 pandemic have worsened since the Russian invasion in Ukraine, reversing a decade of cost declines for the renewable energy sector.

Uncertain geopolitical situation: The Russian invasion of Ukraine in February 2022 has significantly increased the geopolitical risk for Russia's neighbouring countries (including Estonia, where the Aidu Wind Park will be located).

Stable rating outlook

The stable outlook assigned to the credit rating means, that according to current estimates of the EuroRating credit rating agency the rating should most probably remain unchanged in the horizon of the next 12 months.

Major factors that could lead to a rating change in the future

Positive:

- construction by Eleon Green and commissioning of all 28 wind turbines without major technical or legal problems and/or delays;
- generating revenues and cash flows in line (or better) with the forecasts assumed in the conservative scenario;
- increase in equity value of the borrower in line (or quicker) with the forecasts;
- further increase of energy prices on the Estonian and European markets in the coming years.

Negative:

- much lower than currently planned bond issue, which would result in a lower number of the wind turbines;
- a high increase in competition on the energy market and/or a significant drop in electricity prices;
- a significant increase in costs related to the construction of wind turbines and logistical problems which may significantly delay the construction of the project;
- a significant decline in revenues below forecasts, substantial increase in expenses and generation of a loss that will result in a decrease in equity below the amounts assumed in the forecasts.

Company profile

Registration data

Issuer/company name: Sustainable Capital PLC. **Registered office:** Ground Floor, 45 Pall Mall, London, SW1Y 5JG, United Kingdom. **Company registration number (UK):** 12423459. **Legal Entity Identifier:** 213800QDQENHPB1SNU20.

Borrower name: Eleon Green OÜ. **Registered office:** Müürivahe Street 22, 10140 Tallinn, Estonia. **Company registration number:** 11458666. **EU VAT identification number:** EE101207977.

Sustainable Capital PLC is a special purpose vehicle (SPV) established by Bedford Row Capital PLC (which acts only as bond servicer to the issuer) to raise funds via bond issuance for several investment projects. The individual projects are legally separated from each other – their assets and liabilities are separated through the Supplemental Trust Deed. Thanks to the created 'sub-trust' the separated pools of assets cover the individual bond series. The projects are separated also at the organizational level – they have separate bank accounts, balance sheets, and financial control. The separation of assets and liabilities of the individual investment projects financed by bond issuance via SC PLC is aimed at bondholders protection.

As an SPV, Sustainable Capital PLC is separated from the bond servicer and it has its own independent board of directors and independent audit.

The credit rating for the issuer discussed in this report applies only to the part of Sustainable Capital PLC concerning the wind farm project carried out by Eleon Green ('the borrower') and it does not relate to other companies/projects for which Sustainable Capital PLC issues bonds/notes.

At the moment of bond issuance proceeds from bonds will be transferred immediately (in a form of a loan granted under the facility agreement) to the borrower (the amount will be deducted in accordance with the facility agreement), which will be responsible for liabilities to Sustainable Capital PLC with its own existing and future assets, the land mortgage, shares (over the borrower and any other companies where funds have been moved), bank accounts (the borrower's and companies' that have cash flows) and Power Purchase Agreement (PPA).

The collaterals will be established in connection with the loan agreement under facility agreement (as at the date of this report, not yet finalized). The issuer will take security over the borrower's company assets, including share pledges over the borrower company shares; mortgages over the Aidu Wind Farm land plots owned by the Estonian government over which the borrower has superficies for 99 years with rights to prolongation; bank accounts pledge over the borrower bank accounts and Eesti Elekter AS special bank account exclusively made for wind farm electricity sale funds; and various asset pledges, that includes: security over the turbines which will be built with the bond proceeds, infrastructure, the subsidy provided by Estonian government (through Elering AS) to the borrower, and over cash flows of the service provider Eesti Elekter AS coming from Power Purchase Agreement.

As the issuer's ability to repay the bonds will be fully dependent on the financial performance and cash flows generated by the borrower, the credit risk analysis contained in this report focuses primarily on Eleon Green OÜ.

Eleon Group shareholder structure

Sustainable Capital PLC is only an SPV company and is not directly (by ownership) related to Eleon Green OÜ. Sustainable Capital PLC shares are held in trust. After bond issuance Sustainable Capital PLC will have a business relation with Eleon Green OÜ, as it will grant to that company a loan from the proceeds from the bonds.

Eleon Green OÜ is part of a Eleon Group – an Estonia-based technological innovation group of companies, established in 2007, focusing on multimegawatt-class direct drive wind turbine development and manufacturing. The first patented Eleon 3M116 direct drive wind turbine prototype was erected in 2013 in Saaremaa, Estonia. The prototype has successfully passed all required tests and has demonstrated 30% more energy production compared to similar technologies worldwide. Serial production of the Eleon 3.4 MW is currently on-going for Aidu Wind

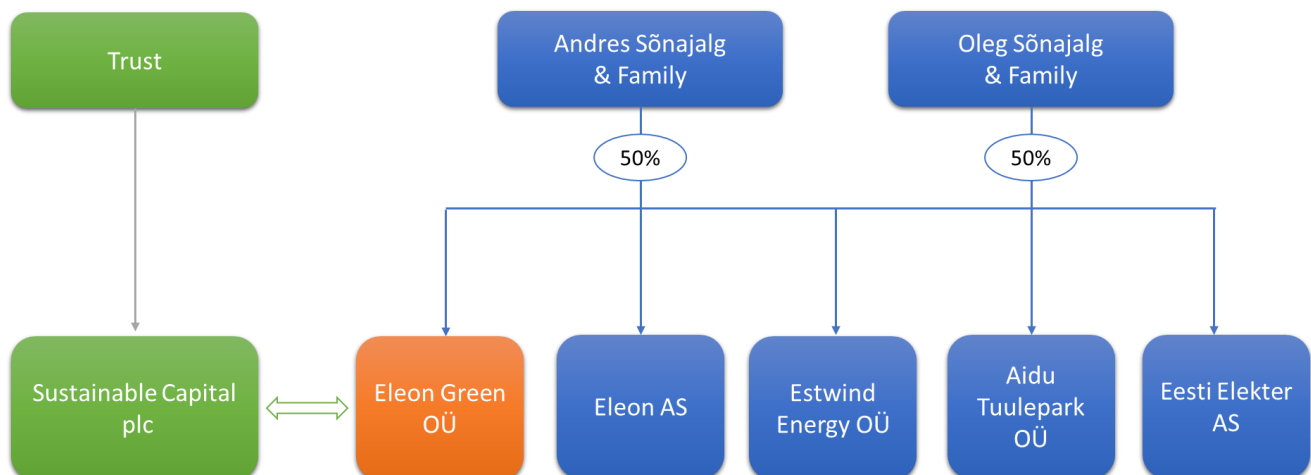
Park, which is located in northeast Estonia. Thirty Eleon 3.4M type wind turbines are to form a 100 MW reference wind park.

All shares of the Eleon Group of companies are owned by the Sõnajalg family who are the ultimate beneficial owners of 100% of the companies (50% for Andres Sõnajalg family, 50% for Oleg Sõnajalg family). Andres and Oleg Sõnajalg have joined majority in all companies either through direct shareholdings or indirectly. Andres and Oleg Sõnajalg are not only owners but also the founders with a vast experience in developing and building wind farms. Understanding the shortcomings of these technologies, they created their own wind turbines following various technological innovations and industrial partnerships leading to greatly extended lifetimes of Eleon wind turbines.

The group of companies' activities cover the following areas:

- wind turbines R&D
- wind turbines production
- wind farms development
- wind farms construction
- wind farms operations
- electric infrastructures construction / operation / maintenance.

Chart 1. Eleon Group – shareholder structure



Source: Eleon Group

Eleon Green OÜ – (initial name Kindel Vara) was founded on January 2008 for development of Aidu Wind Park and other wind projects in Estonia.

Eleon AS – was established in 2007, for inventing, development and manufacturing multimegawatt class wind turbines. It holds successfully the patents for Eleon wind turbine unique innovative technology globally since 2009. The first model is Eleon 3M 3.4 MW direct drive turbine, successfully

tested and running almost 9 years in Salme wind park. The company will provide service during the operation of 40 years.

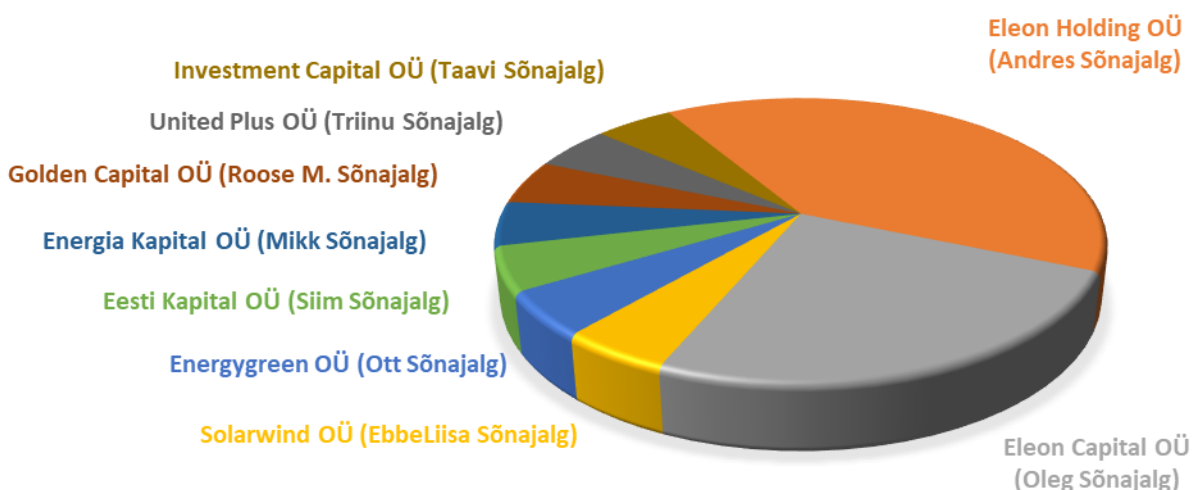
Estwind Energy OÜ – constructor for turbine erection, electric grid, fiberoptic grid, roads etc.

Aidu Tuulepark OÜ – was established on February 2015 as SPV for Aidu wind project development. It won the public auction for 31 slots superficies over 99 years on state owned land (30 slots for turbines and 1 slot for 110/20 kV distribution transformer station).

Eesti Elekter AS – was established on May 2003 initially for Salme Wind Park (located on Saaremaa island) and for licensing to produce and sale of green energy in Estonia. The company has been running in this sector successfully already almost 20 years.

Eleon Green OÜ shareholders

Chart 2. Eleon Green OÜ shareholders



Source: Eleon Group

All shares of Eleon Green OÜ (the borrower) are owned by Sõnajalg family. Andres Sõnajalg owns 40% of shares and he is the only management board member. Oleg Sõnajalg owns 25% of Eleon Green OÜ shares and the rest of members own 5% each. This means that only Andres Sõnajalg may represent the company at the moment, which may pose an operational risk in the event of his absence and there is no one else to replace him.

The borrower's history and primary business activity

Eleon Green OÜ was founded for development of Aidu Wind Park and other wind projects in Estonia. Aidu Wind Park, was established in 2009, and at the moment has 2 turbines, which are already

erected and waiting for commissioning. The two existing turbines are part of the Aidu Wind Park, but outside of the bond structure.

Eleon Green OÜ plans to build 28 wind turbines in the Aidu Wind Park, which is one of the last remaining wind parks in Estonia that still qualifies for the old Estonian subsidy scheme. The project is considered to be the biggest wind farm in Baltic States. It has gone through all the administrative activities (zoning, environmental research, planning, permitting, grid-connection permits and construction, infrastructure permitting and construction etc). Currently the project is fully in ready-to-build status.

Eleon Green OÜ has 99-year land use rights (superficies, land is owned by the Estonian government) for 99 years, on which the wind farm will be operating.

Eleon Group business model

As wind power is competing more and more successfully with other energy sources and as subsidies disappear gradually, cost becomes a major issue for the industry.

Eleon Group is focusing on developing new technology, new industrial process and key partnerships which have allowed the reduction of costs at all level as well as a significant increase in turbines lifetimes.

The weakest link in the industry was the lifetime of the main parts inside the nacelle (gearbox, bearings) all other parts of the turbine could have longer lifetimes (i.e. lifetimes of blades were built to match the 20 years of the weakest link, but can be extended, as can the tower).

Chart 3. Eleon business model



Source: Eleon Group

Investment strategy

The 12-year green bond will provide funding to complete the 'shovel-ready' Aidu Wind Farm ('Aidu') by 2025, making Aidu the largest onshore wind farm in the Baltic States. Aidu is key to Estonia's 'Green Turn' framework, which aims to end electricity production from shale oil by 2035 and deliver long-term energy freedom by significantly reducing the use of non-renewables and imported fossil fuels. The renewable energy created is part of the Scandinavian Nord Pool energy network.

The Aidu already has a permit to build a wind farm (100 MW) in northeast Estonia. The ground works and infrastructure are completed. The current equity valuation for this project is €115 million. The company is also supported by Estonia's government, which will subsidise the production of energy at €53.7/MWh for 12 years of production.

Company management

The Eleon management team:

- **Oleg Sõnajalg – CEO, partner** – 20+ years of experience in the wind industry as an entrepreneur, founder and board member of multiple significant bodies. Qualified electrician with degrees in physics from Tartu State University, Tallinn University of Technology and Concordia International University.
- **Andres Sõnajalg – CFO, partner** – 20+ years of experience in the wind industry as an entrepreneur, founder and board member of multiple significant bodies. Qualified electrician with degrees in physics from Tartu State University and Tallinn University of Technology.
- **Prof. Uwe Ritschel – Technology** – 20+ years of experience in the wind industry as MD of Windrad Engineering GmbH and Nordex Advanced Development GmbH. Professor of Wind Energy Technology and University of Rostock. Doctorate in Physics from University of Oldenburg.
- **Ivan Tširkov – Lead Mechanical Engineer** – 13 years of experience as mechanical engineer and Lead engineer at Eleon AS since October 2008. Master Degree in Mechanical Engineering from Tallinn University of Technology.
- **Mikk Sõnajalg – Logistics Manager** – 7 years of experience in logistics including heavy weight and oversize transportation. Educated in Tallinn Technical University Taltech.
- **Prof. Tapani Jokinen – Technology** – 40 years of experience as engineer and professor of Electrical Engineering. Since 2001 Professor emeritus responsible for Eleon overall electromagnetic and electromechanical design. Doctor of Science in Technology from Helsinki University of Technology.

- **Hindrik Kilter – Control and Automation Engineer** – 11 years of experience as electrician, automation engineer and technician. Lead control and automation engineer at Eleon AS since 2014. BA in Mechatronics from Tallinn University of Technology.
- **Siim Sõnajalg – Factory Manager** – 5 years of experience as an electrician starting his career as an automation in ABB Educated in Estonian Business School (EBS).
- **Elmo Paatsi – Construction** – 15+ years of experience in the wind industry, mainly for hybrid tower solutions and erection. Project manager in several wind farms in Estonia.

Eleon Green project structure

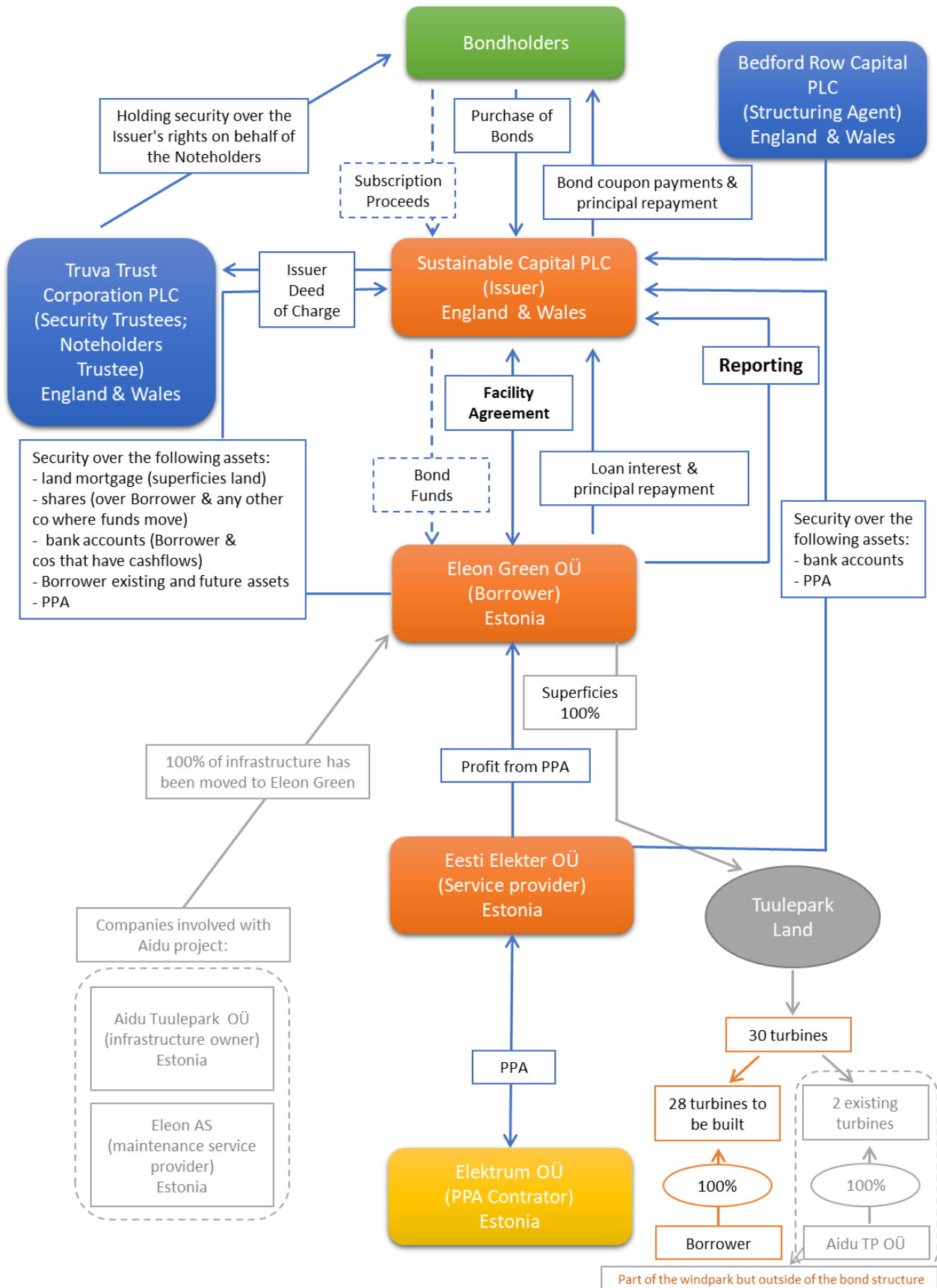
Most of the stages of the project from the start to the current point have been undertaken by Eleon or Eleon affiliated companies using own funds as well as some measure of debt. The current structure of the projects (legal entities involved, contractual arrangements, etc.) is represented in the chart 4.

Eleon Green as the borrower is the only company that will receive the bond proceeds and that will use them for building and operating Aidu Wind Farm for energy production.

Other companies that are part of the Eleon Group and also are involved in the project in other ways can be seen on the diagram:

- Eesti Elekter AS is the licensed service provider that will sell the energy produced by the borrower to third parties;
- Aidu Tuulepark OÜ – in the second quarter of 2022 transferred ownership of 28 turbine land plots to Eleon Green OÜ. The market value of the land plots is over €70 million. However, these assets are burdened with liabilities (€14.7 million) to the state and to the municipality, which Eleon Green OÜ will repay within next 99 years.
- Eleon AS will provide a maintenance service;
- Elektrum Eesti OÜ is an Estonian energy company that agrees to buy a full amount of energy on open delivery bases which will be generated by a Aidu Wind Farm based on a power purchase agreement (PPA). The PPA agreement means a buyer's commitment to paying a fixed Nord Pool Spot price per megawatt hour (MWh) for a long-term tenor (10-20 years) for the electricity that will be generated by the renewable asset.

Chart 4. Eleon Green OÜ – project structure



Source: Eleon Group

The bonds security structure

Under a deed of charge dated 9 March 2020 and amended and restated on 2 July 2020 between the issuer (Sustainable Capital PLC) and Truva Trustees Corporation PLC ('the trustee'), the obligations of the issuer under a series of bonds will be secured in favour of the trustee (for the benefit of the bondholders and any certain other secured creditors of the issuer in respect of the bond series) by fixed and floating first priority security over the issuer's rights in respect of the secured assets and the transaction documents to the extent that they relate to such series and, where applicable, over any segregated bank accounts opened by the issuer in respect of the bond series, in the event of a default or an insolvency or insolvency related event of the issuer. The rights of the bondholders and the other issuer secured creditors will not be affected by the insolvency or an insolvency related event of any other entity affiliated to the issuer.

Each borrower deed of charge will contain customary representations and warranties from the borrower to the issuer, including, without limitation, representations and warranties as to the ownership by the borrower of its assets, that such assets are free from other security, that there are no adverse claims against such assets, that the borrower has complied with all relevant laws in respect of those assets and that the security being granted under the borrower deed of charge is enforceable.

In practice the loan granted by Sustainable Capital PLC to Eleon Green OÜ will be secured over Eleon Green's and Eesti Elekter AS. Eleon Green under Estonian law will pledge all its shares. The security will be also over the project land plots on which the Aidu Wind Farm together with the wind turbines will be built with the bond proceeds. The security will be also over the bank accounts of the borrower, and over the subsidy provided by Estonian government (through Elering AS) to the borrower. Eesti Elekter AS will pledge its special bank accounts, exclusively made for Aidu Wind Farm electricity sale funds. The pledge will also be taken over the cash flows of the service provider Eesti Elekter AS coming from power purchase agreement (PPA) with Elektrum Eesti OÜ related to Aidu Wind Park, as well as over the service agreement or similar between the borrower and Eesti Elekter AS (as service provider) under which the funds from PPAs will be flowing between the companies and up to the borrower.

The borrower's current financial situation

Eleon Green OÜ was founded in 2008 and since then it has not generated any significant revenues from its core activities. Due to the incurred operating costs, the company was generating losses in the last financial periods. The company has been established as a SPV for development, construction and electricity production in Aidu Wind Park.

The company was equipped with a relatively small share capital of €2.8 thousand and due to the generated losses its equity took negative values in the recent years. In the first 11 months of the current financial year (2021/22) Eleon Green recorded €55.9 million on a one-off other operating income on the received 28 turbines land plots from Aidu Tuulepark (another company from the Eleon Group). The market value of the land for a 28 turbines wind farm is more than €70 million. The assets are however encumbered with long-term liabilities (to repay in 99 years) to the state and to the municipality of €14.7 million. The above other operating income translated into a gigantic net profit of €55.9 million for the first 11 months of the financial year 2021/22, which translated into a large increase of the equity value (to €55.8 million) and its share in the balance sheet total (to 21.4%).

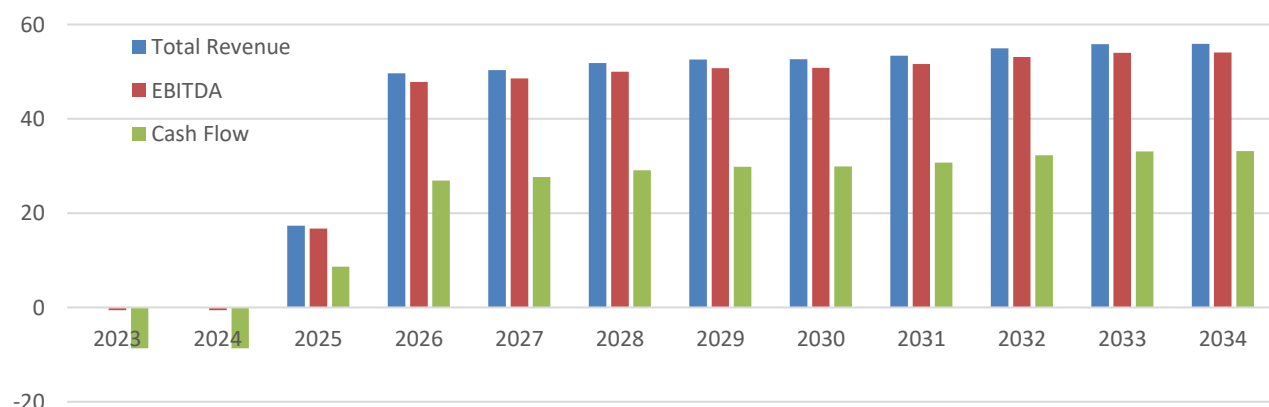
The borrower currently (as of the end of May 2022) has got total assets in the amount of nearly €71 million, but almost no cash. This means that the investment in 28 turbines will have to be almost entirely financed with external funds. Therefore, the planned issuance of bonds (via Sustainable Capital PLC) will significantly increase the company's indebtedness, the servicing and repayment of which will be fully dependent on the success of the wind farm project Aidu Wind Park.

Analysis of financial forecasts

Eleon Green OÜ prepared financial forecasts until the end of 2034 in three scenarios: negative, conservative and realistic (mainly differing in the assumed average energy price). The forecasts base on the assumption, that the company in the nearest future will issue bonds (via the SPV – Sustainable Capital PLC) in the amount of €150 million.

EuroRating decided to use conservative forecasts for the analysis due to political conditions. Policy incentives have largely driven investment in renewable energy. But in the future, as the cost of renewable technologies continues to fall, policy incentives should be replaced by economics as the main driver of growth in the sector.

Chart 8. Eleon Green OÜ – forecasted revenues and cash flows (€ million)



Source: Eleon Green OÜ

In 2023 and 2024 Eleon Green will build wind turbines and will not generate any revenue, but will incur expenses generating negative EBITDA (-€0,6 million per year) and will have to pay interest each year (5.4%) for bonds issued (€16.2 million in total).

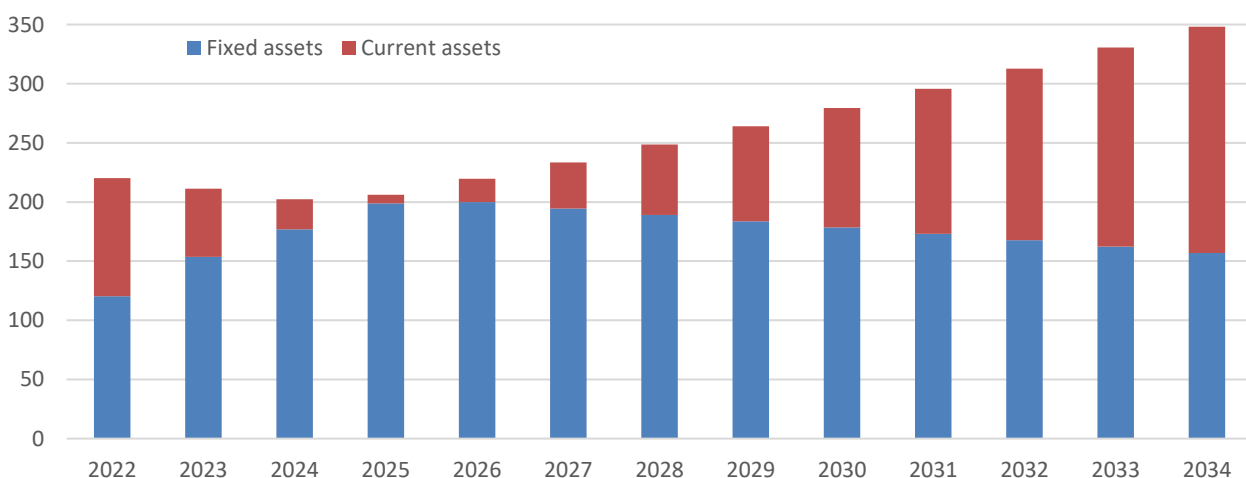
In 2025 the company will launch the first 10 turbines out of the planned 28. The 10 turbines should produce that year 112.2 GWh, which will be sold for 154.6 €/MWh (including subsidy 53.7 €/MWh), which translates to sales revenue of almost €17.4 million. During this period, the total operating expenses will amount to approximately €650 thousand. EBITDA will amount to €16.7 million, and after paying interest for notes owners (€8.1 million), the company should end the fiscal year with a cash surplus of €8.6 million (the forecast assumes that the EBITDA profit will be fully cash).

Since 2026 all 28 turbines should be operational and energy production will increase to 314.2 GWh annually. With the full operational capacity, the revenues will increase along with the increase in electricity prices from €49.6 million in 2026 to €55.9 million in 2034. The company forecasts an increase in electricity prices from 100.9 €/MWh to 124.2 €/MWh in that period. To these energy prices a subsidy has to be added, which will remain constant in all years at 53.7 €/MWh.

In 2026 the total operating expenses will increase to €1.8 million and, according to the forecast, it will remain at this level until 2034. The EBITDA will increase from €47.8 million to €54.1 million. From 2026 the company will pay not only interest but it will also pay off each year part of its obligations under the notes. The company plans that all repayments will be of the same amount of €21.1 million annually.

After paying obligations to bondholders the company should generate each year a high (and rising) positive net cashflow: from €26.9 million in 2026 to €33.2 million in 2034.

Chart 9. Eleon Green OÜ – forecasted balance sheet – assets (€ million)



Source: Eleon Green OÜ

In the first half of 2022 assets in the form of land rights for the construction of wind turbines were transferred to Eleon Green in the amount of €70.3 million. In the second half of 2022 the company will finance the first part of the project, investing €50 million of the €150 million raised from the green bonds issue. In 2023-2024 it plans to invest another €58 million in the construction of the wind farm and the value of property plant and equipment (PPE) under construction will increase to €108 million.

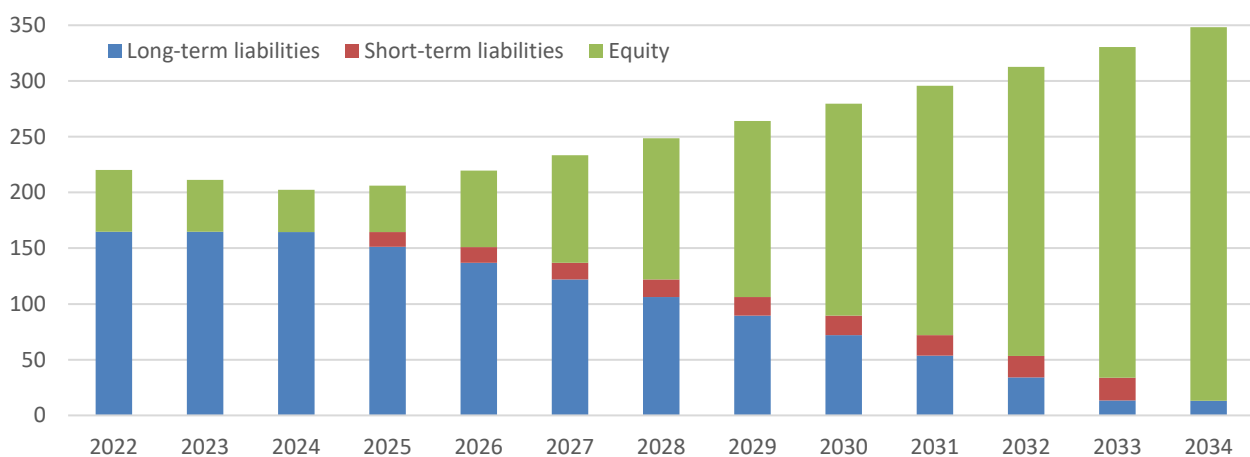
In 2025 10 of the planned 28 turbines will be put into operation. The value of PPE at the end of 2025 will amount to €49.5 million and the value of PEE under construction will decrease to €82.5 million. In 2026 the remaining 18 turbines will be completed and total PPE at the end of 2026 will amount to €138.6 million (63% of the total assets).

The value of the right to use the land, which the company received for 99 years, will slowly decrease with from €70.3 million at the end of 2022 to €61.5 million at the end of 2034.

In the years 2027-2034 the value of current assets will be increasing along with the increase of cash held. The value of fixed assets will slowly decline due to accumulated depreciation. At the end of 2034, the fixed assets will account for only 27% of the total assets.

EuroRating assesses both the forecasted increase in the balance sheet total and the increase in the level and share of cash in the total assets very positively.

Chart 10. Eleon Green OÜ – forecasted balance sheet - liabilities (€ million)



Source: Eleon Green OÜ

At the end of 2022 Eleon Green's equity value will be €55.5 million. The company's liabilities will consist mainly of two items: obligations to owners of green bonds (€150 million) and to the state and to the municipality (€14.7 million payment schedule for 99 years for the right to use the land). At the end of the years 2023-2025 the equity value will decrease, because the company will incur financial costs (interest on bonds issued). From 2026 the equity value should start to increase due to the generated and retained earnings. In the subsequent years the equity value should

systematically increase – ultimately to €335 million in 2034. Together with the decrease of liabilities it should result in a quick increase of the share of equity in the balance sheet total – from 19% in 2024 to 96% in 2034.

EuroRating assesses the expected systematic increase in the equity value, as well as its share in financing assets very positively. Nevertheless, it should be noted, that the company will start generating first revenues and positive cash flows since 2025.

Table 4. Eleon Green OÜ – forecasted margin ratios

Margin ratio	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
EBITDA margin	96.3%	96.3%	96.4%	96.5%	96.5%	96.5%	96.6%	96.7%	96.7%	96.7%
EBIT margin	82.5%	82.9%	83.1%	83.6%	83.8%	83.8%	84.1%	84.5%	84.8%	84.8%

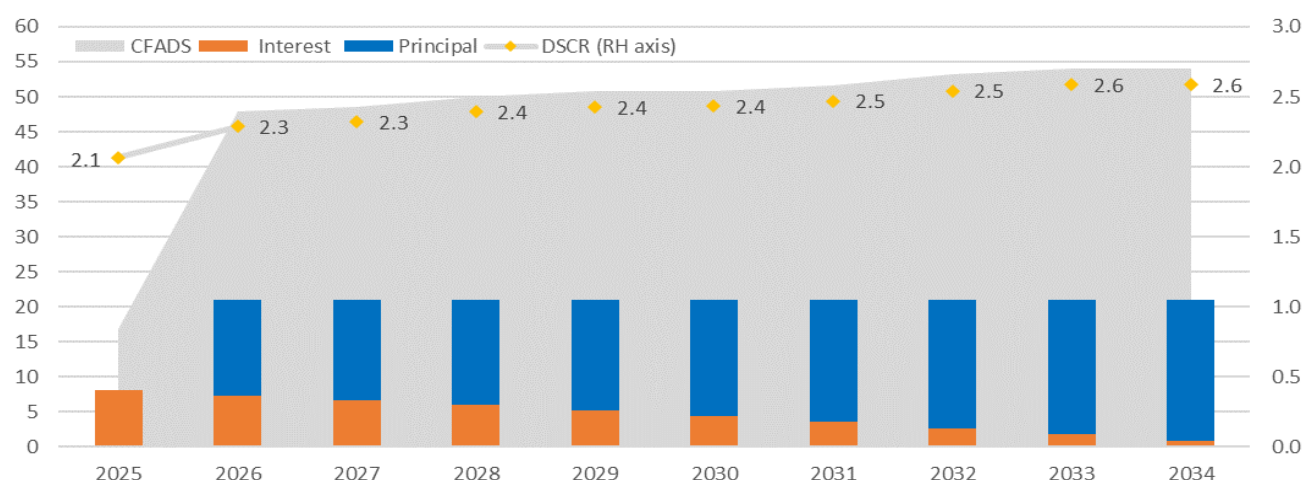
Source: EuroRating

In the years 2022-2024 Eleon Green will not generate any revenues, so the margin ratios for these years have not been calculated. In 2025 the company will commission first 10 wind turbines out of planned 28. Since 2026 all planned turbines will be commissioned.

Since 2025 both EBITDA margin and EBIT margin should remain at very high levels, which is typical for wind farms. The highest costs of wind farms are incurred at the stage of construction. Starting from 2025, the company will only incur operating expenses as G&A, energy balancing, insurance, maintenance and land lease, but these costs are relatively low compared to revenues.

The very high and stable margins should be assessed very positively, because even with a significant decrease in energy prices (well below the levels forecasted in the conservative scenario) the company will still continue to generate profits and positive cash flows. This is very important considering the length of the forecasted period and the lifetime of the issued bonds.

Chart 11. Eleon Green OÜ – forecasted cash flow available for debt service



Source: EuroRating

Cash flow available for debt service (CFADS) is the amount of cash available to service debt obligations due within one calendar year. These obligations include all current interest payments and principal repayment. Debt service coverage ratio (DSCR) is a measure of the ability of a company to use its operating income to repay all debt obligations in each year.

Eleon Green will be paying interest on 1 January and 1 July each year. However, they concern the 6 months before the date of payment. Therefore, when analysing CFADS and DSCR, the analysis is based on the period to which these interests actually refer to and in which the company must have necessary funds to repay them.

In 2023 and 2024 Eleon Green will only have to pay interest on bonds of €8.1 million annually. The money to pay off the bonds will come from the proceeds of the bond issue (€150 million). In these years, the company intends to spend €108 million on investments in wind farms.

In 2025 the company plans to have its first 10 turbines in operation and plans to generate a revenue of €17.4 million. During that year, the company also intends to pay only interest in the amount of €8.1 million. The DSCR ratio will amount to 2.1, which indicates there will be more than twice as much cash income as it is required to service debt that year. In that year the total value of fixed asset will increase to €132 million.

Since 2026 all 28 turbines should be operational and with the full operational capacity the company revenues should be slightly increasing (along with the expected increase of electricity prices) from €51.8 million in 2026 to €55.9 million in 2034.

From 2026 the company plans to repay the bond principal along with the interest. Although the value of the interest and the bond principal will fluctuate in 2026-2034, the total amount of the payment will remain at the same level of €20.9 million. This means that as cash flow available for debt service should be increasing, the DSCR ratio will also increase from 2.3 to 2.6. This indicates, that in those years the company on average will have more than twice as much cash as is needed to repay the total financial obligations under the bonds, which should be evaluated as a high and safe level and is a positive factor for the credit risk assessment of the company and of the bonds.

Table 5. Eleon Green OÜ – forecasted financing ratios

Financing ratio	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Total liabilities to assets	0.75	0.78	0.81	0.80	0.69	0.59	0.49	0.40	0.32	0.24	0.17	0.10	0.04
Equity financing	0.25	0.22	0.19	0.20	0.31	0.41	0.51	0.60	0.68	0.76	0.83	0.90	0.96
Stability of financing	1.00	1.00	1.00	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94	1.00

Source: EuroRating

As of the end of 2022 (assuming a full success of the planned €150 million bond issue) 68.1% of the total assets will be financed by the green bonds, 6.7% by the long-term commitment to the state and to the municipality (arising from a land use right), and the remaining 25.2% will be equity. In the next two years (2023-2024) the equity value is expected to decrease, because the company will not generate any revenues, but will have to bear the operating and financial costs. However, the share of equity will decrease only moderately – to 19% in 2024.

With the wind turbines in operation, since 2025 the company will begin to generate profits and positive cash flows. In the subsequent years the generated cash will be partially allocated to a repayment of the green bonds. The amount of liabilities and they share in the balance sheet total will be systematically decreasing and in the last year of the green bonds duration (2034) the company should finance its assets with 96% equity.

Obligations to the state and to the municipality will also decrease, but not significantly because these liabilities have been spread over 99 years.

The stability of financing ratio in the whole analysed period should remain at a very high level of 0.94-1. This is due to the fact, that in the initial period the company will be financed largely with long-term bonds and in later periods more and more with an increasing equity.

EuroRating assesses the planned increase in equity financing (ultimately to 0.96 in 2034) positively. EuroRating also positively assesses the very good financial stability of the investment project (assuming a successful bond issuance), as assets will be financed all the time almost fully by a long-term capital.

Table 6. Eleon Green OÜ – forecasted liquidity ratios

Liquidity ratio	2022-24	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Current liquidity	N/A	0.6	1.4	2.6	3.8	4.9	5.8	6.7	7.5	8.2	N/A
Quick ratio	N/A	0.6	1.4	2.6	3.8	4.9	5.8	6.7	7.5	8.2	N/A
Cash liquidity	N/A	0.6	1.4	2.6	3.8	4.9	5.8	6.7	7.5	8.2	N/A

Source: EuroRating

The vast majority of the company’s current assets in the future will be cash, which means that all liquidity ratios should have similar values. In the years 2022-2024 and 2034 the company does not plan to have short term liabilities, therefore the ratio could not be calculated. In 2025 (when the majority of wind turbines should be still under construction) the liquidity ratios should be still low. However, since 2026 (completion of the whole wind farm construction) the liquidity position of the company should significantly improve and in the subsequent years (with the increasing amount of cash accumulated) it will continue to strengthen further.

If the company successfully and without significant delays completes the construction of the wind farm, since 2026 it should generate much more cash than is needed to pay off the debt.

Table 7. Eleon Green OÜ – forecasted performance ratios

Performance ratio	2022-24	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Return on assets (ROA)	N/A	3%	16%	16%	16%	15%	15%	14%	14%	14%	14%
Return on equity (ROE)	N/A	16%	61%	43%	33%	27%	23%	20%	18%	16%	15%

Source: EuroRating

In 2022-2024 the company plans to build a wind farm and in these periods it will not generate profit, which means that the value of ROA and ROE for these periods will have a negative value.

In 2025 the first wind turbines will start operating and the company will generate its first profits. In 2026, the return on assets (ROA) should reach its highest expected level, and in the subsequent years should decrease slightly. A similar trend concerns the return on equity (ROE), but that ratio will decrease much faster, as the equity share in the balance sheet total will be increasing quickly.

Additional risk factors relating to the borrower

Construction risks

As renewable projects are capital-intensive, damage to assets can have a significant impact on overall costs. The construction phase is the most risky period of a project from this point of view: accidents are more likely to occur as wind turbines are hoisted into position. This risks here can be mitigated by effective project management, due diligence, and careful contracting, project developers generally seek insurance to cover further risks.

Operational risks

Following construction and commissioning, there remains a material risk of damage to physical assets as a result of accident, negligence, wear and tear, design flaws, or natural catastrophe during operation. It is fairly common for project owners or developers to buy insurance cover for these risks, so that their project's internal rate on return (IRR) is not adversely affected by having to replace components that have failed or been damaged.

Wind farm will be insured, currently Estonian Insurance Seesam – all regular risks (storm, vandalism, theft, fire, water etc.), on the recovery value.

The company believes that due to the subsidies, the expected risk of losing profits is extremely low. Therefore, insurance against loss of profits is only considered.

Weather risks

Wind projects depend on favourable weather conditions for their power outputs and therefore their revenues. The variability of the weather means that the volume of power is subject to variation over short and long timescales. The effect of long-term variability means that revenues of projects can vary year to year by around 15-20% for wind projects, depending on the region.

Power price changes risk

Variable renewables are at a disadvantage in the electricity markets as they cannot control when they generate power, unlike fossil fuel driven plants. An increase in the capacity of renewables on the grid will increase the day-ahead uncertainty of supply. Depending on the existing generators and grid infrastructure, and the timescales being considered, the power price may become more or less volatile as a result of adding renewables to the grid.

Policy risks

All energy projects are prone to policy risk, for example through losses incurred as a result of changes to energy markets. However, renewable project revenues currently depend on explicit policy support more than fossil fuel projects. Any unscheduled reductions in the level of financial support may impact financing arrangements and jeopardise investor confidence in the sector.

Key management risk

The company is dependent upon the services of a small number of key management personnel, who are highly skilled and experienced. The company's ability to manage its activities will depend in large part on the efforts of these individuals. The loss of the services of one or more of such key management personnel could have a material adverse effect on the company.

Additional risk factors relating to the bonds**General risks**

There can be no assurance that the issuer's investments will be successful, and that the holders of bonds will receive the full amounts payable by the issuer under the bonds or that they will receive any return on their investment in the bonds.

Dependence on Eleon Green OÜ operation

The ability of the Sustainable Capital PLC (the issuer) to meet its payment obligations under the notes will be significantly dependent on the financial results of Eleon Green OÜ (the borrower). The issuer is inherently exposed to risks arising from changes in the borrower's performance and the recoverability of secured assets.

Security may be declared invalid

The issuer will for the bond series grant security interests in favour of the trustee for the benefit of the bondholders in the issuer security pursuant to the trust deed and the issuer deed of charge. However, if the security interest of the trustee in the issuer security was determined to be invalid or unperfected, bondholders in such series would be unsecured creditors and would rank on a *pari passu* basis with other unsecured creditors (if any) of the issuer. Each of the foregoing factors may delay or reduce investors' return on their notes and investors may suffer a loss (including a total loss) on their investment.

Nature of the issuer

The issuer will have no material assets other than the issuer security and the rights contained therein. The issuer will not engage in any business activity other than entering into the transaction documents, the issuance of the notes, the acquisition and disposition of and investment and reinvestment in secured assets and cash or cash equivalents, certain activities conducted in connection with the payment of amounts in respect of the notes and the management of the issuer security, and other activities incidental or related to the foregoing. Income derived from the secured assets will be the issuer's principal source of cash.

Not intended as a complete investment program

Because of its specialised objective, the issuer will not generally invest in assets as diversified as other investment vehicles. Accordingly, the issuer's investments may be subject to more rapid change in value than would be the case if the issuer were required to maintain diversification among types of securities and other instruments and countries and industries.

The notes are not protected by the Financial Services Compensation Scheme

Unlike a bank deposit, the notes are not protected by the Financial Services Compensation Scheme or any other government savings or deposit protection scheme. As a result, the FSCS will not pay compensation to an investor in the notes upon the failure of the Issuer. If the issuer goes out of business or becomes insolvent, bondholders may lose all or part of their investment in the bonds.

Table 5. Eleon Green OÜ – forecasted revenues (€'000) – conservative scenario

P&L	2023-2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Turbines Installed	0	10	28	28	28	28	28	28	28	28	28
Capacity (MW)	0	34	95.2	95.2	95.2	95.2	95.2	95.2	95.2	95.2	95.2
Production (MWh)	0	112,200	314,160	314,160	314,160	314,160	314,160	314,160	314,160	314,160	314,160
Energy Price (€/MWh)	78	100.9	104.3	106.6	111.2	113.6	113.8	116.3	121.2	123.9	124.2
Subsidy Price (€/MWh)	53.7	53.7	53.7	53.7	53.7	53.7	53.7	53.7	53.7	53.7	53.7
Total Revenue	0	17,350,644	49,641,035	50,361,048	51,790,808	52,557,161	52,618,897	53,405,502	54,960,725	55,798,239	55,873,459
G&A	0	-40,800	-114,240	-114,240	-114,240	-114,240	-114,240	-114,240	-114,240	-114,240	-114,240
Energy Balancing	0	-168,300	-471,240	-471,240	-471,240	-471,240	-471,240	-471,240	-471,240	-471,240	-471,240
Insurance	0	-120,000	-336,000	-336,000	-336,000	-336,000	-336,000	-336,000	-336,000	-336,000	-336,000
Maintenance	0	-269,280	-753,984	-753,984	-753,984	-753,984	-753,984	-753,984	-753,984	-753,984	-753,984
Land lease	0	-51,000	-142,800	-142,800	-142,800	-142,800	-142,800	-142,800	-142,800	-142,800	-142,800
Total operating expenses	0	-649,380	-1,818,264	-1,818,264	-1,818,264	-1,818,264	-1,818,264	-1,818,264	-1,818,264	-1,818,264	-1,818,264
EBITDA	0	16,701,264	47,822,771	48,542,784	49,972,544	50,738,897	50,800,633	51,587,238	53,142,461	53,979,975	54,055,195
Total Debt Service	16,162,500	8,081,250	20,901,024	20,901,024	20,901,024	20,901,024	20,901,024	20,901,024	20,901,024	20,901,025	20,901,024
Interest 5,3875%	16,162,500	8,081,250	7,332,487	6,645,580	5,923,898	5,165,681	4,369,079	3,532,150	2,652,850	1,729,037	758,455
Principal			13,568,537	14,255,444	14,977,126	15,735,343	16,531,945	17,368,874	18,248,174	19,171,988	20,142,569
Cash Flow to Equity	-16,162,500	8,620,014	26,921,747	27,641,760	29,071,520	29,837,873	29,899,609	30,686,214	32,241,437	33,078,950	33,154,171

Source: Eleon Green OÜ financial forecasts

Table 12. Eleon Green OÜ – forecasted simplified balance sheet - assets (€'000) – conservative

Assets	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Cash	100,000	57,819	25,639	7,370	19,618	38,965	59,343	80,251	101,159	122,609	145,174	168,313	191,453
Prepayment for fixed assets under constr.	50,000	84,000	108,000	82,500	0	0	0	0	0	0	0	0	0
Fixed assets	0	0	0	49,500	138,600	127,710	123,090	118,470	113,850	109,230	104,610	99,990	95,370
Land (superficies)	70,323	69,552	68,781	66,746	61,355	66,854	66,084	65,313	64,542	63,772	63,001	62,230	61,459
Total assets	220,323	211,371	202,420	206,116	219,573	233,529	248,516	264,034	279,552	295,611	312,785	330,534	348,282

Source: Eleon Green OÜ financial forecasts

Table 13. Eleon Green OÜ – forecasted simplified balance sheet - liabilities (€'000) – conservative scenario

Liabilities	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Green bonds	150,000	150,000	150,000	150,000	136,686	122,638	107,813	92,170	75,663	58,244	39,863	20,467	0
Long term part	150,000	150,000	150,000	136,686	122,638	107,813	92,170	75,663	58,244	39,863	20,467	0	0
Short term part	0	0	0	13,314	14,049	14,825	15,643	16,507	17,419	18,381	19,396	20,467	0
Superficies 99 years (2015-2114)	14,797	14,697	14,598	14,490	14,350	14,210	14,071	13,931	13,791	13,651	13,511	13,371	13,231
Equity	55,526	46,674	37,822	41,626	68,536	96,681	126,633	157,933	190,098	223,716	259,411	296,695	335,051
Profit of prev. periods	55,911	55,526	46,674	37,822	41,626	68,536	96,681	126,633	157,933	190,098	223,716	259,411	296,695
Profit of the period	-385	-8,852	-8,852	3,804	26,910	28,145	29,951	31,301	32,165	33,618	35,695	37,284	38,356
Liabilities and equity	220,323	211,371	202,420	206,116	219,573	233,529	248,516	264,034	279,552	295,611	312,785	330,534	348,282

Source: Eleon Green OÜ financial forecasts

Rating scale applied by the EuroRating credit rating agency

Rating	Risk description
AAA	Negligible credit risk. Highest level of financial credibility. Rating assigned exclusively where an entity has extremely strong capacity to meet financial commitments.
AA+ AA AA-	Very low credit risk. Very high level of financial credibility. Very strong capacity to meet financial commitments. Low susceptibility to adverse economic conditions.
A+ A A-	Low credit risk. High financial credibility and capacity to meet financial commitments. Average resistance to long-term unfavourable economic financial conditions.
BBB+ BBB BBB-	Moderate credit risk. Good financial credibility and adequate capacity to meet financial commitments in the long term. Increased susceptibility to long-term adverse economic conditions.
BB+ BB BB-	Increased credit risk. Relatively lower financial credibility. Adequate capacity to meet financial commitments under average or favourable economic conditions. High or medium level of debt recovery in the event of default.
B+ B B-	High credit risk. Capability of meeting financial commitments largely conditioned on favourable external conditions. Medium or low level of debt recovery in case of a default.
CCC CC C	Very high credit risk. Very low capability to meet financial commitments even under favourable economic conditions. Low or very low level of debt recovery in case of a default.
D	Extremely high credit risk. Complete lack of capability to meet financial commitments. Without additional external support the level of debt recovery is very low or close to zero.

Full details on the rating scale applied by the EuroRating credit rating agency are published on the agency's website at: www.eurorating.com/en/ratings/rating-scale

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Methodology

The presented credit rating is a rating for a bond issue, i.e. it takes into account both: a general credit risk of the bond issuer (Sustainable Capital PLC) and the borrower (Eleon Green OÜ), as well as any bond collateral and/or guarantees, as an additional protection for the bondholders.

The presented credit rating does not relate to the credit risk (or probability of default) of the bond issuer. The rating concerns the risk of an ultimate loss of a part or all of the secured bonds' principal amount and the interest by the bondholders in the event of a default of the bond issuer.

The methodology used for this rating is available on the EuroRating's website at:

<https://www.eurorating.com/en/ratings/methodology/credit-risk-assessment-methodology>

The rating definitions and the rating scale used by EuroRating are published on the agency's website at:

<https://www.eurorating.com/en/ratings/rating-scale>

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EuroRating's definition of default as well as definitions of rating notations can be found in the agency's website at: <http://www.eurorating.com/en/ratings/methodology/definition-of-default>

Public status of the assigned credit rating for the bond issue

The presented credit rating for the bond issue of Sustainable Capital PLC is a public rating. The date of the first publication of the rating, the current rating level and the full rating history are published free of charge on the EuroRating credit rating agency website in the section "Credit ratings", in the appropriate tab on the rated security/entity. EuroRating is not responsible for information on the current rating provided by the rated entity or any third party.

Solicitation, key sources and quality of information

The presented credit rating was solicited by the bond issuer – Sustainable Capital PLC. EuroRating received remuneration for the assigning and subsequent monitoring of the rating. The bond issuer and/or its agents have participated in the rating process by providing the EuroRating credit rating agency documents, data, information and explanations concerning its economic and financial situation of the bond Issuer, of the borrower, as well as on the assessed bond issue.

The main sources of information used in the rating process were financial statements and forecasts of the bond issuer and of the borrower (Eleon Green OÜ), the bond memorandum ("Listing particulars") and other data, information and explanations provided by the bond issuer and/or its agents.

Prior to the final issuance of the credit rating, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds on which the credit rating and/or outlook is based. The rated entity submitted to EuroRating a new up-to-date (as of the end of May 2022) financial report of the borrower, which included the recent assets value growth and a significant change of the company's financial structure. After analysing the new data and information received from the rated entity, the Rating Committee verified its previous decision on the assignment to the company a credit rating for the issuer at the level of 'BBB-' and ultimately changed the assigned credit rating to 'BBB+'.

Key rating assumptions

Sustainable Capital PLC is a special purpose vehicle and was established for a specific purpose – to raise funds for the company Eleon Green OÜ, which intends to invest in wind farm project.

The issuer is a company with little financial history and in addition its credit risk will depend on the financial condition and the credit risk of the borrower, which will receive the proceeds from bonds – Eleon Green OÜ. Therefore, the credit risk analysis of the issuer was to a large extent based on the analysis of the borrower.

As the borrower plans to invest the proceeds from bonds in construction of wind farm, which should completely change its financial situation as compared to the situation before the bond issue, the analysis and the assigned credit rating are based both on the historical and current financial situation of the borrower, as well as on its forecasts for the future.

EuroRating considers the scope and quality of available information on the rated entity (and related parties – including in particular the borrower), as well as on the bond issue, as sufficient to issue a reliable credit rating. EuroRating takes all necessary measures to ensure that obtained information used in the rating process is of proper quality and is derived from sources deemed by the agency as reliable. Nevertheless, EuroRating does not have a possibility to verify or to confirm in each case the correctness and authenticity of obtained data and information used in the rating process and/or presented in this report.

The credit rating for the bond issue of Sustainable Capital PLC was issued by EuroRating with the basic assumption that the bond issue will ultimately be carried out successfully (otherwise the company will have much smaller assets and the planned investment project could not be carried out in accordance with the assumptions adopted in the rating, and therefore the assigned credit rating for the issuer would not be applicable).

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