

ANNUAL REPORT

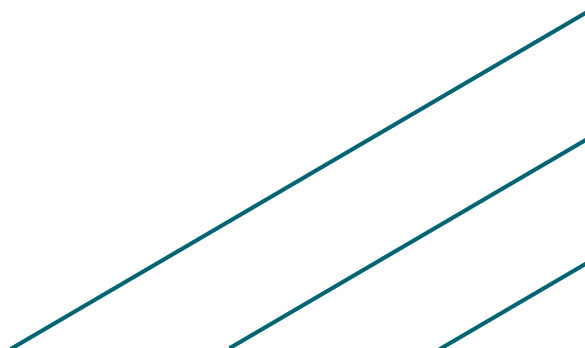




Legal address:	Kadaka tee 42, 12915 Tallinn, Eesti
Estonian Commercial Register code:	11022625
Telephone:	+372 715 1222
Fax:	+372 715 1200
E-mail:	info@elering.ee
Internet homepage:	www.elering.ee
Main activity:	Electricity and gas transmission
Chairman of the Management Board:	Taavi Veskimägi
Owner:	The Republic of Estonia
Auditor:	AS PricewaterhouseCoopers

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STATEMENT BY THE CHAIRMAN OF THE MANAGEMENT BOARD





TAAVI VESKIMÄGI,
Chairman of the Management Board

Statement by the Chairman of the Management Board

Value-based choices in energy policy

As always, we are living in unprecedentedly unpredictable times. However, for specialists in the energy sector, the key factor differing from regular unforeseeable future right now is the fact that due to high energy prices, discussions regarding the future of the energy sector have become the focal point of the public debate. The worry in society is absolutely justified. The energy system will definitely be in a rather tense situation in the subsequent years, but Elering is closely monitoring the situation and is prepared to immediately implement the measures required for ensuring the security of supply of consumers.

Impact of the increase in the price of network losses

The changes in the electricity market in 2021 directly affected the economic activities of Elering. Elering is the biggest electricity consumer in Esto-

nia as it purchases nearly 400 GWh electricity for compensating the physical losses arising from the supply of electricity to consumers which is twice the amount that the second biggest consumer in Estonia purchases. Expenses on network losses are the highest item of expenditure in Elering's budget. While Elering spent 12.2 million euros throughout 2020 on the purchase of electricity for covering physical network losses related to electricity transmission, 38 million euros were needed for compensating the purchase of the electricity required for compensating network losses in 2021. In Estonia, network charges are cost-based and therefore, when expenses on the transmission of electricity increase, it means higher network charges for covering these expenses. Elering has no other financing sources for covering the expenses related to network activities in addition to the network charge.

Excellent reliability of the transmission network

Strategic discussions concerning the future of the energy sector can be held as long as the lights are on and homes are kept warm. Should one or the other fail, discussions on whether electricity is cheap or expensive and whether it should be produced from renewable sources or fossil fuels are temporarily hindered. The question of how to get the lights on and keep homes warm will instantly become the focus question. We are therefore proud that no failures occurred in the transmission network administered by Elering that would have caused a hazard to the functioning of the electricity system as a whole last year. Only the electricity amounting to the consumption of a couple of private homes was not supplied to customers compared to the 7.8 million MWh supplied throughout the year. This means that the reliability of Elering's network was 99.9998 percent.

I would like to extend my thanks to all colleagues at Elering who deal with network management and whose daily hard work at administering the electricity network ensured this excellent result.

The amount of energy not supplied has been decreasing throughout the period of Elering's operation. The average energy not supplied in the last 10 years amounts to 61.7 MWh per year. This indicates that the programme launched more than 10 years ago for preventing failures causing power outages has provided clear results.

Likewise, we were able to maintain the operation of the Estonian-Finnish interconnections at an excellent level. EstLink 2 was available for 99.79 percent of all the hours in the year in 2021, which is the highest reliability indicator of the interconnection in history. The earlier interconnection, EstLink 1, was available for 98.12 percent of all hours throughout the year, which means that its reliability was also close to its historical peak.

Connection to the electricity system of Continental Europe is on schedule

More than 10 years ago, we commenced the project for separating the electricity system of the Baltics from Russia and for creating the capacity for independently operating our electricity system. It took many years to convince society, politicians and our neighbours in order to implement this costly project. Today, we are glad to have gone through this 10-year period of time for developing the electricity and gas infrastructure and markets of the region, which has already largely rendered us independent of Russia by now. In the current geopolitical situation, the priority number one for the Estonian energy sector is to continue developing the capacity of frequency management by Estonia and the Baltics in our electricity system that is

independent of Russia. The capacity for frequency management independent of Russia provides us an additional energy security guarantee to be prepared for difficult situations. The preparations of the Baltics for leaving the Russian electricity system as of 1 January 2026 are currently being made according to the agreed plan both in terms of the schedule and the budget.

In 2021, an important step in the synchronisation project was guaranteeing financing in a manner to ensure that investments in synchronisation would not mean additional expenses for Estonian electricity consumers. In addition to financing the previous stages, the European Commission allocated 170 million euros from the Connecting Europe Facility to the Baltics and to Poland for implementing the final stage of investments in synchronisation with the Continental Europe frequency area. The European Commission had previously allocated 196 million euros to Elering in two financing stages for the investments required for synchronisation. The total cost of the projects in Estonia is approximately 300 million euros. The majority of the funds are spent on renewing the transmission lines beginning in north-eastern Estonia leading to Latvia via Tartu and Valga, and for building three synchronising compressors at Viru, Püssi and Kiisa substations, with work already ongoing or in the planning stage.

Focus on the security of supply

Elering's objective is to ensure the security of supply of energy for Estonian consumers in a climate neutral manner and therefore support the competitiveness of Estonian economy. Firstly, the security of supply of consumers must be ensured to keep the lights on and homes warm. This must be done in a climate neutral manner by avoiding CO₂ emissions when producing the energy required for ensuring the security of supply. And

it must be ensured that the security of supply achieved in a climate neutral manner would create additional jobs and economic welfare for the Estonian society.

When ensuring the security of supply, Elering proceeds from the positions set out below

First off, we must consider the technical security of supply. The security of supply of consumers must be viewed in conjunction of local production and cross-border connections, excluding Russia and Belarus. The current Estonian peak consumption is approximately 1,600 MW, and the annual consumption is nearly 8.5 TWh. The consumption of electricity will increase in the following decades, yet the peak consumption will increase at a limited level thanks to the development of technologies for consumption management and storage, which allows for shifting the use of the produced energy over time. We anticipate that the electricity required for covering the consumption is available via the functioning electricity exchange. However, should it become apparent that we have the issue of production not covering consumption in the next 10 years, we will implement a prepared strategic reserve as a rapid solution that covers the existence of at least 1,000 MW of deployable production capacity in Estonia.

Secondly, we must consider ensuring the security of supply in a climate neutral manner. The energy sector is the biggest (globally more than 70%) creator of the ecological footprint and without making changes to the energy sector, we will not be able to achieve the objective of the Paris Agreement of keeping the global rise in temperature below two degrees Celsius. When reducing the carbon footprint in the Estonian electricity production portfolio, we are focusing on five di-

rections: development of distributed generation; large-scale offshore production; management of storage and consumption; energy savings; decarbonisation of the fuel and transport sectors.

The interest in joining the power grid with production capacities free of greenhouse gas emissions was explosive in 2021. As of the end of the year, there were requests from producers for joining the power grid to the extent of nearly 8,375 MW of which there was a valid network contract for 3,152 MW of capacity, with 5,223 MW of capacity undergoing the connection process. In comparison, the all-time peak consumption in the Estonian electricity system is 1,587 MW.

Thirdly, we must consider climate neutral security of supply as a part of the economic policy.

We must keep the lights on and homes warm in a climate neutral manner that does not reduce the well-being of Estonian people but rather increases it. Climate change must be seen as an opportunity to enter the global market with new technologies and business models. The focal idea is to see the decarbonisation of the energy sector as an opportunity rather than a threat. There are plenty of companies and entrepreneurial people in Estonia who are able to create new jobs and economic welfare in Estonia based on the trend of decarbonisation, for example Elcogen, Skeleton, PowerUp, Gridio, Fusebox, Energiasalv, and many others.

Taavi Veskimägi
Chairman of the Management Board

MANAGEMENT REPORT

FROM ELERING'S MISSION TO STRATEGIC GOALS



The access to electricity has become a right in society. The lack of electricity has an impact on a large part of the Estonian society, including on the functioning of vital services. Elering's mission as the electricity and gas system operator is **"keeping the rooms bright and warm in Estonia"**. At all times and in any situation.

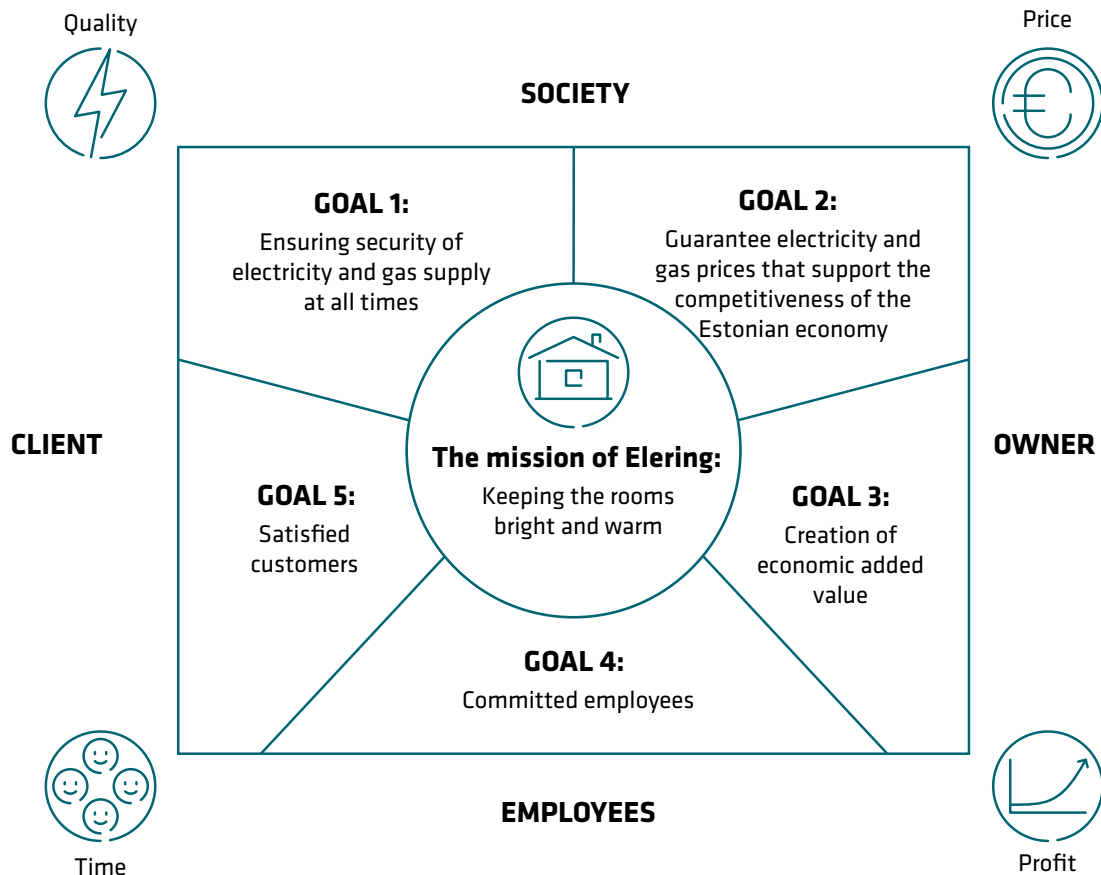
Rapidly changing environment is setting massive challenges to us in coping with the increasingly faster climate change, whilst ensuring safety in the current geopolitical situation.

Our vision in Elering is to have **"SECURITY OF SUPPLY in a climate neutral manner and therefore support the competitiveness of the Estonian economy"**.

Our main mission is to guarantee security of supply to Estonian consumers at all times, to synchronise Estonia with the power system of Continental European by 2026 whilst maintaining a reliable electricity supply during the transition period, which is the most important step to ensure continuous security of supply for Estonian consumers.

At the same time, we will help Estonia and the wider EU community achieve the 2030, 2035 and 2050 climate policy targets, keeping in mind the competitiveness of the Estonian economy.

As we work towards the achievement of our mission and implementation of our vision, it's necessary to find a balance between the interests of various stakeholders: **society, clients, employees and the owner**. Therefore, we've set five strategic goals for Elering.



Goal 1: Ensuring security of electricity and gas supply at all times

The value chain of security of supply consists of four pillars of system capability: control, network, system and digital. In order to efficiently manage and develop these capabilities, we've set ourselves **the objective of ensuring a well-functioning power and gas transmission network** before 2025. In the power system, our goal has been to keep the ten-year average level of electricity not served on a downward trend. We want to keep this indicator at the lower level than 120 MWh/year in 2025.

For society and consumers it does not matter whether the energy not served is related to a breakdown of equipment, a failure in the operation of the system, a shortage of capacities or a cyber-attack. As a result of climate policy, electricity plays an increasingly important role as an energy carrier. More production and consumption equipment of rapidly changing character is added to the energy system, also new participants join the energy system, which makes the management, control and protection of the system more complicated. Thus, the achievement of this strategic goal requires the use of new technologies as well as smarter and more efficient solutions.

We keep developing a risk- and condition-based asset management solution to manage assets more efficiently. Thus we systematically collect and aggregate data on Elering's assets, which we use to make the necessary management decisions. High-quality condition-based information helps to reduce the number of breakdowns and the time it takes to fix them. Secure and controlled management of versions, configurations and settings on devices reduces the possibility of

cyber attacks and human error. For this purpose, we're improving our work processes and develop a solution where information is centralised and configuration management is systematic and controlled. In 2021, we conducted an analysis of the implementation of risk and condition-based asset management and created the technical concept for the implementation of a centralised risk and condition-based Equipment Register to ensure timely investments in the right equipment.

In 2021, we managed to bring the 10-year average of energy not served of the transmission system to its historically lowest level. The 10-year average energy not served fell from 136 megawatt-hours to 61.7 megawatt-hours. Energy not served in 2021 only amounted to 13.8 megawatt-hours (10.6 megawatt-hours in 2020). Approximately 7.8 million megawatt-hours of energy was transmitted during the year, **which means that the reliability of Elering's network in 2021 was 99.9998 percent.**

In the gas system, energy not served in the transmission network has remained at the level of **0 megawatt-hours** (2020: 0 megawatt-hours) and our goal is to maintain the achieved level. Achieving a high level of security of supply is possible thanks to correct maintenance and investment decisions. We implement more new solutions to ensure that operation, maintenance and investment decisions are more based on information on the condition of individual devices and their impact on the entire network.

In order to ensure the continuity of a vital service, the functioning of the electricity market and the security of Elering's internal information, given the public attention related to synchronisation, the changing market organisation due to climate policy (more controlled devices, more parties ex-

changing data) and the general increase in digitalisation of business processes, we need to ensure that the cyber security of Elering is systemic. In 2021, we carried out the following major actions to improve cyber security.

- Security testing of the SCADA control system, which tested the possibility of an attacker to disrupt the system by manipulating parameters or by attacks against the computer network.
- Acquisition of a security incident management system to improve Elering's capability to detect potentially dangerous activities, to investigate suspicious incidents in IT systems in greater detail and to respond faster to anomalies and potential attacks.
- ENTSO-E audit of the security requirements for data exchange, during which ENTSO-E audited European system administrators for the first time to ensure the security of pan-European data exchange.
- Developing a security testing strategy, on the basis of which we will systematically test many of Elering's online services open to the outside world.
- Development of security requirements for the future software architecture of the control centre and security requirements for the SCADA control system.

Synchronisation of the Baltic States with the Continental European frequency area

One of the biggest risks in ensuring security of supply is the exceptional separation of the Baltic States to the synchronous area, which arises from the developments in the Russian unified power system (IPS/UPS) and the current geopolitical sit-

uation. In order to reduce this risk and ensure the stability and reliability of the power system, we carry out developments to synchronise **the power system of the Baltic States with the Continental European frequency area by 2026.**

We develop a stronger capacity of the Baltic synchronisation area within the scope of the synchronisation project. We already have the capacity to cope with the unexpected islanding of the Baltic States. However, currently automatic restriction of consumers must be applied on a short-term basis in case major breakdowns would occur if island mode of operation would happen.. Additional developments and measures will help us achieve the capability for long-term synchronous operation in an N-1 (switch-off of any one element) situation without restricting consumers automatically.



One of the important milestones in the synchronisation project in Estonia was accomplished in June, when Elering signed the last of four major infrastructure contracts for the synchronisation project. A 55.9-million-euro contract was entered into with Leonhard Weiss and Empower for the full renovation of the 330 kV high-voltage line between Tsirguliina and Viru substations. The length of the

Tsirguliina-Viru overhead line to be renovated is 244 kilometres and the leads in the lines will be supported by 722 pylons. The line will pass through 12 municipalities in four counties. The route of the line will remain the same and the new pylons will be erected in the current locations. Use of the existing line corridor for the renovation of the given connections is the solution that will pose the fewest socioeconomic and environmental impacts.

In 2020, we carried out procurements and entered into contracts for the renovation of the Baltic-Tartu and Tartu-Valmiera lines. In 2021, the construction projects for these lines were completed and renovation work started on the Baltic-Tartu line. The completion and energisation of these lines has been planned for 2023.

After joining the Continental European frequency area, the Baltic States will be subject to the technical requirements for the operation of the electricity network and the assessment of network stability, which will require TSOs to extend existing or create new control systems. In order to ensure a stable network service, it's necessary to implement a frequency management procedure in line with Continental European principles, to assess the different indicators of stability of the electricity system, to ensure a high quality data exchange between new and existing systems and to upgrade the forecasting systems for both network status and external indicators. Modern control systems are needed to complement these functions. Existing control systems are upgraded and new ones will be procured between 2021 and 2024. Elering will take over frequency control after synchronisation with Continental Europe.

An extremely important measure in synchronisation is the existence of sufficient inertia, which ensures the stability of the system in the event of

breakdowns and the maintenance of better stability of frequency in the ordinary situation.

In order to synchronise the power system of the Baltic States with the Continental European power system, it is necessary to ensure that there is an adequate quantity (17,100 MWs) of inertia in the system of the Baltic States at all times. Baltic system administrators will install a total of nine synchronous compensators throughout the Baltic States. In 2020, we carried out the procurement and entered into the contract for the construction of a synchronous compensator at Viru, Püssi and Kiisa 330 kilovolt substations. The total value of the joint tender of Siemens Energy Oy Estonia branch and Siemens Energy Global is 83.5 million euros. The equipment will be built in the German plant of Siemens Energy Global. In 2021, we completed the preparatory works for the Püssi, Kiisa and Viru synchronous compensators and started the construction of the Püssi synchronous compensator.



In 2020, we started developing the framework for the market for system services and in 2021 we carried out public consultations on the pre-qualification process and requirements for generating equipment in respect of frequency maintenance reserves, manual and automatic frequency restoration reserves. The respective capacities will be implemented and developed in the Baltic States according to the Continental European frequency reserve principles and the capacity for local voltage optimisation will be created. The existing optimisation systems will be updated and additional optimisation systems will also be implemented in order to meet the requirements of Continental European frequency areas. This will allow us to procure fast emergency reserves through the existing direct current submarine cables between the Baltic States and the Nordic countries as well as through the cable to be established between Lithuania and Poland.

Capacity of the energy system

The ambitious climate policy objectives of the European Union and European countries and the electricity prices in late 2021 have made the adequacy of the energy system an increasingly more important issue from the viewpoint of security of supply. Where will electricity be generated in the future if the carbon-intensive production capacities with a flexible scope of regulation and a generation cycle that can be planned are pushed out of the market because of climate policy? We believe that well-functioning markets continue to ensure the cheapest and the best system adequacy. The market guarantees that the best technologies, for which there is a demand and which are also permitted by environmental restrictions, are developed and invested in. Thus, the primary task of achieving system adequacy is to ensure a transparent and well-functioning market organisation and platforms.

The goal we've set ourselves is **that the Estonian standard for security of electricity supply is met at all times over a three-year horizon**. We've regularly analysed the adequacy of the energy system in cooperation with Entso-E and other European system administrators. **The analysis for 2021 indicates that according to the best knowledge available today, Estonia will have no problems with the adequacy of the energy system until 2030.** We analyse and assess the security of supply every year, as the market environment of the energy sector is changing rapidly due to the climate policy. In order to be able to respond quickly to these changes, we have prepared and carried out a public consultation on the concept of a strategic reserve in 2021. If a future analysis of the security of supply shows that the security of supply standard has not been reached, we will be ready to implement a strategic reserve.

The hourly electricity price in Estonia reached the level of €1,000/MWh as a result of the events occurred in the electricity system in December 2021. High CO₂ and gas and coal prices driven by the rapid recovery of the economy from the coronavirus pandemic caused the increase of the electricity prices. It was exacerbated by several simultaneous events in the region, the occurrence of one or two of which would not lead to very high prices. As a result of unusually cold weather conditions in the beginning of December, the peak consumption reached 1,552 MW (usually around 1,400 MW). At the same time, the largest electricity generating plants in each of the Baltic States was under repair: Auvere PP 272 MW in Estonia, one unit of the CHP2 443 MW in Latvia and 9th block of the Lithuanian PP445 MW in Lithuania. Due to Lithuania's initiative in the direction of Belarus, trade with Russia was limited at the Latvian border, with an average transmission capacity of ca 123 MW (570 MW in the same period in 2020).

Today, we can admit that the market has worked exactly as it was designed to. In the situation of system stress, the electricity price sends the right signal to consumers and contributes to system control through behaviour. In such situations of system stress, the generation assets owned by TSOs play an important role keeping the electricity system operational – the emergency reserves of the Baltic TSOs and the Finnish-Swedish strategic reserves and contingency reserves. System capacity in 2021 had sufficient reserves to ensure that no consumers were under-loaded in the Estonian electricity system in 2021 for system management purposes..

Estonian power system is attractive to generation and storage capacities

It's important to us that **the Estonian power system is attractive to generation and storage capacities in order to make the energy system climate neutral**. The European Union has set itself the goal of becoming climate neutral by 2050 and our neighbouring country, Finland, with whom we are strongly integrated in terms of electricity and gas systems and markets, wants to achieve the same objective by 2035. We will create solutions and cooperate with our neighbours so we can offer a competitive environment for the generation of new production capacities.

Historically, electricity in Estonia has mainly been generated in Ida-Viru County. The locations suitable for renewable energy generation equipment (wind farms, solar power plants) can be found throughout Estonia, but the most attractive places for wind capacities can primarily be found in Western Estonia due to wind conditions. The third Estonian-Latvian 330-kilvolt electricity connection Harku-Lihula-Sindi, which started operating on 1 January 2021, was one of the important pre-

requisites for opening also Western Estonia for a larger volume of electricity production.

In order to improve the situation, investments related to increasing the capacity of the existing overhead transmission lines in the 110-330 kV network will be made and the 110 kV network will be more strongly connected to the 330 kV transit network. This helps to increase the capacity and reliability of the network, renew the ageing network, eliminate bottlenecks and increase the storm resilience in areas of high winds.

In 2021 we applied for a grant under the EU Recovery and Resilience Facility (RRF) to increase the capacity to integrate renewable energy production into the grid in Western Estonia. Ursula von der Leyen, President of the European Commission, approved the recovery and resilience plan of Estonia on 5th October 2021.

The total cost of the Elering network development investments in the given plan is €68.8 million, with the share of support being €30 million. Investment support is granted to the transmission system operator as non-refundable aid. As non-refundable aid is not included in the calculation of network charges, the pressure to increase network charges is reduced. The investments will benefit the owners of the renewable energy generating facilities to be connected to the grid. We already started the necessary preliminary activities for the implementation of the investments in 2021 and the final deadline of the work pursuant to the requirements of the RRF is July 2026.

The impact of these investments on the increase of generation capacities will be available from January 2022 through the e-Gridmap solution, which is unique in the region, where investors will be able to get the cost-based price of the initial

connection to the electricity system at different substations within seconds. In order to facilitate a fast connection process, we've developed a solution where we can build a standard connection point in 18 months. We've also developed a connection solution with flexible capacity in order to make possible connection cheaper and more attractive to investors.

We can see that offshore wind farms represent one of the biggest potentials and resources in Estonia for the emergence of large-scale climate neutral production capacities. One of the challenges in using the potential of offshore wind farms is connecting the production capacities located at sea to the energy network. In late 2020, we entered into a joint declaration of intent with TSOs in the Baltic Sea region to launch the Baltic Offshore Grid Initiative. The objective of the cooperation is to develop the concept of the Baltic grid and to carry out preliminary feasibility analyses. The terms of reference for these analyses were agreed in 2021.

The objective and obligation in cooperation with AST, the Latvian TSO, is to plan and build additional transmission capacities between Estonia and Latvia. In order to analyse the feasibility of an Estonian-Latvian IV connection, we signed a cooperation agreement on 28 April 2021 to carry out preliminary studies. In 2021, we provided joint input to the pan-European TYNDP 2022 (The 10-Year Network Development Plan) process to identify the socio-economic benefits of the new connection.

As previously stated, Finland has set itself the ambitious goal of achieving climate neutrality by 2035. As a result, we can already see a major connection of wind generation capacities to the network in the Nordic countries in the next 10 years,

which in turn is expected to lead to an increase in hours with price differences at the Estonian-Finnish border. In order to assess whether the price differences are sufficient to create the third Estonian-Finnish transmission link, we submitted the third Estonian-Finnish connection to the TYNDP 2022 development plan process in cooperation with the Finnish transmission system operator Fingrid in 2021. In the framework of TYNDP 2022, we will carry out calculations of the socio-economic feasibility of the third Estonia-Finland power connection, which is also a prerequisite for the implementation of the project. The Estonia-Latvia and Estonian-Finland maritime links would increase the export potential of the generation and storage capacities to be built in Estonia.



Goal 2: Guarantee electricity and gas prices that support the competitiveness of the Estonian economy

As the system operator of the power grid and gas network, we can contribute to the price of electricity and gas through three parameters

Cross-border capacities must operate to the maximum in order to equalise the electricity price level with the Baltic Sea countries

It's important to ensure the highest possible usage of the existing cross-border capacities in order to ensure that the electricity and gas price in the Estonian price region would be as similar as possible to the price in Baltic Sea countries. We make sure that we can keep the capacities in operation as much as possible during the bottleneck hours. It's good to admit that we've managed to keep the reliability of DC connections one of the



highest in Europe in cooperation with the Finnish power system operator. In 2021, we managed to guarantee one of the all-time highest **EstLink 2 (650 MW) reliabilities at 99.8%** and **the reliability of EstLink 1 (350 MW) was 98.1** (2020: the reliability of EstLink 2 was 97.4% and the reliability of EstLink 1 was 97.5%) and the connections worked at maximum capacity for 41% of the time (2020: 30% of the time).

Thin power grid

Another important aspect is to make the power grid 'thinner' which helps to keep the transmission network tariff under control. Our long-term goal is that our replacement investments for five years are smaller than the depreciation of the regulated assets over the next five years. This goal has a long-term impact. As at the same time the decrease in energy not served must be maintained, we have to find solutions and technologies in the operation of the grid that are more efficient and innovative than the present ones.

In 2021, we prepared and submitted to the Competition Board for processing the methodology of the capacity-based tariff component, as the transmission network is becoming increasingly more and more responsible for ensuring the availability of energy and the reliability of the system due to the development of distribution production. As a result, clearer input on customer capacity is also needed for long-term planning of developments. A tariff based on the capacity component would provide a clear input on where the network must be strengthened and where it should be made thinner in the long term.

A positive example of the optimisation of investments is also the fact that we've essentially managed to develop the synchronisation project in

such a manner that the investments required for synchronisation will not bring about an increase in the electricity network tariff. Elering finances three-quarters of the construction costs from the European CF and one-quarter from congestion income. The project for synchronisation with the power system of Continental Europe will cost Estonia approximately €300 million, the majority of which will be covered from European Union co-financing. In October 2021, we submitted a grant application for €170 million to the Connecting Europe Facility (CEF) for the last synchronisation project with the power system operators of four countries – Estonia, Latvia, Lithuania and Poland. The application received a positive funding decision at the maximum rate among the five most important EU infrastructure projects to be implemented between 2021 and 2027. Elering will use the funding from the last support round to modernise the control and information systems of the Estonian electricity system, which includes the construction of a reserve control centre and the upgrading of the control systems of the EstLink direct current connectionst.

Highly competitive energy market

The third aspect of ensuring a competitive energy price is the development of a well-functioning market and platforms that would promote the biggest possible competition and ensure a competition market with many participants. In the long run as a result of climate policy goals, different energy carriers should compete with each other. For this purpose, we develop digital solutions for system services, flexibility services, certificates of origin of renewable energy and market platforms of flexibility products as well as energy data solutions that would make it easier to harmonise the rules and data exchange of regional reserve, wholesale and retail markets.

We are introducing a new data exchange platform Estfeed as a digital solution to exchange data on the electricity and gas markets for an open replacement of suppliers, transmit metering data and perform the obligations and guarantee the rights given to market participants by law. The digital platform will bring together electricity and gas companies to ensure that their business processes work. At Elering, the whole solution of energy data will be brought under the Estfeed brand to avoid duplication and guarantee compliance with data protection and data security requirements.

Preliminary analyses were carried out in 2021 with the aim of introducing the Estfeed data exchange platform by 2024 with the following scope:

- We develop new electricity and gas market data warehouses that ensure a fast and efficient process for exchanging sellers on retail markets;
- We develop an energy statistics module to allow for detailed analysis of generation and consumption in the system;
- We develop a solution for open energy data that will enable the provision of pre-calculated energy data for public use and also transfer data.

Elering manages the information system for verifying the origin of renewable energy and paying subsidies in Estonia. We help to bring new renewable energy-based technologies and generation capacity to the market in the most efficient way for society. We promote market-based energy carriers and cross-sectoral competitive solutions involving both suppliers and end-consumers. We focus on regional and pan-European markets. In 2021, we completed the digital and cross-sectoral solution created for producers to certify the origin of energy and trade in renew-

able energy, which facilitates the market entry of new technologies and renewable generation capacities.

Goal 3: Creation of economic value added

Every owner expects the capital invested in their company to generate value according to the established goals. Elering is one of the largest electricity consumers in Estonia through electricity losses. The current tariff methodology established by the Competition Board does not allow Elering to fix the electricity price for a long period, which means that the market price of electricity has a direct and strong impact on Elering's financial performance for 2021. 2021 was a difficult year for financial performance due to high electricity prices. The operating profit of Elering in 2021 was €9.0 million (2020: €32.6 million). The impact of the electricity price on the 2021 profit compared to the 2020 profit was €26.2 million. In late 2021, the Estonian Competition Authority approved a new tariff for Elering, which reduces the impact arising from the electricity prices somewhat and enters into force starting from 1 April 2022.

From the viewpoint of economic value added, long-term developments in the gas system are definitely important. Currently the development of the gas network is affected by climate policy goals more than ever. Green gases will certainly be a part of the renewable energy circulation system, including in energy transmission, storage and conversion from gas to electricity and vice versa. The challenge to maintain a balance between power consumption and generation, which brings about the need for a stronger integration of the whole energy system, i.e. the electricity, gas, hydrogen and transport

sector, and the need for storage of electricity, will increase in relation to the increase in the share of inverter-based renewable energy. **The addition of non-controllable production and closure of ordinary power plants requires greater capacity for storing energy so that the energy system can be safely managed.** The main challenge in the integration of the presumably installed wind energy in 2030+ is the need to apply seasonal flexibility on a large scale. The existing gas infrastructure has the potential to play an important role in the fully climate neutral power system, as it may offer possibilities for transportation of synthetic gases and hydrogen to power plants that can be rapidly launched. Thus, the challenge is how to make the gas infrastructure usable for green gases. We are currently in a situation where we don't have enough knowledge of technologies, the applicability of different green gases in the gas network and in equipment of end-consumers as well as possible solutions for transferring to various green gases. In 2021, we will analyse the long-term usability of gas in the Estonian gas network and we're initiating regional surveys in cooperation with regional system administrators. We're currently only making unavoidable investments in order to maintain the level of security of supply of the gas network until we've ascertained how we can regionally switch to green fuels with the gas system.

Goal 4: Committed employees

Keeping and finding talent is increasingly more difficult under the pressure of the generally low unemployment rate and payroll. Therefore, a strong team spirit and a good work culture are important for keeping our existing people, achieving the ambitious goals set for the next five years and managing changes in the energy system. Committed

employees are more content with their work and contribute more. We understand that managing the commitment of our employees is important and it has real consequences for the achievement of Elering's mission. Every year, we conduct a commitment survey and we've set ourselves the goal of keeping the company's commitment index at over 70%. In 2021, the commitment index of our people was 81% (2020: 87%). Similar to 2020, the biggest challenges in 2021 were related to the COVID-19 crisis. However, we managed to keep the focus on improving the skills and management quality of middle-level managers and maintaining a common culture during this difficult time.

Goal 5: Customer satisfaction

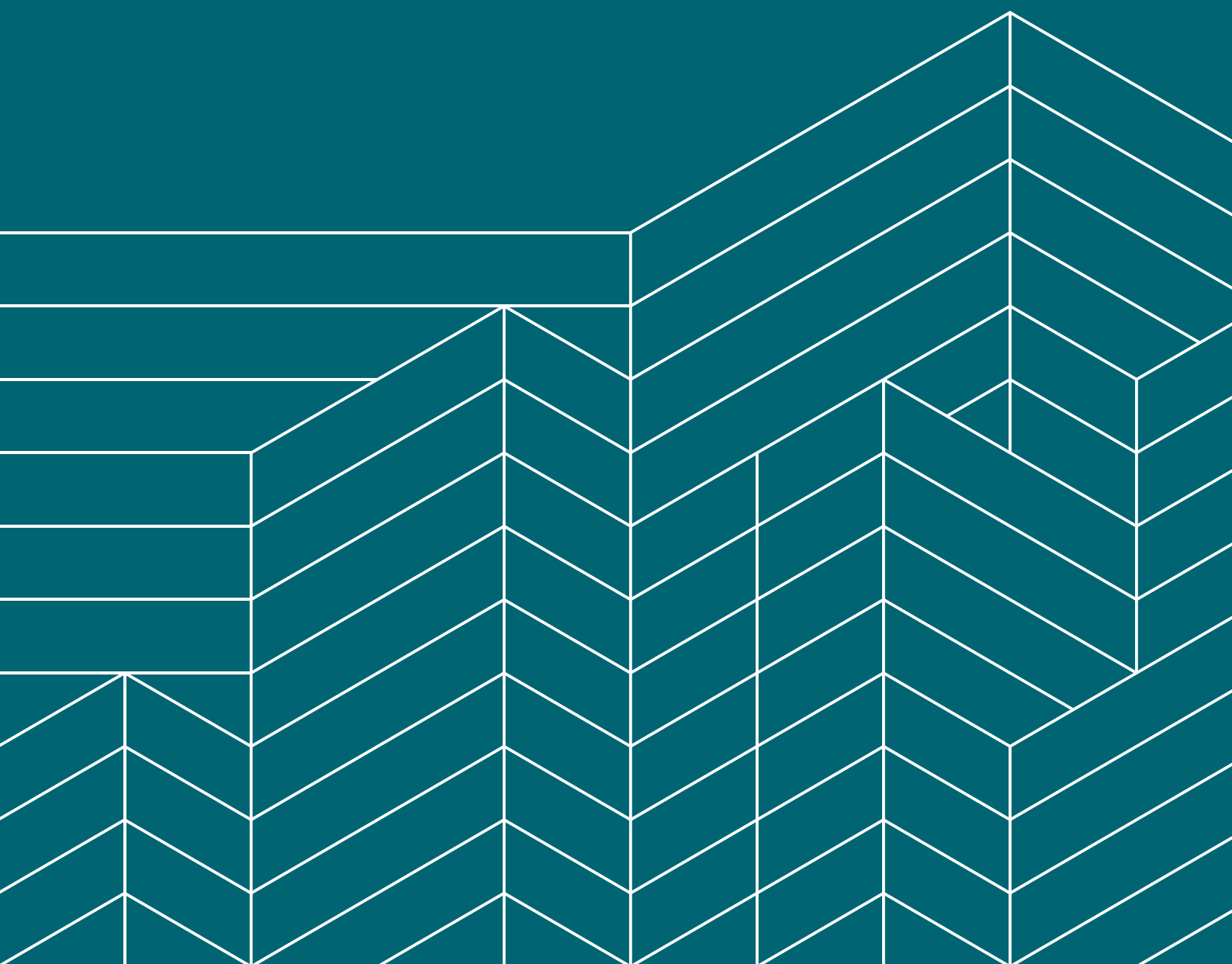
Elering has four key service segments: electricity and gas network service, connection to the electricity and gas system, electricity and gas balancing service, and payment agency for renewable energy support. Whilst making the massive changes in the energy system and on energy markets that arise from climate and geopolitical challenges, Elering cannot be successful if our clients are not satisfied. Also, increasingly more new clients are connected to the network, including wind and solar energy producers who expect Elering to operate quickly and efficiently. We've worked hard to achieve a customer-centred work culture. The energy price crisis at the end of 2021 has clearly demonstrated the importance of joint information and discussion formats: the Advisory Council on Interconnection and Network Services, the Electricity Market and Gas Market Advisory Council. In 2021, we upgraded the network customer portal for the transition to the new tariff structure with the aim of increasing the transparency and efficiency of information exchange

and processes resulting from the change and to further improve the customer experience. We also developed the e-Gridmap application for connection clients, which gives primary information about the cost of connection in seconds. We've developed automated solutions for clients of renewable energy support that they can use to apply for support and for activities with the certificates of origin of energy.

In order to be the leader of a carbon neutral energy system and make it possible for our clients to use climate neutral energy throughout the value chain, we're moving towards making Elering climate neutral by 2030, thereby also minimising the footprint of energy transmission.



ACTIVITIES OF ELERING IN ENSURING SECURITY OF SUPPLY



Elering's mission is to ensure security of supply for electricity and gas consumers. Elering systematically observes security of supply by four so-called security of supply pillars: system capacity, network capacity, management capacity and digital capacity. Elering regards the situation where the expected consumption is covered by local production, import opportunities and opportunities for management of consumption as system capacity. Network capacity means that the transmission network is adequate in terms of capacity and reliability to ensure that energy reaches the consumption centres. Management capacity helps us to keep the power system operational as a whole and to cope with various disruptions and malfunctions. Digital capability is the ability to provide the necessary information to manage the system in a timely manner and the ability to perform the necessary operational activities digitally, including resilience to cyber-attacks.

In order to ensure a high level of security of supply, it's important to ensure the simultaneous and strong performance of all four security of supply pillars at the same time.

System capacity

In order to assess the capacity of the Estonian power system, Elering carries out a pan-European evaluation of system capacity in cooperation with the European Network of Transmission System Operators ENTSO-E every year. The assessment is based on the data of European system operators about the generation capacities, consumption and transmission capacities of each country. The report covers a period of up to 2030, and the results include the electricity system capacity indicators of all European countries. The capacity of

the electricity system is assessed using a probabilistic method. The methodology is based on the Monte Carlo simulations during which 35 different climate years are calculated 20 times each, considering the changes in consumption, wind conditions, solar radiation, hydrological situation and breakdowns in system elements.

Both current experience as well as the analysis of the electricity system capacity carried out in 2021 indicate that the Estonian electricity system will function well up to 2030. Electricity is ensured for the consumer and there is no need for additional measures.

In order to ensure the operation of the system in Estonia, there is approximately 1,000 MW of guaranteed production capacity of electricity, plus 250 MW of emergency reserves. Guaranteed production capacity is formed by capacities of production and management-enabled consumption that can be relied on during periods of high consumption, for example in the case of severe cold that lasts for days. These capacities also ensure the security of supply in potential extraordinary situations, for example in the case of the separation of the Baltic countries into an independent frequency area. Likewise, sufficient frequency reserves are ensured for functioning in the Continental Europe synchronisation area.

If Elering forecasts that a guaranteed capacity of 1,000 MW has not been ensured in the Estonian electricity system, the strategic reserve mechanism is applied in order to ensure the required capacity. The strategic reserve is a state aid measure that ensures the owner of the capacity revenue for ensuring the readiness of the capacity even when, market-wise, it would not be practical to preserve and operate such production capacities. Since the costs of this measure are borne

by electricity consumers, the implementation of the measure must be thoroughly considered. In 2021, Elering prepared the Estonian strategic reserve concept and launched a public consultation to gather feedback from market participants.

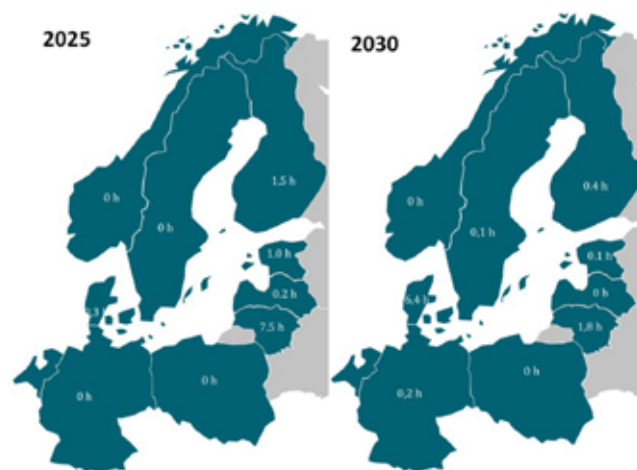
There are three main stages for ensuring the capability of the electricity system:

1. implementation of the standard for security of supply – the Government of the Republic approved the standard for security of supply in May 2021¹;
2. long-term analysis of assessing the capacity of the electricity system – an annual process, the 2021 version of which is reflected in [Elering Security of Electricity Supply Report 2021](#);
3. if the standard for security of supply is complied with, the capability of the system is ensured. If the analysis indicates a worse system capacity than the standard, the market disruptions must be removed according to the instructions of the European Commission, and the capacity mechanism (strategic reserve) must be launched as the last remedy.

In order to ensure the supply of electricity, it is necessary for the electricity market price to cover the production costs of electricity – both short-term variable costs such as fuel costs and carbon emissions as well as long-term investments. Therefore, even in an electricity system with a high level of security of supply, the exchange price can vary and, at periods, be very high. This is nec-

essary for ensuring the capacity of the system and does not always refer to a structural problem. In order to ensure the competitiveness of the Estonian economy, it is important that the electricity in Estonia does not cost more than in our neighbouring countries in the long term. The equal price level is ensured by an electricity market that is open and with strong interconnections where electricity is supplied to Estonia from the region with the lowest production cost at the respective moment.

The pan-European analysis of system capacity carried out in 2021 gives an overview on the long-term adequacy of the European electricity system. Pursuant to the analysis, the capacity of the Estonian system is at a good level and the standard for the security of supply has been met with surplus. While the standard provides for nine loss of load expectation hours per year, only 0.1 such hours are anticipated for 2030 pursuant to the analysis.



Results of the analysis of the capacity of the pan-European system for 2025 and 2030

¹ The security of supply standard defines the economically viable level of system capacity that is maintained in the Estonian electricity system. The security of supply standard is determined by two parameters – Loss of Load Expectation (LOLE) and Expected Energy Not Served (EENS). Values have been established for Estonia: the number of hours of loss of load expectations is 9 hours a year and the amount of energy not served is 4.5 GWh a year.

The economic sustainability of power plants was also analysed for the first time in 2021. According to the analysis, 1,000 MW of production capacity is also sustainable on the Estonian market in 2030. There may be room on the market for an additional gas-fired power plant in the 2025 perspective.

Elering does not merely proceed from the Pan-European analysis and the expectation that the electricity market is functioning ordinarily when assessing the capacity of the electricity system. We also analyse extraordinary scenarios in order to assess the impact of risks that have a small likelihood but a high impact on the capacity of the system. Elering also assesses the level of such risks and prepares action plans for alleviating their impact. The extraordinary islanding of the Baltic States has been analysed as such a scenario. This is a situation where alternating current connections with the remainder of the frequency area are interrupted due to a certain event and the Baltic countries must maintain the frequency in an islanded state. Extraordinary scenarios provide for the necessity of existence of guaranteed capacity in Estonia. Elering classifies guaranteed capacity as generation and consumption capacity that can also be relied on during peak consumption periods.

Network capacity

Investments in the 110-330 kV power grid

In order to ensure network capacity and thereby also maintain good security of supply and optimise and modernise the network, Elering has consistently made various developments and investments. A major project for synchronisation with the Continental European frequency area is ongoing. The third 330 kV connection between

Estonia and Latvia was completed within the framework of the project in 2020, which has significantly increased the security of supply of the Estonian and Latvian power systems and guarantees higher capacity. The next step will be the reconstruction of the existing Baltic-Tartu-Valmiera and Viru-Tsireguliina-Valmiera 330 kV connections from 2022 to 2025 and the Mustvee 330 kV substation will also be built, to which the Viru-Tsireguliina and Viru-Paide 330 kV overhead line will be connected. Upon the reconstruction of Balti-Tartu-Valmiera, it is planned to free some of the 110 kV overhead lines and transfer the existing 110 kV overhead lines running in parallel to the common poles along with 330 kV overhead transmission lines. This guarantees a smaller impact on the environment as well as savings on maintenance costs. The scope of the project also includes the installation of synchronous compensators in the strategic points of the network to guarantee stability in ordinary and disruption situations as well as shunt reactors for voltage control.

The programme of network investments to increase the capacity of distributed and renewable electricity in Western Estonia and the islands is another important project. Historically, electricity in Estonia has mainly been generated in one region – Ida-Viru County. The locations suitable for renewable energy generation equipment can be found throughout Estonia, primarily in Western Estonia, where the network has been the weakest in terms of connecting the renewable energy generation capacity with the network. In order to improve connection possibilities, Elering plans to make large investments from 2022-2026 in order to increase the capacity of the 110-330 kV electricity network of Western Estonia and the islands and increase the security of supply. The Kiisa-Paide-Mustvee overhead line will be reconstructed and a new 330/110 kV substation will be



built in Lihula within the scope of the investments to be made in the 330 kV network. The new substation is necessary to strengthen the connection of the 110 kV network to the 330 kV transit network. The substation will shorten the length of 110 kV lines in the western region, which will reduce the negative effects and losses caused by voltage drops and increase the security of supply. The new substation will also reduce the impact of north-south transit flows through the 110 kV network in Western Estonia. The investments in the 110 kV network include the reconstruction of the 110 kV lines feeding the islands from the mainland from the Lihula substation to the Rõuste and Virtsu substations and the construction of a new 110 kV overhead line for the connection of the Rõuste and Virtsu substations. The dimensions of the existing 110 kV overhead lines in Western Estonia and the islands will also be increased, i.e. the distance between the ground and the cable will be increased. In order to increase security of supply, the lines running to the Sikassaare substation will be taken to separate towers and a parallel line between Võiküla and Orissaare on Muhu island will be built. In order to reduce the environmental impact and increase weather resistance, the overhead line section across the dam in the Väike Strait will be taken into a cable.

Elering is developing additional cross-border connections with Latvia and Finland. Due to the limitations in transmission capacity between Estonia and Finland, a price difference has come about between Estonian and Finnish pricing areas. Therefore, Elering and the Finnish TSO Fingrid have commenced studies for developing the Estlink 3 connection. Additional interconnection capacities with Latvia are also being planned. As a result of the plans to develop offshore wind power in the Gulf of Riga and the wider Baltic Sea, it is probably practical to develop transmission capacity between Estonia and Latvia through the Gulf of Riga. In 2020, Elering and the other Baltic Sea TSOs launched a project for the development of the Baltic Sea undersea network. The power grid of the Baltic Sea is an energy network that connects the countries by the Baltic Sea and offshore wind farms, which helps cost-effectively achieve the climate goals whilst guaranteeing security of supply. The planned marine substation and converter station in the Gulf of Riga will have a maximum capacity of 1,000 MW. The location of the converter, the marine substation and the route of the submarine power cable connecting them are not fixed at this stage, as they depend on the environmental impact assessment, the design and the location of the wind energy sources to be pre-developed by countries. The development of

the undersea network will result in significantly higher power flows in the western part of Estonia, which is why the 330 kV Paide-Sopi-Sindi and Kiisa-Rakvere-Püssi overhead lines must be reconstructed to increase capacity, and a new 330 kV overhead line must be built between Aruküla and Kiisa substations.

In addition to said projects, the company will also invest locally in guaranteeing the reliability, capacity and efficiency of the power grid and in stopping the ageing of the grid. The emphasis in the two larger consumption areas of Estonia – Tallinn and Tartu – is on replacing the existing 110 kV overhead lines with cable lines. The new Iru-Viimsi 110 kV cable line in Tallinn and the Tartu-Ülejõe 110 kV in Tartu will be built. 110 kV overhead lines in the surroundings of Tallinn will also be reconstructed and optimised. The power grid is being reconfigured in north-eastern Estonia as a result of the changes in flows and redistribution of loads, which will create the strong Püssi-Ahtme-Alutaguse multipoint-ring configuration. The 110 kV network will also be optimised in the Balti-Allika-Oru direction.



Network connection capacity

Available connection capacities are the capacities in the case of which it's not necessary to increase the capacities of the transmission lines upon connection to Elering. The main restricting factor is the thermal limit of transmission lines, which depends on the current passing through the line. The available connection capacities decrease with new connections and increases of the existing connection capacity, and increase with the investments made in the power grid, and the ones with the most significant impact among them are the investments to be made within the scope of the programme of synchronisation, the undersea power grid and the network investments of Western Estonia and the islands.

In order to increase the capacity of connection to the grid, Elering offers flexible connection as a new alternative, where network investments can be replaced with a sufficient quantity of flexibility service, i.e. management of consumption and production. This will make connection to the grid more attractive to new clients, as they can choose whether to pay for the increase in the capacity of the overloading network element or to agree to the reduction of their production and/or consumption capacity in situations where an overload occurs. Through flexibility, it's theoretically possible to achieve the maximum utilisation of limited network resources, which ensures a more optimum power grid for the network operator and reduce the investment and maintenance costs of the network.

Operational network security

No failures occurred in the power transmission network administered by Elering that would have caused a hazard to the functioning of the electric-

ity system as a whole last year. Only 13.8 megawatt-hours of electricity was not served to customers (2020: 10.2 MWh), which means that the reliability of Elering's network was 99.9998 percent.

The amount of energy not supplied has been decreasing throughout the period of Elering's operation. The average energy not supplied in the last 10 years amounts to 61.7 megawatt-hours per year.

In the previous year, there were 107 failures that caused a shutdown in Elering's power grid (2020: 112), including 85 short-circuits. The most common causes for the failures were activities by birds and animals, lightning, and the depreciation of equipment. Only one failure was related to a tree falling on a power line, which means that the consistent work for the maintenance of protection zones has provided excellent results.

Contributing to the supervision of construction work, implementing new methods for identifying the condition and defects of equipment and annual power line safety and notification campaigns have also played their part in the decrease of failures. Of all shutdowns, only 12 resulted in a customer failing to receive electricity. The majority of the non-supply of the amount of 13.8 MWh to customers was caused due to two events related to Elering's substations. The root cause of the event that occurred in Saaremaa in April 2021 was a phase conductor broken due to metal fatigue in the Sikassaare substation, which resulted in a chain of faults that left 5.13 MWh of electricity transmitted to consumers in the region. The root cause of the event that took place in the Jõgeva substation in August was a full fire on the switchgear rooms belonging to the customer, when 4.39 MWh of electricity was not served to the electricity consumers in the region as a result of a human error that occurred in the course of the liquidation

work. The quantity of energy not served as a result of other faults in the network was marginal.

In recent years, there have been no mass switch-offs caused by trees, as the protected zones of lines have been streamlined as a result of consistent activities. This is also the reason why bigger storms have not caused switch-offs, which is something that happened often in previous years. Although there have been no major storms in recent years that would have exceeded the standards used as the basis for designing equipment, there have been gusts of wind that are stronger than usual, but they have not brought about mass switchouts. This proves that the power grid can successfully withstand wind as a result of the systemic maintenance of the line routes, which has significantly reduced the number of trees falling or being felled on the lines, which used to be one of the main reasons of energy not served for years. The area of land not cleared of trees in the power line protection zones is only 180 ha. The maintenance of protection zones requires constant work, incl. regular inspections of lines and protection zones.

Elering is transferring to risk and condition based maintenance. In addition to manned inspections, lines are also inspected automatically with a helicopter equipped with a photo camera. The use of drones in the future is also not ruled out. This equipment allows us to see the condition of the lines from angles that are not possible when the lines are inspected from the ground.

Management Capacity

The reliability of the power system is guaranteed if the power system operates within the permit-

ted limits of normal operation. In the case of the power system, this means that:

- the frequency is either 50 Hz or the deviation of the frequency from 50 Hz is minimal;
- voltages and power flows within the permitted limits;
- there are sufficient reserves of active and reactive power to cope with disruptions that may occur in the power system;
- the power system will operate within the permitted limits of operational security also after the occurrence of a disruption of the highest impact.

In the case of the gas system, this means that:

- pressures and gas flows in the transmission pipeline are within the permitted limits;
- there are sufficient cross-border transmission capacities to cover internal consumption in Estonia and guarantee transit;
- the gas system will operate within the permitted limits of operational security also after the occurrence of a disruption of the highest impact.

Ensuring the reliability of the energy system is organised by Elering's control centre. Guaranteeing reliability can basically be divided into two parts – operative planning of the energy system and the subsequent real-time management of the operation of the energy system. From a management capacity perspective, successful completion of these two steps ensures the necessary capacity and reliability of the power system.

The task of operational planning is to carry out a coordinated inspection of the permissibility of

the operation of the energy system, i.e. an analysis of the operational reliability and, if necessary, bring the planned operation within the permitted limits and prepare plans and forecasts for the stage of management of operation. Operational planning proceeds from the requirements set



out in the Grid Code and the plans and forecasts prepared in the course thereof must comply with the reliability and security of supply requirements set out in the Grid Code, ensure optimal losses and allow for the maximum possible cross-border transmission capacity. The operational planning of the energy system is followed by the process of real-time control of the operation, which takes place 24 hours a day. The function of operational management is to ensure the safe and reliable operation of the energy system in real time. Operational management is the process that covers all of the activities required for the real-time operation of the energy system in the case of normal, disrupted and emergency operation as well as in the case of the shut-off of the energy system and the restoration of operation.

The management process is carried out by properly qualified dispatchers whose knowledge is regularly checked and updated in emergency training. The duties of the dispatchers include correction of real-time deviations from the planned balancing plan, ensuring quality energy supply to the customers of the transmission network, control of taking transmission network equipment to maintenance, operation and reserve, identification and liquidation of the disrupted and faulty operation. The organisation of cooperation with customers and informing the control centres of the system administrators of neighbouring countries and market participants of changes in cross-border transmission capacities is also their duty.

It's necessary to ensure the 24-hour uninterrupted operation and constant improvement of the relevant processes. The priority in 2021 was further development and improvement of various IT tools – the solution for real-time assessment of the status of the power system in the technical control system of the energy system, i.e. SCADA,

was perfected, the balance management software was developed to improve data exchange with market participants and neighbouring TSOs. Improvement of the cyber security, reliability and data quality of the technical control systems of the energy system was also in focus. Several tests were carried out in order to achieve this objective, which included testing the functioning of the control systems in the event of various disturbances in order to find possible weaknesses in them. In order to prepare synchronisation with the continental Europe, a concept of the frequency control area of the Baltic States was developed and discussed with market participants, which regulates the principles of frequency control and acquisition of reserves in the new situation.

Summarising 2021, it can be said that the operational planning and real-time management of the energy system was organised in a manner that made it possible to ensure the reliability of the Estonian energy system as a whole at all times.

Digital capacity

Increasing digital capacity and growth of new technologies

Electrification increases the role of electricity in society and adds to the complexity of the system. We are moving towards an energy system with more participants, smart devices and data quantities, and changes in the system take place faster. Due to the volatile nature of renewable energy, more data move in a shorter timeframe and more operations are performed to manage it. This creates the need for automatic control functions that humans cannot optimally manage on their own without digital solutions in real time. As a re-

sult, there is a growing need for smart technologies to help power system operators manage the electricity system in real time.

The digitalisation of the society and the energy system leads to the situation where the share of new technological solutions increases as a result of the automation of business operations, which in turn leads to an increase in data volumes. Increased data volumes bring the need to process and analyse the data close to real time in order to make the right management decisions for the power system. In view of the future, management decisions based on real-time data will be made every day.

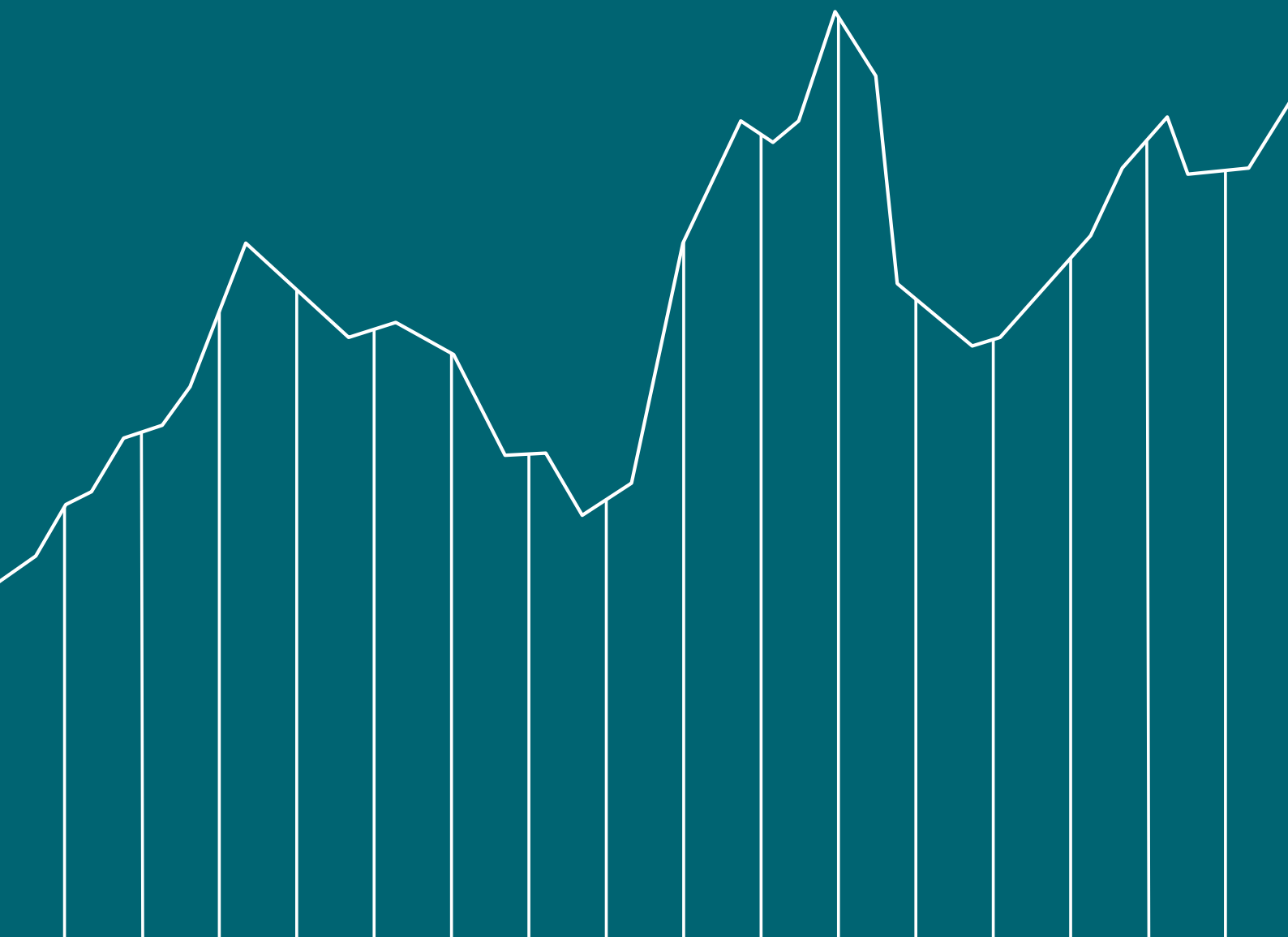
Digitisation also brings vulnerability, which is why the high availability and cyber-centricity of Eler-

ing's IT systems are important as a vital service. In the coming years, the European Commission is expected to implement cybersecurity standards for electricity companies, including critical service providers such as transmission networks. Cybersecurity network rules are currently being developed in European working groups.

The volume of Elering's digital solutions has grown significantly between 2010 and 2021. Data volumes have also increased considerably. Looking ahead, data volumes will continue to grow as more and more smart devices transmit very large volumes of data. As we keep moving towards real-time decisions, smart devices that collect real-time data will also help make the necessary management decisions in real time.



OVERVIEW OF ECONOMIC ACTIVITIES AND RESULTS IN 2021



Economic environment

Elering is an independent electricity and gas transmission system operator in Estonia, which main objective is to ensure the high quality energy supply at any point of time.

The recovery from the recession experienced from the pandemic situation in 2020 has been remarkable, despite of the fact that the pandemic situation has not disappeared nor in Estonia nor in other part of the world. Still there have been few restrictions compared to 2020 which helped the growth of economy in 2021. Whilst the GDP in 2020 was -3.0%, then according to the forecast published by Ministry of Finance the GDP in 2021 is expected to reach 9.5%.

There is a contradictory situation in labour market, whilst it is difficult to find qualified workforce, the unemployment rate continues to be high. The unemployment rate in 2021 was 6.2% (in 2020 it was 6.8%). Increase in prices puts the pressure on salary demand which also puts a pressure on the company's expenses. In 2020 the average salary increase was 2.9%, in the third quarter in 2021, the salary increase reached 7.8% and it can be foreseen, that it continues also in years to come.

The inflation in 2021 has been remarkable being driven by the high electricity and fuel prices. In December 2021 the inflation rate was 12.2%, whilst the inflation rate in 2020 was negative of 0.4%. The trend of price increase continues having an impact on salaries, energy costs incl network losses but also to other services and investments.

Due to high stock exchange electricity prices, the Government of the Republic of Estonia decided

to compensate electricity consumers for 50% of the costs associated with the network service fee in the period October 2021-March 2022. This has no effect on Elering's economic activities, as the Environmental Investment Center pays Elering a compensable part for end users. From October to December, the Environmental Investment Center paid 603.0 thousand euros of network fees, including VAT, for customers.

COVID-19 has no significant impact on the Company's operations.

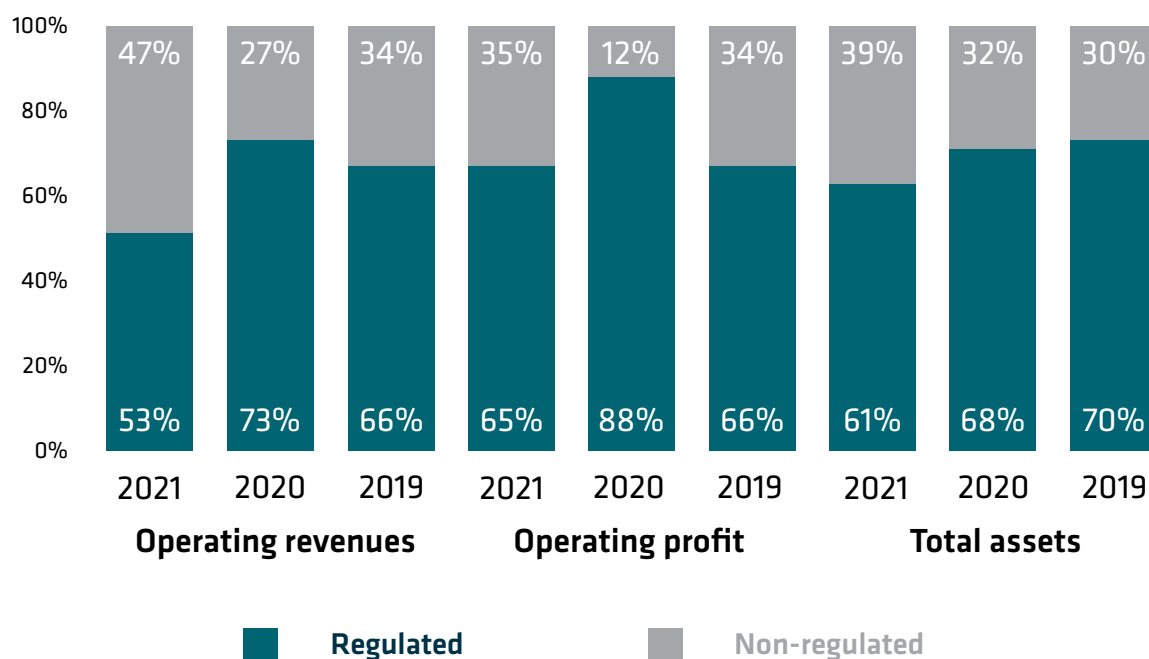
In 2021 ongoing political tension in the region escalated as a result of further developments of the situation with Ukraine which have negatively impacted commodity and financial markets, and increased volatility, particularly with regard to foreign exchange rates. Since December 2021, the circumstances have been deteriorating and the situation remains highly unstable.

There is increased volatility in the financial and commodity markets. There is an expectation of further sanctions and limitations on business activity of companies operating in the region, as well as consequences on the economy in general, but the full nature and possible effects of these are unknown.

Nature of economic activities

The economic activity of Elering is divided largely in two:

- a. Regulated power and gas network activities;
- b. Non-regulated activities.



Regulated network activity consists of the transmission of power and gas through the company's power and gas transmission networks. Network activity is by far the most important in terms of turnover, profitability and assets, as can be seen from the graph below.

Network activities are regulated, which means that the allowed network tariffs are approved by the Competition Authority. The regulator assesses whether the costs included in the network tariff application are justified and allows a reasonable return, which is calculated on the basis of the Capital Asset Pricing Model. The network tariffs consist of the operating expenses, capital expenditure and justified profitability for power and gas tariffs. Operating profit is calculated as a multiple of the regulated asset base and the weighted average cost of capital (WACC).

The company has 27 power grid service clients and 9 gas network service clients in total (2020: 27 power grid service clients and 11 gas network service clients). The majority, i.e. 91.6%, of the network service revenue (2020: 89.9%) is received from clients

which are regulated distribution network operators acting as natural monopolies. The biggest client in terms of network service is Elektrilevi OÜ, whose share in network service revenue is 75.0% (2020: 75.6%). Elektrilevi is a distribution network operator that is part of the Eesti Energia AS group, which in turn is owned by the Republic of Estonia.

Elering's non-regulated areas of activity mostly consist of the provision of the electricity and gas balancing service.

In order to ensure a stable frequency of electricity in the power system, the system must be balanced, i.e. generation must be equal to consumption at any given time. For this purpose, all market participants also need to be in balance and most of them buy their power balancing services from balance responsible parties. Elering, in turn, provides the power balancing service to the balance responsible parties. There are 18 balance responsible parties to whom Elering provides the service (2020: 15).

The principles of balancing the gas system are generally similar to the principles of balancing the

power system. The only difference is that the gas system does not have to be balanced at all times. When the consumption of gas is higher than the inflow, the pressure in the system drops, and vice versa. As a gas system operator, Elering's task is to keep the pressure within the permitted limits. For this purpose, Elering buys and sells gas to balance responsible parties. The number of balance

responsible parties with whom balancing gas is bought and sold is 11 (2020: 11).

The impact of the balancing service on the profit of Elering is insignificant, as the price of the balancing service is calculated in such a manner that the revenue earned covers the expenses of providing the service.

Economic performance

Key financial indicators

	2021	2020	2019	2018	2017
Sales revenue (mil €)	201.4	137.1	142.1	143.0	130.3
Other operating income (mil €)	6.7	5.3	13.1	1.9	1.6
Operating expenses (mil €)	199.1	109.8	113.4	113.9	98.8
Operating profit (mil €)	9.0	32.6	41.8	31.0	33.1
EBITDA (mil €)	54.6	72.7	78.7	65.7	67.6
Financial expenses net (mil €)	2.3	2.3	2.2	7.3	11.0
Income tax (mil €)	1.6	5.0	6.8	5.0	5.0
Net profit (mil €)	5.1	25.3	32.8	18.6	17.1
Operating profit margin	4.5%	23.8%	29.4%	21.7%	25.4%
EBITDA margin	27.1%	53.0%	55.4%	45.9%	51.9%
Net profit margin	2.5%	18.5%	23.1%	13.0%	13.1%
Return on equity	1.3%	6.5%	8.5%	5.1%	4.9%
Equity to assets ratio	32.3%	36.0%	37.9%	40.6%	38.3%
Net debt to EBITDA (mil €)	4.8	3.9	3.8	4.4	4.1
Investments (mil €)	78.8	85.0	129.8	125.0	32.2
Dividends (mil €)	10.0	25.6	29.4	20.0	20.0

EBITDA = Operating profit + depreciation

Return on equity = Net profit / average equity

Equity to assets ratio = Equity / Total assets

Net debt = Debt - cash and cash equivalents

Revenues

Total revenue amounted to 208.1 million euros (2020: 142.4 million euros). The most important source of revenue was the sale of network services, which comprised 54.9% or 110.7 million euros (2020: 75.3% or 103.2 million euros) of sales revenue. Revenue from power network service comprised 81% and revenue from gas network services comprised 19% of network services (2020: 82% and 18%).

60-80% of the gas and electricity transmission revenues are earned from October to March.

Both, the power grid and gas transmission revenues increased in 2021. The electricity transmission revenues increased by 4.3% or 3.4 million euros and the gas transmission revenues increased by 13.5%, i.e. 2.2 million euros. Whilst the average temperature in 2020 was higher than normal, then the temperature in 2021 was about average being even lower than average by 0.3 degrees.

Revenue from the balancing and regulation service increased by 195.8%, i.e. 54.4 million euros, and amounted to 82.2 million euros (2020: 27.8 million euros). Balance service revenue increased mainly because of the higher balancing energy prices which increased by 42.8 million euros. 65.5% or 28.0 million euros of the increase derived from the higher electricity price and 34.5% or 14.8 million euros were related to bigger volumes. The increase of gas balancing services was also related to increase in prices and volumes.

Expenses

Operating expenses amounted to 199.1 million euros (2020: 109.8 million euros). In relation to the increase in sales of balancing services, we see a similar increase in the balancing service purchasing expenses as well, i.e. the balancing service purchasing expenses were 204.2%, i.e. 54.4 million euros higher (2020: 18.1% or 5.9 million euros lower). Remarkable increase compared to 2020 was related to the significantly higher electricity prices in 2021, which raised the network losses expenses more than twice or 26.0 million euros (in 2020 the expenses for energy network losses decreased compared to 2019 by 28.0% or 4.8 million euros). Labor expenses increased by 2.3% or 0.3 million euros in comparison with 2020 and amounted to 11.2 million euros (2020: 14.8% or 1.4 million euros). The increase in salaries and wages is related to the increase in number of employees.

Depreciation expenses have increased in relation to additional significant investments by 13.5% or 5.4 million euros, amounting to 45.5 million euros (2020: 8.7% or 3.2 million euros).

Operating profit for the financial year amounted to 9.0 million euros (2020: 32.6 million euros).

Net financial expenses remained relatively stable and amounted to 2.3 million euros (2020: 2.3 million euros).

Corporate income tax amounted to 1.6 million euros (2020: 5.0 million euros).

Net profit for the financial year amounted to 5.1 million euros (2020: 25.3 million euros).

Investments

The company's investments can be divided into ordinary and cross-border investments.

Ordinary investments are made primarily in the replacement of depreciated parts of the power and gas networks. On average, replacement investments amount to approximately 30 million euros per year.

Similarly to 2020, the keyword for 2021 is certainly preparation for synchronisation with the Continental European frequency area. Investments in synchronisation with Continental Europe will also continue from 2022–2024.

In addition to ordinary investments, Elering has initiated an intensive special investments programme. These are investments in the construction of cross-border energy networks. The projected amounts of cross-border investments are shown in the table below.

Million euros	Total investment	<=2021	2021–2025	Investment
Estonian-Latvian third power transmission line	82	80	2	2011–2021
Synchronisation	252	37	215	2018–2025
Estonian-Finnish gas connection	139	137	2	2013–2023
Estonian-Latvian gas connection	45	44	1	2015–2022
Polish-Lithuanian gas connection GIPL	2	0	2	2022
EU Recovery and Resilience Facility (RRF)	69	0	69	2022–2026
Total	589	300	289	

Financing

The company financed its investments with European Union funds as well as loans and bonds.

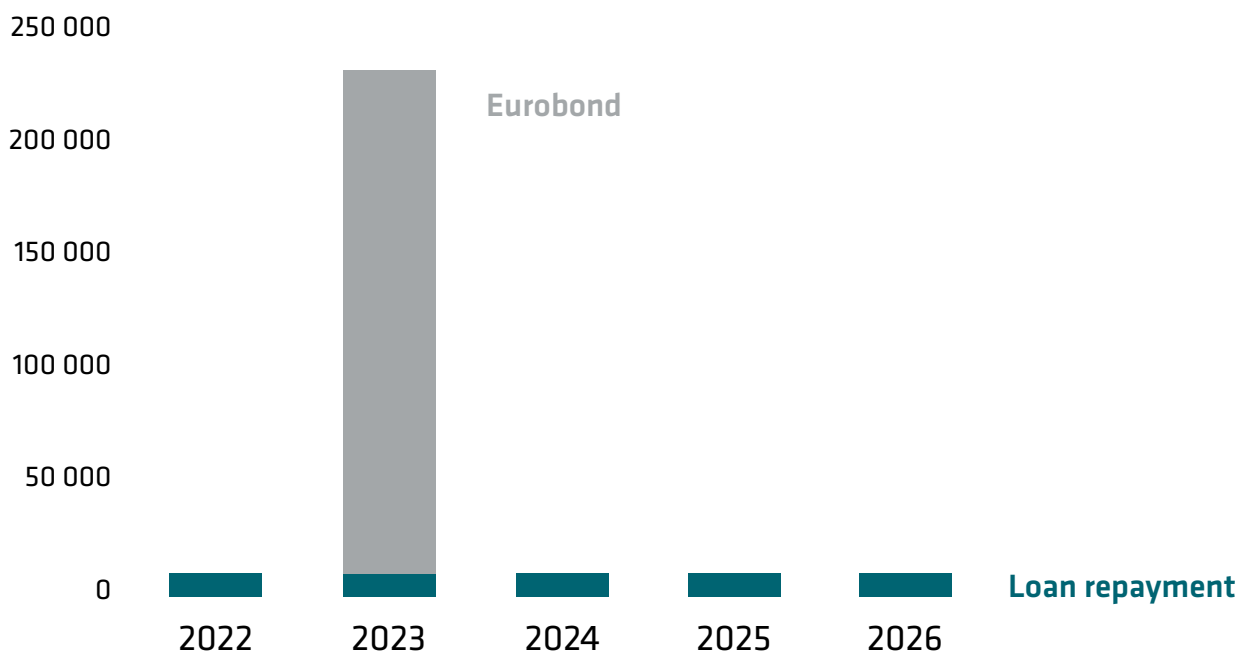
The company's interest-bearing liabilities as at the balance sheet date are as follows:

Million euros	2021	2020
Depreciable portion of long-term bank loans with average interest rate 0.69% (2020: 0.7%)	10.6	10.6
Total short-term interest-bearing liabilities	10.6	10.6
Eurobonds with 0.875% coupon rate		
Long-term bank loans with average effective interest rate of 0.69% (2020: 0.7%)		
Total long-term interest-bearing liabilities	312.0	322.4
Total interest-bearing payables	322.6	333.0

Elering has issued Eurobonds at the nominal value of 225 million euros. The Eurobonds are listed on the London Stock Exchange with a redemption deadline of 3 May 2023 and a coupon rate of 0.875%.

The bank loans have been taken from the European Investment Bank and the Nordic Investment Bank. The balances of these loans as at 31 Decem-

ber 2021 were 78.2 million euros and 19.7 million euros, respectively (2020: 85.4 million euros and 23.0 million euros). The loans taken from the European Investment Bank and the Nordic Investment Bank can both be amortised. The last repayment of the loans taken from the European Investment Bank will be made in 2033 and the loan taken from the Nordic Investment Bank will be repaid in 2032. The repayment schedule for debt obligations is as follows:



In addition to interest-bearing liabilities, Elering also finances investments from sources that do not involve any interest expenses. The main source is the non-repayable aid received from the

European Union. Elering has entered into financing agreements with the EU INEA (Innovation and Networks Executive Agency) for financing the following projects:

The power transmission line connecting Estonia and Latvia	The sub-sea gas pipeline connecting the Estonian and Finnish gas networks along with the accompanying infrastructure	Strengthening the connection between the gas networks of Estonia and Latvia	The investments required for synchronisation
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Summary of expected EU aid for larger cross-border investments:

Million euros	Total EU aid received	Receipt of EU aid ≤2021	Receipt of EU aid 2022–2026
Total	445	223	222

The other source of finance that does not bear interest is congestion income. It occurs in the situations, when there is a price difference in different price areas, the money collected by the stock exchange is transferred to TSO-s. According to EU regulation the congestion income can be used in order to strengthen the cross-border connections and reduce the congestion. Elering has collected

connection charges for 176.6 million euros by the end of 2021, out of which 124.7 million euros is not yet used (2020: 112.4 million euros, unused 70.8 million euros).

The assets acquired with EU financing or from congestion charges are not included in regulated asset base which means that those are tariff neutral.





OUR ELERING ACTION PLAN FOR INVOLVING AND MOTIVATING EMPLOYEES



Our people and their knowledge and skills are the biggest asset of Elering in the everyday implementation of the mission and attainment of the vision.

258 people worked at Elering as at the end of 2021 (2020: 240 people). The average length of employment is a little over 12 years and the average age of employees is 43 (2020: average length of employment slightly more than 13 years and average age of employees was 43). Around three-quarters of the employees are men (2020: $\frac{3}{4}$ of the employees were men).

Elering is characterised by relatively low labour turnover. In 2021 the voluntary low labour turnover was a bit higher as a result of the situation in the job market but also due to the pandemic situation, reaching to 7.8% (2020: 2.4%). Low labour turnover is a strategically important indicator for maintaining the high level of competence necessary for the main activities of Elering. To maintain this level, it is important to engage in good dialogue with employees to better understand their expectations and involve them in the development of the organisation. The vast majority of our employees are university graduates, and nearly half of Elering's employees have a Master's or a doctoral degree.

Elering supports the integration of work and studies and encourages its specialists to pursue professional and personal development. Elering offers flexible working arrangements and additional days of study leave to employees who are acquiring an education or furthering their education. In order to maintain Elering's reputation as an attractive employer in the energy sector among students, the company awards Elering scholarships and invites students to complete their traineeships at Elering. Bachelor's, Mas-

ter's and doctoral students studying at Estonian universities receive support to conduct research on cutting-edge topics related to energy within the scope of the scholarship programme. The scholarship programme is also a part of Elering's activities in the development of an energy centre of excellence. Students of sciences who have acquired basic knowledge in their field of study and want to work in the area of energy can participate in the programme. Traineeship consists of introductory seminars and trips to Elering's sites (substations, gas transmission and metering stations). We will also include more IT students in traineeships. Job-shadowing and information classes at schools are also used to introduce Elering to school and university students. Human resources management and personnel-related activities at Elering are guided by the human resources management policy of Elering, which focuses on the following key points: a unified company and a strong reputation as an employer, an inclusive management culture and systematic talent management.

The commitment of employees is important to Elering; therefore, we have set this value as one of the strategic goals of Elering. We carry out an employee commitment survey once a year, where we study the interaction of the components of the index with overall satisfaction. The components of the index are four questions that measure employee satisfaction, loyalty and, of course, commitment.

The Meie Elering (Our Elering) steering group has been formed for the development and coordination of the follow-up activities of the survey. The steering group of Our Elering prepares the Our Elering action plan on the basis of the feedback, which is aimed at the preservation and development of the strengths of Elering as

an employer to ensure that the commitment index of Elering's people exceeds 70% and to work on the solution of the problems that prevent the commitment and satisfaction of Elering's people. The result of the commitment survey carried out at the end of 2021 was 81% (2020: 87%).

In order to create better synergy between various activities and implement area-specific policies, we have created permanent steering groups within Elering's structure, which include specialists and managers from different structural units of Elering that enable the company to create synergy between various topics and provide broader perspectives and challenges for employees. Cooperation within and between teams is also promoted with team-to-team cooperation events. Elering has a long tradition of cooperation and joint activities for the purposes of developing and maintaining a unified enterprise and cultivating team spirit. This allows new and experienced, younger and older Elering employees to establish good contact by sharing their experiences and learning from one another. The company's annual joint events, such as the annual seminar, sports day, the summer seminar and the celebration of the establishment of a combined system operator in autumn, have all become great traditions. An event organisation team has been created to better organise events and guarantee that employees are valued, which is responsible for organising the internal events of Elering.

We support a healthy lifestyle; therefore, in addition to the exercise benefit, we hold various sporting events and weekly exercise sessions with instruction at the office. Compulsory health checks are carried out every two years and employees aged 40+ can undergo an exercise stress test.

117 new employees have joined Elering over the last five years. It is important to us that the organisation of induction and development activities in our company is well thought through in order to help new employees join the company more smoothly. The duration of the induction programme is approximately 1.5 months. In the course of the programme, new employees meet with representatives of structural units and get an overview of the company's fields of activity and the work of different units, corporate values, culture and Elering's role and responsibility in society. Mentoring and supervision are part of corporate culture. In addition to training aimed at creating and maintaining professional competence, we provide other training courses for general competencies that range from modern machine-learning techniques and artificial intelligence to time management methodologies. The focus is on combining IT and energy competencies and exchanging knowhow within the company. In order to better distribute knowledge in the organisation, we have launched a series of seminar Fridays, where internal and external speakers introduce current or interesting topics in their field.

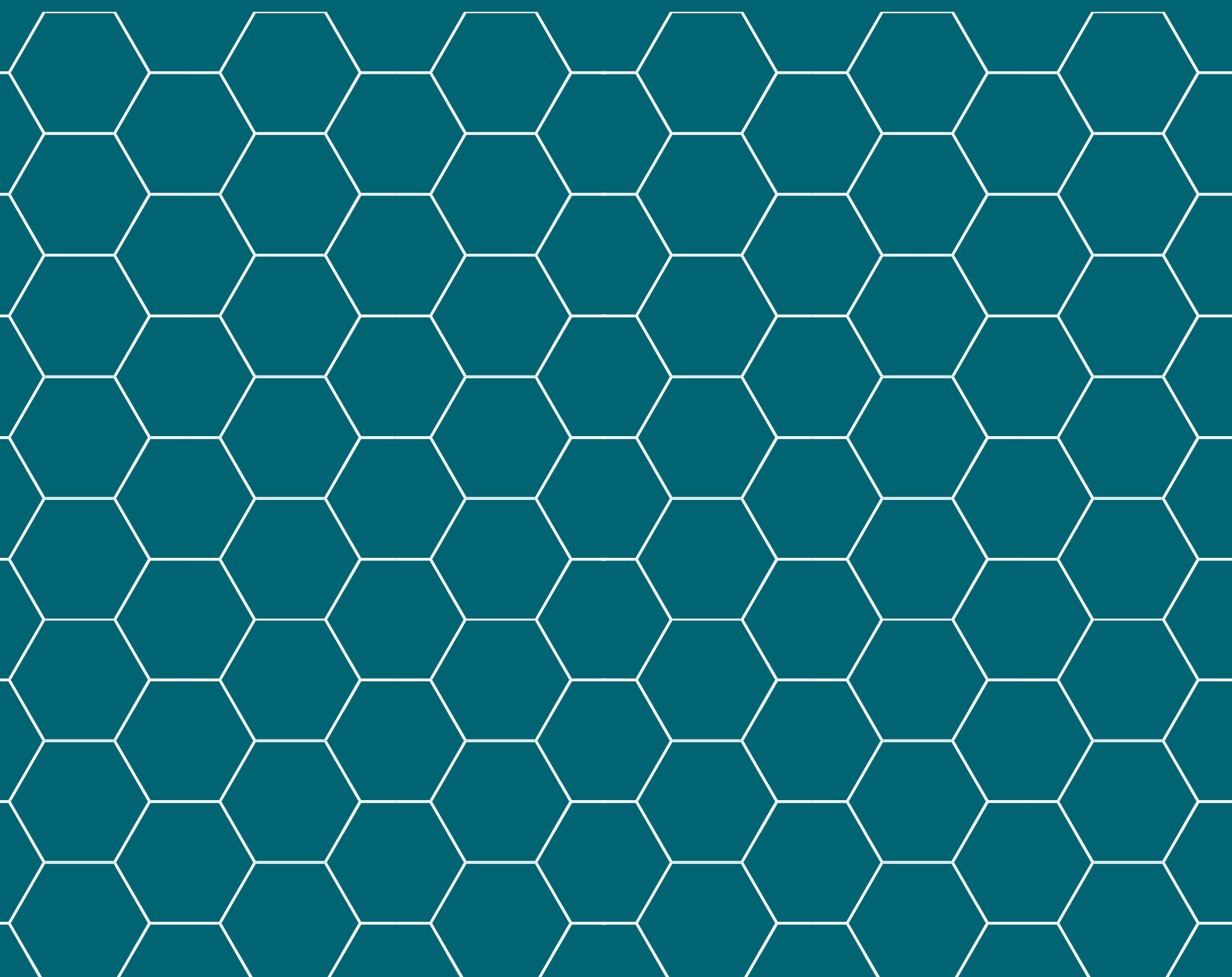
The talent programme of Elering Academy is aimed at specialists of Elering who want to expand their knowledge and contribute to and participate in the topics concerning the future of Elering and the Estonian energy system and have the motivation and readiness to act as leaders of changes in Elering. In order to support the development of our managers, we prepared the good corporate governance practices of Elering with our managers and offered management training. We are constantly striving to improve the work environment by gathering ideas and needs on a regular basis as well as through biannual collaborative discussions. The company has

created all necessary conditions for people with special needs to be able to work in the same work environment (lifts, comfortable entry into rooms). Spacious, light and modern workplaces with a good inner climate have been created for all office employees. Employees working on

transmission lines wear specific clothing and have comfortable auxiliary rooms for showering, dressing and drying their clothes. It is possible to use quiet and private workspaces and ergonomic tables and chairs in the office.



ELERING AND CORPORATE SOCIAL RESPONSIBILITY



A sustainable approach whereby the impact of our activities on the society and the environment is as small as possible has been important to Elering for a long time. When Elering participated in the assessment of CSR (corporate social responsibility) for the first time in 2019, we were awarded the golden badge of corporate social responsibility, which is valid for two years, in the CRS index organised by the CSR Forum. This highlights our desire to contribute more to corporate social responsibility than required by law. In 2021, we also participated in the index and maintained the golden level. We will continue to work towards an increase in the positive impact and a reduction in the negative impact.



In order to share and gain experience of a sustainable mindset, we joined the agreement on voluntary social and environmental liability of companies and foundations with state participation initiated by the Ministry of Economic Affairs and Communications in 2019, the objective of which is to make the Estonian business environment more responsible and sustainable.



In autumn 2020, we became a member of the CSR Forum in order to guide the issues of corporate social responsibility in greater

detail, pursue closer cooperation with companies in the sector and bring added value to employees, partners and society.

The world keeps moving towards supporting companies that are part of ethical business – businesses whose activities do not pollute the environment and cause climate warming, who adhere to labour and human rights and do not engage in bribery and corruption. However, we cannot stand still, but have to work every day to ensure that the impact of our activities is the best considering the situation, technologies and possibilities. In our everyday activities in Elering, we contribute to the achievement of the UN sustainable development goals.



We work on guaranteeing access to affordable, reliable, sustainable and modern energy. We believe that energy, which is the cheapest socio-economically, can only be ensured by an efficiently functioning regional energy market, which is based on a reliable and smart energy network. Our vision is to ensure the security of supply in a climate neutral manner and with the support of digital tools.

7 AFFORDABLE AND CLEAN ENERGY



In Elering, we think along and contribute to the achievement of the European climate goals. We are the leaders in making power and gas systems climate neutral. Assessing the impact of the company's activities on different fields, increasing the positive impact of our activities and reducing the potential negative impact on the surrounding environment is important to us.

Elering has developed climate policy principles and we have also mapped Elering's carbon footprint and developed a plan to reduce it. As a company, we've set ourselves a goal in reducing the carbon footprint that is more ambitious than the goal of the EU: we want to make Elering climate neutral by 2030. This will also allow our clients to achieve climate neutrality sooner, as the transport of power and energy to the end customer has a major impact on the footprint of all the products and services offered in society.

13 CLIMATE ACTION



ESG action plan

Elering's ESG (environmental, social, governance) topics are closely integrated into the company's strategy, which includes five key strategic objectives with metrics and targets.

Elering prepares an annual action plan, or ESG plan for the management of corporate

social responsibility issues. In the plan for 2021, activities were divided into three larger groups, covering the environmental impact, social impact and the impact of governance, i.e. the three larger dimensions, which play an important role in responsible and sustainable governance. The action plan highlights the most important activities for the development of sustainable entrepreneurship, which we plan to carry out in the coming year.

Elering's supervisory board, as the company's highest governance level, also approved the ESG Action Plan 2021 as part of the 2021 budget.

Under the environmental dimension, the ESG action plan of Elering gives special attention to the aspects of the climate policy, renewable energy, recovery of the environment, hazardous waste, impact and visual impact of the lines. The dimension of social impact covers activities in the field of education, landowners, clients, community, associated groups, employees, contractors and data protection. The dimension of governance focuses on the inclusion and satisfaction of employees and transparency.

Environmental Impact

Elering follows the principles of conservation and restoration of the environment when implementing its objectives. We took the overhead lines Veskimetsa-Volta and Veskimetsa-Kopli, Harku-Veskimetsa, Harku-Kadaka and Veskimetsa-Kadaka trajectories, whose lifecycles have ended, to underground cables in 2021 within the scope of the Cities to Cables project so that

Environment	Social dimension	Management
Restoration of the environment	Employees	Inclusion and satisfaction
Impact of lines	Education	Transparency
Visual impact of lines	Contractors	Data protection
Renewable energy	Customers	Cybersecurity
Climate policy	Community	
Hazardous waste	Stakeholder groups	
Green office		

overhead lines and pylons will disappear from the urban space and the city can use the empty line corridors for initiatives that improve the living environment of the citizens. We also started work on taking the Volta-Paljassaare and Kopli-Paljassaare lines underground. The replacement of overhead lines is part of a major Elering project that will see the densely populated areas of Tallinn freed of ageing transmission grid overhead lines. The work to bring overhead power lines underground includes the full restoration of landscaping and additional tree and shrub planting.

The general principle of Elering is to consider the possible impact of all investments on wildlife and the ecosystem of the given area, which is why we monitor birds, for example, and mark the overhead lines with bird markets if necessary. The decision we made about the overhead line located on the Väike Strait dam was to move it to a submarine cable, as we did with the first overhead line in 2020. In 2021, we added the second submarine cable of the Väike Strait to the company's investment budget. The

overhead line remaining on the dam can be removed from the bird migration route after the installation of the cable, so that it does not endanger them in any way.

In 2021, we made preparations for the erection of the next Elering designer high-voltage mast on the Baltic-Tartu overhead line as part of the Continental European frequency area synchronisation project. The new mast Sookurg, based on the first designer mast Soorebase, will be erected in 2022 on the outskirts of Tartu. The objective of Elering's designer masts is to fit the technical power line into the natural environment and to raise awareness of the role of the electricity system in modern society.

Activities at substations

The biggest environmental hazards where Elering's substations are concerned are oil that can leak from transformers, chemicals and hazardous waste (mainly batteries). Potential environmental hazards may also arise from the sub-



station transformers when taking oil samples and electrolyte samples from battery packs, wherein small amounts of hazardous substances may be released into the environment. The oil collection systems of transformers were renovated and new oil traps were installed at Sõmerpalu and Kanepi substations during the reconstruction of substations in 2021 in order to reduce the potential environmental impact. The equipment of working substations may cause noise that disturbs the surroundings. The noise caused by substation equipment was also measured at Endla, Kilingi-Nõmme and Tartu substations in 2021. The measurements indicated that no thresholds were exceeded and there is no need to take extra measures in order to limit the spread of noise.

Activities on lines

During the reconstruction of the Baltic-Tartu line, we dismantled and decommissioned 133 km of overhead lines in 2021, during which we decommissioned 333 towers, more than 800 running kilometres of conductors, more than 260 running kilometres of lightning protection cables and 333 towers worth of concrete foundations, as well as dismantling and decommissioning 220 kV overhead lines taken out of service and 110 kV overhead lines replaced by underground cables.

On the 220 kV Püssi-Kiisa overhead line, we dismantled and decommissioned 30 km of overhead line in 2021, decommissioning 92 towers, more than 90 running kilometres of conductors, more than nine running kilometres of lightning protection cables and 56 towers worth of concrete foundations.

On the 110 kV overhead lines of Kadaka-Veskimetsa, Veskimetsa-Volta, Veskimetsa-Kopli, Harku-Veskimetsa and after the replacement of Harku-Kadaka with cables, we dismantled and decommissioned 18 km of overhead lines in 2021, during which we decommissioned 51 towers, more than 53 running kilometres of conductors, more than 18 running kilometres of lightning protection cables/optics. During the renovation and maintenance of lines, we also dismantled and decommissioned 31 towers and 33 running kilometres of lightning protection cables

Activities in the gas network

We made several investments in the gas transmission network in 2021, which increased the safety of the gas network and improved the overall condition of the environment. We replaced the boilers of the heating systems of Saku, Veriora and Põlva gas distribution stations with the more economical natural gas boilers that operate according to the condensation principle.



We replaced or renovated a total of 2,047 metres of depreciated gas pipes. We built the remote control system of the Salla and Ühendussõlme pipeline valve stations, which guarantees the faster and safer operation of gas pipelines and loses the need to drive to the site for making switches, which reduces our environmental impact. We also built a unit for inside diagnostics in the DN500 pipeline between Haljala and Tallinn at Ühendussõlme which, when put into operation, will allow us to examine the condition of this section of the pipeline with great precision and carry out preventive repairs, which will significantly increase the safety of the pipeline for the environment. Internal diagnostics of four pipelines – Irboska-Tartu, Tartu-Rakvere, Kiili-Paldiski and Paldiski-Inkoo – were also carried out. The diagnostics give us very accurate information on the condition of the pipelines, and based on this, we have planned safety-enhancing, or preventive, repairs on the Irboska-Tartu-Rakvere pipeline in 2022 and 2023.

We also replaced 12 cathodic stations on pipelines with remotely controlled ones, which ensure low corrosion levels in the pipelines and also lower energy consumption. The need to drive to the site every month for the performance of the necessary regulations disappeared when controlling the cathodic stations remotely became possible, which also reduces the use of car transport for monitoring.

Since the work on Elering's transmission lines is carried out by subcontractors, it is very important to Elering that the subcontractors are fully aware of potential environmental risks. One of the most important

training topics is environmental safety – avoiding forest fires, avoiding creating life-threatening situations for humans and animals, not felling trees on the transmission lines and properly maintaining equipment. Elering ensures continuous training and supervision for people carrying out the work on a scale larger than the requirements actually prescribe. Last year, seven safety training sessions were held for workers and employees.

The quantity of steel and concrete waste generated by the renewal and replacement of lines and pipelines generates the biggest. The subcontractors carrying out this work divert the waste and materials generated into recycling. Elering monitors that waste management at the site complies with requirements.

Continuous and proper maintenance of the equipment is the basis for reducing some of Elering's main environmental impacts, as there is a smaller risk of leaks when the equipment is in working order. During maintenance, we mitigate potential environmental risks and reduce our impact on the environment – for example, when servicing equipment that uses environmentally hazardous SF₆ gas, the gas is pumped out and properly disposed of. In 2021, we carried out a review of the process for the management and disposal of hazardous waste (SF₆ gas, oil, batteries) and identified areas for improvement. We also mapped out improvement opportunities in the area of transformer oil traps and are taking them forward.

In the maintenance of line protection zones, we prefer milling woody vegetation to work where the cuttings are left behind as an

even layer. Last year, we maintained around 1600 hectares in this way. Milling from the surface of protection zones gives a tidier appearance to the land under lines and, in turn, reduces the risk of fires caused by the storage of cuttings and increases landowner satisfaction. It also increases the scrub cutting interval – while the average cutting interval for scrub is three to five years, with milled soil it increases to four to six years, depending on soil type.

In terms of digital solutions related to renewable energy, we continued developing the renewable energy portal in 2021 which,



when completed, will allow every electricity consumer to track the amount of renewable energy consumed, compare it with the average Estonian consumer and their supplier's portfolio, and thus help businesses and individuals to act more responsibly.

We also started working with TSOs in Denmark and Germany to develop the concept of real-time certificates of origin for renewable energy.

At Elering's offices, we follow the principles of circular economy – we sort our waste, use rainwater in the flush tanks of toilets, and generate about a fifth of the electricity consumed in the office with solar panels on site. In the summer months, we carried out a campaign among staff to reduce the use of paper. Last year, we switched to fair trade products in terms of the coffee we offer to staff in the office.

We also piloted electric cars as general-use vehicles for employees for work trips, as the future trend is to replace general-use cars with cars powered by renewable energy.

Research and development

We contribute one percent of our turnover to research and development as expected by Elering's owner. The objective of the R&D projects is to contribute to the achievement of Elering's strategic goals in order to ensure security of supply in a climate-neutral manner, by supporting the competitiveness of the Estonian economy.

In 2021, several studies were carried out in order to support the connection of the Baltic States to the Continental European frequency area and the creation of new reserve markets. The possibilities of procuring high-speed frequency reserves and sharing them within the Baltic States and the capacity of synchronous compensators to increase the stability of the power system were studied. Studies and analyses on these topics will continue in 2022.

Achieving the climate objectives set by the European Union and its Member States will mean major changes in the energy system, which will also affect Elering's work directly. In order to assess possible developments in the gas system, a study on the transition of gas consumption to clean energy was carried out in 2021, forecasting Estonia's national pipeline gas consumption until 2050 and assessing the possibility to replace fossil natural gas with other energy sources. In 2022, we are updating our electricity consumption forecast for Estonia, which takes into account the increase of energy efficiency in the transport sector, heating and buildings management, emission reductions and possible electrification. The results of these studies will be used in the preparation of network development plans and in analyses of system adequacy.

Making the entire energy sector climate-neutral and reducing carbon emissions will probably require the introduction of hydrogen as an energy carrier. Hydrogen could be used to replace fossil fuels in uses where electrification is not possible, or would be too costly. Hydrogen, or its compounds, would also allow long-term storage of renewable energy, contributing to

security of supply. Elering is evaluating the possibilities for hydrogen transmission from two angles. Firstly, allowing a limited amount of hydrogen into the existing gas system – in 2021, a project plan was commissioned with the Baltic and Finnish gas system operators, listing the necessary activities and studies to assess the suitability of the gas system and its components for hydrogen transfer. The studies listed in the project plan will be carried out in the coming years. Secondly, in early 2021, Elering joined the European Hydrogen Backbone, which includes assessing the need and possibilities for the establishment of a pan-European clean hydrogen transmission infrastructure.

Social impact

Last year, we implemented the Our Elering action plan resulting from the employee satisfaction survey, which includes activities to implement the development needs resulting from the survey. Regular seminar Fridays were organised for the staff with in-house and external speakers to introduce and discuss important topics at Elering as planned.

Within the scope of the ESG activities, Elering has assumed the responsibility of disseminating energy-related information in society, whereby an annual safety information campaign for operating safely in the vicinity of lines is carried out to raise awareness and reduce the number of accidents.

For Elering's own employees, it is important to ensure complete awareness of equipment

safety through proper maintenance – all maintenance workers are trained on general safety issues 2-3 times a year, and additionally, more specific topics such as the maintenance of power transmission lines and gas transmission lines are addressed in smaller groups.

In the field of biomethane, we have been running a biomethane awareness campaign for several consecutive years. We also organise public security of supply conferences and webinars, and other public conferences and webinars as necessary.

Elering supports the next generation in the field of energy and information technology. Elering employees give lectures at universities and also introduce the functioning of the energy system to students in schools. There are also regular student excursions to Elering's sites, which were unfortunately hampered by the COVID-19 restrictions last year, but which we will certainly continue in accordance with the current restrictions.

Elering contributes at least one percent of its annual sales revenue to research and development every year. Last year, we joined the 2% club of the Estonian Employers Confederation, which brings together companies that invest 2% or a million euros of their turnover in research and development.

We also developed our cooperation with TalTech in the field of research and development in order to increase Estonia's electricity and gas expertise at Elering, TalTech and, from there, in the students studying at TalTech. The cooperation is framed by a cooperation agreement, the discussions for which we finalised last year.



In cooperation with the TalTech Development Fund, we gave three Future Energy System scholarships and two Smart Energy System scholarships to bachelor's, master's and doctoral studies in 2021. The scholarship was worth €1,000 at bachelor level, €2,000 at master level and €3,000 at doctoral level.

In the interests of landowners, we will continue to use free-standing masts without pullers on arable land to build new lines, which take up the minimum area of land and allow better farming. This is also the case for the reconstruction of the lines from Eastern Estonia to Southern Estonia in relation to the synchronisation with the Continental European frequency area, where work started in 2021. As part of our network optimisation and synchronisation programmes, we will concentrate lines on shared masts to reduce line corridors and thus the burden on landowners. The new lines will be safer, quieter and more modern. By disconnecting from the Russian frequency area by the beginning of 2026, we will free up a total of almost 400 kilometres of line routes, which can be used without restriction, for example as agricultural or forest land, once the area has been cleared.

One of Elering's strategic goals is customer satisfaction and a satisfaction survey is conducted annually.

Corporate governance

ESG is an important focus for Elering's management, as a result of which an ESG working group consisting of nine employees,

including a member of the management board and four executives, was set up to monitor the implementation of the ESG action plan and to integrate ESG issues more deeply into Elering's core activities. The ESG working group prepares and monitors the implementation of the company's ESG action plan, formulates Elering's principles for responsible operation, works on integrating ESG issues into the corporate culture, participates in filling in the questionnaire in the CSR index.

In addition to the ESG working group, the company has nine steering groups, whose areas of expertise are closely related to ESG issues, as are Elering's activities in general. The steering groups work on customer policy, connection development, climate policy, energy market development, research and development, digitalisation and synchronisation. Our Elering and Balticconnector working groups are also active.

In order to bring the concept and field of ESG closer to the employees and to broaden the understanding of the responsible nature of Elering's operations, we conducted an ESG workshop at the summer seminar, which introduced the ESG working group, the ESG action plan and its preparation, and participation in the CSR index.

We implemented the COVID-19 Virus Risk Reduction Action Plan and kept it updated, and the company follows it to do all it can to protect the health and lives of its staff during this new crisis. The action plan includes three levels – corporate, office and individual. The action plan is regularly reviewed and updated at management board level,

indicating the current safety levels of the company and its offices.

Based on the ESG action plan, an anti-corruption policy was established and approved by the Elering supervisory board. Elering's Code of Ethics also includes principles against corruption.

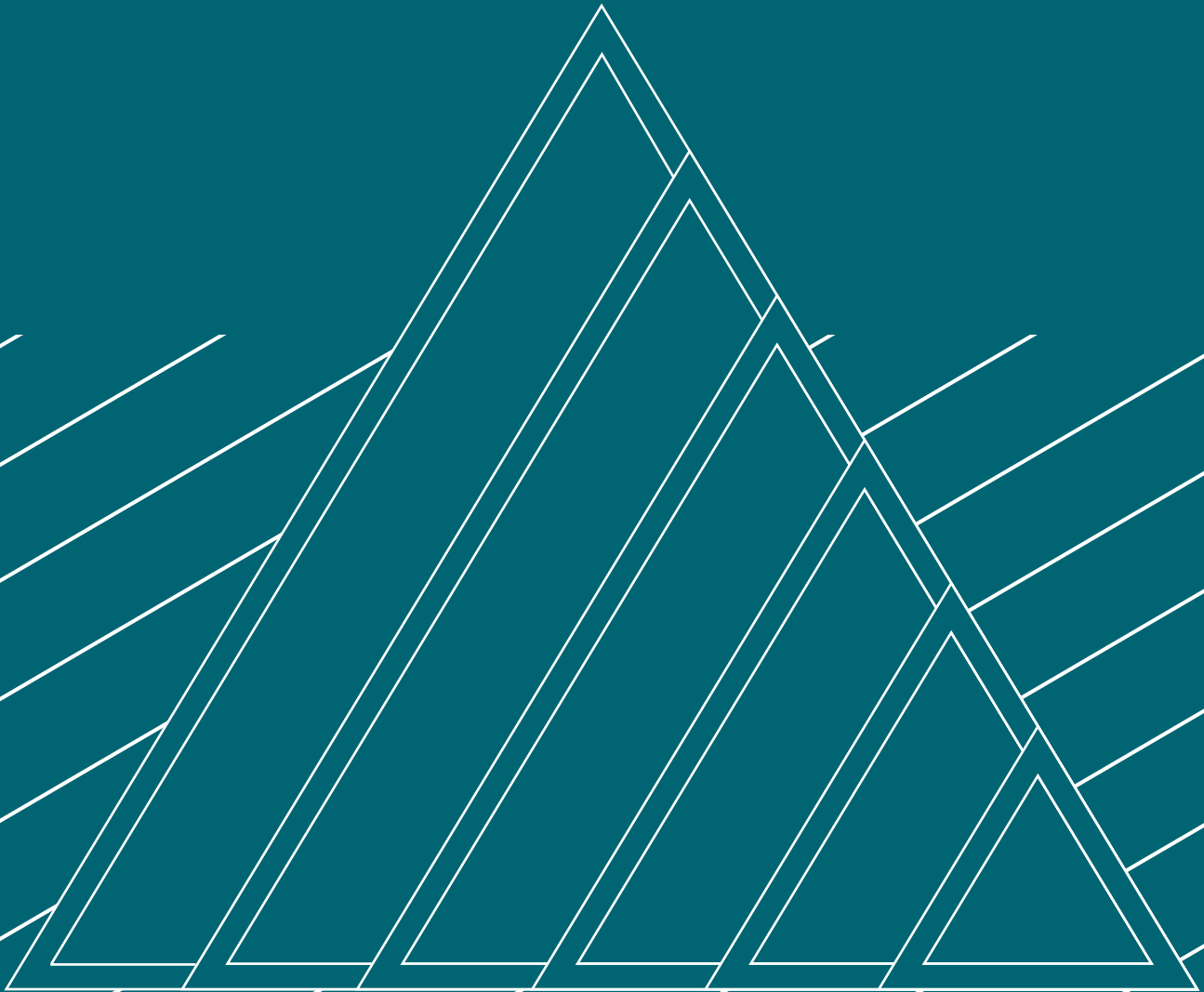
In the field of data protection, Elering carries out personal data processing training for its employees at least once a year, which was also done last year. We also created and added a separate menu item on the intranet for staff on the processing of personal data, which contains forms and instructions for

staff to use in their work, the personal data processing policy with its annexes, training materials (including video training) and the possibility for all staff to send questions directly to the DPO, which are published anonymously in the Q&A section.

In the area of cyber security, a pilot project was carried out last year to implement a mobile device management and security solution to ensure secure access to Elering's resources from mobile devices. We also carried out a procurement for the introduction of incident events management software in order to improve the capacity of security monitoring and responding to incidents.

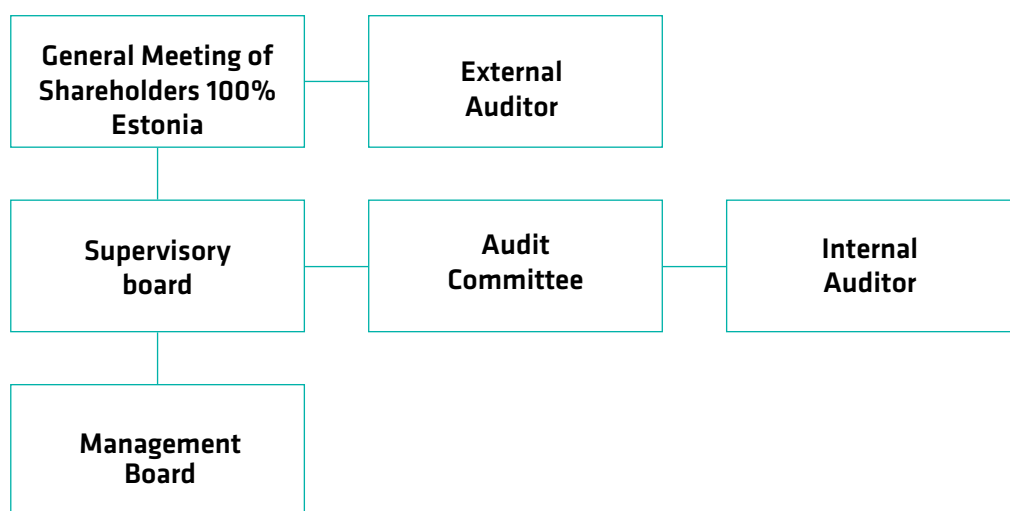


CORPORATE GOVERNANCE



The corporate governance of Elering is based on the Commercial Code, the State Assets Act, the articles of association of Elering and the Corporate Governance Code prepared by the Financial Supervision Authority and the OMX Tallinn Stock Exchange.

CORPORATE GOVERNANCE STRUCTURE



General Meeting of Shareholders

The general meeting is the highest managing body of Elering. The general meeting is competent to amend the articles of association; increase and decrease share capital; elect and remove members of the Supervisory Board; elect auditors; designate a special audit; approve the annual report and distribute profit; and decide on the merger, division, transformation and/or dissolution of the company as well as and decide on other issues placed in the competence of the general meeting by law and the articles of association. In addition to the Commercial Code, the general meeting follows in its activities (calling

Elering is committed to following the Corporate Governance Code and wishes to grow further in this area. We consider this a prerequisite to achieving our strategic goals and shaping our organisational culture. The Corporate Governance Code has been implemented in Elering in such a manner that all employees work towards the achievement of the company's goals. A detailed report regarding compliance with the CGC in 2021 is accessible on Elering's website: elering.ee/en/investors#tab2.

a meeting, information to be disclosed, etc.) the State Assets Act.

The owner is represented at the general meeting by the Minister of Economic Affairs and Infrastructure, who was Taavi Aas in 2021. The decisions are taken during the called meeting or without calling the general meeting of shareholders.

One general meeting was held during the year on 14 May 2021, which approved the annual report and the distribution of profit for 2020. Also the decision was made without calling the general meeting of shareholders during which the distribution of profit decided on 14 May 2021 was revised.

Supervisory Board

The owner's interests in the company are guaranteed by members of the supervisory board. The supervisory board issues guidelines for the management board of the company and supervises the activities of the company's management board. The supervisory board regularly reviews and evaluates the company's strategy, main activities, risk assessments, the annual report and the budget.

In accordance with the articles of association, the meetings of the supervisory board are held when necessary but no less frequently than once every three months.

Supervisory Board Membership and Remuneration

The Supervisory Board consists of three to five members. The number of members of the Supervisory Board is decided and the Members of the Supervisory Board are elected and removed by the representative of the owner, i.e. the Minister of Economic Affairs and Infrastructure, on the basis of recommendations made by an independent Remuneration Committee. The work of the Supervisory Board is organised by the Chairman of the Supervisory Board. The Chairman of the Supervisory Board sets the agenda for Supervisory Board meetings, chairs the meetings, observes the efficiency of the work of the Supervisory Board, organises the operational communication of data to members of the Supervisory Board, ensures that the Supervisory Board has enough time for preparing resolutions and examining data and represents the Supervisory Board in communication with the Management Board of Elering. In order to organise the work of the Supervisory Board, the General Meeting has established a work procedure for the Supervisory Board.

Four annual and five electronic meetings were held in 2021. The supervisory board approved the annual report for 2020 before submitting it to the annual general meeting of shareholders for approval and approved Elering's strategy for 2022-2026 and the 2022 business and investment budgets. At its meetings, the supervisory board usually addresses issues arising from regulations and laws, financial issues, internal control and other important issues concerning the main activity of Elering.

In 2021, the supervisory board of Elering had the following members:

- Timo Kyösti Rajala (entrepreneur), chairman of the supervisory board from 14 June 2017. The mandate is valid until 22 May 2022. Timo Rajala attended four regular meetings and participated in five electronic votes.
- Timo Tatar (Deputy Secretary General for Energy and Mineral Resources, Ministry of Economic Affairs and Communications) from 26 March 2012. The mandate is valid until 22 May 2023. Timo Tatar attended four regular meetings and participated in five electronic votes.
- Indrek Kasela (entrepreneur) from 21 August 2016. The mandate is valid until 22 May 2023. Indrek Kasela attended four regular meetings and participated in four electronic votes.
- Tarmo Porgand (Deputy Head of the State Assets Department, Ministry of Finance) from 22 May 2017. The mandate is valid until 7 March 2022. Tarmo Porgand attended four regular meetings and participated in five electronic votes.

- Janek Stalmeister (entrepreneur) from 22 May 2020. The mandate is valid until 22 May 2023. Janek Stalmeister attended four regular meetings and participated in five electronic votes.

The remuneration paid to Supervisory Board members in 2021 were as follows:

Member of the Supervisory Board	Remuneration in 2021 (thousand euros)	Remuneration in 2020 (thousand euros)
Timo Rajala	18.0	18.0
Timo Tatar	9.0	9.0
Indrek Kasela	9.0	9.0
Tarmo Porgand	9.0	9.0
Janek Stalmeister	9.0	6.0
Toomas Pöld	0.0	3.8

There is no provision for the payment of severance benefits or other benefits to members of the supervisory board. Toomas Pöld left the supervisory board in 2020 and Janek Stalmeister was elected a new member of the supervisory board. The mandate is valid until 22 May 2023.

Members of the supervisory board must meet the requirements prescribed for members of a supervisory board in the Commercial Code and the State Assets Act and comply with the obligations imposed on the members.

Management Board

The Management Board is a managing body of Elering that represents and manages the everyday

activities of the company in accordance with the requirements of law and the articles of association of the company and organises the accounting of the company. Elering's Management Board has full discretion, and day-to-day management decisions are made independently of the owner and the supervisory board. The Management Board needs approval from the Supervisory Board for transactions and operations that go beyond the day-to-day economic activities of the company. The Management Board must ensure that the members of the Supervisory Board are adequately informed about the economic situation of the company and the most important circumstances with regard to the economic activity and inform the Supervisory Board of the most important circumstances with regard to the economic activity, as necessary.

Composition and remuneration of the Management Board



Taavi Veskimägi



Riina Käi



Kalle Kilk

In accordance with the articles of association, the Management Board may have one to three members. A member of the Management Board is elected by the Supervisory Board for up to five years. According to Elering's articles of association, the company may be represented in all legally binding acts jointly by two members of the Management Board or independently by the Chairman of the Management Board.

A person authorised by the supervisory board concludes contracts with members of the management board, which set out more precisely the rights and obligations of the management board member with regard to the company and specify the member's remuneration.

Throughout 2021, the management board of Elering consisted of three members:

- Taavi Veskimägi as the chairman of the Management Board performs, among other things, the daily responsibilities of Elering's CEO, i.e. manages and represents the company, ensures that activities are in compliance with contracts and relevant laws, organises the work of the management board, coordinates the development of the company's strategy and leads its implementation;

- Riina Käi, member of the Management Board who also performs the role of the CFO, manages Elering's financial activities, the area of renewable energy and the areas of administration and information technology;
- Kalle Kilk as a member of the Management Board performs, among other things, the daily tasks of the head of asset management.

According to the articles of association, a member of the Management Board may be remunerated only on the basis of a Management Board member contract previously concluded with the member. A member of the Management Board may also be paid additional remuneration, taking into consideration their performance, of up to four months' regular remuneration. A bonus can be paid to a member of the Management Board on the basis of annual results, or on a different basis, based on a Supervisory Board decision. The remuneration of the members of the Management Board is fixed and is stipulated in the contract concluded with the Management Board member. Elering has no long-term bonus schemes in place. A member of the Management Board may only be paid severance benefits upon their removal at the initiative of the Supervisory Board before the term of their authority has expired in the amount of up to three months' remuneration.

The remuneration paid to Management Board members in 2021 were as follows:

Member of the Management Board	Total remuneration in 2021 (thousand euros)	Total remuneration in 2020 (thousand euros)
Taavi Veskimägi	170.5	161.7
Kalle Kilk	127.1	120.8
Riina Käi	125.4	98.4

The mandates for Management Board members are as follows:

Taavi Veskimägi mandate is valid until 30 November 2024

Kalle Kilk mandate is valid until 31 December 2024

Riina Käi mandate is valid until 31 December 2024

Prevention of conflicts of interest

Members of the Management Board do not make decisions based on their personal interests and do not use the business offers directed at Elering in their personal interests. A member of the Management Board notifies the Supervisory Board and other members of the Management Board of any conflicts of interest prior to the conclusion of their contract and without delay upon its subsequent occurrence. A member of the Management Board promptly informs other members of the Management Board and the Chairman of the Supervisory Board of any business offers related to the company's economic activities directed at the member of the Management Board, their relatives or other related persons.

The requirement to avoid any conflicts of interest is stipulated in the contract concluded with the member of the Management Board.

A member of the Management Board avoids any conflicts of interest arising between the interests of the company and the member of the Management Board and informs the Elering Supervisory Board of its direct or indirect interest in the transactions carried out by the company and immediately informs the Supervisory Board if a conflict of interest occurs or if a situation occurs in which such a conflict may arise. The Supervisory Board decides on the conduct of transactions with a member of the Management Board or the conduct of transactions involving the personal interest of a member of the Management Board and also specifies the terms of such transactions.

Members of the Management Board must declare any related parties, and the amounts of transactions executed with said related parties are disclosed in the annual report. Elering did not conclude any transactions with members of the Management Board or the parties related to them in 2021 (no transactions were concluded with members of the Management Board or the parties related to them in 2020).

Audit Committee

The Supervisory Board elects the Audit Committee, which has up to five members and is responsible for exercising supervision over risk

management, internal control and financial reporting. The Audit Committee advises the Supervisory Board in the area of accounting, financial reporting, verification of the independence of the sworn auditor, risk management, internal control and audit, exercising supervision and preparation of the budget as well as the legality of activities.

Members of the committee are elected for a term of three years and the members elect a chairman from among themselves who organises the activities of the Audit Committee. The Chairman of the Supervisory Board may not hold the position of the Chairman of the Audit Committee.

The members of the Audit Committee in 2021 were:

- Timo Tatar (Deputy Secretary General for Energy and Mineral Resources, Ministry of Economic Affairs and Communications);

- Indrek Kasela (entrepreneur);
- Tarmo Porgand (Deputy Head of the State Assets Department, Ministry of Finance);
- Janek Stalmeister (entrepreneur).

The Audit Committee held five meetings in 2021: on 15 March, 8 June, 16 June (electronic), 15 September and 14 December (four times in 2020). The Audit Committee discussed the following internal audits that were carried out: IT service request and incident management organisation; gas balancing management; management of renewables administration, overview of risk management process. In addition the audit plan was reviewed, the work of external auditor was reviewed, the topics of internal control and financial reporting were analysed. The internal audit service is outsourced from the external service provider. The internal auditor was paid 29.7 thousand euros for their services in 2021 (2020: 30.1 thousand euros).

In 2021 the remuneration paid to Audit Committee members were as follows:

Member of the Audit Committee	Total remuneration in 2021 (thousand euros)	Total remuneration in 2020 (thousand euros)
Timo Tatar	1.4	1.1
Indrek Kasela	0.8	0.8
Tarmo Porgand	0.9	0.8
Janek Stalmeister	0.9	0.0
Toomas Põld	0.0	0.6

Cooperation between the Management Board and Supervisory Council

The Management Board and the Supervisory Council work in close cooperation to best protect the interests of Elering. The Management Board and the Supervisory Board work together to develop the company's strategy. The Management Board follows the strategic guidelines provided by the Supervisory Board when making management decisions.

The Management Board regularly informs the Supervisory Board of all material circumstances regarding the planning of the company's activities and business activities and draws special attention to significant changes in Elering's business activities. The Management Board forwards information to the Supervisory Board, including any financial reports, in a timely manner before the supervisory board meeting. At the request of the Supervisory Board, a member of the Management Board provides the Supervisory Board with oral or written information regarding the activities of the Management Board and the company and provides the Supervisory Board access to any information concerning the Management Board and the activities of the company.

The management of the company is governed by relevant laws, the articles of association, the decisions of and the goals set by the General Meeting and the Supervisory Board meetings.

Disclosure of the information

The website of Elering (www.elering.ee) presents a separate list of data subject to disclosure pursuant to legislation. The website presents annual

reports, financial results, performance indicators, an overview of principal activities, the structure of Elering, a summary of its strategy, news and notices as well as other information necessary for investors and the public. The website is also available in English. The information (including news and notices) on the website is constantly updated.

Financial reporting and auditing

The management board of Elering publishes the annual report every year and the quarterly financial results during the financial year. The annual report has been prepared in accordance with IFRS standards and audited in compliance with ISA guidelines. At the invitation of the Supervisory Board, the auditor of the company also attends the meeting of the Supervisory Board. The annual report, which is signed by the members of the Management Board, is submitted to the General Meeting for approval. A Supervisory Board report regarding the annual report is submitted to the General Meeting with the annual report.

Elering elects an external auditor by following a public procurement procedure. Tenders are only requested from companies that offer services of internationally recognised quality.

The external auditor is elected by the decision of the general meeting, and the contract for auditing services is concluded by the management board. The contract with the auditor sets out the auditor's duties, schedule and remuneration. A contract concluded with an auditor may not obstruct the auditor in any way in assessing the activities of the company.

In spring 2017, a new procurement was carried out to find an auditor for 2017-2021. The tender was awarded to AS PricewaterhouseCoopers. In carrying

out the external audit, the company complies with the laws of the Republic of Estonia, international auditing standards and the risk management rules of the audit firm, including the European Union Regulation on audit activities that entered into force in 2016. In 2021, Elering paid 14.0 thousand euros for the audit of the annual report on the basis of the submitted invoices (2020: 14.2 thousand euros).

In addition to the audit of the financial statements, the external auditor has provided the following services during 2021:

- an assurance engagement on Activities report in accordance with Electricity Market Act § 17;
- report on audit findings to the National Audit Office of Estonia;
- performed transactions legality control in accordance with requirements of the National Audit Office of Estonia;
- tax and accounting advice services that are permissible in accordance with the Auditors Activities Act.

The activities of the external auditor are overseen by the audit committee pursuant to the Auditors Activities Act.

Risk management and risks

Elering performs a very important public task – the provision of electricity and gas network services through the transmission network across the country, which is a vital service by law. Therefore, the company's risk management consists of two parts:

The objective of risk management at Elering is to identify the risks that may jeopardise the achievement of strategic goals and thereafter to

reduce the risks related to a level acceptable to the company. The company uses the COSO ERM risk management framework for this purpose.

The purpose of risk management at Elering as a provider of vital services is to minimise the probability and extent of interruptions in network connection that would result in an emergency for the customers of the network service, so to the whole society. To this end, the company uses the risk management framework provided for in the Emergency Act.

Risk management in the company

Risk management is integrated into the company's strategic and daily management.

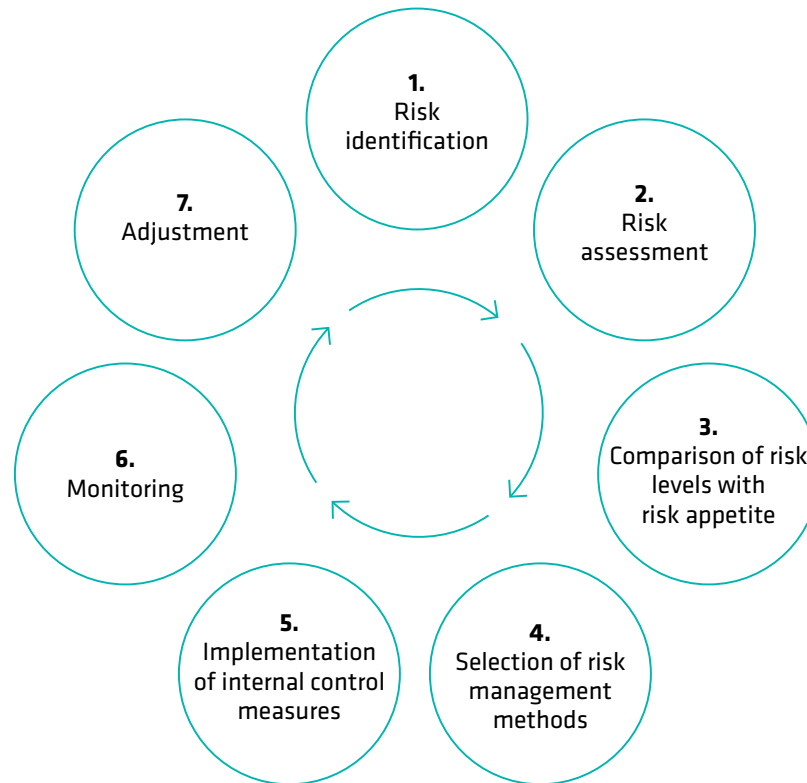
Risk assessment results are used as an important input in the course of updating the annual strategy. If new activities are considered as a result of updating the strategy, they will pass a risk analysis before they are approved.

All employees of the company participate in risk management on a daily basis by considering possible consequences when making decisions, which may prevent the company from achieving its objectives.

The management board is responsible for the functioning of risk management and reports the results to the audit committee and the supervisory board. The company's CRO and risk committee organise risk management on a daily basis with the risk working groups. The quality of risk management is assessed by an independent internal auditor who reports the results of the assessment to the audit committee. Ernst & Young Baltic AS was the internal auditor in the financial year.

Elering's financial risks are discussed in more detail in Note 5 to the financial statements.

Risk management is a constant process characterised by the following picture:



1. Risk identification – the scenarios that may threaten the achievement of objectives are described and placed into categories;
2. Risk assessment – the probability and impact of a risk is analysed and the level of the risk is determined with the relevant matrix on the basis of the analysis;
3. Risk levels are compared to the company's risk appetite. The company has defined the level of risk appetite, which it's prepared to take without applying any additional risk management measures. Accepting residual risks of high and very high level is not considered justified by the company because of its special role in society, which is the provision of a vital service;
4. Risk management methods are selected according to the comparison of the risk described in the previous section with the company's risk appetite. If the risk level in the case of a new risk is higher than the company's risk appetite, the company will seek suitable mitigation methods that may be avoidance of the risk or reduction of the risk. If the risk level is low or medium, then accepting the risk may also be a method;
5. Internal control measures ensure the prevention and timely detection of and rapid response to the events that obstruct the achievement of the company's goals and the minimisation of the damage caused;
6. Monitoring means the collection and analysis of the data of internal control meas-

ures and reporting them to the managing bodies;

7. Adjustment means the introduction of amendments to internal control measures immediately if monitoring reveals that some measures do not serve their purpose or the possibility to achieve the same goal with more suitable measures has emerged.

Risk assessment

The risk assessment showed that external threats have increased significantly during the year:

- *Geopolitical risk.*
The international situation has become considerably more tense in Eastern Eu-

rope. The electricity and gas supply of Estonia is related to the respective energy systems of the Russian Federation and they may also affect the operation of the Estonian energy system.

- *Cyber threat.*
The number of cyberattacks increased during the year, both globally and in Estonia. Energy infrastructure is a potential target for cyberattacks, and we need to be prepared for this threat.
- *Volatility of energy markets.*
The year 2021 went down in history as a year of rare increases in electricity and gas prices. In January, the average price in the Estonian price area of the power exchange was €54/MWh, but by December it had risen to €203/MWh.

The increase in external risks is also reflected in the estimated residual risks:

Number	Low	Average	High	Very high	Total
Energy system risks	3	5	2	0	10
Financial Risks	0	3	0	0	3
IT risks	4	2	2	0	8
Activity risks	5	4	1	0	10
Compliance risks	1	4	0	0	5
Total	13	18	5	0	36

The company's risk tolerance does not allow it to accept residual risks of a high or very high level. As the table shows, five risks were above the company's risk tolerance limit. In order to mitigate them, the management board decided to implement 23 new additional measures, which will bring the residual risk down to the tolerable level in the coming years.

A significant materialised risk was identified in 2021 – the electricity price risk. The price of electricity in the Estonian price area of the Nord Pool Spot electricity exchange increased 2.5 times on average (2021 vs 2020), and Elering buys electricity from the exchange to offset network losses. As a result of the price increase, electricity purchase

costs increased by €26 million compared to 2020. Electricity price changes were monitored periodically at the level of the management board, including by checking that the ratios set out in loan agreements remained within the allowed limits.

Risk management related to vital service

Risk management related to vital services is based on the requirements and principles set forth in the Emergency Act and its sub-acts. Pursuant to the Act, each provider of vital services must prepare a risk analysis related to the vital service and a business continuity plan.

A risk analysis covers:

- the content and required level of the vital service;
- the resources necessary for the provision of the vital service;
- the possible threats that may bring about the interruption of vital services;
- descriptions of risk scenarios and attribution of risk classes to them on the basis of the criteria provided for in legislation;
- preventive measures aimed at reducing the probability of realisation and/or impact of risk scenarios.

The most important part of the business continuity plan is the description of the recovery plans of the most important risk scenarios identified in the risk analysis. Each risk scenario has one or several recovery plans that describe how energy supply is restored in a situation where the risk scenario has materialised. The continuous operation plan also describes the work of the company's crisis committee, the exchange of information with the Ministry of Economic Affairs and Communications in emergency situations, the contact details

of the main contractual partners involved in the recovery of energy supply, etc.

The scenarios addressed the following threats:

- Weather (storm, exceptional cold snap);
- Human errors;
- Physical attacks;
- Cyberattacks;
- Deterioration of the technical condition of equipment;
- Impact of neighbouring electricity systems;
- Etc.

Elering AS renewed the risk analysis and business continuity plan for the vital service of electricity supply and the Ministry of Economic Affairs and Communications approved these documents in 2021.

Despite the increased threats in the external environment, the management board is convinced that risks are well managed for both the achievement of the company's and the energy supply of the customers of the vital service.

Equal treatment

As a system operator, Elering has system responsibility pursuant to the Electricity Market Act, i.e. the obligation to ensure the security of supply and balance of the power system at all times. The system operator exercises its rights and performs its obligations in accordance with the principle of equality of treatment.

To ensure the equality of treatment, Elering has established internal procedures and, based on

national and European Union legislation, including network codes, has prepared various standard terms, methodologies and other rules that are published on the company's website and approved by the Estonian Competition Authority.

Ethics and anti-corruption activities

It is important to Elering that all of its employees and managers adhere to the highest ethical standards. It is important that our activities are transparent and comply with all laws and ethical standards. The company has established a code of ethics as well as guidelines for the prevention of corruption and conflicts of interest. Regular training is also carried out among employees.

Elering is a company where corruption in any shape or form is impermissible.

The UN Global Compact Pact highlights four main consequences of corruption for companies:

The risk of violation of laws, because corruption is clearly an unlawful activity.

Elering wants to be an example to other companies in society in terms of abidance with law and this can only be achieved if the company complies with the requirements of legislation itself.

Reputational risk

Elering's functions include several activities whose impact extends outside ordinary business activities. We must guarantee functioning and efficient electricity and gas markets with our activities, arrange the collection and payment of renewable energy

support, want to have a say in shaping the energy and climate policies of the state, etc. All of this can only be done if our reputation is impeccable.

Financial risk

It's possible to suffer remarkably serious economic damage as a result of corruption. This may become evident in higher purchasing costs, lower quality of the equipment purchased, etc.

Loss of internal trust

If employees notice that unethical behaviour is enabled in the company, it will lead to a serious loss of trust in the company, a decrease in loyalty and a deterioration of the general company culture.

The emergence of corruption must be prevented in order to avoid the aforementioned negative consequences.

The supervisory board of the company has approved the Anti-corruption Policy, which focuses primarily on the prevention of corruption. The policy addresses the following aspects of prevention of corruption:

Bribery/income derived from corrupt practices

The policy defines bribery and income derived from corrupt practices and rules out any association of management bodies and employees with it.

Conflict of interests

The obligation to avoid any conflict of interest has been stipulated, the meaning of a related party has been defined and notification of a conflict of interest has been made mandatory.

Support and donations

Elering is allowed to grant support and donations only in accordance with the State Assets Act and the respective procedure of the company.

Gifts and hospitality

Gifts and hospitality are only permitted within the limits of good business practices, which are defined in the policy.

Obligation and procedure of reporting suspicions

All employees must immediately inform the company of any breaches or suspected breaches of the Anti-corruption Policy.

In addition to the Anti-corruption Policy, there are provisions aimed at the emergence of corruption in nine different procedures of the company.

The risk analysis revealed that procurements are the most likely points of contact with the risk of corruption. Compliance with several preventive measures has therefore been made obligatory for employees in the respective procurement procedure. For example, employees are obliged to submit the procurement documents to the meeting of the management board in advance and the management board approves the results of procurements after the tenders have been received. The use of the four-eyes principle in processing the invoices received is guaranteed with IT tools.

The business software of the company provides accurate accounting of all the assets, including the ones that are in use but whose book value is zero. Assets can be written off only by preparing

the respective record that must be approved by the owner of the assets, their line manager and the member of the management board responsible for the area.

The intranet of the company includes the section Protection of Corruption, where employees can find guidelines on the recognition and prevention of corruption. All employees have confirmed electronically that they have read the guidelines.

Corruption prevention training was held in spring and it was mandatory for all staff. The main focus of the training was on the quick recognition of potential corruption situations. In society, there have often been cases of corruption in which the participants committed an unlawful act without realising it and for no personal gain. Completing the training enables the employees of Elering to better recognise possible situations of corruption and respond to them preventively.

No cases of corruption were identified in Elering in 2021 or 2020 and the management board is convinced that the measures taken to prevent corruption also help to keep the risk of corruption minimal in the future.

The measures for prevention of corruption described above have a very important role in reducing the risk of corruption, but the attitude and ethical beliefs of employees themselves are no less important. The attitude of employees can be shaped by the personal example set by both middle and senior managers. The company's code of conduct is also accessible on the intranet. It includes descriptions of the general beliefs and principles that employees are expected to hold.

FINANCIAL STATEMENTS

1.01.2021 – 31.12.2021



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Statement of financial position

In thousands of euros

Note

31.12.2021

31.12.2020

ASSETS

Current assets

Cash and cash equivalents	7	62,668	50,619
Short-term deposits	7	42,000	0
Investments in equity instruments	2	0	899
Trade and other receivables	8	59,683	38,586
Inventories	9	3,658	3,535
Total current assets		168,009	93,639

Non-current assets

Property, plant and equipment	10	1,000,232	968,049
Intangible assets	11	14,613	14,048
Total non-current assets		1,014,845	982,097

TOTAL ASSETS		1,182,854	1,075,736
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LIABILITIES

Current liabilities

Borrowings	12	12,010	11,911
Trade and other payables	13	57,135	27,102
Total current liabilities		69,145	39,013

Non-current liabilities

Borrowings	12	312,095	322,389
Contract liability from connection fees	14	36,154	34,855
Deferred income	14	383,372	292,511
Total non-current liabilities		731,621	649,755

TOTAL LIABILITIES		800,766	688,768
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EQUITY

Share capital	15	229,890	229,890
Revaluation reserve	2	0	-1,047
Statutory reserve capital	15	17,595	16,330
Retained earnings	15	134,603	141,795
TOTAL EQUITY		382,088	386,968
TOTAL LIABILITIES AND EQUITY		1,182,854	1,075,736

The notes on pages 76 to 126 are an integral part of these financial statements.

Statement of comprehensive income

<i>In thousands of euros</i>	<i>Note</i>	<i>2021</i>	<i>2020</i>
Revenue	16	201,457	137,068
Other income	17	6,672	5,327
Goods, raw materials and services	18	-135,210	-53,255
Other operating expenses	19	-7,144	-5,445
Staff costs	20	-11,222	-10,970
Depreciation and amortization	10, 11	-45,531	-40,123
Operating profit		9,022	32,602
Financial income	21	16	2
Financial costs	21	-2,302	-2,338
Profit before income tax		6,736	30,266
Income tax expense	15	-1,628	-4,964
Profit for the year		5,108	25,302
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Changes in the fair value of equity investments at fair value through other comprehensive income	2	0	-1,001
Profit from sale of equity investments at fair value through other comprehensive income	2	12	0
Total other comprehensive income		12	-1,001
Total comprehensive income for the year		5,120	24,301

The notes on pages 76 to 126 are an integral part of these financial statements.

Cash flow statement

In thousands of euros

	Note	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
Cash flows from operating activities			
Profit before income tax		6,736	30,266
Adjustments for:			
▪ Profit from sale of property, plant and equipment	17	-257	-100
▪ Depreciation, amortisation and impairment	10, 11	45,531	40,123
▪ Dividends received from long-term financial investments	17	0	-873
▪ Government grants expended and amortised	17	-5,122	-2,978
▪ Interest expenses	21	2,295	2,287
▪ Interest income	21	-6	-2
Operating cash flows before working capital changes		49,177	68,723
▪ Changes in inventories	9	-123	152
▪ Changes in receivables and prepayments related to operating activities	8	-20,476	1,707
▪ Changes in liabilities and prepayments related to operating activities	13	24,272	-1,155
▪ Changes in deferred income from connection and other service fees	14	224	-583
Changes in working capital		3,897	121
Income tax paid	13, 15	0	-6,531
Dividends received	17	0	873
Interest paid	12, 21	-2,016	-2,319
Interest received	8, 21	6	2
Total cash flows from operating activities		51,064	60,869
Cash flows from investing activities			
Purchases of property, plant and equipment and intangible assets	10, 11, 13	-75,497	-100,214
Net change in deposits over 3 months	7	-42,000	0
Grants to acquire non-current assets	14	31,827	59,477
Proceeds from sale of equity instruments	2	912	0
Proceeds from sale of property, plant and equipment	10, 17	773	264
Congestion fees received	8, 13, 14	65,582	24,053
Total cash flows used in investing activities		-18,403	-16,420
Cash flows from financing activities			
Repayments of bank loans	12	-10,558	-10,558
Repayments of lease liabilities	12	-54	-19
Dividends paid	15	-10,000	-25,600
Total cash flows used in financing activities		-20,612	-36,177

Net increase/(-)decrease in cash and cash equivalents		12,049	8,272
Cash and cash equivalents at the beginning of the period	7	50,619	42,347
Cash and cash equivalents at the end of the period	7	62,668	50,619

The notes on pages 76 to 126 are an integral part of these financial statements.

Statement of changes in equity

<i>In thousands of euros</i>	<i>Share capital</i>	<i>Statutory reserve capital</i>	<i>Retained earnings</i>	<i>Reveluation reserve</i>	<i>Total</i>
Balance as at 1.01.2020	229,890	14,686	143,737	-46	388,267
Comprehensive income for the year	0	0	25,302	0	25,302
Other comprehensive income for the year	0	0	0	-1,001	-1,001
Total comprehensive income for the year	0	0	25,302	-1,001	24,301
Transactions with owners:					
Transfers to statutory reserve capital	0	1,644	-1,644	0	0
Dividends paid	0	0	-25,600	0	-25,600
Total transactions with owners	0	1,644	-27,244	0	-25,600
Balance as at 31.12.2020	229,890	16,330	141,795	-1,047	386,968
Comprehensive income for the year	0	0	5,108	0	5,108
Other comprehensive income for the year	0	0	-1,035	1,047	12
Total comprehensive income for the year	0	0	4,073	1,047	5,120
Transactions with owners:					
Transfers to statutory reserve capital	0	1,265	-1,265	0	0
Dividends paid	0	0	-10,000	0	-10,000
Total transactions with owners	0	1,265	-11,265	0	-10,000
Balance as at 31.12.2021	229,890	17,595	134,603	0	382,088

More detailed information on share capital and other equity items is set out in Note 15.

The notes on pages 76 to 126 are an integral part of these financial statements.

Notes to the Financial Statements

Note 1. Elering AS and its operations

The financial statements of Elering AS (hereinafter “Elering”) for the year ended 31 December 2021 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. Elering is incorporated in the Republic of Estonia and its registered address is Kadakate 42, 12915 Tallinn, Estonia. The principal business activity of Elering is electricity and natural gas transmission in the Republic of Estonia.

The economic activities of Elering are regulated by the laws of the Republic of Estonia and European Union. Elering’s transmission business and balancing service business are regulated by the Estonian Competition Authority, including the approval of network tariffs and standard terms and conditions of such contracts.

The sole shareholder of Elering is the Republic of Estonia.

The Management Board has approved the financial statements of Elering on 10 March 2022. Pursuant to the Commercial Code of the Republic of Estonia, the annual report shall be presented for approval to Elering’s Supervisory Board and the General Meeting of Shareholders.

Note 2. Summary of significant accounting policies

Bases of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Changes in presentation.

The presentation of information in the 2021 financial statements has been changed. The presentation of comparative information for the previous period has been adjusted to the new presentation scheme.

In accordance with IFRS 16, rights of use of land must be shown among property, plant and equipment. In this report, rights of use of land are presented among property, plant and equipment and the comparative figures of the previous period have been adjusted according to the same principle.

The contract liability from the connection fees is recognized separately from the deferred income in the statement of financial position and the comparative data of the previous period has been adjusted according to the same principle.

The accrued interest liability arising from long-term borrowings is presented among borrowings and the comparative figures of the previous period have been adjusted according to the same principle.

The effects of the changes are set out below:

In thousand of euros

Line item	31.12.2020	Change	Adjusted 31.12.2020
Property, plant and equipment	961,285	6,764	968,049
Intangible assets	20,812	-6,764	14,048
Borrowings (short-term part)	10,565	1,346	11,911
Trade and other payables	28,448	-1,346	27,102
Contract liability from connection fees	0	34,855	34,855
Deferred income	327,366	-34,855	292,511

Segment reporting. Business segment disclosures are provided in a manner that operating results are regularly reviewed by Elering's chief operating decision maker. The chief operating decision maker responsible for the allocation of resources for business segments and the results of their operations is Elering's management board.

Functional and presentation currency. The financial statements of Elering are presented in thousands of euros which is Elering's functional and presentation currency.

Foreign currency translation. Foreign currency transactions are translated into the functional currency using the exchange rates of the European Central Bank prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the profit or loss.

Cash and cash equivalents. In the statement of cash flows, cash and cash equivalents include short-term (up to 3 months) highly liquid investments that can be converted to known amounts of cash and that lack significant risk of market value changes, incl. cash on hand, bank accounts and short-term deposits with original maturities of three months or less.

Financial assets

Classification

Elering classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on Elering's business model for managing the financial assets and the contractual terms of the cash flows.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which Elering commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and Elering has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, Elering measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments. Subsequent measurement of debt instruments depends on Elering's business model for managing the asset and the cash flow characteristics of the asset. All Elering's debt instruments are classified in amortised cost measurement category.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income/expenses. Foreign exchange gains and losses and impairment losses are presented as separate line items in profit or loss.

As at 31 December 2021 and 31 December 2020, the following financial assets of Elering were classified in this category:

- trade receivables,
- bank deposits,
- cash and cash equivalents.

Equity instruments. Elering recognises equity investments at fair value. Where Elering's management has made an irrevocable election to present in other comprehensive income (OCI) the fair value gains and losses on equity investments that are not held for trading, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when Elering's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other income/expenses in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

The following equity instruments of Elering are measured at FVOCI:

- Shares of Nord Pool AS (until 2016 AS Nord Pool Spot). The principal business activity of Nord Pool AS Group, registered in Norway, is the organisation of electricity exchanges in the Nordic countries, Great Britain and the Baltic States. The investment was made with a long-term strategic goal of taking part in the decision-making process concerning the development of electricity market in the Nordic-Baltic region. As the shares are not held for trading, the management has made an irrevocable decision to measure the shares at FVOCI. In December 2020, Elering's Supervisory Board made a decision to sell all the shares owned by Elering. The write-down has been done to the net selling price of the shares. The impairment loss of EUR 1,001 thousand was recognized in the statement of 2020 and the impairment loss of EUR 46 thousand in the statement of 2019 comprehensive income. The shares were sold in 2021 and the revaluation reserve was written off to retained earnings.

Impairment

Elering assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

For trade receivables Elering applies a simplified approach permitted by IFRS 9 and measures the allowance for impairment losses at expected lifetime credit losses from initial recognition of the receivables. Elering uses a provision matrix in which allowance for impairment losses is calculated for trade receivables falling into different ageing or overdue periods.

For cash and cash equivalents and bank deposits where there is an investment grade it is considered there has been no significant increase in credit risk.

Prepayments. Prepayments are carried at cost less a provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which itself will be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once Elering has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to Elering. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are consumed or received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying amount of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Inventories. Inventories are initially recorded at cost, consisting of the purchase costs and other costs incurred in bringing the inventories to their present location and condition.

The purchase costs of inventories include the purchase price, customs duties and other non-refundable taxes and direct transportation costs related to the purchase, less discounts and subsidies. Inventories are expensed using the FIFO method.

Inventories are carried in the statement of financial position at the lower of the acquisition cost and net realizable value. Net realisable value is calculated by deducting estimated expenses that are necessary for preparing the product for sale and for completing the sale from the estimated sales price used in the ordinary course of business.

Property, plant and equipment. Property, plant and equipment are tangible assets that are used in business activities and the useful life of which is longer than one year. Property, plant and equipment are carried using the cost method, i.e. at historical cost less any accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Other than the purchase price, cost of the acquired property, plant and equipment includes transportation and installation expenses, as well as other expenses directly related to acquisition and putting such assets into operation. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. Borrowing costs are capitalised if the borrowing costs and expenditures for the asset have been incurred and the construction of the asset has commenced. Capitalisation of borrowing costs is ceased when the construction of the asset is completed or when the construction has been suspended for an extended period of time.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only if they meet respective criteria for property, plant and equipment. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

If property, plant and equipment consist of components with significantly different useful lives, the components are recognised as separate items of property, plant and equipment.

Payments made for rights of use of land are recognised as property, plant and equipment. The costs related to rights of use of land are depreciated according to the contract period, not exceeding 99 years.

Land is not depreciated. Depreciation of other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	<i>Useful lives in years</i>
Buildings	25–40
Facilities – electricity transmission lines, gas pipelines	30–60
Machinery and equipment – electricity and natural gas transmission equipment	7–40
Other property, plant and equipment	3–20
Land use rights	99

The expected useful lives of items of property, plant and equipment are reviewed during the annual stocktaking, when subsequent expenditures are recognised and in the case of significant changes in development plans. When the estimated useful life of an asset differs significantly from the previous estimate, it is treated as a change in the accounting estimate, and the remaining useful life of the asset is changed, as a result of which the depreciation charge of the following periods also changes.

The residual value of an asset is the estimated amount that Elering would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, on each balance sheet date.

Gains and losses on disposals and write-offs determined by comparing proceeds with the carrying amount are recognised in profit or loss under "Other income" or "Other operating expenses" respectively.

Intangible assets. Intangible assets are recognised in the statement of financial position only if the following conditions are met:

- the asset is controlled by Elering ;
- it is probable that the future economic benefits that are attributable to the asset will flow to Elering;
- the cost of the asset can be measured reliably.

An intangible asset is initially recognised at its cost, comprising its purchase price, any directly attributable expenditure on preparing the asset for its intended use and borrowing costs that relate to assets that take a substantial period of time to get ready for use. After initial recognition, an intangible asset is carried at its acquisition cost less any accumulated amortisation and impairment losses.

Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Intangible assets and personal of use are amortised using the straight-line method over their useful lives:

	<i>Useful lives in years</i>
Software licences	3-5 years

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs of disposal.

Impairment of non-financial assets. Land and assets that are subject to depreciation/amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment loss are reviewed for possible reversal of impairment on each reporting date.

Leases. Leases are contracts that transfer the right to control the use of an asset for a specified period of time against payment. For such contracts, IFRS 16 requires the lessee to account for the asset and its lease liability. Assets used under the right of use are depreciated and interest is charged on the liability. Elering has applied a practical expedient for leases with a lease term of 12 months or less without call options and low value assets (immaterial leases). Payments made or received under such operating leases are recognized in the statement of comprehensive income on a straight-line basis over the period of the lease term. The principles of IFRS 16 for lessors remain substantially unchanged from those of IAS 17, namely that a lessor continues to classify its leases into operating and finance leases and recognizes those types of leases differently.

Financial liabilities. Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Elering has financial liabilities only in the category of 'other financial liabilities'.

Other financial liabilities are initially recognised at fair value, net of transaction costs incurred and are subsequently carried at amortised cost. The amortised cost of current liabilities normally equals their nominal value; therefore, current liabilities are stated in the statement of financial position in their redemption value. Non-current liabilities are subsequently carried at amortised cost. The difference between the amortised cost and the redemption value is recognised as an interest expense in profit or loss over duration of the contract using the effective interest rate method. The borrowing costs associated with the qualifying assets meeting respective requirements are capitalised as part of cost of the assets.

A financial liability is classified as current when it is due within 12 months after the balance sheet date or Elering does not have an unconditional right to defer the payment for longer than 12 months after the balance sheet date. Borrowings with a due date of 12 months or less after the balance sheet date that are refinanced into non-current borrowings after the balance sheet date but before the approval of the annual report, are classified as current. Borrowings that the lender has the right to recall due to the violation of terms specified in the contract if such right is established by the balance sheet date are also classified as current liabilities.

Provisions and contingent liabilities. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when Elering has a present legal or constructive obligation as a result of past events and, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Other possible or present obligations arising from past events but whose settlement is not probable or the amount of which cannot be measured with sufficient reliability are disclosed as contingent liabilities in the notes to the financial statements.

Development costs. Development costs are costs that are incurred in applying research findings for the development of specific new products or processes. Development costs are capitalised if all of the criteria for recognition specified in IAS 38 have been met. Capitalised development costs are amortised over the period during which the products are expected to be used. Expenses related to research carried out for collecting new scientific or technical information and training costs are not capitalised.

Share capital. Elering does not have any preference shares. Incremental costs directly attributable to the issue of new shares are recognised as a reduction of equity. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the balance sheet date and before the financial statements are authorised for issue are disclosed in the notes to the financial statements.

Statutory reserve capital. Statutory reserve capital is formed to comply with the requirements of the Commercial Code. Reserve capital is formed from annual net profit allocations. During each financial year, at least one-twentieth of the net profit shall be entered in reserve capital, until reserve capital reaches one-tenth of share capital. Reserve capital may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from reserve capital.

Revenue

Revenue recognition. Revenue is income arising in the course of Elering's ordinary activities. Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which Elering expects to be entitled in exchange of transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. Elering recognises revenue when it transfers control of goods or services to a customer.

Electricity transmission service. Elering measures the quantity of electricity transmission by remotely read metres in customers' connection points. The transmission service fees are calculated on the basis of the volumes of electricity transmitted in these points and regulated transmission tariffs. Revenue from providing services is recognised over time in the accounting period in which the services are rendered.

Natural gas transmission service. Elering measures the quantity of natural gas transmission by remotely read metres in customers' connection points. The transmission service fees are calculated on the basis of the volumes of natural gas transmitted in these points and regulated transmission tariffs. Revenue from providing services is recognised over time in the accounting period in which the services are rendered.

Electricity balancing service. Elering prepares on an hourly basis the energy balance in kilowatt-hours (kWh) of the Estonian electricity system that consists of the energy balances of Elering itself and bal-

ance providers that have entered into a balance agreement with Elering. Energy balances are prepared by comparing the measurement data of Elering and that received from distribution network operators with balancing plans of balance providers. In a trading period when the real consumption of electricity, based on the measurement data, is bigger than electricity volume presented in the energy balance, Elering sells the balance providers electricity to the extent of shortage. In a trading period when the situation is opposite, Elering buys electricity from the balance providers to the extent of surplus. The sale and purchase prices are calculated by Elering for each trading period using methodology approved by the Estonian Competition Authority. Elering has considered that it is a principal in selling electricity as part of providing the balancing service as Elering is ultimately responsible for keeping the system in balance. Revenue from providing services is recognised over time in the accounting period in which the services are rendered.

Gas balancing service. Elering prepares on a daily basis the gas balance in kilowatt-hours (kWh) of the Estonian gas system that consists of the gas balances of Elering itself and balance providers that have entered into a balance agreement with Elering. Gas balances are prepared by comparing the measurement data of Elering and that received from distribution network operators with balancing plans of balance providers. In a trading period when the real consumption of natural gas, based on the measurement data, is bigger than natural gas volume presented in the gas balance, Elering sells the balance providers gas to the extent of shortage. In a trading period when the situation is opposite, Elering buys gas from the balance providers to the extent of surplus. The sale and purchase prices are calculated by Elering for each trading period using methodology approved by the Estonian Competition Authority. Elering has considered that it is a principal in selling gas as part of providing the balancing service as Elering is ultimately responsible for keeping the system in balance. Revenue from providing services is recognised over time in the accounting period in which the services are rendered.

Electricity inter-transmission system operator compensation mechanism (ITC). ITC is a mechanism for the compensation of cross-border energy flows, as designated by the EU regulation No 838/2010, in which transmission system operators of over 30 countries participate. The mechanism works under the principle that a transmission system operator of a country compensates, through the ITC fund, the other transmission network operators for additional expenses caused by cross-border energy flows in case if that country has exported or imported electricity during the reporting period, and a transmission system operator receives compensation from the fund if a transit flow caused by market participants of other countries has crossed the country. Such accounting is kept by specifically authorised administrators in Switzerland, who submit to the members of the mechanism the data in the form of net amounts to be paid each month. Elering recognises the net amounts in the statement of comprehensive income depending whether it is net income or net expense under “Revenue” within ‘Other electricity network services’ or under “Goods, raw materials and services” within ‘Other costs’ respectively.

Natural gas inter-transmission system operator compensation mechanism. The gas zone connecting Estonian and Latvian gas systems started operating on 1 January 2020, which also brought changes in the charges for the provision of transmission services with the gas network. Until then, the charge for the transmission service had been collected only on the volume of gas exiting the transmission system and the payers of the

transmission service charge have been clients connected to the transmission network on the basis of network contracts, mostly distribution networks. As of January, some of the transmission service charges move to the gas network input points. Such charges for entry points have been harmonised in three countries: Estonia, Finland and Latvia. This means that the entry of gas from the Finnish, Estonian or Latvian entry points costs the same and the gas moves within the three countries without additional transmission charges. In order to ensure the independence of transmission revenue from the entry point preferred by market participants, Estonian, Finnish and Latvian transmission network operators entered into a mutual compensation agreement (gas ITC). The compensation agreement stipulates that the transmission revenue collected from the entry points of three countries is subject to distribution between the three countries proportionally to their gas consumption. This ensures the relative stability of the entry revenue of the transmission network operators, regardless of which entry point the gas market prefers in a specific period of time. Elering recognises said amounts as net income under “Revenue” within ‘Other gas network services’.

Recognition of connection fees. When connecting to the electricity network, the clients must pay a connection fee based on the actual costs of infrastructure to be built in order to connect to the network. The management has concluded that that connection is part of a single performance obligation of providing the ongoing access to the grid and network service. Therefore, the consideration received from customers for connection is recognised as contract liability and recognised as revenue evenly over the estimated customer relationship period, being 25 years.

Interest income is recognised on an accrual basis using the effective interest method.

Congestion income. In situations where market participants place more requests for cross-border transmission of electricity than is technically possible, transmission rights for cross-border electricity are sold at special auctions. Under the principle used in these auctions, 50% of auction proceeds belong to the transmission system operator of either country. Types of the auctions:

1. Proceeds from the day-ahead market auction are essentially the difference between the exchange prices of Estonia and neighbouring price regions of the Nord Pool power exchange every hour. The power exchange collects the aforementioned price difference through its trading mechanism and transfers it to respective transmission system operators.
2. An auction of long-term transmission capacity, which is aimed at reducing the inter-regional price risk resulting from a lack of transmission capacity. Estonian and Latvian system operators Elering AS and AS Augstsprieguma tīkls offer forward transmission rights (FTRs) (until 31 December 2018, Physical Transmission Rights (PTRs)) on an annual, quarterly and monthly basis. Market participants that have bought an FTR capacity have the right to the hourly auction proceeds of the day-ahead market for the same volume. Auctions are organised and the proceeds distributed by the Single Allocation Platform (SAP) under the authority of the pan-European System Operators operated by the Joint Allocation Office (JAO). According to the regulators’ decision, no long-term auctions are scheduled at the Finnish border for 2021 and 2020.

Net proceeds from the day-ahead market and FTR (until 31 December 2018 PTR) auctions are recognised in compliance with the requirements of Article 16 of Regulation (EC) No. 714/2009 of the European Parliament and of the Council, pursuant to which congestion income should be used in particular for the construction of new interconnection capacities between countries and for guaranteeing the actual availability of the allocated transmission capacity; if the proceeds cannot be used for these purposes, the proceeds will be taken into account when reducing the network service tariff.

If congestion proceeds are used for the construction of new interconnection capacities, then they are recognized in the financial statements similarly to the government grants. Initially, they are recognized as deferred income, and then are credited to income over the estimated useful life of the asset. If congestion proceeds are used for the reduction of tariffs, then proceeds are recognised as revenue in the period when Elering's right to receive proceeds from the day-ahead market and FTR auctions is established. Since 1 July 2014 Elering has been using auctions proceeds for the construction of new interconnection capacities. See also Note 3.

Accounting for government grants. Government grants are recognised at fair value when there is reasonable assurance that Elering will comply with all the conditions attached to government grants and that the grant will be received. The government grants are recognised in profit or loss on a systematic basis over the periods in which Elering incurs the related costs which the grants are intended to compensate.

Government grants are presented in the statement of financial position using the gross method, according to which the government grant is recognised at its cost, if the government grant is received in the form of a transfer of a non-monetary asset, it is recognised at its fair value. The amount of the government grant received for the purpose of acquisition of assets is recognised as deferred income from government grants. The acquired asset is depreciated and the grant is credited to income over the estimated useful life of the asset.

Subsidies to electricity producers. The law obliges Elering to participate in supporting mechanism for eligible electricity producers (first and foremost power plants using renewable sources of energy). Elering collects subsidies from consumers and distribution network operators and pays it out to those electricity producers who meet the criteria.

In accordance with current principles, Elering prepares an estimate of the amount of subsidies for the following calendar year, based on estimates on the amount of electricity produced by these producers, and the amount of network services to be provided to the end users in Estonia. Elering uses these estimates to determine the charge of subsidy for the following calendar year per kWh (kilowatt-hour) of network services, taking into account any difference between estimated and actual amounts of subsidies paid during the previous period (from November to October), interest earned on over collected amounts or interest paid on under collected amounts and justified expenses incurred for management of subsidies.

The customers are charged according to the estimated charge per kWh. For different reasons the actual amounts paid out and received as subsidies always differ from the estimated amounts. Over or under collected subsidies are shown in the statement of financial position as either “Trade and other payables” (in case of surplus) or “Trade and other receivables” (in case of deficit). These balances are taken into account when determining the charge for the next period as described above. Collecting and paying of subsidies has no material impact on profit or loss of Elering. See also Note 8 and 13.

Subsidies to biogas producers. In accordance with law, Elering must participate in the mechanism for subsidising biogas producers that are in compliance with the requirements provided for by law. Elering is compensated for biogas subsidies by the Ministry of Economic Affairs and Communications. Elering as a system operator organises entry into contracts with biogas producers, supervision of use of the subsidies and payment of the subsidies.

Activities necessary for the implementation of the contract are financed as a prepayment on the basis of a quarterly expenditure forecast submitted by Elering. For different reasons the actual amounts paid out and received as subsidies always differ from the estimated amounts. Over or under collected subsidies are shown in the statement of financial position as either “Trade and other payables” (in case of surplus) or “Trade and other receivables” (in case of deficit). Collecting and paying of subsidies has no material impact on profit or loss of Elering. See also Note 8 and 13.

Employee benefits. Employee short-term benefits include wages, salaries and social taxes, benefits related to temporary suspension of employment contracts (holiday or other similar pay). These benefits are recognised in profit or loss in the year in which the associated services are rendered by the employees of Elering. Any amounts unpaid by the balance sheet date are recognised as a liability.

If during the reporting period, an employee has provided services for which payment of compensation is to be expected, Elering will recognise a liability (accrued expense) in the amount of forecasted compensation, from which all amounts already paid, will be deducted.

Income tax. According to the Income Tax Act, the annual profit earned by entities is not taxed in Estonia. Income tax is paid on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business-related disbursements and adjustments of the transfer price.

The tax rate on the net dividends paid out of retained earnings is 20/80. From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account. The corporate income tax arising from the payment of dividends is recognised as a liability and an income tax expense in the period in which dividends are declared, regardless of the period for which the dividends are paid or the actual payment date. An income tax liability is due on the 10th day of the month following the payment of dividends.

Due to the nature of the taxation system, the companies registered in Estonia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise. A contingent income tax liability which would arise upon the payment of dividends is not recognised in the statement of financial position. The maximum income tax liability which would accompany the distribution of retained earnings is disclosed in Note 15 to the financial statements.

Tax rates in Estonia.

The following tax rates have been valid through 2021:

Tax	Tax rate
Social security tax	33% of the paid payroll to employees and fringe benefits
Unemployment insurance tax	0.8% of the payroll paid to employees
Fringe benefit income tax	20/80 of fringe benefits paid to employees
Land tax	1.0 - 2.5% on taxable value of land per annum
Excise tax on electricity	EUR 1 per MWh of electricity (EUR 4.47 per MWh until 30.04.2020)
Excise tax on gas	EUR 40 per thousand cubic meters (EUR 79.14 per thousand cubic meters until 30.04.2020)
Corporate income tax on non-business-related expenses	20/80 on non-business-related expenses

Note 3. Critical accounting estimates and judgements in applying accounting policies

Elering makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Useful lives of property, plant and equipment. The estimated useful lives of items of property, plant and equipment (Note 10) are based on management's estimates regarding the period during which the asset will be used. The estimation of useful lives is based on historical experience and takes into consideration production capacity and physical condition of the assets. In the reporting period, depreciation amounted to EUR 42,403 thousand (2020: EUR 38,032 thousand). If depreciation rates were increased/decreased by 10%, the depreciation charge for the year would increase/decrease by EUR 4,240 thousand (2020: EUR 3,803 thousand).

Congestion income. According to the accounting principles described in Note 2, timing of recognition of congestion income depends on the purposes for which the proceeds is used – for constructions of new interconnection capacities (in which case it is recognised as deferred income, until such construction is completed) or reduction of current network tariffs (in which case it is recognised in profit and loss). The purposes are outlined in the Article 16 of European Parliament and Council Regulation (EC) No 714/2009. Determining the appropriate accounting requires management judgment. The management has assessed that since 1 July 2014 congestion income should be used for constructions of new interconnection capacities. In 2021 Elering recognised deferred congestion income in the amount EUR 65,232 thousand (2020: EUR 25,320 thousand); see also Note 14. Amounts accrued since 1 July 2014 are used to finance investments in network that will increase the cross-border interconnection capacity, i.e. the construction of the third electricity transmission line between Estonia and Latvia.

Note 4. New accounting pronouncements

Adoption of new or revised standards and interpretations

The following new or revised standards and interpretations became effective for Elering from 1 January 2021:

“Benchmark Interest Rate (IBOR) Reform” - Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- End date for Phase 1 relief for non contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

The amendment did not have a material impact on Elering's results or the scope of information disclosed by Elering.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2021 that would have a material impact to Elering.

New or revised standards and interpretations

Certain new or revised standards and interpretations have been issued that are mandatory for the Elering's annual periods beginning on or after 1 January 2022, and which Elering has not early adopted:

“Classification of liabilities as current or non-current” - Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2022; not yet adopted by the European Union). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. ‘Settlement’ is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

“Classification of liabilities as current or non-current, deferral of the effective date” - Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2023; not yet adopted by the European Union). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.

“Amendments to IAS 8: Concept of Accounting Estimates” (effective for annual periods beginning on or after 1 January 2023; not yet adopted by the European Union). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

Elering assesses the impact of the amendments as not material.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on Elering.

Note 5. Financial risk management

The risk management function is performed at Elering in accordance with internationally approved Enterprise Risk Management Mode methodology, which has been developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Elering's risks are assessed in four categories: strategic, operational, financial and external risks. Financial risk comprises market risk (including electricity and natural gas price risk, currency risk, interest rate risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then to ensure that exposure to risks stays within these limits. Risk management is monitored at the Management Board level and the results are reported to the Audit Committee. Elering's financial risks are managed at Elering's Finance Department.

The following table provides reconciliation of classes of financial assets and financial liabilities of Elering in accordance with the measurement categories of IFRS 9:

Financial assets

<i>In thousands of euros</i>	<i>31.12.2021</i>	<i>31.12.2020</i>
Financial assets at amortised cost		
Cash and cash equivalents (Note 7)	62,668	50,619
Short-term deposits (Note 7)	42,000	0
Trade and other receivables (Note 8)	59,122	38,120
Total financial assets at amortised cost	163,790	88,739
Financial assets at fair value through other comprehensive income		
Investments in equity instruments (Note 2)	0	899
Total financial assets at fair value through other comprehensive income	0	899
Total financial assets	163,790	89,638

Financial liabilities

<i>In thousands of euros</i>	<i>31.12.2021</i>	<i>31.12.2020</i>
Liabilities at amortised cost		
Trade and other payables (Note 13)	49,662	21,723
Borrowings (Note 12)	324,105	334,300
Total financial liabilities	373,767	356,023

Credit risk

Elering takes on exposure to credit risk, which is the risk that one party of a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of Elering's sales on credit terms and other transactions with counterparties giving rise to financial assets. In accordance with Elering's risk management principles, Elering's short-term available cash resources can be deposited in the following domestic financial instruments: overnight deposits at acceptable credit institutions and term deposits at credit institutions. The following principles are followed when depositing short-term available cash resources: ensuring of liquidity, capital preservation, interest income generation.

Elering's assets exposed to credit risk as of balance sheet days were as follows:

<i>In thousands of euros</i>	<i>31.12.2021</i>	<i>31.12.2020</i>
Cash and cash equivalents (Note 7)	62,668	50,619
Short-term deposits (Note 7)	42,000	0
Trade and other receivables (Note 8)	59,122	38,120
Total exposure of assets to credit risk in the statement of financial position	163,790	88,739

Elering structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties or groups of counterparties or by applying additional instruments for credit risk management. Elering established criteria for holding financial assets at credit institutions. According to the given criteria maximum permitted limits depend on the credit rating and equity of the credit institution. Limits on the level of credit risk are approved regularly by management. Such risks are monitored on an ongoing basis and they are subject to an annual review.

Elering's Accounting Department reviews ageing analysis of outstanding trade receivables and follows up on past due balances each week. The results are reported to the CFO of Elering. Information about credit risk is disclosed in Note 8.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 12 months before 31 December 2021 or 31 December 2020 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. Elering has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis described above, the loss allowance as at 31 December 2021 and 31 December 2020 was determined immaterial. While cash and cash equivalents and bank deposits are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial as at 31 December 2021 and 31 December 2020.

Credit risk concentration. Elering is exposed to concentrations of credit risk. Management monitors and discloses concentrations of credit risk by reports, which list exposures to counterparty with aggregated balances in excess of 5% of Elering's equity. On 31.12.2021, Elering had one counterparty (31.12.2020: one counterparty) with an aggregated receivables balance of EUR 21,528 thousand (31.12.2020: EUR 19,646 thousand) or 39% of the total amount of accounts receivable (31.12.2020: 63%). In 2021 as well as in 2020 the major part of receivables was to the wholly state-owned company who is monopolist in distribution network. Therefore, management believes that the credit risk arising from the concentration of receivables is not significant.

Cash in bank is deposited in four banks. The credit ratings of the banks are described in Note 7.

Market risk

Elering is exposed to market risk. Market risk arises mainly from changes in the electricity price, as well as from open positions in foreign currencies and interest-bearing assets and liabilities. Management sets limits on the value of exposed positions that may be accepted, which is monitored on a daily basis. However, the use of this approach does not completely prevent losses outside of these limits but limits their maximum amounts.

Sensitivities to market risks shown below are based on a change in one factor while holding all other factors constant. In practice, this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in the interest rate and changes in foreign currency rates.

Electricity price risk. For compensating network losses, Elering buys electricity primarily in the electricity exchange. The average electricity exchange price of the last period is used for calculation of network tariffs. In a situation where the exchange price differs from the one used for calculation of tariffs, the difference is not compensated in the next tariff period. According to Elering, this risk may cause fluctuations in profits in the short term, but it does not endanger Elering's sustainability. Therefore, no financial instruments have been used to mitigate this risk.

Price risk of natural gas. Elering purchases natural gas for compensating network losses. In a situation where the price of gas estimated for the calculation of network tariffs differs from its actual price, the difference is not compensated in the next tariff period. This results in a situation where Elering may generate a profit or sustain a loss on the purchased gas in the short-term as the price of gas changes. Elering does not expect the risk of potential loss to be high and therefore it does not employ any financial instruments to mitigate this risk.

Currency risk. Currency risk is the risk that in the future fair value of financial instruments of cash flow will fluctuate due to changes in currency rates. As virtually all of Elering's transactions and balances are denominated in euros, Elering is not exposed to significant currency risk. Elering established separate limits for open currency positions depending on the currency and duration. Transactions in other currencies are insignificant; there were no financial instruments denominated in other currencies as of 31.12.2021 and 31.12.2020.

Interest rate risk. The financial instruments with floating interest rate expose Elering to cash flow interest rate risk, i.e. the risk that an increase in market interest rates will cause an increase in Elering's interest expense. At the same time, in case of short-term deposits, a change in market interest rates has effect on Elering's interest income arising from investment of available resources into new deposits. Elering established the minimum limit for fixed interest-bearing liabilities at 50% of all liabilities. To some extent, Elering is protected against interest rate risk, because according to tariff regulations, the average interest rate of the last five years is included in the calculation of network tariffs. Since Elering does not carry interest-bearing financial instruments at fair value, change in market interest rates does not have effect on balance value of available assets or liabilities, nor interest income or expense arising from them.

As of 31.12.2021 borrowings with fixed interest rate constituted 70% (31.12.2020: 67%) of all borrowings carried at amortised cost; the remaining 30% (31.12.2020: 33%) of the above-mentioned liabilities were long-term bank loans with a floating interest rate carried at amortised cost. More detailed information borrowings items is set out in Note 12.

The floating interest rate of bank loans is based on the 6-month Euribor and it is fixed twice a year.

As at 31.12.2021 borrowings with a floating interest rate totalled EUR 97,836 thousand (31.12.2020: EUR 108,379 thousand).

If, as at 31.12.2021, the interest rates of Elering's borrowings, that are exposed to the cash flow interest rate risk, had been 50 basis points (2020: 50 basis points) higher with all other variables held constant, profit for the year would have been EUR 489 thousand (2020: EUR 542 thousand) lower.

Elering's interest-bearing financial assets are overnight deposits and term deposits. The rate for overnight deposits is being fixed once a day and term deposits have a fixed interest rate for the whole term of the deposit. Therefore, Elering is not exposed to cash flow interest rate risk from financial assets.

Elering did not have other financial instruments exposed to risk of change in interest rate.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Elering is exposed to daily calls on its available cash resources. Elering's objective is to obtain a stable funding base primarily consisting of amounts due to banks and bonds. Liquidity risk

is managed by the Finance Department of Elering by monitoring the liquidity position and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions.

The table below shows liabilities on 31.12.2021 and 31.12.2020 by their remaining contractual maturity. The amounts disclosed in the maturity table are contractual undiscounted cash flows. The cash flows for borrowings subsequent periods are calculated on the basis of loan interest rates effective at balance sheet date.

The maturity analysis of financial liabilities on 31.12.2021 is as follows:

<i>In thousands of euros</i>	<i>On demand and less than 1 month</i>	<i>From 1 to 12 months</i>	<i>From 12 months to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Liabilities					
Trade and other payables (Note 13)	44,775	4,887	0	0	49,662
Borrowings (Note 12)*	0	12,604	266,955	47,556	327,115
Total future payments	44,775	17,491	266,955	47,556	376,777

*Including interest

The maturity analysis of financial liabilities on 31.12.2020 is as follows:

<i>In thousands of euros</i>	<i>On demand and less than 1 month</i>	<i>From 1 to 12 months</i>	<i>From 12 months to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Liabilities					
Trade and other payables (Note 13)	16,234	5,489	0	0	21,723
Borrowings (Note 12)*	0	12,732	269,852	56,198	338,782
Total future payments	16,234	18,221	269,852	56,198	360,505

*Including interest

Elering holds its money in bank deposits. As of 31.12.2021, Elering had cash and cash equivalents EUR 62,668 thousand and short-term deposits EUR 42,000 thousand (as at 31.12.2020, cash and cash equivalents amounted to EUR 50,619 thousand and there were no short-term deposits). See further information in Note 7.

Capital management

Elering's main goal in capital risk management is to ensure Elering's sustainability of operations in order to generate return for its shareholder and provide a sense of security to creditors and thereby, preserve an optimal capital structure and lower the cost of capital. In order to preserve or improve the capital structure, Elering can regulate the dividends payable to the shareholders, buy back shares from shareholders, issue new shares or bonds and take new loans.

According to the widespread industry practice, Elering uses the equity to asset ratio for monitoring Elering's capital structure, arrived at by dividing total equity by total assets as of the balance sheet date. Elering's target has been to preserve the ratio of equity to assets at 20 - 45%.

The equity to asset ratio is presented in the table below:

<i>In thousands of euros</i>	<i>31.12.2021</i>	<i>31.12.2020</i>
Equity	382,088	386,968
Total assets	1,182,854	1,075,736
Equity to asset ratio	32.3%	36%

Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best expressed by an active quoted market price.

The tables below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: inputs for the asset or liability that are not based on observable market data.

Estimated fair values of financial instruments have been determined by Elering using available market information, where it exists, and appropriate valuation methodologies. The additional estimations are used for interpreting market data to determine the fair value.

Financial assets carried at amortised cost. Carrying amounts of trade and other financial receivables approximate their fair values (level 3).

Liabilities carried at amortised cost. Carrying amounts of trade and other payables approximate their fair values (level 3).

The estimated fair value of bonds rate is determined using their quoted price (level 1). The estimated fair value of non-current borrowings with a floating interest rate (level 3) is determined using valuation techniques, based on expected cash flows discounted at current interest rates (0.45%) for new instruments with similar credit risk and remaining maturity.

The fair value analysis of borrowings on 31.12.2021 is as follows:

<i>In thousands of euros</i>	<i>Fair value</i>	<i>Carrying amount</i>
Bonds	227,106	224,749
Bank loans	95,693	97,836

The fair value analysis of borrowings on 31.12.2020 is as follows:

<i>In thousands of euros</i>	<i>Fair value</i>	<i>Carrying amount</i>
Bonds	228,922	224,562
Bank loans	105,683	108,379

Note 6. Segment reporting

The Management Board is the chief operating decision maker. Elering has determined main products and services that generate external revenues and profit and has built up a methodology of allocation of revenues and expenses, and assets to the products.

For the purposes of monitoring the Elering's performance and making management decisions, the Management Board uses product-based reporting.

Elering has distinguished three reportable segments of its business representing its main products and services; a number of minor products and services are presented together as "Other income and expenses":

1. Regulated electricity network services that consist in the transmission of electricity through the electricity transmission networks based on tariffs approved by the regulator, i.e. the Estonian Competition Authority and the revenue from the Inter TSO Compensation Mechanism (ITC);
2. Regulated gas network services that consist in the transmission of gas through the gas transmission networks based on tariffs approved by the regulator, i.e. the Estonian Competition Authority and the revenue from the Inter TSO Compensation Mechanism (ITC);
3. Balancing services (while there is a separate reporting for electricity and gas balancing services, the two have been aggregated into one reportable segment as they have common business processes and similar characteristics, clients and regulatory environment);
4. Other income and expenses.

Other segments include minor products and services (e.g. connection fees, government grant, congestion income, lease income, etc.) which individual share of Elering's revenue and EBITDA is immaterial and which is not taken into account by the Estonian Competition Authority for calculating network tariffs and determining principles of charging for balancing services. None of these products and services meet the quantitative thresholds that would require reporting separate information.

The internal reporting provided to the Management Board has been prepared using the accounting policies and presentation consistent with those used in preparation of the financial statements.

All revenues and expenses that can be directly allocated to a specific segment are reported under the respective segment. Costs that are not directly attributable to a single segment are allocated on a pro rata basis. The drivers are either the proportion of the segment's sales revenue or the proportion of working time directly related to the segment. Net financial income / expenses are allocated to all segments according to the proportion of long-term and short-term interest-bearing debt in the statement of financial position at the end of the previous period. The income taxes are allocated to regulated electricity segment only, as dividends are paid out from this activity.

All significant balance sheet accounts that can be allocated directly between segments are reported under the respective segment. Balance sheet items not allocated using the direct method are allocated to segments by balance sheet item using different drivers: either the proportion of the segment's fixed assets or the proportion of working time of employees directly related to the segment.

The Management Board assesses the performance of the operating segments based on revenue, EBITDA (net profit plus income taxes, net finance cost, and depreciation and amortization) and net profit. EBITDA is not a defined performance measure under IFRS. The Elering's definition of EBITDA may not be comparable with similarly titled performance measures and disclosures by other entities.

Elering is domiciled in Estonia and its non-current assets are also located in Estonia. In the reporting period. Elering had one counterparty with an aggregated revenue more than 10% of Elering's revenue. The largest customer's revenue is attributable to the electricity transmission segment and it amounts to EUR 77,115 thousand in the reporting period (2020: EUR 73,678 thousand).

Revenue division by geographical location of customers is disclosed below.

Segment reporting, 1.01.2021–31.12.2021

<i>In thousands of euros</i>	<i>Regulated electricity network services</i>	<i>Regulated gas network services</i>	<i>Balancing services</i>	<i>Other</i>	<i>Total</i>
Revenue from external customers	89,683	20,949	82,214	8,611	201,457
Revenue between segments	-28	53	-25	0	0
Total revenue	89,655	21,002	82,189	8,611	201,457
Other operating income	0	0	0	6,672	6,672
Total income	89,655	21,002	82,190	15,283	208,129
Goods, raw materials and services	-48,841	-3,316	-81,033	-2,020	-135,210
Other operating expenses and staff costs	-10,137	-5,181	-1,360	-1,688	-18,366
EBITDA	30,677	12,505	-204	11,575	54,553
Depreciation and amortization (Note 10, 11)	-30,984	-6,311	-193	-8,043	-45,531
Net financial income (costs) (Note 21)	-1,694	-218	-17	-357	-2,286
Income tax (Note 15)	-1,628	0	0	0	-1,628

Net profit	-3,629	5,976	-414	3,175	5,108
Total assets	599,663	119,849	29,143	434,199	1,182,854
Total liabilities	315,573	48,640	28,448	408,105	800,766
Additions to property, plant and equipment (Note 10)	13,889	13,644	51	47,519	75,103
Additions to intangible assets (Note 11)	1,848	369	540	935	3,692

Segment reporting, 1.01.2020-31.12.2020

<i>In thousands of euros</i>	<i>Regulated electricity network services</i>	<i>Regulated gas network services</i>	<i>Balancing services</i>	<i>Other</i>	<i>Total</i>
Revenue from external customers	84,305	18,886	27,838	6,039	137,068
Revenue between segments	-24	75	-51	0	0
Total revenue	84,281	18,961	27,787	6,039	137,068
Other operating income	0	0	0	5,327	5,327
Total income	84,281	18,961	27,787	11,366	142,395
Goods, raw materials and services	-22,616	-3,407	-26,697	-535	-53,255
Other operating expenses and staff costs	-9,651	-4,124	-1,046	-1,594	-16,415
EBITDA	52,014	11,430	44	9,237	72,725
Depreciation and amortization (Note 10, 11)	-30,038	-4,846	-117	-5,122	-40,123
Net financial income (costs) (Note 21)	-1,726	-136	-10	-464	-2,336
Income tax (Note 15)	-4,964	0	0	0	-4,964

Net profit	15,286	6,448	-83	3,651	25,302
Total assets	612,043	114,691	5,580	343,422	1,075,736
Total liabilities	314,322	49,458	4,471	320,517	688,768
Additions to property, plant and equipment (Note 10)	30,168	8,721	235	40,828	79,952
Additions to intangible assets (Note 11)	3,107	1,011	433	484	5,035

Revenue by geographical location of customers, 1.01.2021-31.12.2021

<i>In thousands of euros</i>	<i>Regulated electricity network services</i>	<i>Regulated gas network services</i>	<i>Balancing services</i>	<i>Other</i>	<i>Total</i>
Estonia	83,955	19,496	44,273	5,167	152,892
Norway	795	0	0	0	795
Latvia	0	198	5,646	-20	5,824
Finland	0	1,254	1,913	3,299	6,466
Lithuania	264	0	30,382	43	30,689
Other	4,669	0	0	122	4,791
Total revenue	89,684	20,948	82,214	8,611	201,457

Revenue by geographical location of customers, 1.01.2020-31.12.2020

<i>In thousands of euros</i>	<i>Regulated electricity network services</i>	<i>Regulated gas network services</i>	<i>Balancing services</i>	<i>Other</i>	<i>Total</i>
Estonia	80,506	18,271	12,553	4,320	115,650
Norway	1,233	0	0	0	1,233
Latvia	0	411	3,804	9	4,224
Finland	11	204	1,969	1,495	3,679
Lithuania	0	0	9,512	146	9,658
Other	2,555	0	0	69	2,624
Total revenue	84,305	18,886	27,838	6,039	137,068

Note 7. Bank accounts and deposits

In thousands of euros

	31.12.2021	31.12.2020
Cash and cash equivalents	62,668	50,619
Short-term deposits*	42,000	0

* As at 31.12.2021, seven contracts for an amount of EUR 35,000 thousand were signed with Coop Pank AS. The maturity of the contracts is April - December 2022 and the interest rates are 0.15%-0.35%. One contract amounting to EUR 7,000 thousand was concluded with LHV Pank AS. The maturity of the contract is 13.12.2022 and the interest rate is 0.02%. All contracts are denominated in EUR.

Bank accounts and deposits:

In thousands of euros

	31.12.2021	31.12.2020
Bank accounts and deposits at banks:		
with Moody's credit rating of Aa2*	25,193	2,107
with Moody's credit rating of Aa3*	24,671	48,447
with Moody's credit rating of A3	0	65
with Moody's credit rating of Baa1	54,804	0
Total bank accounts and deposits at banks	104,668	50,619

* The two unrated banks in which Elering deposited its funds are Estonian-registered subsidiaries of international banks rated Aa2 and Aa3 by Moody's.

Note 8. Trade and other receivables

In thousands of euros

31.12.2021

31.12.2020

Trade receivables

Accounts receivable	55,551	30,963
▪ Incl. FTR-Limited auction receivables	1,904	1,284
▪ Incl. provision for doubtful receivables	-11	-8

Other receivables

▪ Incl. accrued compensation*	0	5,700
▪ Incl. Accrued potential ITC receivables	3,470	1,358
▪ Incl. security deposit	0	99
▪ Incl. interest receivables	1	0

Total financial assets within trade and other receivables in the statement of financial position	59,122	38,120
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Tax receivables	33	88
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Prepayments	528	378
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Total trade and other receivables	59,683	38,586
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* According to the agreement between the Estonian and Finnish regulators “Cross-Border Cost Allocation Agreement between the Estonian Competition Authority and Energy Authority of Finland”, Baltic Connector Oy will compensate Elering with EUR 5.7 million, which exceeds the amount provided by the European aid for the construction of the gas infrastructure. The given compensation was recognised as receivable on 31.12.2020. The compensation was collected in 2021.

Analysis by credit quality of trade receivables is as follows:

In thousands of euros

31.12.2021

31.12.2020

Accounts receivable not yet due

▪ Distribution networks	26,445	23,765
▪ Other clients	29,098	6,603
Total accounts receivable not yet due	55,543	30,368

Accounts receivable past due but not classified as doubtful

▪ 1 to 90 days overdue	8	595
Total accounts receivable past due but not classified as doubtful	8	595

Total accounts receivable past due and classified as doubtful

▪ 1 to 90 days overdue	0	5
▪ more than 90 days overdue	11	3
Total accounts receivable past due and classified as doubtful	11	8

Total accounts receivable past due	19	603
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Provision for doubtful accounts receivable	-11	-8
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Total trade receivables	55,551	30,963
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Under the accounting policies of Elering, receivables 90 days past due are usually written down in full. The total amount of allowance for receivables 90 days past due is adjusted using prior experience of how many of the receivables classified as doubtful are collected in a later period and how many of the receivables not more than 90 days past due are not collected in a later period. Also other individual and extraordinary impacts like the global economic recession are taken into account during evaluation.

In the reporting period, write-downs of receivables in the amount of EUR 3 thousand have been made. As of 31.12.2020 write-downs of receivables in the amount of EUR 8 thousand have been made.

Further information on receivables from related parties is disclosed in Note 23.

Note 9. Inventories

<i>In thousands of euros</i>	<i>31.12.2021</i>	<i>31.12.2020</i>
Fuel oil	2 372	2 447
Natural gas reserves	661	344
Other materials at warehouses	625	744
Total inventories	3,658	3,535

Elering maintains fuel reserves for the purposes of emergency reserve power plants, natural gas reserves and natural gas balance for providing gas-related transmission and balancing services, respectively, and inventories of other materials used for repairs of gas equipment and gas pipelines.

Note 10. Property, plant and equipment

In thousands of euros

	<i>Land</i>	<i>Right of use of land</i>	<i>Buildings</i>	<i>Facilities</i>	<i>Machinery and equipment</i>	<i>Other</i>	<i>Construction in progress</i>	<i>Total</i>
Property, plant and equipment as at 1.01.2020								
Cost as at 1.01.2020	6,126	6,580	51,888	604,622	538,425	489	106,354	1,314,483
Accumulated depreciation	0	-244	-11,158	-190,416	-191,322	-276	0	-393,416
Carrying amount as at 01.01.2020	6,126	6,336	40,730	414,206	347,103	213	106,354	921,067
Prepayments	4	0	0	824	4,397	0	0	5,225
Total property, plant and equipment as at 01.01.2020	6,130	6,336	40,730	415,030	351,500	213	106,354	926,293
Movements 1.01.2020-31.12.2020								
Additions	80	499	0	0	0	0	80 380	80 960
Reclassified from construction in progress	0	0	705	20 341	22 836	16	-43 898	0
Capitalised borrowing costs (Note 21)	0	0	0	0	0	0	264	264
Disposals and write-offs at carrying amount	-26	0	0	0	-137	0	0	-164
Prepayments	5	0	0	-824	-453	0	0	-1,272
Depreciation charge	0	-71	-1,439	-15,995	-20,420	-106	0	-38,032
Total movements 1.01.2020-31.12.2020	55	428	-734	3,522	1,826	-90	36,746	41,757
Cost as at 31.12.2020	6,180	7,078	52,541	611,275	557,405	505	143,100	1,378,082
Accumulated depreciation	0	-314	-12,545	-192,722	-208,023	-382	0	-413,986
Carrying amount as at 31.12.2020	6,180	6,764	39,996	418,553	349,382	122	143,100	964,098
Prepayments	9	0	0	0	3 944	0	0	3 953
Total property, plant and equipment as at 31.12.2020	6,189	6,764	39,996	418,552	353,326	122	143,100	968,051

Movements 1.01.2021-31.12.2021

Additions	29	183	0	0	0	0	78,389	78,601
Reclassified from construction in progress	0	0	16,828	90,119	68,332	11	-175,290	0
Capitalised borrowing costs (Note 21)	0	0	0	0	0	0	145	145
Disposals and write-offs at carrying amount	-4	0	-5	0	-508	0	0	-517
Prepayments	0	0	0	0	-3,643	0	0	-3,643
Depreciation charge	0	-73	-1,799	-18,679	-21,759	-93	0	-42,403
Total movements 1.01.2021-31.12.2021	25	110	15,024	71,440	42,422	-82	-96,756	32,182
Property, plant and equipment as at 31.12.2021								
Cost as at 31.12.2021	6,205	7,261	69,280	699,862	620,664	516	46,343	1,450,131
Accumulated depreciation	0	-387	-14,260	-209,870	-225,217	-475	0	-450,209
Carrying amount as at 31.12.2021	6,205	6,874	55,020	489,992	395,447	41	46,343	999,922
Prepayments	9	0	0	0	301	0	0	310
Total property, plant and equipment as at 31.12.2021	6,214	6,874	55,020	489,992	395,748	41	46,344	1,000,232

Construction in progress mainly consists of substations, electricity transmission lines and gas pipelines. Upon completion, cost of these assets is recognised as cost of buildings, machinery and equipment and facilities.

Additions to construction in progress during the financial year include capitalised borrowing costs of EUR 145 thousand (2020: EUR 264 thousand). The capitalisation rate is 0.75% (2020: 0.76%).

Further information on operating lease of property, plant and equipment is disclosed in Note 22.

Note 11. Intangible assets

In thousands of euros

Acquired software & licenses

Total

Intangible assets as at 1.01.2020

Cost as at 1.01.2020	11,822	11,822
Accumulated amortisation	-5,862	-5,862
Carrying amount 1.01.2020	5,960	5,960
Intangible assets not yet available for use	5,145	5,145
Total intangible assets as at 1.01.2020	11,105	11,105

Movements 1.01.2020-31.12.2020

Additions	5,035	5,035
Amortisation charge	-2,092	-2,092
Total movements 1.01.2020-31.12.2020	2,943	2,943

Intangible assets as at 31.12.2020

Cost as at 31.12.2020	19,670	19,670
Accumulated amortisation	-7,671	-7,671
Carrying amount as at 31.12.2020	11,999	11,999
Intangible assets not yet available for use	2,049	2,049
Total intangible assets as at 31.12.2020	14,048	14,048

Movements 1.01.2021-31.12.2021

Additions	3,693	3,693
Amortisation charge	-3,128	-3,128
Total movements 1.01.2021-31.12.2021	565	565

Intangible assets as at 31.12.2021

Cost as at 31.12.2021	22,070	22,070
Accumulated amortisation	-10,553	-10,553
Carrying amount as at 31.12.2021	11,517	11,517
Intangible assets not yet available for use	3,096	3,096
Total intangible assets as at 31.12.2021	14,613	14,613

Note 12. Borrowings

In thousands of euros

31.12.2021 31.12.2020

Short-term borrowings

Current portion of long-term bank loans	10,558	10,558
Accrued interests	1,387	1,346
Lease liabilities	65	7
Total short-term borrowings	12,010	11,911

Long-term borrowings

Bonds issued	224,749	224,562
Long-term bank loan	87,278	97,821
Lease liabilities	68	6
Total long-term borrowings	312,095	322,389

Borrowings are denominated in the following currencies:

Borrowings denominated in EUR	324,105	334,300
Total borrowings (Note 5)	324,105	334,300

Reconciliation of borrowings

In thousands of euros

	Short-term borrowings			Long-term borrowings			Total
<i>Balance</i>	<i>Bank loans</i>	<i>Accrued interests</i>	<i>Lease liabilities</i>	<i>Bonds issued</i>	<i>Bank loans</i>	<i>Lease liabilities</i>	
Balance as at 01.01.2020	10,558	1,315	19	224,376	108,362	13	344,643
Repayment of borrowings	-1,558	0	-19	0	0	0	-10,577
Transfers	10,558	0	7	0	-10,558	-7	0
Non-cash movements	0	0	0	186	17	0	203
Accrued interests	0	2,193	0	0	0	0	2,193
Paid interests	0	-2,162	0	0	0	0	-2,162

Balance as at 31.12.2020	10,558	1,346	7	224,562	97,821	6	334,300
Increase in borrowings	0	0	0	0	0	174	174
Repayment of borrowings	-10,558	0	-54	0	0	0	-10,612
Transfers	10,558	0	112	0	-10,558	-112	0
Non-cash movements	0	0	0	187	15	0	202
Accrued interests	0	2,057	0	0	0	0	2,057
Paid interests	0	-2,016	0	0	0	0	-2,016
Balance as at 31.12.2021	10,558	1,387	65	224,749	87,278	68	324,105

The average effective interest rate on borrowings was 0.69% in 2021 (2020: 0.70%).

Elering has used the following types of facilities for financing purposes:

1. Loans from the European Investment Bank

Elering has two loans with outstanding balance of EUR 78,175 thousand (2020: EUR 85,422 thousand). The maturity dates of the loans are 2030 and 2033, the interest rate is floating which is the sum of 6-month Euribor and the margin. In the reporting period Elering repaid loans in the amount of EUR 7,209 thousand (2020: EUR 7,209 thousand).

2. Loans from the Nordic Investment Bank

Elering has two loans with outstanding balance of EUR 19,661 thousand (2020: 23,034 thousand). The maturity dates of the loans are 2025 and 2032. The interest rate is floating which is the sum of 6-month Euribor and the margin. In the reporting period Elering repaid loans in the amount of EUR 3,349 thousand (2020: EUR 3,349 thousand).

3. Eurobonds

In 2011, Elering issued Eurobonds with the maturity of seven years and the nominal value of EUR 225 million and these bonds were listed on London stock exchange. Bonds' coupon was fixed at 4.625% p.a. and interest payments were made once a year. The bonds were redeemed on 12 July 2018.

On 3 May 2018 Elering issued new Eurobonds with the nominal value of EUR 225 million which were used to refinance previous Eurobonds. New bonds' coupon is fixed at 0.875% p.a., maturity date is 3 May 2023 and interest payments are made once a year.

4. Overdraft agreements

Elering has entered into four overdraft agreements in the total amount of EUR 70 million to mitigate the refinancing risk, with an interest margin of 1 month EURIBOR plus a margin of 0.36-0.55%. The loans have not been withdrawn at 31.12.2021. Overdraft agreements have been concluded until January-February 2023.

The loan agreements entered into by Elering set limits on Elering's financial indicators (equity to total assets and net debt / EBITDA). The limits have not been exceeded.

Note 13. Trade and other payables

In thousands of euros

	31.12.2021	31.12.2020
Trade payables	37,529	11,967
Payables for purchased property, plant and equipment and intangible assets	7,246	4,267
Subsidies due to biogas producers	4,122	4,193
Subsidies due to electricity producers	113	807
Other payables	652	489
Total financial liabilities within trade and other payables in the statement of financial position	49,662	21,723
Taxes payable:		
VAT	2,684	2,286
Corporate income tax and income tax on fringe benefits	1,634	5
Social security tax	490	448
Personal income tax	288	254
Excise tax	94	113
Unemployment insurance tax	32	29
Contributions to mandatory funded pension	23	22
Total taxes payable	5,245	3,157
Accrued expenses - employee benefits:		
Wages and salaries	560	512
Bonuses	803	834
Holiday pay	305	292
Social security and unemployment insurance tax	374	381
Total accrued expenses - employee benefits	2,042	2,019
Other payables	186	203
Total trade and other payables	57,135	27,102

Further information on payables to related parties is disclosed in Note 23.

Note 14. Contract liability and deferred income

Contract liability from connection and other service fees

<i>In thousands of euros</i>	<i>2021</i>	<i>2020</i>
Contract liability from connection and other service fees at the beginning of the period	34,855	35,020
Connection and other service fees received	3,284	1,784
Connection and other service fees recognised as revenue (Note 16)	-1,985	-1,949
Contract liability from connection and other service fees at the end of the period	36,154	34,855

Government grants

<i>In thousands of euros</i>	<i>2021</i>	<i>2020</i>
Deferred income from government grants at the beginning of the period	180,109	123,573
Grants received for acquisition of property, plant and equipment	31,827	59,514
Amortisation of grants (Note 17)	-5,122	-2,978
Deferred income from government grants at the end of the period	206,815	180,109

Congestion fees

<i>In thousands of euros</i>	<i>2021</i>	<i>2020</i>
Deferred congestion income at the beginning of the period	112,402	87,498
Congestion fees received during the period	65,231	25,320
Recognised as income (Note 17)	-1 075	-416
Deferred congestion income at the end of the period	176,558	112,402
Total deferred income	383,372	292,511
Total contract liability from connection and other service fees and deferred income	419,526	327,366

Note 15. Equity

Elering's share capital consists of 229,890 shares with the nominal value of EUR 1,000 (31.12.2020: 229,890 shares with the nominal value of EUR 1,000). The shares have been paid for in full.

During the reporting year, the sole shareholder has not made a decision to increase the share capital.

In 2021 dividends totalling EUR 10 million were paid out and dividends per share totalled EUR 43.50 (in 2020 EUR 25.6 million, dividends per share amounted to EUR 111.36).

The payment of dividends resulted in an income tax expense of EUR 1.6 million (2020: EUR 5.0 million).

As of 31.12.2021, Elering's statutory reserve capital totalled EUR 17,595 thousand (31.12.2020: EUR 16,330 thousand). As at 31.12.2021, Elering has the obligation to additionally transfer EUR 255 thousand (31.12.2020: EUR 1,265 thousand). In 2021 Elering additionally transferred to statutory reserve capital EUR 1,265 thousand (2020: EUR 1,644 thousand).

The distributable retained earnings of Elering as of 31.12.2021 amounted to EUR 134,348 thousand (31.12.2020: EUR 140,530 thousand). From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account (tax rate in 2018: 20/80). As of 31.12.2021, it would be possible to distribute EUR 102,586 thousand as net dividends (31.12.2020: EUR 107,578 thousand) and the corresponding income tax would amount to EUR 31,761 thousand (31.12.2020: EUR 32,952 thousand). These numbers are calculated taking into account the obligation to transfer certain amount of retained earnings to statutory reserve capital. The amount of income tax calculated at more beneficial rate is EUR 3,527 thousand.

Note 16. Revenue

Analysis of revenue by activity

In thousands of euros

2021

2020

Sales of balancing and regulation services

Balancing electricity	65,165	22,397
Balancing gas	2,756	3,329
Regulation services	14,268	2,061
Total sales of balancing electricity and regulation services	82,189	27,787

Sales of electricity and gas network services

Electricity network services	83,927	80,483
Gas network services	18,418	16,232
Other electricity network services	5,728	3,799
Other gas network services	2,584	2,728
Total sales of network services	110,657	103,242

Sales of other goods and services

Revenue from connection fees (Note 14)	1,985	1,949
Lease of transmission equipment (Note 22)	920	917
Other services	5,417	2,956
Other goods	288	217
Total sales of other goods and services	8,611	6,039
Total revenue	201,457	137,068

Note 17. Other income

In thousands of euros

	2021	2020
Government grants related to acquisition of property, plant and equipment (Note 14)	5,122	2,978
Congestion income (Note 14)	1,075	416
Profit from sale of property, plant and equipment	289	104
Fines, penalties and compensations received	113	788
Grants for operating expenses	72	168
Dividends from long-term financial investments	0	873
Other income	1	0
Total	6,672	5,327

Note 18. Goods, raw materials and services

In thousands of euros

2021

2020

Electricity and gas purchased to provide the balancing service

Purchase of balancing energy	60,473	20,188
Purchase of balancing gas	13,876	3,103
Purchase of power regulation service	6,289	3,293
Expenses of emergency reserve power plant to provide balancing services	351	39
Total electricity purchased to provide the balancing service	80,989	26,623

System services

Reactive energy	410	438
Operating expenses of emergency reserve power plant	131	39
Total system services expenses	541	477

Losses in electricity and gas network

Electricity network losses	38,145	12,193
Gas network losses	379	158
Total electricity and gas to compensate for network losses	38,524	12,351

Maintenance and repair works

On facilities and equipment related to core activities	9,261	9,485
On production buildings and sites	1,253	1,086
Disassembly works and waste processing	771	1 122
Other maintenance and repair costs	514	538
Total maintenance and repair works	11,799	12,231

Other costs

Other costs	2,804	1,195
Operative switching and dispatching management expenses	553	378
Total other costs	3,357	1,573
Total goods, raw materials and services	135,210	53,255

Note 19. Other operating expenses

In thousands of euros

	2021	2020
Research and consulting	1,768	1,199
Information technology	1,592	1,169
Telecommunication	951	1,026
Training and other miscellaneous operating expenses	874	599
Security, insurance and occupational safety	858	616
Research and development costs (R&D)	529	270
Office expenses	442	388
Other expenses	68	92
Transportation and tools	62	86
Total other operating expenses	7,144	5,445

Elering's statement of comprehensive income includes expense relating to short-term leases and leases of low-value assets in the amount of EUR 296 thousand (2020: EUR 248 thousand).

Note 20. Staff costs

<i>In thousands of euros</i>	2021	2020
Base salaries, additional remuneration, bonuses, vacation pay	8,087	7,841
Termination benefits	11	44
Other remuneration	275	305
Total remuneration to employees	8,373	8,190
Social security tax	2,789	2,714
Unemployment insurance tax	60	66
Total staff costs	11,222	10,970
Incl. compensations to the members of the Management and Supervisory Board		
Salaries, additional remuneration bonuses, vacation pay	481	439
Social security tax	179	162
Fringe benefits	49	41
Income tax on fringe benefits	12	10
Total compensations to the members of the Management and Supervisory Boards	721	653
Average number of employees	253	234
Average number of employees by type:		
Persons working under an employment contract	248	230
Persons providing services under law of obligations act	5	4
Members of the Management and Supervisory Boards	8	8
The average monthly pay of all employees including benefits	3,093	3,080

Three members of the Management Board receive compensation for premature termination of their employment contracts, such compensation amounts up to the three months' salary.

Note 21. Financial income and costs

In thousands of euros

2021

2020

Financial income

Interest income	6	2
Foreign exchange gains	10	0
Total financial income	16	2

Financial costs

Interest expenses	-2,439	-2,552
Foreign exchange losses	-6	-2
Other financial costs	-2	-48
Total financial costs	-2,447	-2,603

Less: capitalised borrowings costs (Notes 10)	145	264
Total financial costs recognised in the statement of comprehensive income	-2,302	-2,338
Net financial income (costs)	-2,286	-2,336

Note 22. Operating lease

Elering as a lessor

Operating lease revenue

In thousands of euros

2021

2020

Buildings	81	82
Transmission equipment	920	917
Other	2	2
Total operating lease revenue	1,003	1,001

Transmission equipment. Elering has an operating lease contract under which the free fibres of the fibre-optic cable fixed to the line masts are leased out. This cable also acts as a lightning protection cord for the lines and the fibres are used by Elering for its technical communication. The free fibres have been leased out to Tele2 Eesti AS. The lease contract contains a restriction under which Elering cannot give its transmission equipment out for use by other companies operating in the telecommunications field. The contract is effective until 31 March 2025. Annual lease payments vary depending on the length of fibres leased out during the year.

Information about assets (facilities) leased out under operating leases

In thousands of euros

31.12.2021

31.12.2020

Acquisition cost	5,674	5,567
Accumulated depreciation at the end of period	-5,118	-4,970
Carrying amount	556	597

Depreciation charge

In thousands of euros

2021

2020

Depreciation charge	265	141
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Estimated future lease payments under operating leases

In thousands of euros

31.12.2021

31.12.2020

Less than 1 year	940	916
From 1 year to 5 years	2,115	2,977
Over 5 years	0	0
Total future minimum lease payments	3,055	3,893

Note 23. Balances and transactions with related parties

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

In preparing financial statements of Elering, the following parties have been considered as related parties:

- (i) Republic of Estonia and the entities under its control or significant influence;
- (ii) Management and Supervisory Boards of Elering;
- (iii) Close family members of the persons described above and the entities under their control or significant influence.

The outstanding balances with related parties were as follows:

In thousands of euros

31.12.2021

31.12.2020

Trade receivables

Companies controlled or significantly influenced by the State	31,136	21,441
Total trade receivables	31,136	21,441
incl. from network operators	21,824	19,692

Trade payables and other liabilities

Companies controlled or significantly influenced by the State	6,635	2,104
Total trade payables and other liabilities	6,635	2,104

Income and expense items with related parties were as follows:

<i>In thousands of euros</i>	<i>Related party</i>	<i>2021</i>	<i>2020</i>
Revenue from sale of goods	Companies controlled or significantly influenced by the State	17,250	5,430
Revenue from sale of services	Companies controlled or significantly influenced by the State	82,810	82,311
Total revenue from sale of goods and services		100,060	87,741
Purchase of goods	Companies controlled or significantly influenced by the State	12,450	5,224
Purchase of services	Companies controlled or significantly influenced by the State	6,319	2,150
Total purchase of goods and services		18,769	7,374
Expenditures on non-current assets	Companies controlled or significantly influenced by the State	880	345

- Revenue from sale of goods is incurred by the sale of imbalance energy and imbalance gas.
- Revenue from sale of services is incurred mainly from sale of electricity and gas network services.
- The purchase of goods results from the purchase of imbalance energy and gas.
- The purchase of services results from regulation, operative switching, dispatching management and maintenance and repair services.

There were no transactions with companies in which the members of the Supervisory Board and the Management Board or their close relatives have significant influence in the reporting period.

Key management personnel compensations are disclosed in Note 20.

No receivables from related parties were written off in 2021 and 2020.

The potential payroll liability would be EUR 94.5 thousand excluding social security contributions if the Supervisory Board were to replace all Management Board members.

Note 24. Contingent liabilities and commitments

Capital expenditure commitments. The network operator must develop the network within its service area in a way that ensures the continued provision of network services in accordance with the set requirements. As at 31.12.2021, Elering has contractual capital expenditure commitments in respect of property, plant and equipment totalling EUR 151,275 thousand (31.12.2020: EUR 93,459 thousand).

Tax legislation. The tax authorities have the right to verify Elering's tax records up to 5 years from the time of submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. Elering's management estimates that there are not any circumstances which may lead the tax authorities to impose additional significant taxes on Elering.

Independent Auditor's Report

To the Shareholder of Elering AS

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Elering AS (the "Company") as at 31 December 2021, and the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2021;
- the statement of comprehensive income for the year then ended;
- the cash flow statement for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

AS PricewaterhouseCoopers

Pärnu mnt 15, 10141 Tallinn, Estonia; License No. 6; Registry code: 10142876

T: +372 614 1800, F: +372 614 1900, www.pwc.ee

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Our audit approach

Overview

Materiality

Overall Company materiality is EUR 1,700 thousand, which represents approximately 2.5% of the average profit before interest, tax, depreciation and amortization (EBITDA) for the last three years (2019-2021).

Key audit matters

- Estimates involved in capitalisation of capital expenditures and determining their useful lives
- Accounting for congestion income

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Company materiality	EUR 1,700 thousand
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How we determined it

Approximately 2.5% of the average profit before interest, tax, depreciation and amortization (EBITDA) for the last three years (2019-2021). EBITDA is a non-GAAP performance measure that is defined and calculated by the management and for which the management is responsible. Definition and calculation of EBITDA may differ between entities.

Rationale for the materiality benchmark applied

We have applied the average EBITDA for the last three years as the benchmark because it is one of the key measures the management uses to assess the Company's performance. Due to the volatility of annual EBITDA due to the significant increase in electricity prices, we used a three-year average EBITDA that better reflects the Company's operating volumes.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><i>Management's estimates involved in capitalisation of capital expenditures and determining their useful lives (refer to Note 2 "Summary of significant accounting policies", Note 3 "Critical accounting estimates and judgments in applying accounting policies" and Note 10 "Property, plant and equipment" for further details).</i></p> <p>In 2021 the Company capitalised additions to property, plant and equipment (PPE), mainly related to the construction of electricity and gas transmission network, in the amount of EUR 78.6 million.</p> <p>Expenditures are capitalised if they create new or enhance the existing assets, and expensed if they relate to repair or maintenance of the assets. Classification of the expenditures involves judgment.</p> <p>The useful lives of PPE items are based on management's estimates regarding the period during which the asset or its significant components will be used. The estimates are based on historical experience and market practice and take into consideration the physical condition of the assets.</p> <p>Capital expenditure is not considered to be an area of significant risk for our audit but as it requires considerable time and resource to audit due to its magnitude, it is considered to be a key audit matter.</p>	<p>We assessed whether the Company's accounting policies in relation to the capitalisation of expenditures are in compliance with IFRS.</p> <p>We understood and evaluated controls related to capital expenditures.</p> <p>We evaluated whether the useful lives determined in Company's accounting policy for PPE were appropriate given the nature of the asset, business and industry environment.</p> <p>We obtained a listing of capital expenditures incurred during the year and, on a sample basis, inspected underlying invoices to check that the item has been correctly capitalised.</p> <p>We also obtained a listing of repair and maintenance expenses incurred during the year and, on a sample basis, inspected underlying invoices to ensure the classification as operating expenditure was appropriate.</p> <p>We obtained a detailed listing of items transferred from the construction-in-progress to the finished items during the year. On a sample basis, we checked whether the depreciation of the item was commenced timely, by comparing the depreciation starting date with the date of the act of completion of the work.</p> <p>We also evaluated whether the useful lives assigned to these items were consistent with the Company's accounting policy.</p>
<p><i>Accounting for congestion income (refer to Note 2 "Summary of significant accounting policies – Congestion income", Note 3 "Critical accounting estimates and judgments in applying accounting policies" and Note 14 "Deferred income" for further details).</i></p> <p>In 2021 the Company has received congestion fees of EUR 65.2 million and the deferred congestion income as of 31 December 2021 amounted to EUR 176.6 million.</p>	<p>We assessed whether the Company's accounting policy in relation to accounting for the congestion revenue is compliant with IFRS.</p> <p>We evaluated the management's assessment on whether and when the congestion fees will be used for constructions of new interconnection capacities. We corroborated the information received with the Management and Supervisory Board minutes of meetings describing future</p>

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Accounting for congestion fees received depends on the purposes for which it will be used. Congestion fees used for construction of new interconnection capacities are recognised as deferred income (similarly to government grants), until such construction is completed. Congestion fees used for the reduction of network tariffs are recognised in profit and loss.

Determining the appropriate accounting requires judgment. Due to the size and related estimation uncertainty, it is considered a key audit matter.

investments and with the capital expenditures budget.

We obtained a confirmation letter from the third party confirming the total amount of congestion fees received during the year.

Furthermore, we assessed the adequacy of the disclosures related to congestion income.

Reporting on other information including the Management report

The Management Board is responsible for the other information. The other information comprises the chapter "Statement by the Chairman of the Management Board" and the management report (From Elering's mission to strategic goals, Activities of Elering in ensuring security of supply, Overview of economic activities and results for 2021, Our Elering action plan for involving and motivating employees, Elering and corporate social responsibility and Corporate Governance) (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information, including the Management report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management report, we also performed the procedures required by the Auditors Activities Act. Those procedures include considering whether the Management report is consistent, in all material respects, with the financial statements and is prepared in accordance with the requirements of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the financial statements; and
- the Management report has been prepared in accordance with the requirements of the Accounting Act.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

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Responsibilities of the Management Board and those charged with governance for the financial statements

The Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management Board is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied .

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

AS PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read "Lauri Past", written over a light blue horizontal line.

Lauri Past
Certified auditor in charge, auditor's certificate no.567

10 March 2022
Tallinn, Estonia

Profit allocation proposal

The retained earnings of Elering AS as of 31.12.2021 were EUR 134,603 thousand.

The Management Board of Elering AS proposes to the sole shareholder to allocate the retained earnings as follows:

To transfer to the statutory reserve capital	EUR 255 thousand
Not to distribute the remaining retained earnings	EUR 134,348 thousand

Signatures of the Management to the 2021 Annual Report

The signing of Elering AS 2021 Annual Report on 10 March 2022



*Chairman of the
Management Board*
Taavi Veskimägi



*Member of the
Management Board*
Riina Kãi



*Member of the
Management Board*
Kalle Kilik

The Revenue of Elering AS According to EMTAK 2008

The revenue of Elering AS is divided by the main areas of activities as follows:

<i>EMTAK* economic activity</i>		<i>1.1.2021 - 31.12.2021</i>	<i>1.1.2020 - 31.12.2020</i>
35121	Transmission of electricity – transmission through the transmission network	95,195	87,901
35221	Natural gas transmission	21,003	18,962
35141	Trade of electricity (balancing electricity)	67,921	24,457
35231	Trade of gas (balancing gas)	14,268	3,329
77399	Renting and leasing of other machinery, equipment and tangible goods	920	919
47770	Retail sale of other second-hand goods	289	217
68201	Renting and operating of own or leased real estate	83	84
46699	Other sales	1,778	1,199

* EMTAK – classification of Estonian economic activities