



ANNUAL REPORT 2023




elering
CONNECTING ENERGIES



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STATEMENT BY THE CHAIRMAN OF THE MANAGEMENT BOARD



KALLE KILK
Chairman of the Management Board

How can it be assessed whether Elering has been successful in its operations? Assessing the success of Elering's operations can be primarily evaluated based on availability of the electricity and feeling that the houses are warm. The deficiencies can be swiftly noticed when the reliability of the electricity and/or gas network is being compromised. The storms that struck Estonia in 2023, along with accumulation of the heavy snow and ice on trees and power lines, have served as yet another reminder of how powerful and beautiful, yet harsh, the forces of nature can be.

Networks are reliable

We're pleased report that the power grid managed by Elering successfully faced the extreme conditions, experiencing only minor disruptions. In certain areas, the heavy snow on the lines led to tensioned wire being pressed against the lightning protection cables, resulting in short circuits and temporary voltage fluctuations for customers. In addition, some lines broke under the weight, and after several years of incidents by trees, some trees fell onto the line. Overall, the incidents

described above led to a slightly higher level of energy not served via the electricity transmission network in 2023 compared to previous years. However, it is evident that the methodological approach taken to increase the reliability of the power grid has proven to be highly effective.

The gas was efficiently supplied to all gas customers with no unserved gas (0 MWh). While the fault in the gas pipeline between Estonia and Finland on October 8th weakened the reduced gas network's resilience to another faults, but it did not result in supply disruptions, restrictions or increase in gas prices for Estonian gas consumers. The gas pipeline linking Estonia and Latvia has significant reserve of transmission capacity to accommodate all of Estonia's gas consumption, and Latvia's underground gas storage unit has sufficient capacity to ensure that there will be no gas shortages.

The role of the gas network in Estonia's future energy landscape requires reconsideration

In the broader context of the gas network, the volume of transmitted gas remains considerably lower than before Russia's war of aggression, yet there is no sign of a further decline compared to the previous year. Evaluation of the potential restoration of the gas network usage is challenging, but it serves a clear sign for us as a gas network operator that the trends in the energy sector, particularly the shift towards climate neutrality and electrification, necessitates a reevaluation of our operation strategies. As the initial measure, we could consider alignment the structure of the network service charge better with the operations of gas users, since gas is predominantly as a backup fuel, where standby mode is prevailing over

continuous transmission. In addition, it is imperative to engage in discussions with neighbouring countries to determine the future necessity of the Estonian gas pipeline for meeting the transit requirements and finding the ways of financing it in a sustainable way. At the national level, reaching the consensus on the role of the gas network in the Estonia's energy in the future is crucial, including the potential roles in the evolving economy. This enables us to develop a coherent plan to sustain the gas network for the foreseeable future, avoiding investments which are not aligned with the future needs.

Energy security is under scrutiny

The damage to the the Balticconnector raised the broader question addressing if the infrastructure is adequately protected, particularly regarding the protection of cables and pipes under the sea? However, we are mindful of the potential damage to and failure of infrastructure, the system is built in a way that in the event of an unexpected loss of a key element, security of supply is not disrupted. However, it is essential to recognise that the infrastructure is spread across a vast territory, both in the sea and on land. Defending it comprehensively to the end is not realistic, and simultaneous targeted attacks in numerous locations can lead to infrastructure damage significant enough to disrupt its overall functionality. We must use the strategy, which has worked also in the Ukrainian war, continuously enhancing preparedness to swiftly address any intentional or accidental failures. Following Russia's invasion of Ukraine, we have conducted comprehensive risk assessments to bolster physical infrastructure security. This includes significantly increasing reserves and implementing new backup solutions to expedite the restoration of damaged infrastructure.

In terms of energy security, the most important advancement for the Estonian energy system over the past 30 years undoubtedly lies in the project of synchronisation with Continental Europe. During the energy and raw materials crisis that emerged in 2021 and 2022, energy infrastructure construction became considerably more expensive and the construction market faced a shortage of construction capacity due to a surge in workload. Despite these difficult circumstances and with the support of our valued partners, we have managed to continue the network developments needed for separating from the Russian power grid and connecting to the Continental European power grid of on schedule or even accelerated schedules in some cases. In spring 2023, Lithuania faced the strong pressure to disconnect from the Russian United Electricity System by the beginning of 2024, originally planned for the end of 2025. Recognizing the importance of strong connections to Latvia for Estonia's security of energy supply in the planned synchronization, we reached a mutual agreement that Elering would expedite the construction of Latvian lines as much as possible. Consequently, the deadline for the entire synchronization program could be moved up by one year, to the beginning of 2025. With several crucial line extensions and the completion of two out of three synchronous compensators in 2023, we are highly confident in completing the remaining projects by early 2025. This provides us with substantial reassurance against the risk of a sudden unilateral separation of the Baltic states by Russia. Should this happen, we are well prepared to ensure the stability of our system and join the Continental European system without a delay.

Elering supports the state in achieving its renewable energy targets

Estonia has set an ambitious renewable energy goal – to produce electricity for local consumption from climate-neutral resources by 2030. The cheapest renewable electricity for consumers comes from solar parks and onshore wind farms and up to three times the peak consumption in the terms of capacity should be connected to the grid. Since 2021, there has been a significant increase in the number of customers seeking grid connection, leading to concerns within the energy community about the presence of 'phantom' projects with uncertain realization prospects. In response Elering suggested imposing a fee for unused grid connections for those who does not use the connection point built for them within a reasonable period of time. Additionally, legislation

on connection guarantees has been introduced to further motivate commitment to the process. These measures have resulted in a dramatic reduction in new connection applications and a halt in many ongoing connection processes. While these changes have made grid connections more affordable and less time-consuming, it is evident that the current arrangements may still pose a bottleneck given the ambitious 2030 target. Many onshore wind farms are still at such an early stage of the planning process, and they may not reach the grid connection phase until just a few years before 2030. In order to achieve the set goal grid reinforcement for large-scale connections must commence by 2025. Therefore, the network reinforcements should be carried before the connection applications have been submitted. Elering, in collaboration with the Ministry of Climate, has developed the corresponding concept by late 2023 and paving the way for regulatory changes initiated by the state.



A specific plan has been put together to ensure climate-neutral and affordable security of supply. Increasing numbers of power plants generating electricity from low-cost renewable sources will ensure affordable electricity reaches consumers consistently. . By 2030, Estonia should have enough renewable electricity to cover local consumption on an annual basis. However, there will be hours when local wind and solar power plants cannot produce enough electricity, and during this time, significant amount of electricity can be imported from cost-effective power stations located in other countries. Estonia's international connection capacity already exceeds its peak consumption, with plans for additional connections with Finland and Latvia underway. If there is a shortfall in cheap generation resources or interconnection capacity between the countries is, there must be an adequate amount of locally controlled generation capacity. Whilst the presence of more renewable power plants reduces the need for the controlled plants, their capacity for Estonia should still be around 1,000 MW, or slightly more in the future.

The year 2023 proved to be a bustling and fruitful period for Elering, and I extend my heartfelt gratitude to our diligent and committed team members as well as our esteemed professional partners for their hard work and dedication.

Changes in the electricity system leads to the need for reserve generation capacity

While the risk of electricity shortages seems manageable, anticipated shifts in the electricity landscape, such as an expected rise in consumption and the closure of outdated power plants, will heighten tensions, particularly between 2027 and 2030. To ensure system adequacy- ensuring the availability of power plants necessary to meet the consumption- preparation for implementing capacity mechanisms is essential. In Estonia, there is a likelihood of a scenario where the level of controlled capacity operating in the market falls below 1,000 MW. In 2023, we contributed to the development of necessary legislative amendments to enable the utilization of a strategic reserve, ensuring sufficient controllable capacity even during exceptionally cold windy winter days. Additionally, we developed and issued for public consultation a concept for the long-term procurement of a frequency reserve, guaranteeing an adequate reserve capacity that can be quickly activated and sufficient amount of controllable capacities.

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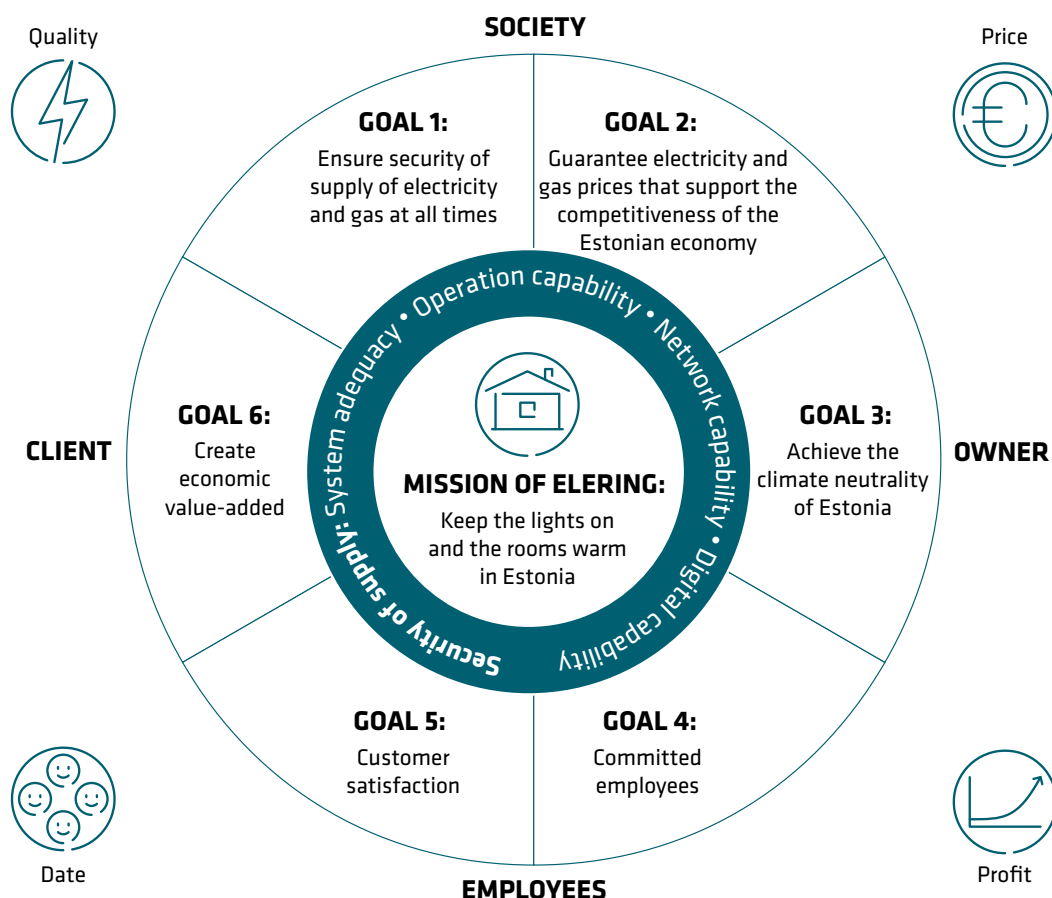
MANAGEMENT REPORT

**FROM ELERING'S
MISSION TO ITS
STRATEGIC GOALS**

The availability of energy is fundamental to societal functioning. The absence of electricity significantly affects various sectors of Estonian society, including the functioning of vital services. The mission of Elering as the steward of the Estonian electricity and gas system is “keeping the lights on and the rooms warm in Estonia”. At all times and under all circumstances. The changing external landscape presents us with challenges in addressing the accelerating pace of climate change, while ensuring energy security in today’s rapidly escalated geopolitical situation.

Our vision in Elering is to have “SECURITY OF SUPPLY in a climate-neutral manner, supporting the competitiveness of the Estonian economy”. Our primary challenge lies in guaranteeing security of supply to Estonian consumers at all times, expedi-

ating Estonia’s synchronisation to the Continental European electric power system by early 2025, while maintaining a reliable electricity supply during the transition period. These steps are paramount in ensuring 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, whilst bearing in mind the competitiveness of the Estonian economy. To achieve these goals, we ensure the availability of network capabilities, maintaining transmission capacities running and ensuring the availability of system management capabilities. As we strive to fulfil our mission and implement of our vision, it is imperative to find a balance between the interests of various stakeholders, including society, clients, employees and the owner. Therefore, we’ve set six strategic goals for Elering.



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

The security of supply value chain encompasses four key pillars of system capability: control, network, system and digital capacities. To efficiently manage and develop these capabilities, our objective is to ensure a well-functioning power and gas transmission network. In the electricity system, our goal is to keep the 10-year average level of unserved electricity below 130 MWh. Regardless of the cause—be it equipment breakdowns, operational failures, capacity shortages, or cyber-attacks—the impact on society and consumers remains the same. In 2023, we successfully kept the 10-year average of unserved energy from the transmission network at historically low levels.

The 10-year average unserved energy stood at 52 MWh in 2023 (2022: 52 MWh). Unserved energy in 2023 stood at as low level as 60 megawatt-hours (2022: 50 MWh). The overall transmission level during the year exceeded 8.1 million megawatt-hours of electricity. Thus, the reliability of Elering's network in 2023 was 99.99 percent.

In 2023 the unserved energy in the gas transmission network was 0 megawatt-hours (2022: also 0 MWh). The security of gas supply was remained intact in Estonia throughout 2023; with no notable transmission network failures or breakdowns causing interruptions in gas supply to consumers. Consequently, there were no instances of

In 2023, the 10-year average of unserved energy from the transmission network was continuously at historically low level.

In 2023 the unserved energy in the gas transmission network was 0 megawatt-hours.

gas remaining unserved in 2023. Despite damage to the Balticconnector gas pipeline on October 8, 2023, disrupting the connection between Estonia and Finland, gas supply to Estonian consumers continued uninterrupted through the connection with Latvia. Even after the Balticconnector gas pipeline fault, sufficient gas supply to Estonia and the Baltic region was guaranteed, as in the event of a disruption in the Balticconnector, there will be no need to cover the consumption in Finland with gas flows from the south. Finland primarily relies on the Inkoo LNG terminal to meet its gas needs. In a similar situation, had the FSRU not been stationed at the port of Inkoo during the time of the incident, Finnish consumers would have faced a substantial shortfall in the prolonged disruption to the Balticconnector gas supplies. We're working with the Finnish Gas System Operator to bring the Balticconnector back on stream as soon as possible in the first half of 2024.

Synchronisation of the Baltic states with the Continental European frequency area

One of the biggest risks in ensuring security of supply today stems from the extraordinary separation of the Baltic states to the synchronous area, a situation influenced by developments in the Russian unified power system (IPS/UPS) and the prevailing geopolitical landscape. To reduce these risks and ensure the stability and reliability of the

electricity system, we've committed to executing the project for synchronisation of the Baltic States with the Continental European frequency area. While the initial goal was to synchronise with Continental Europe by 2026, in 2023 we expedited the project's implementation through a mutual agreement among Estonia, Latvia and Lithuania, and the new goal is to synchronise the Baltic electricity systems with the Continental European frequency area in February 2025.

Within the framework of synchronisation project, we enhance the resilience of the Baltic synchronisation area. We already have the capacity to manage unforeseen islanding of the Baltic states. Through additional developments and measures, we will achieve capability for the long-term synchronous operation in an N-1 (switch-off of any one element) situation without imposing any automatic restrictions on consumers.

An important milestone of this project in Estonia was achieved in early March 2023, when we energised the fully upgraded Balti-Tartu high-voltage line. The upgrades of the Tartu-Valmiera overhead line were completed a few months later. The Balti-Tartu and Tartu-Valmiera lines together form one Estonia-Latvia connection. The Balti-Tartu high-voltage line underwent extensive upgrades spanning over 133 kilometres with new masts and lines. In addition to the powerful 330-kilovolt transit line, it also carries the conductors of several 110-kilovolt overhead lines of local importance. Placing two lines on the same masts allowed Elering to dismantle 150 kilometres of obsolete 110-kilovolt overhead lines. This allows us to free

up approximately 750 hectares of land, which landowners will be able to use without restrictions from now on.

The completion of the work on Balti-Tartu and Tartu-Valmiera enabled the commencement, in early summer, the full reconstruction of another Soviet-era connection with Latvia, the completion of which was brought forward by approximately nine months, i.e. to early 2025.

Another important measure of the project involves ensuring sufficient inertia within the system to guarantee stability of the system during the breakdowns and the maintain frequency stability under normal conditions. 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. A total of nine synchronous compensators will be installed across the Baltic countries by the Baltic TSOs.

Estonia is well ahead of the other Baltic states in completing these key network elements. The first two synchronous compensators were built in Estonia. The first synchronous compensator in Püssi was connected to the power grid in May 2023 and is now in daily operation. The Kiisa synchronous compensator underwent a short test in December to check whether the equipment can continue to operate even if there is a power outage in the power grid due to external factors. The successful test gave us the reassurance that the synchronous compensator can remain operational in the event of any disturbance and support the power grid with inertia and short-circuit power even in

The new goal is to synchronise the Baltic electricity systems with the Continental European frequency area in February 2025.

critical situations. The last of the three – the Viru synchronous compensator – is on schedule to be completed by summer 2024.

In 2023, we continued the implementation of the framework for system services and the pre-qualification of reserves. These capacities will be implemented and developed in the Baltic states according to the Continental European frequency reserve principle and the capacity for local voltage optimisation will be created. Updating existing control systems and implementing new ones are imperative to meet the standards of Continental European frequency areas. Procuring fast emergency reserves via the existing submarine cables linking the Baltic states and the Nordic countries is essential for bolstering our emergency preparedness.

Adequacy of the energy system

As the European Union and its Member States set ambitious climate policy targets, the adequacy of the energy system is increasingly becoming a concern in the electricity sector from a security of supply perspective. Where will electricity be generated 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?

To address this challenge, our minimum objective is to uphold the reliability standard of the Estonian power system over the three-year timeframe. The current target values for this standard are the Loss of Load Expectation (LOLE) of nine hours per year and the Expected Energy Not Served (EENS) of 6 GWh per year. This three-year margin leaves a sufficient reserve to introduce measures to ensure the necessary system adequacy reserves, in

addition to the normal functioning of the market, if needed. We consistently assess the adequacy of the energy system in cooperation with Entso-E and other European system administrators.

The ERAA (European Resource Adequacy Assessment) of 2023 shows that there will be no security of supply problem in Estonia until 2028 – LOLE is 4.1 h and EENS 0.3 GWh/year, which corresponds to the Estonian reliability standard. We also carried out a National Resource Adequacy Analysis (NRAA) to ensure security of supply. The NRAA shows that a more detailed regional modelling of the reserve markets and the postponement of the construction of the new Lithuania-Poland electricity interconnection Harmony Link will significantly increase the LOLE in Estonia. Regional simulations show that in 2030, the LOLE will increase to 14.2 hours, also exceeding the reliability standard.

As a result, a comprehensive plan is in place to ensure the security of supply. Until 2027, Estonia's reliability standard is upheld with 1,000 MW of oil shale units kept in Narva to meet the owner's expectation given by the state of Estonia. Analyses indicate that it is economically sustainable to keep four oil shale units on the market from 2027-2030, but four units are not enough, and we need to apply a capacity mechanism in the form of the strategic reserve. To ensure adequate frequency reserves, Estonia is seeking a derogation from the European Commission for the long-term acquisition of reserves. Long-term procurement of fast reserves enables new capacity by 2030. The need for firm capacity will rise in the perspective for 2030 due to the growth of renewable energy and consumption, after which

A comprehensive plan is in place to ensure the security of supply.

it will have to be assessed, in line with electricity market developments, whether the strategic reserve should be replaced from 2033 onwards by a capacity mechanism that would bring new firm generation capacity to the market.

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 contribute to the price of electricity and gas with three parameters.

The existing cross-border capacities must operate to the maximum to equalise the electricity price level with the Baltic Sea countries

It is important to ensure the highest possible usability of the existing cross-border capacities in order to align the price of electricity and gas in the Estonian price region with that of the Baltic Sea countries. We make sure that we can keep the capacities in operation as much as possible during the bottleneck hours. In 2023 we successfully managed

Synchronisation project investments have been executed without imposing additional costs to consumers.

The Estonia-Finland connections, EstLinks (1000 MW), were operational for approximately 95% of hours, reaching its technical engineered capacity.

to keep the reliability of DC connections at a high level in cooperation with the Finnish TSO and schedule maintenance and repair activities at times when the impact of limitations on the market was as small as possible. Notably, the Estonia-Finland connections, EstLinks (1000 MW), were operational for approximately 95% of hours, reaching its technical engineered capacity.

Thin power grid

Another important aspect is to enhance the efficiency of the power grid and ensure its long-term adaptability to changes in generation and consumption, thereby maintaining control over transmission network tariffs.

Our long-term goal is to keep the replacement investments into the existing grid over the next five years smaller than the depreciation of the regulated assets over the next five years. This goal has a long-term impact. As we strive to decrease in the unserved energy, we have to find more innovative and efficient solutions and technologies for grid operation. In preparation for the transition, we developed two-package capacity-based tariff component in 2023 and new tariffs will become effective from January 2024. The decision was driven by the shift from energy transmission towards the security of supply function particularly together with the development of distributed production. A capacity-based tariff based provides clearer indication for long term grid planning based on actual needs. It also facilitates the entry of storage capacities into the market more easily compared to an energy-based tariff.

One of the key success factors of keeping the power grid tariff under control is related to the ability of executing synchronisation DC project investments

without imposing additional costs to consumers and not including the investments into the tariffs. Elering finances three-quarters of the construction costs from the European Cohesion Fund, with the remaining one quarter covered by the congestion income. The total cost of the projects in Estonia is approximately €300 million.

Digital solutions

The third aspect of ensuring a competitive energy price involves the development of a well-functioning market organisation and platforms that promote the maximum competition and foster a competition market with numerous participants.

The Baltic TSOs are planning to initiate a common Baltic LFC capacity market from early 2025, with the procurement of reserve capacities on a day-ahead basis. Unlike the MARI and PICASSO platforms, this process will be only based on the Baltics and will be carried out independently of the merger process of the aforementioned pan-European platforms. The Baltic TSOs consider it necessary to carry out a capacity market test period before synchronisation with Continental Europe. The quantities to be procured during the capacity market testing period range up to the capacities

dimensioned for synchronisation and depend on the needs of the system. The Baltic TSOs have also planned to use the resources at their disposal to guarantee the need for system services for system services, which means the deployment of the Kii-sa emergency reserve power plant in Estonia and battery systems in Latvia and Lithuania. Analyses indicate that, this is essential to ensure sufficient frequency management resources in the Baltic states following the accelerated synchronisation of the Baltics with Continental Europe and to prevent excessive cost increases for end-users. The use of the TSOs resources is anticipated to conclude by 2030, by which time market-sourced reserves are expected to be adequate and rendering the use of TSO resources unnecessary.

Elering and Fingrid have developed a technical pilot solution that allows Estonian market participants to participate in the Nordic aFRR market. The pilot has proven successful, with 40 MW of upregulation and 65 MW of downregulation aFRR capacity pre-qualified by 2023. In 2023, Elering and Fingrid identified the capacity to further extend the cooperation between the system operators on the FCR-N service and started preparing the possible pilot.



Goal 3: Achieve the climate neutrality of Estonia

Estonia has set an ambitious energy target to achieve 100% coverage of its total annual electricity consumption with renewable energy by 2030. To reach this goal, it is estimated that at least 5,500 MW of generating capacity must be connected to the Estonian transmission network. The implementation of investments related to the power grid, in particular the planning and construction of new transmission network infrastructure (overhead lines and substations), is a time-consuming process. Current estimates suggest that the majority of new renewable energy capacity developers would only reach Elering's connection process by 2027/2028 due to capacity planning processes, and connections are required by 2030 to meet the national target. The existing grid connection system for the developing new lines and network connections (technical solutions, planning, procurement, construction) would pose a bottleneck to such rapid development. To address this challenge, a new connection concept was initiated in 2023. The new concept advances the development of the network within the scope of the development obligation and offer a fixed price connection option to future connecting parties. A fixed price would give developers price certainty when planning and implementing long-term projects. Implementing a new solution requires a change in the regulatory environment.

In 2023, we prepared for the implementation of the RRF (European Resilience and Recovery Fa-

cility) investments to enhance renewable energy interconnection capacity today. Among the RRF investments, following reconstructions will be made: the Kiisa-Rummu and Mustvee-Paide overhead lines, building the Võiküla-Orissaare parallel line, constructing a second new 100-kilovolt submarine cable in the Väike Väin Strait and building and expanding the 110-kilovolt substations in Lihula and Orissaare. In August, we entered into an agreement for the renovation of the 330 kV Paide-Kiisa high-voltage line. The construction of the line will, among other things, increase the potential for renewable energy development in Western Estonia. The estimated cost will be approximately €25 million. The length of the Paide-Kiisa high-voltage line to be reconstructed is 70 kilometres. The existing masts and the wires will be demolished during the work. The route of the line will not change, and the new line masts will be erected in the locations of the existing masts. The 110 kV Paide-Rapla power line, which currently runs on separate masts, will also be partly installed on the masts of the upgraded Paide-Kiisa line. This will allow the final dismantling of 17 kilometres of the 110 kV line and will free land belonging to various landowners along this stretch from restrictions related to the line.

Our objective is to Position Elering as a pioneer in achieving a carbon-neutral energy system, enabling Estonian electricity consumers to access climate-neutral energy throughout the entire value chain. To this end, we aim to achieve climate neutrality within Elering by 2030, thereby minimizing the footprint associated with energy transmission.

A new connection concept was initiated in 2023 to gain the climate goals of the state through faster and simpler connection process.

Goal 4: Committed employees

Retaining talent poses increasing challenges due to the high demand for talent in the energy sector and under the pressure of the generally low unemployment rate and competitive salaries. Therefore, fostering a strong team spirit and cultivating a good work culture are important for retaining our people, achieving the ambitious goals set for the next five years and managing changes in the energy system. Committed employees tend to be more satisfied and more productive than their counterparts. Managing employee commitment is important and impacts the fulfilment of Elering's mission. Every year, we conduct a commitment survey and have set ourselves the target to stain the commitment index above 70%. In 2023, the commitment index of our people was 84% (2022: 80%), and 92% of our people gave their input to the survey.



The COVID crisis of 2021 and the energy crisis of 2022 clearly demonstrate the value of managing employee commitment and its real results in delivering on Elering's mission. The last years have been exceptional for Elering, where our talents have applied extraordinary and accelerated risk mitigation measures under the scrutiny of society and in the context of conflicting interests. In the coming years, we'll continue to focus on building the skills and leadership quality of middle managers and maintaining a shared culture.

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. Elering cannot be successful by making massive changes in the energy system and on energy markets that arise from climate and geopolitical challenges if our clients are not satisfied. An increasing number of 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-centric work culture.

Every year we conduct a feedback survey across clients in all service segments to identify the accuracy of the service and assess client satisfaction of clients. Our goal is to keep customer satisfaction above 65%. The survey carried out in 2023 showed that Elering's customer satisfaction was at the level of 66% (2022: 69%). Unfortunately, the uncertainties arising from the energy crisis and the large and far-reaching changes have somewhat reduced customer satisfaction. A significant change in satisfaction occurred in

the segment of connection customers, primarily due to significant changes in the handling of so called 'phantom connections' outlined in the Act Amending the Electricity Market Act and other Acts (draft act 696 SE).

Goal 6: Create economic added value

Every owner anticipates that the capital invested in their company will yield value aligned with their objectives. We monitor the added value created on the basis of the economic added value (EVA) methodology. In 2023, the positive EVA was created.

Due to a significant 25% decrease in gas consumption in Estonia to 3.8 terawatt-hours in 2022 followed by a continued decline in the first half of 2023, we initiated an amendment of the price of the transmission service in 2023. Gas consumption in 2022 was 3.4 TWh and 1.2 TWh in the first six months of 2023 (1.7 TWh in the first six months of 2022). On 1 September, the Competition Authority approved the price of Elering's gas transmission service at €7.56 per megawatt-hour, which came into force as of December 2023.

Elering is one of the biggest electricity consumers in Estonia due to network losses. Current tariff methodology established by the Competition Board does not allow Elering to fix the electricity price for a long time, which means that the market price of electricity continues to have a direct and strong impact on Elering's financial performance for 2023. The high electricity prices in 2023 have led to increase the expenses for Elering in purchasing electricity from the exchange to

compensate the physical losses arising upon the transmission of electricity. However, they have also resulted in higher congestion income arising from the difference in prices between Estonia and Finland. To prevent an increase in network fees due to the increase in the expenses on network losses in the current situation of high inflation, we obtained the approval of the Estonian Competition Authority to continue using congestion charge funds to cover the expenses arising from purchasing network losses.





OVERVIEW OF ECONOMIC ACTIVITIES AND PERFORMANCE RESULTS FOR 2023

Economic environment

Elering operates as an autonomous and independent integrated electricity and gas system operator in Estonia with the core responsibility of ensuring high-quality energy supply to Estonian consumers.

Similarly to 2022, the economic and political landscape in 2023 was affected by Russia's aggression against Ukraine. This aggression has had a far-reaching implication on commodity prices, gross domestic product (GDP), interest rates and inflation. Russia's aggression towards Ukraine reduces the demand for products and services and increases inflation worldwide. Estonia is significantly affected due to its geopolitical location.

While GDP growth in 2022 was negative 0.5% at constant prices, Eesti Pank forecasts a negative GDP of 3.5% in 2023. Positive GDP is forecast to return only in 2025. However, while the economy has continued to contract, interest rates have risen significantly. EURIBOR, which had been negative since 2016, began to rise in 2022, with six-month EURIBOR surpassing the 4% mark.

Paradoxical scenario persists in the labour market, characterized by a dual challenge: while locating qualified labor proves arduous, the unemployment rate, on the other hand, remains at a relatively high level.

In 2023, the unemployment rate reached an estimated 6.8% (5.6% in 2022). Concurrently, the surge in prices have had a notable pressure on wage dynamics, which will have a larger impact in 2023 but which had some impact in 2022. While average gross wages grew by 11.7% in 2022, their increase in Q3 2023 was 10.4% (12.2% in Q3 2021). Eesti Pank forecasts that gross wages will increase by 11.1% in 2023. The increase in gross wages will slow down

by 6.6% and 4.5%, respectively, in 2024 and 2025.

Compared to 2022, inflation has slowed down. Inflation was substantial in 2022, with significant increases in both energy prices and fuel prices contributing considerably. The Consumer Price Index made an extraordinary leap in 2022, rising by 19.4%. In 2023, inflation reached 9.2%. The price increase has an impact on wage costs, energy costs, including network losses, and other services as well as on the cost of investment. At the same time, changes on the interest rate market, the cooling of the economy and the decline in exports are putting companies in a more difficult market situation, which could be reflected in lower prices.

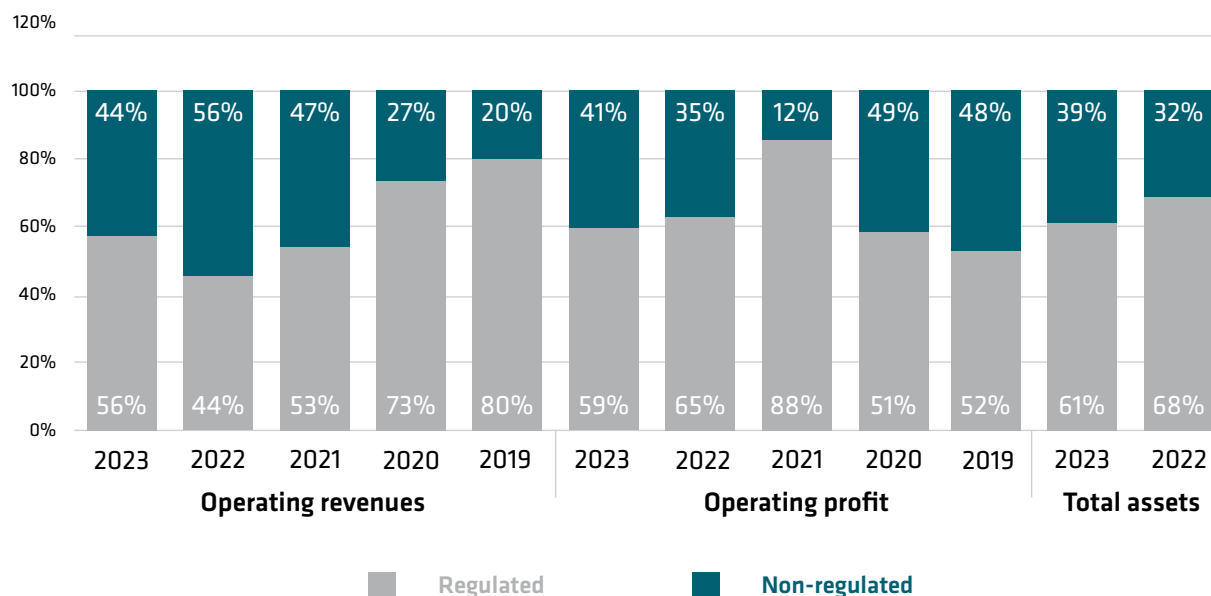
Nature of economic activities

The economic activity of Elering divides largely into two:

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

Regulated network activity primarily involves 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 operation is a regulated activity and the authorised network charges are approved by the Competition Authority. The regulator assesses whether the costs presented in the network charge request are justified and prescribes a reasonable return, which is calculated on the basis of the Capital Asset Pricing Model. The network charges consist of the operating charges, capital expenditure and



permitted rate of return in the case of both power and gas transmission. Operating profit is calculated as the product of the regulatory asset base and the weighted average cost of capital (WACC).

The company has 32 power grid service clients and 10 gas network service clients in total (2022: 28 power grid service clients and nine gas network service clients). The majority, i.e. 94.4%, of the network service revenue (2022: 91.9%) is received from clients who are regulated distribution network operators acting as natural monopolies. The biggest client in terms of the network service is Elektrilevi OÜ, whose share in network service revenue is 91.1% (2022: 78.7%). 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 electricity and gas balancing service.

In order to ensure a stable frequency 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 19 balance-responsible parties to whom Elering provides the service (2022: 21).

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 (2022: 8).

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.

Performance results

Key financial indicators

	2023	2022	2021	2020	2019
Sales revenue (mil €)	244.7	387.0	201.4	137.1	142.1
Other operating revenue (mil €)	10.1	11.1	6.7	5.3	13.1
Operating expenses (mil €)	226.5	378.2	199.1	109.8	113.4
Operating profit (mil €)	28.3	19.9	9.0	32.6	41.8
Operating profit before depreciation (mil €)	81.8	67.5	54.6	72.7	78.7
financial expenses/ (income) (net) (mil €)	-2.0	2.4	2.3	2.3	2.2
Income tax (mil €)	2.3	0.0	1.6	5.0	6.8
Net profit (mil €)	28.0	17.4	5.1	25.3	32.8
Operating profit margin	11.6%	5.1%	4.5%	23.8%	29.4%
Margin of operating profit before depreciation	33.4%	17.5%	27.1%	53.0%	55.4%
Net profit margin	11.4%	4.5%	2.5%	18.5%	23.1%
Return on equity	7.1%	4.5%	1.3%	6.5%	8.5%
Equity capital to assets	28.2%	27.3%	32.3%	36.0%	37.9%
Net loans payable/operating profit before depreciation (mil €)	0.1	1.2	4.8	3.9	3.8
Investments in fixed assets (mil €)	183.8	118.8	78.8	85.0	129.8
Dividends (mil €)	13.5	0.0	10.0	25.6	29.4

Operating profit before depreciation = operating profit + depreciation

Return on equity = net profit / average equity

Equity to assets = equity / total assets

Net loans payable = debts payable - cash and cash equivalents

Revenue

Total revenue amounted to €254.8 million (2022: €398.1 million). The company's most important source of revenue was the sale of network services, which comprised 58.3% or €142.7 million (2022: 45.2% or €174.8 million) of sales revenue. In terms of the revenue from network transmission services, 49.4% was revenue from the electricity network transmission service, 10.1% revenue from the gas transmission network service and 25.2% revenue from other network services (2022: 49.4%, 7.8% and 42.7%). In 2022, electricity network losses not included in the tariff were covered by the accumulated capacity allocation charges with the approval of the Competition Authority, provided that the balance of the capacity allocation charges is sufficient to finance cross-border investments. Revenue regulated with network tariffs comprised 74.8% of the total revenue from network services (2022: 57.3%).

60-80% of transmission revenues in both electricity and gas are generated from October to May. Compared to 2022, both electricity and gas network transmission revenues increased in 2023 due to changes in network charges. The new network charges started to apply as of 1 April 2022 for electricity and as of 4 December 2023 for gas. Sales of power grid services increased by 6.9% or €5.9 million and gas transmission revenues increased by 5.0% or €0.7 million. At the same time, transmission volumes fell by 263 GWh or 3.6% for electricity and 342 GWh or 9.1% for gas in 2023. New price packages will be implemented as of 1 January 2024, which also include a fixed fee component, in part or in full, to hedge the risk of decreasing transmission volumes.

The balancing and regulation service decreased by 54.5%, i.e. €109.3 million, and amounted to €91.1

million (2022: €200.3 million). The decrease in balancing service revenues was mainly related to balancing electricity, whose revenues decreased by €77.8 million. Revenue decreased by 74.8% or €58.2 million due to the lower electricity price and by 25.2% or €19.6 million due to the decrease in volumes. The decrease in revenues from gas-balancing services was also linked to the decrease in both price and volume.

Expenses

Operating expenses amounted to €226.5 million (2022: €378.2 million). In relation to the decrease in the sales of balancing services, we see a similar decrease in the balancing service purchasing expenses, i.e. the energy purchasing expenses of the balancing service were 54.5% or €109.3 million less (2022: 133.4% or €108.0 million more).

As in 2022, the price of electricity had a significant impact on costs in 2023. However, compared to 2022, electricity prices were significantly lower, resulting in a decrease in the costs related to network losses in the energy network, which amounted to €37.0 million (€91.7 million in 2022). Labour expenses increased by 11.0%, or €1.7 million, in comparison with 2022 and amounted to €15.1 million (2022: 18.6% or €2.1 million, reaching €13.3 million). The increase in salaries and wages is related to the increase in the number of people as well as in remuneration.

Depreciation expenses have increased in relation to additional significant investments by 12.1% or €5.8 million, amounting to €53.4 million (2022: 4.7% or €2.1 million, reaching €47.7 million).

Operating profit for the financial year amounted to €28.3 million (2022: €19.9 million).

In 2023, the company earned net financial income of €2.0 million (2022: net financial expenses of €2.5 million) due to changes on the interest rate market.

The company paid €13.5 million in dividends to its owner in 2023, which resulted in an income tax expense of €2.3 million. As the company did not pay dividends in 2022, there was no income tax expense in the compared year. Net profit for financial year amounted to €28.0 million (2022: €17.4 million).

The company paid €13.5 million in dividends to its owner in 2023.

Ordinary investments are made primarily in the replacement of depreciated parts of the power and gas networks. On average, replacement investments amount to approximately €15-45 million per year. In 2023, we made replacement investments in the amount of €42.3 million (€16.4 million in 2022).

Similar to 2022, investments in synchronisation with the continental European frequency area will be the main focus in 2023. The investments in synchronisation with Continental Europe will also continue in 2024.

Investments

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

In addition to ordinary investments, Elering has initiated an intensive special investments programme for strengthening connections.

million euros	Total investment	<= 2023	2024-2028	Investment
Estonia-Latvia 3rd power transmission line	82	82	0	2011-2021
Synchronisation	313	208	105	2018-2025
Estonia-Finland gas connection	136	136	0	2013-2023
Estonia-Latvia gas connection	44	44	0	2015-2023
Gas connection GIPL	2	0	2	2024
Estlink 3	751	0	7	2023-2035
Estonia-Latvia 4th power transmission line	408	0	7	2024-2035
RRF (investments from the EU Recovery and Resilience Facility)	123	23	100	2022-2026
Total	1 859	493	221	

Financing

The company financed its investments with European Union funds as well as with loans and bonds. In May 2023, the company redeemed the

bonds issued for the full amount of €225 million. The company's interest-bearing liabilities as of the balance sheet date are as follows:

million euros	2023	2022
Depreciating portion of long-term bank loans with average interest rate of 3.57% (2022: 0.45%).	10.6	10.6
Eurobonds with 0.875% coupon rate	0.0	224.9
Interest payable	0.7	1.7
Financial lease	0.0	0.1
<i>Total short-term interest-bearing liabilities</i>	11.3	237.3
Eurobonds with 0.875% coupon rate	0.0	0.0
Long-term bank loans with average effective interest rate of 0.95% (2022: 0.45%)	66.2	76.7
Financial lease	0.0	0.0
<i>Total long-term interest-bearing liabilities</i>	66.2	76.7
Total interest-bearing payables	77.5	314.0

Elering issued Eurobonds at the nominal value of €225 million. The Eurobonds were listed on the London Stock Exchange with a redemption deadline of 3 May 2023 and a coupon rate of 0.875%. The bonds were redeemed at maturity.

The bank loans have been taken from the European Investment Bank and the Nordic Investment Bank. The balances of the principal amounts of these loans as of 31.12.2023 were €63.8 million and €13.0 million euros, respectively (2022: €71.0 million and

€16.3 million). 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.

In addition to interest-bearing liabilities, Elering 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 CINEA (European

Us has entered into financing agreements with the CINEA for financing the four major projects.

Climate Infrastructure and Environment Executive Agency) for financing the following projects:

- a. The third power transmission line connecting Estonia and Latvia
- b. The sub-sea gas pipeline connecting the Estonian and Finnish gas networks along with the accompanying infrastructure
- c. Strengthening the connection between the gas networks of Estonia and Latvia
- d. Investments required for synchronisation

Summary of expected EU aid and recovery facility sources for larger cross-border investments:

million euros	Total EU aid received	Receipt of EU aid <=2023	Receipt of EU aid 2024-2027
Total	452.6	322.2	130.4

Another source of financing, which does not incur interest expenses is the congestion charge. This occurs in situations where there are differences in prices between price areas (countries) and the power exchange transfers the funds accrued as a result of the price differences to the transmission network operators. In accordance with EU legislation, the money thus obtained must be used primarily to increase cross-border transmission capacity. As of the end of 2023, Elering has collect-

ed €454.8 million in this manner, of which €339.0 million is not yet tied to the reporting date (€341.3 million as of the end of 2022, €268.8 million untied on 31 December 2022).

The assets built on both EU assistance and the congestion charge are not accounted for as the regulatory asset base; thus, the capital expenditure thereof is not included in the network tariffs.



OUR ELERING ACTION PLAN FOR INVOLVING AND MOTIVATING EMPLOYEES

Elering recognizes that its most valuable asset in fulfilling its mission and realizing its vision is its people, along with their knowledge and skills.

The number of people working at Elering as of the end of 2023 was 291 (2022: 272 people; 2021: 258 people). The average length of service of employees is a slightly over 11 years with their average age of 42 (2022: length of service a little over 12 years and average age 43 years). Three-quarters of the employees are men.

Elering has historically been characterised by relatively small labour turnover rate. The voluntary turnover decreased slightly in 2023, reaching 7.7% (2022: 8.3%; 2021: 7.8%). Maintaining the low labour turnover is crucial to Elering to preserve the high level of expertise required for its core business. To achieve this, it is necessary to understand the expectations of the employees and involve them in the development of the organisation. The majority of our employees hold university degrees; with nearly half possessing master's or doctoral degrees.

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 trainees-

Elering has historically been characterised by relatively small labour turnover rate.

hips at Elering. Visits to the sites are also organised. Bachelor's, master's and doctoral students studying at Estonian universities receive support to conduct research on cutting-edge topics related to energy and information technology within the scope of the scholarship programme. The scholarship programme is also a part of Elering's activities in the development of an energy and IT centre of excellence. Students of sciences and IT who have acquired basic knowledge in their field of study and want to work and gain practical experience 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).



Job-shadowing and information classes at schools are used to introduce Elering to upper secondary school and university students.

The commitment of employees is important to Elering and therefore we have set this value as one of the strategic goals of Elering.

Human resources management and personnel-related activities at Elering are driven by the human resources management policy of Elering, which prioritizes several key aspects: 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 and 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 the questions that measure employee satisfaction in various aspects, loyalty and emotional commitment.

The “Meie Elering” (Our Elering) steering group has been established to oversee the development and coordination of follow-up activities based on the survey feedback. 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 resolution of problems that prevent the commitment and satisfaction of Elering’s people. The 2023 commitment survey was carried out in January 2024, when the commitment of employees was 84% (2022: 80%; 2021: 81%).

In order to create better synergy between various activities and implement area-specific policies, we have created permanent steering groups within Elering’s structure that involve specialists and managers from several structural units of Elering that enable the company to create synergy between various topics and provide broader perspectives and challenges for the employee. Cooperation within and between teams is also promoted with cooperation and team-building 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 and 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, summer seminar and celebration of the establishment of a combined system operator in autumn, have all become great traditions.



We support a healthy lifestyle; therefore, in addition to the exercise benefit, Elering holds various sporting events and joint actions at the initiative of the company and the employees. In 2023, we were awarded the first ever silver label of an organisation that values mental health by [Peaasi.ee](https://www.peaasi.ee).

The compulsory health checks for employees are carried out every two years; employees aged 40+ can undergo an exercise stress test. In 2023 alone, 47 new employees joined Elering, so the organisation of a well-considered induction programme and activities aimed at the development and training of employees are important to us. The duration of the induction programme at Elering is approximately two 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 each unit, corporate values, culture and Elering’s role and responsibility in society. Mentoring and supervision are part of the 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 retro 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 relevant or interesting topics in their field.

In order to support the development of our managers, we prepared the good corporate governance practices of Elering with our middle managers and offered management training. We are constantly improving the working environment by gathering ideas and needs on a regular basis and organising collaborative discussions at least twice a year. 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. Remote work is also being used increasingly often and we have created convenient tools to provide a comfortable and modern environment no matter where people work.



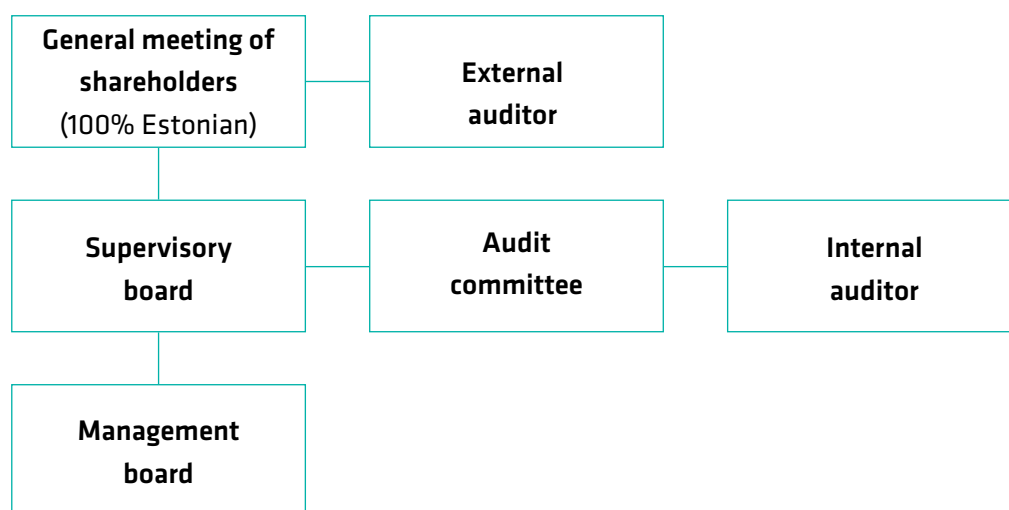
CORPORATE GOVERNANCE

The background features a vertical split between a light grey left side and a bright yellow right side. A large teal shape is positioned on the left, extending from the bottom left towards the center. Another teal shape is on the right, extending from the bottom right towards the center. These teal shapes meet at a vertical line in the middle, creating a central vertical seam.

The management of Elering is based on the commercial code, the state assets act, Elering's Articles of Association and the Good Corporate Governance Code (GCCG) prepared by the Estonian Financial Supervision Authority and OMX Tallinn Stock Exchange.

Elering is committed to following the Corporate Governance Code and wishes to grow further in this area. Quality corporate governance is a prerequisite for achieving strategic goals and shaping the organisational culture. The Corporate Governance Code has been implemented in Elering in such a manner that all employees work for the achievement of the company's goals.

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

The sole shareholder of Elering is the Republic of Es-

tonia, which is represented at the general meeting by Minister of Climate Kristen Michal as of 17 April 2023. Until 17 April 2023, the representative at the general meeting was the Minister of Economic Affairs and Infrastructure, who until 3 June 2022 was Taavi Aas and from 18 July 2022 was Riina Sikkut. The shareholder adopts resolutions at a general meeting or without calling a meeting.

One annual general meeting was held during the year, on 23 May 2023, where an overview of the work of the supervisory board and management board was given, the annual report for 2022 was approved, meeting the owner's expectations was assessed, the distribution of profit for 2022 was approved, the amended articles of association were approved and expectations for 2023 were set. In addition, the sole shareholder decided

on 14 March 2023 to recall Jaanus Uiga from his position as a member of the supervisory board and to appoint Rein Vaks as a new member of the supervisory board for a term of three years. On 21 May 2023, the sole shareholder decided to recall Timo Kyösti Rajala and Indrek Kasela from the supervisory board as of 22 May 2023 due to the expiry of their authorisation as members of the supervisory board, to extend the authorisation of Janek Stalmeister for three years as of 22 May 2023 and to elect Rein Vaks as chairman of the supervisory board. On 27 July 2023, the sole shareholder decided on the synchronisation schedule of the Baltic power grids with the Continental European frequency area, which moved the synchronisation forward, i.e. to February 2025.

Supervisory board

The owner's interests in the company are safeguarded by the members of the supervisory board. The supervisory board provides the management board with guidelines for organising the management of the company and exercises supervision over the activities of the management board of the company. 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 of the company, regular meetings of the supervisory board are held as and when necessary, but no less frequently than once in every three months.

Composition and remuneration of the supervisory board

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 Climate, on the basis of recommendations made by an independent Appointments 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.

In 2023, there were five general, one special and four electronic meetings. The supervisory board approved the annual report for 2022 before submitting it to the annual general meeting of shareholders for approval and approved Elering's strategy for 2024-2028 and the 2024 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 2023, the supervisory board of Elering had the following members:

- Timo Kyösti Rajala, chairman of the supervisory board as of 14.06.2017 (entrepreneur), authorised until 22.05.2023, attended one annual meeting and one special meeting and participated in three electronic votes.

- Indrek Kasela, as of 21.08.2016 (entrepreneur), authorised until 22.05.2023, attended one general meeting and one special meeting and participated in three electronic vote.
- Jaanus Uiga, as of 31.05.2022 (energy expert, former Head of the Energy Department at the Ministry of Economic Affairs and Communications), authorised until 14.03.2023, participated in two electronic votes.
- Rein Vaks, as of 14.03.2022 (Head of the Energy Department at the Ministry of Climate), authorised until 24.05.2026, attended four general meetings and one special meeting and participated in two electronic votes.
- Janek Stalmeister, as of 22.05.2020 (entrepreneur), authorised until 21.05.2026, attended five general meetings and one special meeting and participated in four electronic votes.
- Kaie Karniol, as of 07.03.2022 (Head of the State Assets Department at the Ministry of Finance), authorised until 06.03.2025, attended five general meetings and one special meeting and participated in four electronic votes.

In 2023, remuneration (which does not include remuneration for committee membership) was calculated for members of the supervisory board as follows:

Member of supervisory board	Total remuneration in 2023 (thousand euros)	Total remuneration in 2022 (thousand euros)
Timo Kyösti Rajala	7.5	18.0
Timo Tatar	0.0	3.8
Indrek Kasela	3.8	9.0
Tarmo Porgand	0.0	1.6
Janek Stalmeister	9.0	9.0
Kaie Karniol	9.0	7.5
Jaanus Uiga	2.3	5.3
Rein Vaks	13.5	0.0

There is no provision for the payment of severance benefits or other benefits to members of the supervisory board. Jaanus Uiga, Timo Kyösti Rajala and Indrek Kasela left the supervisory board in 2023. (Timo Tatar and Tarmo Porgand left the supervisory board in 2022.) Rein Vaks was elected as a new member of the supervisory board (Jaanus Uiga and Kaie Karniol were elected as new members in 2022).

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



Riina Käi



Kalle Kilk



Erkki Sapp

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; 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 ensures that the members of the supervisory board are adequately informed of the economic situation of the company and the most important circumstances with regard to economic activity and inform the supervisory board of the most important circumstances with regard to economic activity, as necessary.

Composition and remuneration of the management board

In accordance with the articles of association, the management board may have one to four members. A member of the management board is elected by the supervisory board for up to five years. According to the articles of association of Elering, the company may be represented in all legally binding acts jointly by two members of the management board or alone 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.

Changes were made in the management board of Elering in 2023. The management board had three members in the financial year.

- Taavi Veskimägi as the chairman of the management board performed, among other things, the daily responsibilities of Elering's CEO, i.e. managed and represented the company, ensured that activities were in compliance with contracts and relevant laws, organised the work of the management board, coordinated the development of the company's strategy and led its implementation. The authorisation of Taavi Veskimägi as the chairman of the member of the management board and member of the management board expired on 04.07.2023.
- Riina Käi also performs the role of CFO as a member of the management board. Until 4 July 2023, Riina Käi managed Elering's financial activities, the area of renewable energy and the areas of administration and information technology. As of 4 July 2023, Riina Käi leads Elering's financial activities, administration and risk management (including cybersecurity).
- Kalle Kilk, as a member of the management board, performed, among other things, the daily tasks of the head of as-

set management until 4 July 2023. Kalle Kilk was appointed the chairman of the management board as of 4 July 2023 and he started to perform the daily responsibilities of Elering's CEO, i.e. manage and represent the company, ensure that activities are in compliance with contracts and relevant laws, organise the work of the management board, coordinate the development of the company's strategy and lead its implementation.

- Erkki Sapp stepped into the position of member of the management board on 4 July 2023 and his responsibilities include renewable energy, energy market development and system management.

Based on the articles of association, a member of the management board may only be paid remuneration under a contract entered into with them. A member of the management board may also be paid additional remuneration in the amount of up to four months' remuneration, taking into consideration their performance. A bonus can be paid to a member of the management board on the basis of regular results or on another basis, based on a supervisory board decision. The remuneration of the members of the management board is fixed and stipulated in the contract concluded with the management board member. Elering has not established any long-term bonus systems. 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.

In 2023, the remuneration paid to the members of the management board of Elering, including taxes, was as follows:

Member of management board	Total remuneration in 2023 (thousand euros)	Total remuneration in 2022 (thousand euros)
Taavi Veskimägi	146.1	192.5
Kalle Kilk	177.0	146.7
Riina Käi	167.6	146.5
Erkki Sapp	51.0	0.0

Term of the authorisations of the members of the management board:

- the authorisation of Taavi Veskimägi was effective until 04.07.2023
- the authorisation of Kalle Kilk is effective until 31.12.2024
- the authorisation of Riina Käi is effective until 31.12.2024
- the authorisation of Erkki Sapp is effective until 31.12.2024

Prevention of conflicts of interest

Members of the management board do not adopt resolutions based on their own interests, nor do they use commercial offers made to Elering for their own gain. 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 their 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; 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 parties related to them in 2023 (no transactions were concluded with member of the management board or parties related to them in 2022).

Audit committee

The supervisory board elects an audit committee of up to five members, charged with overseeing risk management, internal control and financial reporting. The audit committee advises the supervisory board in the area of accounting, financial reporting, verifying 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 chairman of the audit committee.

In 2023, the Audit Committee of Elering had the following members:

- Janek Stalmeister (entrepreneur)
- Kaie Karniol (Head of the State Assets Department, Ministry of Finance) as of 07.03.2022
- Rein Vaks (Head of the energy department at the Ministry of Climate) as of 14.03.2023
- Indrek Kasela (entrepreneur) until 22.05.2023
- Jaanus Uiga (energy expert, former Head of the Energy Department at the Ministry of Economic Affairs and Communications) from 31.05.2022 to 14.03.2023

- Timo Tatar (Deputy Secretary-General for Energy and Mineral Resources at the Ministry of Economic Affairs and Communications) until 31.05.2022
- Tarmo Porgand (Deputy Head of the State Assets Department at the Ministry of Finance) until 07.03.2022.

The audit committee held six (6) meetings in 2023: 1 February, 24 February, 20 March, 8 June, 2 October,

7 December (5 times in 2022). The Audit Committee considered the following internal audits: security of electricity supply, power grid management, information security control environment. It also reviewed the audit plan, assessed the work of the external auditor and analysed the topics of internal control and financial reporting as well as the criteria for selecting an internal auditor. The internal audit service is outsourced from the external service provider. The internal auditor was paid €31.6 thousand for their services in 2023 (2022: €34.0 thousand).

In 2023, the members of the audit committee were paid remuneration as follows:

Member of the audit committee	Total remuneration in 2023 (thousand euros)	Total remuneration in 2022 (thousand euros)
Rein Vaks	0.6	0.0
Janek Stalmeister	0.9	0.8
Kaie Karniol	0.9	0.6
Jaanus Uiga	0.6	0.8
Indrek Kasela	0.4	0.8
Timo Tatar	0.0	0.3



Cooperation between management board and supervisory board

The management board and the supervisory board cooperate closely for the purpose of the best protection of 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 data, including financial reports, to the supervisory board in sufficient time prior to supervisory board meetings. 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 and the decisions of and the goals set by the general meeting and the supervisory board meetings.

Disclosure of information

The website of Elering at www.elering.ee includes 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 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 together 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 to be entered into with an auditor may not obstruct the auditor in any way in auditing the activities of the company.

In spring 2022, a new procurement was carried out to find an auditor for 2022-2024 with the option to extend the contract until 2026. 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 European Union Regulation on audit activities that entered into force in 2016. In 2023, Elering paid €46.0 thousand for the audit of the annual report on the basis of the submitted invoices (2022: €29.4 thousand) (the indicated fee does not include VAT).

In addition to the assessment of Elering's financial reporting, the external auditor provided the following services in 2023:

- Carried out an audit of the activity report in accordance with the requirements of § 17 of the Electricity Market Act
- Prepared a report on the findings of the audit to the National Audit Office
- Checked the regularity of transactions pursuant to the requirements of the National Audit Office of Estonia.

The Audit Committee monitors the activities of the external auditor in accordance with the Auditors Activities Act.

Risks and ethical principles, anti-corruption activities

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:

- Risk management in the company

The goal of risk management at Elering is to identify the risks that may jeopardise the achievement of the company's strategic goals and thereafter to reduce the risks to a level acceptable to the company.

Thus, the company's risk management deals with risks from the perspective of the company. The company uses the COSO ERM risk management framework for risk management.

- Risk management related to vital service

The risk management of Elering as a vital service provider deals with the risks of energy supply from the perspective of the end-user of electricity and gas. More specifically, the objective is to assess the likelihood and extent of a disruption in network connection that could lead to an emergency situation for energy consumers. Recovery plans will then be prepared for such situations, allowing network connection to be restored quickly and efficiently. The company uses the risk management framework provided for in the Emergency Act when managing the risks of vital service.

The company's risk management consists of Risk management in the company and Risk management related to vital service.

Risk management in the company

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, who reports directly to the member of the management board responsible for financial and risk management, organises risk management on a daily basis. Risks are primarily assessed by sector-specific risk working groups:

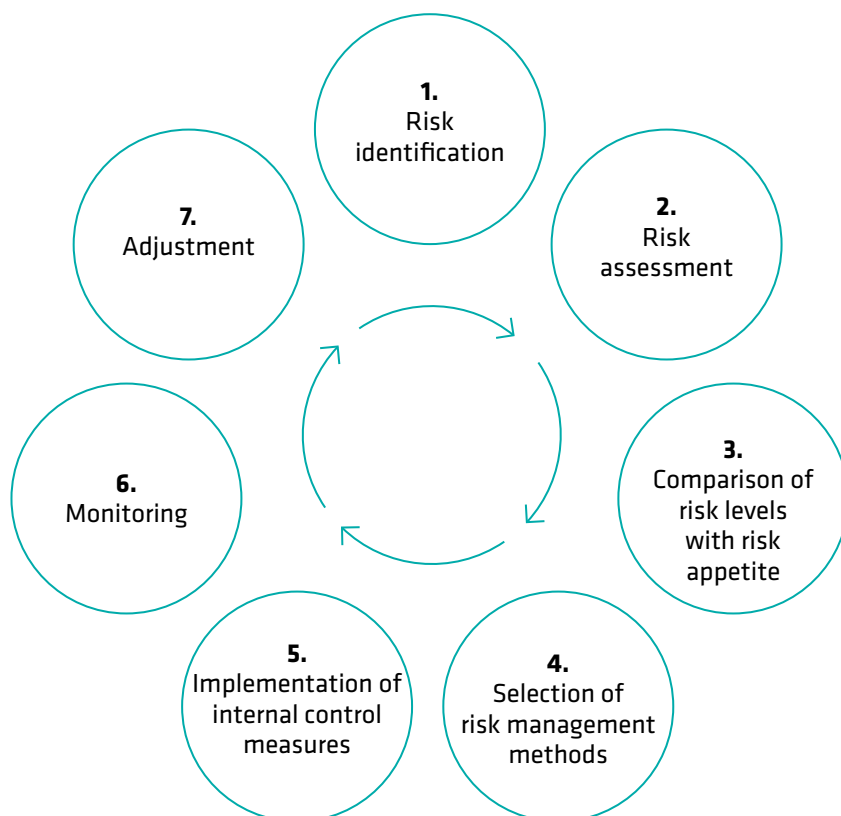
- working group on energy system risks
- working group on operational risks
- working group on financial risks
- working group on compliance risks
- working group on IT risks.

The risk assessments provided by the working groups are reviewed by the risk committee and approved by the management board.

A list of additional mitigating measures necessary to bring the risks to and maintain them at acceptable levels is submitted to the management board with the risk assessments. These are registered either as assignments (in the case of one-off activities) or as amendments to the company's procedures (in the case of ongoing activities), on the basis of a decision of a management board meeting.

The internal control system of the company (including compliance with procedures) is assessed by an independent internal auditor who regularly reports the results of the assessment to the audit committee. Ernst & Young Baltic AS was the internal auditor in the financial year.

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



1. Risk identification – the scenarios that may threaten the achievement of goals 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 it is prepared to take without applying any additional risk management measures. Accepting residual risks of high and very high levels 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, 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 measures and reporting them to the managing bodies.
7. Adjustment means the immediate introduction of amendments to internal control measures 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.

The risk assessment showed that external threats remained high during the year.

The war launched by Russia against Ukraine and the resulting political tensions continued. For historical and geographic reasons, our region's energy infrastructure has been closely linked to that of Russia, which means that Russia has the potential to influence Estonia's energy infrastructure in several ways. The continued high level of the geopolitical threat is the main cause of the major risks:

- Physical attack on energy system infrastructure
- Threat of disruption of the electricity system
- Cyber-attack
- Reduction in transmission revenues as a result of lower economic activity.

2023 was the first year in which gas supply in the Baltic and Finnish region was entirely based on LNG. However, the gas market participants and gas infrastructure of the region were well prepared for this. Enough gas to cover the region's winter gas consumption was stored in the underground gas storage facility in Latvia by the start of the heating season in autumn. In addition, LNG terminals were operating in Inkoo and Hamina in Finland and Klaipeda in Lithuania. The technical capacity for a fast-floating storage and regasification unit (FSRU) has been established in Paldiski. The GIPL gas connection between Poland and Lithuania also contributed to the security of supply to some extent.

On 8 October 2023, a ship damaged the Balticconnector, which connects the Estonian and Finnish gas systems. The estimated time

for repairing the damage and restarting the Balticconnector is April 2024. Until then, all gas consumed in Estonia will come from Latvia. The event does not have a significant impact on the availability of gas in Estonia, as the Klaipeda LNG terminal, the Latvian gas storage facility and GIPL have sufficient capacity to fully cover Baltic gas consumption. However, the likelihood of a short-term disruption in gas supply in Estonia is somewhat higher, as there is only one main gas pipeline connecting Estonia and Latvia. It is likely that gas consumption will be restricted to some extent if it gets damaged. Unlike the repairs of a submarine pipe, repairing an underground pipe only takes a few days.

The risk of disruption to the electricity system remains a particular concern, as it may

materialise if all power connections between the Baltic states and Russia are disrupted. The consequence would be the operation of the Baltic electricity system in island mode. This means that the Baltic electricity system would not be connected to any other electricity system via AC connections (DC connections to the Nordic countries and Poland would remain), which means greater vulnerability to major systemic disturbances. To this end, the Baltic and Polish electricity TSOs have agreed on an action plan for connecting the Baltic electricity system to the Continental European electricity system via Poland. A large part of the synchronisation investment programme had been implemented by the end of 2023, so the Baltic electricity system is significantly more resilient even in island mode than it was a year ago.

The still high level of external risks is also reflected in the residual risks:

Number	Low	Medium	High	Very high	Total
Energy system risks	2	7	1	1	11
Financial risks	0	3	1	2	5
IT risks	4	2	2	0	8
Operational risks	4	6	1	0	11
Compliance risks	2	4	0	0	6
Total	12	22	5	2	41

The company's risk tolerance does not allow it to accept residual risks of a high or very high level. As the table shows, seven (7) risks were above the company's risk tolerance limit. In order to mitigate these risks, the management board approved a multi-annual action plan that will bring residual risks down to tolerable levels in the coming years.

The most significant risk that materialised in 2023 was the aforementioned damage to the Balticconnector. Should the investigation by the

Finnish authorities conclude that this was an act of terrorism, no compensation will be paid under the insurance contract of Balticconnector and the economic loss to Elering could amount to €15-20 million.

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 law, each provider of vital services must prepare a risk

analysis related to the vital service and a business continuity plan and submit them for approval to the agency organising a vital service set forth by law, which in the case of Elering is the Ministry of Climate.

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. One or several recovery plans are prepared for each risk scenario, which describe how energy supply is restored and how long it may take 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 Climate in emergency situations, the capacities of the main contractual partners involved in the recovery of energy supply, etc.

Risks are well managed for both the achievement of the company's strategic goals and the energy supply of the customers of the vital service.

Risk scenarios address the following threats:

- weather (storm, exceptional cold wave, etc.)
- insufficient electricity generation capacity
- disruption of gas supply
- human errors
- physical attacks against infrastructure
- cyber-attacks
- deterioration of the technical condition of equipment
- impact of neighbouring electricity systems
- etc.

The following risks were identified in the risk assessments of the vital services of electricity and gas, based on the criteria set out in law:

	Electricity	Gas
Very high	0	0
High	5	0
Significant	2	2
Medium	3	5
Low	3	4
Total	13	11

All in all, 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 strategic goals and the energy supply of the customers of the vital service. This does not mean that the materialisation of risk scenarios is completely ruled out. Elering has worked and will continue to work to bring the probability of risks materialising and their impacts to an acceptable level.

Ethics and prevention of corruption

Elering is a company with zero tolerance for corruption.

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

- The risk of violation of laws, as 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 is 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 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 an Anti-corruption Policy that 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 therewith.

- Conflicts of interest

The obligation to avoid any conflicts 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 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, nine procedures of the company include provisions that prevent the possibility of the emergence of corruption.

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. Amendments to the awarded public contracts may only be made with a decision of the management board. 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 Prevention 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.

There is regular training on the prevention of corruption, which is mandatory for all staff. The main focus of the training is on the quick recognition of potential corruption situations. In soci-

ety, 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.

We commissioned audit firm EY to carry out a consultancy assignment in 2022, which was aimed at identifying weaknesses in the prevention of corruption at Elering. For this purpose, they carried out a staff survey, examined the internal procedures and interviewed key people. The results were compared with the results of the EY Global Integrity Report 2022. EY concluded the following: "According to the results of the corruption risk assessment conducted, the level of residual corruption risk at Elering is low."

The company buys a hotline service from an independent party to which employees of the association as well as any other person can anonymously report suspected corruption. No calls were made to the hotline in 2023 and no cases of corruption were identified in Elering in any other manner, 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 the prevention of corruption described above have a very important role in reducing the risk of corruption, but the attitudes and ethical beliefs of employees themselves are no less important. The attitudes 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 the general beliefs and principles that employees are expected to hold.



**COMPLIANCE
WITH CORPORATE
RESPONSIBILITY
PRINCIPLES IN ELERING'S
ACTIVITIES**

Contribution to UN Sustainable Development Goals

The activities of Elering have a significant impact on almost all of the UN Global Sustainable Development Goals, but due to the core business objective of Elering, which is to ensure the security of supply in a climate-neutral manner, our main focus is on two goals:

SDG 7 Sustainable energy

7 AFFORDABLE AND CLEAN ENERGY



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 security of supply in a climate-neutral manner and with the support of digital tools.

SDG 13 Climate action

13 CLIMATE ACTION



The goal of Elering's climate policy is to ensure security of supply in Estonia in a climate-neutral manner; to achieve Elering's strategic goals when transitioning to the climate-neutral economy. We

put our heads together and contribute to the achievement of the European climate goals set with the Paris Climate Agreement. We are

the leaders in making power and gas systems climate neutral. As a company, in reducing the carbon footprint, we've set ourselves a goal that is more ambitious than the goal of the EU: we want to make Elering climate neutral by 2030 to allow energy consumers to be climate neutral across the entire value chain, including in terms of the transmission service.

Corporate social responsibility principles

In 2022, we developed the Corporate Social Responsibility Principles of Elering, which describe the broader framework of how we approach environmental, social and governance aspects and their impacts in carrying out Elering's core business of ensuring energy security for the people of Estonia.

The document is guided by the company's mission and vision and the expectations of the Estonian state as the owner. The principles are integrated into Elering's management and provide input to the company's strategy and are approved by the company's management board.

The goal of the principles is to explain Elering's role in society and describe its connection to the concept of corporate responsibility, to highlight the international sustainability and ESG frameworks that are important to Elering and that guide our ESG management, and to formulate Elering's corporate responsibility focus themes in the areas of environmental (E), social (S) and governance (G) responsibility.

The policy document is public and can be found on Elering's website at <https://elering.ee/vastutustundlik-ettevotlus>.

Focus topics of corporate responsibility and their management

Elering manages its social impact through ESG areas and focus topics. We've chosen the focus topics based on Elering's current impact areas and its potential to influence social impact points.

The focus topics are divided into sub-topics and in order to manage them, we've created an ESG

action plan and more detailed sectoral action plans and guidelines. We also manage ESG topics through sectoral policies and strategies.

In the ESG Action Plan, we've been setting out the annual objectives, the responsible persons and the resources allocated since 2020, and we update the document throughout the year. The ESG Action Plan is also approved by the supervisory board of Elering as part of the corporate budget.

Elering's ESC areas and focus topics:

Environmental impact management (E)	Social impact management (S)	Responsible governance practice (G)
<ol style="list-style-type: none"> 1. Reduction of climate impact 2. Development of a network oriented towards renewable energy 3. Prevention of environmental pollution and waste 4. Increasing biodiversity and reducing negative impact on wildlife 5. Reduction of the environmental impact of office activities 	<p>Social impact on the economy and the community</p> <ol style="list-style-type: none"> 1. Security of supply and strengthening the competitiveness of the economy 2. Reduction of negative impact on the community resulting from operational activities 3. Infrastructure safety 4. Innovation and promotion of science 5. High-quality customer service <p>Positive impact on Elering's employees</p> <ol style="list-style-type: none"> 1. Healthy and safe working environmentd 2. Diversity and equal treatment 3. Inclusive management culture 4. Training and development activities 5. Next generation employees 	<ol style="list-style-type: none"> 1. Transparency and openness 2. Fair and ethical management 3. Responsible criteria for suppliers and partners 4. Data protection 5. Cybersecurity

Gold Label of the CSR Index

One of the options for monitoring Elering's corporate responsibility is the annual Corporate Social Responsibility (CSR) index organised by the Corporate Social Responsibility Forum. The index is an assessment of the corporate responsibility of companies in the form of self-assessment, the result of which is valid for the company for two years. Elering achieved the Corporate Responsibility Gold Label for the first time in 2019 by



**RESPONSIBLE
BUSINESS INDEX
GOLD LEVEL 2023**

participating in the CSR Index and repeated that result in the 2021 and the 2023 index. The Gold Label clearly demonstrates Elering's commitment to contribute to the management of responsible topics beyond what is required by law.



Elering Environmental, Social and Governance (ESG) Action Plan 2023

The chapter provides a general overview and examples of Elering's ESG action plan.

Environmental impact management

• Reduction of climate impact

Environmental impact management (E)
1. Reduction of climate impact
2. Development of a network oriented towards renewable energy
3. Prevention of environmental pollution and waste
4. Increasing biodiversity and reducing negative impact on wildlife
5. Reduction of the environmental impact of office activities

Elering's goal is to achieve climate neutrality by 2030, i.e. a situation where the net anthropogenic greenhouse gas emissions associated with the company's product or process/service are zero, and this is achieved through compensation for additional and unavoidable emissions. Elering has set itself the goal to decrease greenhouse gas emissions by 50% by 2025 and to achieve neutrality by 2030.

The review of Elering's strategy is an in-depth annual process. Achieving climate neutrality in Estonia and the indicator of the achievement of Elering's climate neutrality as a KPI, which sets specific target levels for the neutralisation of the direct emissions of Elering, was added as the new and sixth goal to the updated strategy.

Elering manages its climate impact through the Elering Climate Policy, which aims to contribute to the climate neutrality of Estonia's security of supply. We regularly update all procedures and policy documents, so the management board also approved the updated climate policy in September 2023.

- Achieving the climate neutrality of Elering
- Making it possible to achieve the renewable energy targets of Estonia
- Supporting the state in achieving climate neutrality according to the competences of Elering.

Elering's activities to support the transition of the Estonian energy system to climate neutrality are focused on three action lines in the climate policy:

Achieving climate neutrality in Estonia and the indicator of the achievement of Elering's climate neutrality as a KPI, was added as the new and sixth goal to the updated strategy.

In line with the Climate Neutrality Action Plan, we identified Elering's carbon footprint in 2022 and purchased the planned amount of certificates of origin to neutralise the footprint of the compensation of the network losses.

We started building an over-pumping device in order to carry out repairs to the gas network. The device makes it possible to reduce the amount of gas released into the environment during repairs. We also prepared for the procurement of a gas

stop system with bypass capability to carry out local repairs without releasing gas.

We provide free charging of electric cars at Elering's head office for our employees.

• **Development of a network oriented towards renewable energy**

Environmental impact management (E)
1. Reduction of climate impact
2. Development of a network oriented towards renewable energy
3. Prevention of environmental pollution and waste
4. Increasing biodiversity and reducing negative impact on wildlife
5. Reduction of the environmental impact of office activities

In order to ensure climate-neutral security of supply, Elering must guarantee that as much renewable energy as possible can be connected to the transmission grid. We want to make the Estonian electricity system attractive for production and storage capacities.

We continued to invest in and prepare to increase the renewable energy interconnection capacity under the European Recovery and Resilience Facility (RRF). The reconstruction of the Kiisa-Rummu overhead line and the Lihula 110 kV substation have been completed, and the construction of the second 110 kV submarine cable in the Väike Strait is under way, as are the extension of the Orissaare 110 kV substation and the preparatory works for the reconstruction of the Mustvee-Paide overhead line.



Elering has been contributing to the promotion of biomethane as a domestic renewable fuel for several years, through which we support the decarbonisation of the transport sector. We conducted regular biomethane advisory meetings, involving all stakeholders, and published relevant information on the biomethane website <https://biometaan.info> and on social media <https://www.facebook.com/rohegaasbiometaan>. For the first time, biomethane production in Estonia exceeded the 200 gigawatt-hour (GWh) mark – in 2023, a total of 210,617 GWh of biomethane was produced in Estonia, which is around 25% more than the year before.

As we're exploring the potential of hydrogen, we've been actively involved in the work of the European Hydrogen Backbone, a consortium of European gas system operators, for several years and are participating in the Nordic-Baltic Hydrogen Corridor project. It is a hydrogen transmission infrastructure project that would enable hydrogen to be transported by pipeline in Finland, Estonia, Latvia, Lithuania, Poland and Germany and create a single regional hydrogen system and market.

The project partners are six gas system operators: Gasgrid, (Finland), Elering (Estonia), Conexus Baltic Grid (Latvia), Amber Grid (Lithuania), Gaz System (Poland) and ONTRAS (Germany).

More information about the project can be found on Elering's website at <https://elering.ee/pohjamaade-baltikumi-vesinikukoridor>.

In 2023, we also carried out a regional Hydrogen Fuel Storage and Transmission Capacity Survey that helps us understand how much hydrogen can be injected into the existing gas network and what needs to be done to enable it.

For several years, we've been cooperating on the elaboration of the concept of real-time guarantees of origin with the Danish and German TSOs Energinet and 50 Herz within the scope of the project 'Track and Trace Initiative'. As a result of the project, it will be possible to buy renewable energy close to real time in the future. Further information on the project can be found at <https://energytrackandtrace.com/>.

In 2023, we published a development of the renewable energy information system that allows the owner of each metering point to view the amount of renewable energy consumed and the size of the carbon footprint. The same can be viewed about electricity sellers and it is possible to compare yourself with the average consumer in order to make discretionary decisions about consumption and choice of seller.

You can find out more about the development via Elering's customer portal for renewable energy customers at <https://estfeed.elering.ee/>. The other main developments of the renewable energy information system were the launch of an auction platform to help decarbonise the transport sector.



• Prevention of environmental pollution

Environmental impact management (E)

1. Reduction of climate impact
2. Development of a network oriented towards renewable energy
3. **Prevention of environmental pollution and waste**
4. Increasing biodiversity and reducing negative impact on wildlife
5. Reduction of the environmental impact of office activities

We're working to minimise and mitigate the direct environmental impact of the infrastructure needed to ensure security of supply. We ensure proper management of hazardous and non-hazardous waste. We prevent air and soil pollution and reduce waste using the best available technology.

Activities on power transmission lines

As an action to protect the environment, we're dismantling out-of-service power lines as a continuous activity, so in 2023 we removed 34 kilometres of the L206 Püssi-Kiisa 220-kilovolt overhead line as planned. During dismantling, 83 towers, more than 101 running kilometres of conductors, more than seven running kilometres of lightning protection cables and 83 towers worth of concrete foundations were decommissioned.

In the framework of the programme for connection to the Continental European frequency area, we dismantled 724 masts, 730 km of wires and 486 km of lightning protection cable on 243 km of the 330 kV overhead line L353 Viru-Tsireguliina and a total of 358 masts and 272 km of wires on 91 km of the 110 kV overhead lines L104B Mustvee-Alutaguse, L157 Tartu-Saare, L147 Elva-Rõngu, L148 Tartu-Elva and L677 Tsireguliina-Valka.

During the renovation and maintenance of lines, we dismantled and decommissioned 202 towers, 42 running kilometres of lightning protection cables and 139 km of conductors.

Activities at substations

We keep annual records of the costs of pollution prevention (e.g. oil-related work, hazardous waste disposal volumes). The objective is to prevent potential pollution by maintaining equipment and decommissioning obsolete equipment.

Important activities in the gas network

In 2023, we carried out a number of investment works on the Estonian gas transmission network that resulted in the increased safety of the network and reduced the negative impact on the environment.

Activities on pipelines:

We replaced 79 old pipes at various locations along the pipelines over a total length of 948 m. We renovated obsolete gas pipes with composite sleeves and new insulation for a total of 74 pipes over a total length of 888 m. In total, we upgraded 1,836 m of gas pipelines in 2023.

In order to protect the pipelines against corrosion, the last seven of the 69 cathodic protection stations in the gas network were converted into remotely controlled and self-regulating, i.e. smart stations. The entire gas network of Elering is now protected against corrosion by self-regu-

lating stations, i.e. stations that take the situation into consideration, which will reduce the corrosion rate of pipes and the number of pipes in the network that need to be replaced. In addition to more effective corrosion protection at the cathode stations, the need for monthly on-site visits to the stations and adjustments is now eliminated, reducing the use of road transport for monitoring.

Activities at the closure stations of pipelines:

We converted the line valve station that closes the Varudi DN500 and DN200 pipelines into a remotely controllable one, ensuring the faster and safer operation of the Tallinn-Jõhvi pipeline and eliminating the need to travel to the site to make the switchovers, thus reducing our environmental footprint.

In Jõgeva County, we improved the control of the gas flows in the valve station of the Saadjärve line, which will ensure more operational switching activities during repair works and also enable the connection of a mobile gas pumping compressor. The amount of gas released to the atmosphere during pipeline repairs will be significantly reduced as a result of both activities.

We built a completely new Saha-Loo diagnostic/linear station that will ensure more operational and safer in-pipe diagnostics on the Vireši-Tallinn transit pipeline, and we connected the Karksi diagnostic station to the pipeline. Since late 2023, we've been able to perform in-transit diagnostics on the Estonian internal transit pipeline at the time needed, which gives a very high confidence to operate the pipeline in the correct operating modes.

Activities at substations

In gas plants, we switched almost completely from diesel generators to gas generators by 2023, which will ensure the reliability of the plants and is also more environmentally friendly. We use diesel generators in only two compressor stations, where gas generators with the appropriate capacity are not yet available on the market.

We renovated the heating systems required for gas regulation for reheating at the Kiviõli and Kohtla-Järve gas plants, which will result in lower exhaust gas emissions and less fuel (natural gas) used.

We dismantled and then disposed of in Finland the underground storage tanks of the odorization systems of two older gas plants and replaced them with above-ground rapid exchange tanks. As a result of this, the quantities of odorant added to the gas at the outlet points and possible leaks in the system are better monitored.



• Increasing biodiversity and reducing negative impact on wildlife

Environmental impact management (E)

1. Reduction of climate impact
2. Development of a network oriented towards renewable energy
3. Prevention of environmental pollution and waste
4. Increasing biodiversity and reducing negative impact on wildlife
5. Reduction of the environmental impact of office activities

We plan our strategic decisions and actions on the principle of preserving and enhancing biodiversity and natural diversity. We proceed from the principles of protecting and restoring the environment insofar as possible.

This year, we prepared a contract and a cooperation agreement with the State Forest Management Centre (SFMC) to establish corridors for flying squirrels in two places under the high-voltage power line in Alutaguse Municipality in Ida-Viru County. This allows the species that avoids open areas to move more safely between potential habitats and spread over a wider area.

Estonia and Finland are the only countries in the European Union where flying squirrels can be found. In Estonia, the flying squirrel still survives in a limited area in Ida and Lääne-Viru County and Jõgeva County, mainly in Alutaguse forests.

The cooperation with the SFMC to provide green corridors for flying squirrels in line protection zones is a good example of how infrastructure and nature can co-exist. Further information on the project can be found at <https://www.rmk.ee/organisatsioon/pressiruum/uudised/uudised-2024/lendoravad-saavad-korgepingeliini-alla-liikumiskoridorid>.

In 2023, we carried out a repeat bird monitoring survey in the Väike Strait in cooperation with the Estonian Ornithological Society to find out the effects of the markers installed on the overhead line to divert birds. In order to protect the birds affected by the Väike Strait overhead line, the last overhead line will be replaced with a submarine cable in 2024, after which the nearly 60-year-old overhead line will be completely removed from the dam. Further information on the project can be found at <https://elering.ee/eleringi-rajatav-vaikese-vaina-teine-merekaabel-vabastab-vainatammi-ohuliinist>.



Photo: Rainar Kurbel



Photo: Karl Jakob Toplaan

During the year, we made preparations to bring overhead lines underground on several routes, which will increase security of supply in Tartu and at the same time reduce visual pollution and the line protection zone, thus reducing the impact on the surrounding environment. In the project to move the high-voltage lines around Tartu underground, we signed contracts for the first two lines (Tartu-Ülejõe and Tartu-Emajõe). After the completion of the currently ongoing works, three more 110-kilovolt high-voltage overhead lines surrounding the densely populated areas of the city of Tartu (Tartu-Anne, Tartu-Tööstuse, Tööstuse-Anne) will be replaced with underground cables. Further information on the Tartu underground cable project can be found at <https://elering.ee/elering-alustab-tartus-kahe-maa-aluse-korgepingekaabli-rajamist>.

In Tallinn, we've agreed with the local authority that when building the underground cable between the Veskimetsa substation and the border of Tallinn City, we will take into account the conditions of the Pollinator Highway in Tallinn, for which we also changed the original route of the line and the installation method, i.e. instead of an open trench, the cable pipe will now be drilled into the ground using the closed method, i.e. pipes will be installed in the ground, into which the cable grooves will later be pulled.

Within the framework of the synchronisation programme, we will continue to free up land under the lines in connection with the concentration of lines on common masts. By the end of the programme (early 2025), we will have freed up around 1,300 hectares of land in this way. Nearly 1,000 hectares of line land has been freed up under the programme as of December 2023, and landowners will be able to use it without restriction.

We also dismantled an out-of-service overhead line between Paide and Püssi substations.

Nearly 1,000 hectares of line land has been freed up under the programme as of December 2023, and landowners will be able to use it without restriction.



• Reduction of the environmental impact of office activities

Environmental impact management (E)
1. Reduction of climate impact
2. Development of a network oriented towards renewable energy
3. Prevention of environmental pollution and waste
4. Increasing biodiversity and reducing negative impact on wildlife
5. Reduction of the environmental impact of office activities

We understand that reducing our environmental impact starts with the decisions we make and the steps we take every day in our organisation of work. Our goal is to keep the environmental impact of working at Elering as low as possible and to be environmentally friendly; therefore, we measure our climate impact and apply the Green Office principles in our daily work.

We cover on average one-fifth of the building’s electricity consumption with solar panels on the roof of the headquarters, collect rainwater for use in toilets at the headquarters and in some substations and collect waste separately. Every year, we encourage our employees to consciously monitor and reduce digital waste. We also regularly monitor the retention periods for paper archives and reduce the amount of outdated archives accordingly. The objective is to maximise the sorting and management of all waste.



We continue to keep bees in the courtyard of the Elering headquarters in cooperation with the Tallinn Beekeepers Association. The presence of bees enhances the city’s biodiversity; they can help raise awareness of the city’s residents of the need for a nature-friendly lifestyle and contribute to increasing the yield of fruit trees and berries. We’ve also planted fruit trees in the garden of the Elering office.

We only source Fairtrade coffee and Ethical Tea Partnership tea for our offices. We continued the medicinal plant collection campaign among staff that we launched last year, and we use the plants to prepare tea in the office on a daily basis, which has been well received by staff.

Social impact management

• Security of supply

Social impact management (S)

Social impact on the economy and the community

1. Security of supply and strengthening the competitiveness of the economy
2. Reduction of negative impact on the community resulting from operational activities
3. Infrastructure safety
4. Innovation and promotion of science
5. High-quality customer service



Photo: Kiisa synchronous compensator station, December 2023

nous substation in Püssi was completed in mid-2023 and the one in Kiisa at the end of the year, and the reconstruction of the overhead lines between Balti-Tartu and Tartu-Valmiera was completed. Read more about the upgrading of the overhead line between the Balti and Valmiera substations at <https://elering.ee/en/estonian-latvian-inter-connection-required-joining-european-electricity-network-has-been-completely>.

Elering's goal is to support the competitiveness of the Estonian economy. We believe that the socio-economically cheapest energy can only be ensured by means of a transparent regional energy market based on a reliable and smart energy network. Achieving a high level of security of supply is possible thanks to correct maintenance and investment decisions.

In December, we published our annual Security of Supply Report, which is a comprehensive overview of energy system management, network, power system and digital capabilities in Estonia and was prepared with the help of joint assessments in cooperation with European and the region's TSOs. In order to explain the results of the security of supply report, we organised an annual security of supply conference, which was open to all interested parties and can be viewed on Elering's website at <https://elering.ee/varustuskindluse-konverents>. The report can be found on the Elering website at <https://elering.ee/varustuskindluse-aruanded>.

In connection with the large-scale project, as a result of which the electricity systems of Estonia and the Baltic states will be connected to the Continental European frequency area by early 2025, we continued to work on the development of new reserve market services to be fully prepared to ensure stable frequency in Estonia by the time of synchronisation. The infrastructure projects related to the synchronisation are on track – the synchro-

We also carried out regular emergency drills during the year to ensure our continued readiness to respond effectively to any incidents on the network and energy system.

In 2023, we finalised the process of renewing electricity transmission tariffs to ensure the more optimal development of the network and optimise unused consumption capacity. The new tariff structure also ensures greater interest in storage capacity for connection to the transmission network.

• Impact of the principal activity on the surrounding community

Social impact management (S)

Social impact on the economy and the community

1. Security of supply and strengthening the competitiveness of the economy
2. Reduction of negative impact on the community resulting from operational activities
3. Infrastructure safety
4. Innovation and promotion of science
5. High-quality customer service

Elering consistently updates and develops both national and international electricity and gas connections. When planning new developments, we consider the greatest positive impact on society and the least negative impact on the community. The main positive impact stems from Elering's core mission of ensuring security of supply. We measure noise from substation equipment and, if necessary, take additional measures to limit noise emissions. Energy infrastructure is planned and managed in partnership with local authorities and the community.

When developing and upgrading the energy infrastructure, we contribute to the public space by visually fitting the infrastructure into the surrounding environment (e.g. designer masts, design on substation walls). Our goal is to use design to bring people closer to energy topics.



The wall of the Kullamaa substation on the Risti-Virtsu Road received a nice addition in the summer by the artist KryptikArt that skilfully blends the building into its surroundings.

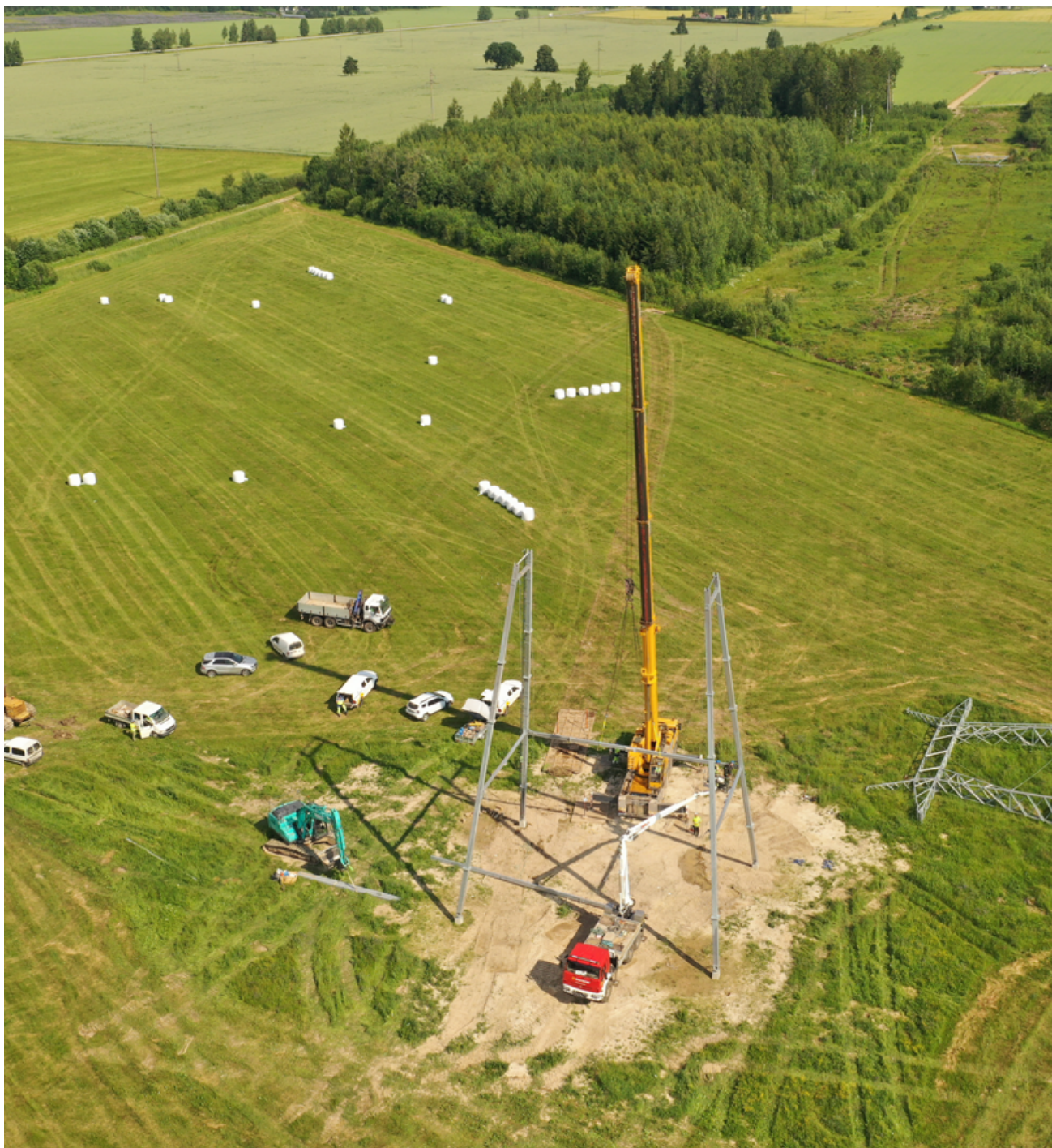
The equipment of working substations may cause noise that disturbs the surroundings. Although measurements have not shown that the limit values have been exceeded, we launched preparatory activities in 2023 by preparing the procurement documents and cooperating with the Centre for Defence Investment to surround the transformers of 330 kV substations on all sides with noise barriers. Walls will be installed at nine (9) substations in total.

We're also ready to look for specific solutions to reduce noise levels, even if they are within the permitted limits. We have found such solutions for 110 kV substations in urban areas, where substation noise can be more disturbing to residents.

Considering the interests of landowners, we'll erect farming-friendly pylons when building new lines, i.e. pylons that are free-standing without guy lines, so that farm machinery can drive under them. Thanks to the absence of guy lines, field cultivation in the line protection zone is much easier than for masts with guy lines. More than two hundred new masts

were erected during the reconstruction of the overhead power lines between Tartu and Valmiera, and the same will be continued during the reconstruction of another Soviet-era electricity connection with Latvia between the Viru and Tsirguliina sub-stations, which will be completed in 2024.

When clearing line protection zones of woody vegetation, we use milling as much as possible, which is a better and more pleasant option for landowners than no milling. In 2023, we cleared approximately a thousand hectares of line protection zones in this manner.



• Infrastructure safety

Social impact management (S)

Social impact on the economy and the community

1. Security of supply and strengthening the competitiveness of the economy
2. Reduction of negative impact on the community resulting from operational activities
3. Infrastructure safety
4. Innovation and promotion of science
5. High-quality customer service

We ensure safe movement and working in the vicinity of infrastructure. We spread knowledge of safe behaviour around lines and tracks.

We carried out the annual spring safety campaign in 2023 in order to draw attention to the dangers of staying and working in the protection zones of power transmission lines and gas pipelines. We carried out the campaign for the second year in cooperation with Elektrilevi and the Rescue Board and plan to continue this constructive cooperation in order to bring information about threats to people as effectively as possible. Statistics show that since the start of the campaign, the number of accidents in the Elering transmission network has decreased. While in previous years there were five to six events per year caused by forestry tractors, dumpers and other machinery, in 2023 there were two events that could have been prevented with sufficient awareness. We plan to continue with joint campaigns to raise awareness among the people who work and move near high-voltage lines and to reduce accidents to zero.



We also updated the safety booklet, which highlights all the most dangerous situations near the lines. We send this out to contractors both digitally and on paper. The information can be downloaded at https://elering.ee/sites/default/files/2024-01/Elering_Ohutusvoldik_Presentation_PDF.pdf

OHUD elektri kõrgepingeliinide juures

Elering haldab elektri põhivõrku ehk kõige suuremaid 330- ja 110-kilovoldiseid elektriliine, mis on kõrgendatud ohu allikaks inimeste tervisele ning varale. Käesolev voldik annab esmase info ja juhised ohutuse tagamiseks kõrgepingeliinide juures.

Routine inspections of lines and gas pipelines were carried out as usual to ensure the safety of Elering's lines and pipelines. We carry out the inspections on foot, by car and by laser scanning, with the addition of drone inspections next year for even more effective monitoring.

We're also continuing to improve and add the markings on gas infrastructure to make routes more visible to contractors and landowners, and we continued to work on a project to create 3D models of gas stations to improve the safety of works in situations where different communications are co-located.

• Innovation and promotion of science

Social impact management (S)

Social impact on the economy and the community

1. Security of supply and strengthening the competitiveness of the economy
2. Reduction of negative impact on the community resulting from operational activities
3. Infrastructure safety
4. Innovation and promotion of science
5. High-quality customer service

We contribute one percent of our turnover to research and development as expected by Elering's owner. The goal 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.

Activities continued in 2023 to assess the requirements and potential of the Estonian energy system to meet the climate and renewable energy targets. The main focus areas were conducting sensitivity analyses of electricity consumption forecasts, analysing energy production-consumption portfolios, and cross-border cooperation for the establishment of the hydrogen infrastructure of the Baltic Sea region.

From the viewpoint of Estonia's renewable energy 100 target for 2030, the state and Elering need to understand what electricity consumption may look like in 2030 in order to create the preconditions for building the necessary renewable energy reserves and generation capacities and for transmission network planning. Although we prepared a fresh analysis of electricity consumption scenarios (electricity consumption forecast) in 2022, this was based on the initial Fit for 55 proposal and was done on a top-down basis. In the meantime, the Fit for 55 proposals have been added to European directives and/or regulations and there is more clarity on the policy objectives. We therefore carried out an additional sensitivity analysis on the electricity consumption forecast at the end of 2023. The new analysis has been prepared on a bottom-up basis and in consultation with market participants in the heat sector, and it identifies how quickly the transport and heat sectors could be electrified. In addition, we identified whether there are limiting factors preventing these sectors from electrifying faster. The analysis showed that the transport

sector is generally electrifying along the same trend line in all European countries, electrification was simply started at different times, which puts the countries at different points on the trend line. The speed at which the car fleet is replaced – the number of cars purchased per year – also sets a rather rigid limit to the electrification of the transport sector. However, in the heat sector, a widespread switch to electricity will not make economic sense as long as the existing production assets are sufficiently amortised, the sufficient competitiveness of the fuels used today is lost and the regulation of heat prices is changed. Consequently, Elering also forecasts on the basis of new analyses that the end-consumption of energy in 2030 will be in the order of 10 TWh.



Estonia's potential to generate renewable electricity from offshore, onshore and solar wind significantly exceeds Estonia's current and forecast future electricity consumption. Consequently, the potential of renewable energy is an economic opportunity for the Estonian state that, if realised, can increase the competitiveness of Estonia. Elering, in supporting the competitiveness of the Estonian economy and being the operator of the electricity, gas and, in the future, hydrogen transmission network, is interested in realising this potential in a reasonable way. There are three options, or a combination of them, for using the potential of renewable energy if it is decided to do so at the political level and Elering has an important role to play in each of them: 1) export renewable electricity; 2) export the hydrogen produced from renewable electricity; and 3) attract energy-intensive industry to Estonia to produce a higher value-added product from renewable energy that can be exported to the global market. In all these options, Elering has a role to play in the transmission of energy across borders and nationally. In order to increase the competence within the company and take into account the security of supply aspect in these options, we at Elering, in cooperation with consultants, have carried out modelling of different electricity generation-consumption portfolios with different international connection options to gain knowledge of the impact on the Estonian energy system.

The addition of large weather-dependent generating capacities to the electricity system is accompanied by periods where a lot of energy is generated from wind or the sun. This will bring about very cheap prices for electricity consumers at these times, but also the possibility to produce cheap hydrogen. Hydrogen can be used to reduce emissions in sectors where electrification is not feasible or economically viable, such as heavy industry or long-distance transport. Transporting

large quantities of hydrogen requires a hydrogen transmission infrastructure, which Elering is planning together with other TSOs in the Baltic Sea countries. We're jointly developing the Nordic Baltic Hydrogen Corridor (NBHC) project through the European Hydrogen Backbone, a pan-European hydrogen infrastructure cooperation organisation. The potential route of the NBHC will pass through Finland, Estonia, Latvia, Lithuania and Poland all the way to Germany. At the end of 2023, the project was recognised by the European Commission and included in the European Projects of Common Interest (PCI list). Getting on this list makes it possible to speed up the planning process by gaining the support of the European Commission and the Member States and to apply for funding from the Connecting Europe Facility for the future realisation of the project. The feasibility study of the NBHC project, which is being carried out by the consultant AFRY and is expected to be completed by mid-2024, started in late 2023.

Elering, as a socially responsible company, provides support to ensure energy security, promote energy education and raise general energy awareness through the payment of scholarships to students in energy-related areas, the promotion of education, research and development in the field of energy, the organisation of energy-related events and the dissemination of energy-related information.

Elering's grant payments and donations are made in accordance with the State Assets Act and the company's internal regulations.

In cooperation with TalTech, we awarded the Future Energy System Scholarships in 2023 to one Master's student in Green Energy Technologies and two Bachelor's students in Computer Science. You can read more about the Elering scholarship on the webpage <https://elering.ee/toetused>.

• High-quality customer service

Social impact management (S)

Social impact on the economy and the community

1. Security of supply and strengthening the competitiveness of the economy
2. Reduction of negative impact on the community resulting from operational activities
3. Infrastructure safety
4. Innovation and promotion of science
5. High-quality customer service

Our goal is to achieve and maintain the culture of a customer-centric company. Elering's customers are customers of network services, grid connection, balancing services and renewable energy subsidies and certificates of origin.

Elering conducts an annual customer satisfaction survey and we update our customer policy that formulates the principles of a customer-centric culture.

We would like to improve the customer experience largely through digital solutions, which is why we launched the new customer portal e-elering <https://estfeed.elering.ee/>, where every consumer can see their own energy consumption data, in 2023. We will also continue with the project to upgrade the electricity and gas data warehouses, which cover all of Estonia's consumption data and information exchange between market participants. This will be completed in mid-2024.



As an update to the portal for landowners and network service customers, we released the development of a network tariff calculator and

carried out analyses for solutions to automate connection offers and monitor customer outages.

The positive impacts in the area of the management of the social impact of Elering are mainly

described in the chapter 'Our Elering Action Plan for Involving and Motivating Employees'.

- **Next generation employees**

Social impact management (S)

Positive impact on Elering's employees

1. Healthy and safe working environment
2. Diversity and equal treatment
3. Inclusive management culture
4. Training and development activities
5. Next generation employees

We are working to ensure a new generation of employees and popularise the energy sector and we recognise the employees of Elering who contribute to educating pupils. We will ensure that we maintain the talents and competences required for implementing changes in the energy system by means of high-quality management and a strong organisational culture.

Every year, the employees of Elering carry out numerous excursions to Elering's sites and deliver lectures at universities and to high school students in general education schools to give an overview of the energy system and get young people interested in energy.

In 2023, we counted tours to at least five of Elering's strategic sites for nearly 450 people from schools and companies. In addition, at least 14 staff members delivered lectures or lecture series at TalTech and the University of Tartu and gave presentations on energy topics at continuing education events, club events and the Positron energy fair for students.

In 2023, we counted tours to at least five of Elering's strategic sites for nearly 450 people from schools and companies.



Photo: Visit to the Püssi synchronous compensator in March 2023

We also cooperated with the Tehnopol Innovation Club, to whose members we introduced the ESG journey of Elering.

Responsible governance practice

• **Transparency and openness**

Responsible governance practice (G)
1. Transparency and openness
2. Fair and ethical management
3. Responsible criteria for suppliers and partners
4. Data protection
5. Cybersecurity

Elering is committed to complying with corporate governance, which serves as a prerequisite for achieving our strategic goals and shaping our organisational culture.

Equal treatment of market participants is important to us. We ensure this by providing market information to all at the same time through rapid market information platforms. We also regularly organise advisory councils of the electricity market, gas market, network service customers and biomethane as open discussion forums for market participants and carry out public consultations of sufficient length when creating new rules and developments.

• **Fair and ethical management**

Responsible governance practice (G)
1. Transparency and openness
2. Fair and ethical management
3. Responsible criteria for suppliers and partners
4. Data protection
5. Cybersecurity

It is important to Elering that all employees and managers adhere to the highest ethical standards. Elering is a company at which corruption in any shape or form is impermissible.

Elering employees declare economic interests in all procurement committees. We regularly conduct internal anti-corruption training throughout the company, including in 2023, when we also opened an anonymous hotline for reporting suspected fraud and corruption related to Elering, which can be accessed on the Elering webpage <https://elering.ee/vihjeliin>.



Every year, we carry out a risk assessment of the risks that could jeopardise the achievement of our strategic objectives, and on a quarterly basis, we carry out an internal audit on another topic under the guidance of an external audit firm.

The issue of anti-corruption and risks is discussed in more detail in the chapter 'Risks and ethical principles, anti-corruption activities'.

• Requirements for partners

Responsible governance practice (G)

1. Transparency and openness
2. Fair and ethical management
3. Responsible criteria for suppliers and partners
4. Data protection
5. Cybersecurity

It is important to Elering that we procure products and services from responsible companies, so the contractors of Elering must comply with all health and safety requirements and the regulation of Elering that sets ethical and professional standards for all public procurement partners.

During the year, we carried out the annual safety day for contractors and nine safety training sessions to ensure that our partners are aware of and in compliance with the safety requirements of Elering. The training sessions were attended by 74 people, and we're always open to advising our partners on safety issues.

In order to improve safety, work also continued on updating the safety manual for the operation of electrical installations, creating a common safety card to record cross-company rights when operating in electrical installations, and cooperation with other energy companies to create a centre of excellence to ensure the safety and high quality of work carried out in the Estonian power grid.

In 2023, we carried out 68 inspections of the working environment to check compliance with safety requirements on site.

Elering's safety specialist regularly carries out inspections of the working environment to check compliance with safety requirements on site. In 2023, we carried out such inspections at 68 sites, where we checked the safety aspects, compliance with maintenance requirements, proper storage and sorting of waste and materials. Elering's contractors are contractually obliged to properly sort waste and recycle dismantled materials at the sites, which is also checked through contracted owner supervision.



• Data protection

Responsible governance practice (G)

1. Transparency and openness
2. Fair and ethical management
3. Responsible criteria for suppliers and partners
4. Data protection
5. Cybersecurity

When processing personal data, we apply the principles of legality, purposefulness, minimality, correctness, retention and security. Elering has processes in place for processing personal data and we conduct regular training.

A new information system for registering personal data processing operations (the obligation to keep a register stem from the EU General Data Protection Regulation, GDPR) was developed in 2023. It provides an up-to-date overview of the company's business processes for processing personal data. Training was provided for business process owners and new employees.

The consent service provided through the client portal of the data exchange platform (<https://estfeed.elering.ee/>) which complies with the GDPR and through which energy consumers and producers can grant rights to share their metering points and metering data with different service providers, was also updated and extended.

• Cybersecurity

Responsible governance practice (G)

1. Transparency and openness
2. Fair and ethical management
3. Responsible criteria for suppliers and partners
4. Data protection
5. Cybersecurity

We systematically implement security measures to ensure cybersecurity with the objective of ensuring the data security of information containing business secrets and personal data and to protect the systems required for providing vital services from digital hazards.

In order to raise the security awareness of our staff, we ran a simulation of phishing emails throughout the year, where staff had to identify and report on the phishing emails received. The simulation also highlighted the potential hazards that people may find themselves in due to lack of knowledge of phishing.

We also carried out in-house cybersecurity emergency exercises to be prepared to respond to incidents that threaten vital services and continued with regular security testing to ensure the data and cyber security of Elering's web applications.



FINANCIAL STATEMENTS

1.01.2023 – 31.12.2023

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Statement of financial position

<i>In thousands of euros</i>	<i>Notes</i>	<i>31.12.2023</i>	<i>31.12.2022</i>
ASSETS			
Current assets			
Cash and cash equivalents	7	65,533	229,287
Short-term deposits	7	110,000	50,000
Trade and other receivables	8	51,790	73,280
Inventories	9	20,247	22,398
Total current assets		247,570	374,965
Non-current assets			
Investments in affiliates		73	53
Long-term receivables		3,610	0
Property, plant and equipment	10	1,196,634	1,069,013
Intangible assets	11	19,879	16,912
Total non-current liabilities		1,220,196	1,085,978
TOTAL ASSETS		1,467,766	1,460,943
LIABILITIES			
Current liabilities			
Borrowings	12	11,323	237,265
Trade and other payables	13	93,613	70,906
Total current liabilities		104,936	308,171
Non-current liabilities			
Borrowings	12	66,186	76,759
Other long-term liabilities		1,705	1,249
Contract liability from connection fees	14	133,183	72,355
Deferred income	14	747,717	602,906
Total non-current liabilities		948,791	753,269
TOTAL LIABILITIES		1,053,727	1,061,440

EQUITY

Share capital	15	229,890	229,890
Statutory reserve capital	15	18,721	17,850
Retained earnings	15	165,428	151,763
TOTAL EQUITY		414,039	399,503
TOTAL LIABILITIES AND EQUITY		1,467,766	1,460,943

The notes on pages 6 to 124 are an integral part of these financial statements.

Statement of comprehensive income

<i>In thousands of euros</i>	<i>Notes</i>	<i>2023</i>	<i>2022</i>
Revenue	16	244,748	386,975
Other income	17	10,053	11,146
Goods, raw materials and services	18	-149,907	-309,692
Other operating expenses	19	-8,051	-7,589
Staff costs	20	-15,050	-13,304
Depreciation and amortization	10, 11	-53,445	-47,675
Operating profit		28,348	19,861
Financial income	21	5,444	197
Financial costs	21	-3,415	-2,644
Profit before income tax		30,377	17,414
Income tax expense	15	-2,340	0
Profit for the year		28,037	17,414
Total comprehensive income for the year		28,037	17,414

The notes on pages 80 to 124 are an integral part of these financial statements.

Cash flow statement

<i>In thousands of euros</i>	<i>Notes</i>	<i>1.01.2023- 31.12.2023</i>	<i>1.01.2022- 31.12.2022</i>
Cash flows from operating activities			
Profit before income tax		30,377	17,414
Adjustments for:			
• Profit from sale of property, plant and equipment	17	-51	-24
• Depreciation, amortisation and impairment	10, 11	53,445	47,675
• Government grants expended and amortised	17	-7,747	-6,031
• -Interest expenses	21	3,365	2,640
• Interest income	21	-5,423	-189
• Profit by equity method		-20	-8
Operating cash flows before working capital changes		73,946	61,477
• Changes in inventories	9	2,151	-18,740
• Changes in receivables and prepayments related to operating activities	8	22,508	-15,446
• Changes in liabilities and prepayments related to operating activities	13	996	14,775
• Changes in deferred income from connection and other service fees	14	58,955	34,909
Changes in working capital		84,610	15,498
Paid income tax	15	-2,340	0
Interest paid	13, 21	-4,570	-2,056
Interest received	8, 21	4,372	166
Total cash flows from operating activities		156,018	75,085
Cash flows from investing activities			
Purchases of property, plant and equipment and intangible assets	10, 11, 13	-167,826	-117,753
Net change in deposits over 3 months	7	-60,000	-8 000
Grants to acquire non-current assets	14	38,644	60,838
Contribution to the equity capital of the affiliate		0	-45
Proceeds from sale of property, plant and equipment	10, 17	134	114
Congestion fees received	8, 13, 14	118,418	167,009
Total cash flows from (used in) investing activities		-70,630	102,163
Cash flows from financing activities			
Redeemed bonds	12	-225,000	0
Repayments of bank loans	12	-10,558	-10,558
Repayments of lease liabilities	12	-84	-71
Dividends paid	15	-13,500	0
Total cash flows used in financing activities		-249,142	-10,629

Net increase/decrease in cash and cash equivalents		-163,754	166,619
Cash and cash equivalents at the beginning of the period	7	229,287	62,668
Cash and cash equivalents at the end of the period	7	65,533	229,287

The notes on pages 80 to 124 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>Total</i>
Balance as at 1.01.2022	229,890	17,595	134,603	382,088
Profit for the year	0	0	17,414	17,414
Total comprehensive income for the year	0	0	17,414	17,414
Transactions with owners:				
Transfers to statutory reserve capital	0	255	-255	0
Total transactions with owners	0	255	-255	0
Balance as at 31.12.2022	229,890	17,850	151,762	399,502
Profit for the year	0	0	28,037	28,037
Total comprehensive income for the year	0	0	28,037	28,037
Transactions with owners:				
Transfers to statutory reserve capital	0	871	-871	0
Dividends paid	0	0	-13,500	-13,500
Total transactions with owners	0	871	-14,371	13,500
Balance as at 31.12.2023	229,890	18,721	165,428	414,039

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

The notes on pages 80 to 124 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 2023 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 tee 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 11.03.2024. 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.

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.

Financial assets

- Elering classifies its financial assets as 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.

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 2023 and 31 December 2022, the following financial assets of Elering were classified in this category:

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

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.

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.

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.

Inventories are expensed using the FIFO method.

Property, plant and equipment. 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.

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

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

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

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 IAS17, 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 the 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.

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 balance 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 fees. 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).

Net proceeds from the day-ahead market and FTR (until 31 December 2018 PTR) auctions are recognised in compliance with the requirements of Article 19 of Regulation (EC) No. 943/2019 of the European Parliament and of the Council, pursuant to which congestion fees 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.

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 payment 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 2023:

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 (from 01.05.2020 to 30.04.2024)
Excise tax on gas	EUR 40 per thousand cubic meters (from 01.05.2020 to 30.04.2024)
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 48,300 thousand (2022: EUR 44,536 thousand). If depreciation rates were increased/decreased by 10%, the depreciation charge for the year would increase/decrease by EUR 4,830 thousand (2022: EUR 4,454 thousand).

Congestion fees. According to the accounting principles described in Note 2, timing of recognition of congestion fees depends on the purposes for which the proceeds is used – for constructions of new interconnection capacities (in which case it is recorded as a fee liability in future periods, until such construction is completed, when the construction is completed, the income calculation is started according to the depreciation period of that asset) 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 fees should be used for constructions of new interconnection capacities. From 2022, the congestion fees will also be used to cover losses and operational costs. In 2023 Elering recognised deferred congestion fees in the amount EUR 127,869 thousand (2022: EUR 227,736 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. By the decision of the Competition Authority, it is allowed to cover the difference in the price of network losses from the funds of the congestion fee (capacity allocation revenue) and partly to cover reasonable costs related to the provision of electricity transmission network services.

Note 4. New accounting pronouncements

Adoption of new or revised standards and interpretations

The following new or revised standards and interpretations became effective for the Company from 01.01.2023.

Amendments to IAS 1 and IFRS Implementation Guide No. 2: “Disclosure of Accounting Policies”, effective for annual periods beginning on or after 1 January 2023.

IAS 1 was amended to require companies to disclose information about their material accounting policies instead of significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provides illustrative examples of accounting policy information that is likely to be considered material to an entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, ‘Making Materiality Judgements’ was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. In its accounting policies, Elering has reflected the accounting policies that provide the reader of the financial statements with additional information.

The remaining new or amended standards or interpretations, which became effective in the reporting year starting on January 1, 2023, do not have a significant impact on Elering.

Other new or amended standards or interpretations that are not yet effective have no significant 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>31.12.2023</i>	<i>31.12.2022</i>
Financial assets at amortised cost		
Cash and cash equivalents (Note 7)	65,533	229,287
Short-term deposits (Note 7)	110,000	50,000
Trade and other receivables (Note 8)	51,790	72,489
Total financial assets	227,323	351,776

Financial liabilities

<i>In thousands of euros</i>	<i>31.12.2023</i>	<i>31.12.2022</i>
Liabilities at amortised cost		
Trade and other payables (Note 13)	88,598	63,340
Borrowings (Note 12)	77,509	314,024
Total financial liabilities	166,107	377,364

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>31.12.2023</i>	<i>31.12.2022</i>
Cash and cash equivalents (Note 7)	65,533	229,287
Short-term deposits (Note 7)	110,000	50,000
Trade and other receivables (Note 8)	51,790	72,489
Total exposure of assets to credit risk in the statement of financial position	227,323	351,776

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 2023 or 31 December 2022 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 2023 and 31 December 2022 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 2023 and 31 December 2022.

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 31.12.2023, Elering had one counterparty (31.12.2022: one counterparty), with an aggregated receivables balance of EUR 20,401 thousand (31.12.2022: EUR 21,022 thousand) or 45% of the total amount of accounts receivable (31.12.2022: 36%). In 2023 as well as in 2022 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 six 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. In light of exceptionally high energy prices in 2023, power distribution income is used to cover the cost of wasted electricity, which is not included in the tariff.

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 31.12.2023 and 31.12.2022.

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. As of 31.12.2023 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 31.12.2023 long-term bank loans with a floating interest rate carried at amortised cost constituted 100% (31.12.2022: 72% of all borrowings carried at amortised cost; the remaining 28% 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 31.12.2023 borrowings with a floating interest rate totalled EUR 76,744 thousand (31.12.2022: EUR 87,292 thousand).

If, as at 31.12.2023, the interest rates of Elering's borrowings, that are exposed to the cash flow interest rate risk, had been 50 basis points (2022: 50 basis points) higher with all other variables held constant, profit for the year would have been EUR 384 thousand (2022: 436 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 31.12.2023 and 31.12.2022 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 31.12.2023 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)	60,199	28,399	0	0	88,598
Borrowings (Note 12)*	0	13,861	43,893	34,357	92,111
Total future payments	60,199	42,260	43,893	34,357	180,709

*Including interest

The maturity analysis of financial liabilities on 31.12.2022 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)	56,271	7,069	0	0	63,340
Borrowings (Note 12)*	0	239,405	42,333	41,619	323,357
Total future payments	56,271	246,474	42,333	41,619	386,697

*Including interest

Elering holds its money in bank deposits. As of 31.12.2023, Elering had cash and cash equivalents amounting to EUR 65,553 thousand and short-term deposits amounting to EUR 110,000 thousand (as at 31.12.2022 cash and cash equivalents amounted to EUR 229,305 thousand and short-term deposits EUR 50,000 thousand). 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>Notes</i>	<i>31.12.2023</i>	<i>31.12.2022</i>
Equity	15	414,039	399,503
Total assets		1,467,766	1,460,943
Equity to asset ratio		28,2%	27,3%

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 (4.661%) for new instruments with similar credit risk and remaining maturity.

The fair value analysis of borrowings on 31.12.2023 is as follows:

<i>In thousands of euros</i>	<i>Fair value</i>	<i>Carrying amount</i>
Bank loans	63,902	76,744

The fair value analysis of borrowings on 31.12.2022 is as follows:

<i>In thousands of euros</i>	<i>Fair value</i>	<i>Carrying amount</i>
Bonds	222,923	224,936
Bank loans	74,315	87,292

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 fees, 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 79,718 thousand in the reporting period (2022: 78,229 thousand)

Revenue division by geographical location of customers is disclosed below.

Segment reporting 1.01.2023–31.12 2023

<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	125,644	17,106	84,707	17,291	244,748
Revenue between segments	-23	42	-20	0	0
Total revenue	125,622	17,148	84,687	17,291	244,748
Other operating income	279	0	0	9,774	10,053
Total income	125,901	17,148	84,687	27,065	254,801
Goods, raw materials and services	-52,476	-6,937	-82,698	-7,796	-149,907
Other operating expenses and staff costs	-12,876	-5,671	-2,338	-2,216	-23,101
EBITDA	60,549	4,540	-349	17,053	81,793
Depreciation and amortization (Note 10, 11)	-34,061	-8,259	-200	-10,925	-53,445
Net financial income (costs) (Note 21)	1,483	259	33	254	2,029
Income tax (Note 15)	-2,340	0	0	0	-2,340

Net profit	25,631	-3,460	-516	6,382	28,037
Total assets	589,482	158,044	19,382	700,858	1,467,766
Total liabilities	283,701	91,083	20,335	659,608	1,053,727
Additions to property, plant and equipment (Note 10)	26,539	12,453	137	135,823	174,952
Additions to intangible assets (Note 11)	3,101	714	623	3,675	8,112

Segment reporting 1.01.2022–31.12 2022

<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	158,627	16,135	190,297	21,916	386,975
Revenue between segments	-30	40	-10	0	0
Total revenue	158,597	16,175	190,287	21,916	386,975
Other operating income	108	0	0	11,038	11,146
Total income	158,705	16,175	190,287	32,954	398,121
Goods, raw materials and services	-103,239	-4,654	-189,014	-12,785	-309,692
Other operating expenses and staff costs	-11,589	-5,297	-2,195	-1,813	-20,893
EBITDA	43,877	6,224	-922	18,357	67,536
Depreciation and amortization (Note 10, 11)	-31,650	-6,690	-160	-9,175	-47,675
Net financial income (costs) (Note 21)	-1,668	-321	-51	-407	-2,447
Income tax (Note 15)	0	0	0	0	0

Net profit	10,559	-787	-1,133	8,775	17,414
Total assets	599,315	153,118	38,139	670,371	1,460,943
Total liabilities	304,665	82,697	38,575	635,503	1,061,440
Additions to property, plant and equipment (Note 10)	14,515	25,773	0	73,032	113,320
Additions to intangible assets (Note 11)	2,759	521	525	1,689	5,494

Revenue by geographical location of customers 1.01.2023–31.12.2023

<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	99,952	14,675	48,486	5,214	168,327
Latvia	107	0	11,005	0	11,112
Finland	8	2,430	1,642	11,766	15,846
Lithuania	0	0	23,573	183	23,756
Norway	2,205	0	0	1	2,206
Other	23,372	0	1	128	23,501
Total revenue	125,644	17,105	84,707	17,292	244,748

Revenue by geographical location of customers 1.01.2022–31.12.2022

<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	147,155	13,557	102,570	5,001	268,283
Latvia	0	201	27,659	0	27,860
Finland	0	2,377	4,375	16,759	23,511
Lithuania	389	0	55,693	96	56,178
Norway	0	0	0	1	1
Other	11,083	0	0	59	11,142
Total revenue	158,627	16,135	190,297	21,916	386,975

Note 7. Bank accounts and deposits

<i>In thousands of euros</i>	<i>Notes</i>	<i>31.12.2023</i>	<i>31.12.2022</i>
Cash and cash equivalents	5	65,533	229,287
Short-term deposits*	5	110,000	50,000

* As of 31.12.2023, the following short-term deposit agreements have been signed.

Bank	In thousands of euros	Interest	Due date
Coop Pank AS	30,000	4,15%	märts 2024
OP Corporate Bank plc Eesti filiaal	20,000	3,31%	jaanuar 2024
AS SEB Pank	20,000	4,50%	aprill 2024
AS SEB Pank	20,000	4,10%	mai 2024
Luminor Bank AS	20,000	4,23%	mai 2024

* As at 31.12.2022 six contracts for an amount of EUR 35,000 thousand were signed with Coop Pank AS. The maturity of the contracts was January - May 2023 and the interest rates are 0.25%-2%. One contract amounting to EUR 15,000 thousand was concluded with Luminor Bank AS. The maturity of the contract was 01.01.2023 and the interest rate 0%. All contracts are denominated in EUR.

Bank accounts and deposits:

<i>In thousands of euros</i>	<i>31.12.2023</i>	<i>31.12.2022</i>
Bank accounts and deposits at banks:		
With Moody's credit rating of A2	966	10,929
with Moody's credit rating of Aa2*	6,335	96,974
with Moody's credit rating of Aa3*	25,676	95,307
with Moody's credit rating of A3	32,124	977
with Moody's credit rating of Baa1	432	25,100
Total bank accounts and deposits at banks	65,533	229,287

*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

31.12.2023

31.12.2022

Trade receivables

Accounts receivable	45,408	59,035
▪ Incl. FTR-Limited auction receivables	0	33
▪ Incl. provision for doubtful receivables	-116	0

Other receivables

▪ Incl. Accrued potential ITC receivables	3,638	9,801
▪ Incl. security deposit	9	11
▪ Incl. interest receivables	1,075	24

Total financial assets within trade and other receivables in the statement of financial position (Note 5)

Tax receivables	549	190
Prepayments	978	601
Total trade and other receivables	51,790	73,280

Analysis by credit quality of trade receivables is as follows:

<i>In thousands of euros</i>	31.12.2023	31.12.2022
Accounts receivable not yet due		
▪ - Distribution networks	22,141	24,844
▪ - Other clients	22,957	32,101
Total accounts receivable not yet due	45,098	56,945
Accounts receivable past due but not classified as doubtful		
▪ - 1 to 90 days overdue (distribution networks)	0	2
▪ - 1 to 90 days overdue (other clients)	310	2,088
Total accounts receivable past due but not classified as doubtful	310	2,090
Total accounts receivable past due	426	2,090
Provision for doubtful accounts receivable	-116	0
Total trade receivables	45,408	59,035

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 there were write-downs in the amount EUR 116 thousand. Further information on receivables from related parties is disclosed in Note 23.

Note 9. Inventories

<i>In thousands of euros</i>	<i>31.12.2023</i>	<i>31.12.2022</i>
Fuel oil	9,326	9,403
Natural gas reserves	213	1,457
Gas in natural gas storage	10,708	10,708
Other materials at warehouses	0	830
Total inventories	20,247	22,398

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. Elering stores gas in Inčukalns natural gas storage to ensure gas supply security.

Note 10. Property, plant and equipment

In thousands of euros

	Land	Right of use of land	Buildings	Facilities	Machinery and equipment	Other	Construction in progress	Total
Property, plant and equipment as at 1.01.2022								
Cost as at 1.01.2022	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 01.01.2022	6,205	6,874	55,020	489,992	395,447	41	46,343	999,922
Prepayments	9	0	0	0	301	0	0	301
Total property, plant and equipment as at 01.01.2022	6,214	6,874	55,020	489,992	395,748	41	46,343	1,000,232
Movements 1.01.2022-31.12.2022								
Additions	364	142	0	0	0	0	112,387	112,893
Reclassified from construction in progress	8	0	3,326	20,139	21,904	44	-45,420	1
An asset taken into account when reclassifying an operating lease	0	0	0	0	29	0	0	29
Capitalised borrowing costs (Note 21)	0	0	0	0	0	0	109	109
Disposals and write-offs at carrying amount	-7	0	0	0	-26	0	0	-33
Prepayments	-9	0	0	0	327	0	0	318
Depreciation charge	0	-74	-2,103	-19,200	-23,136	-23	0	-44,536
Total movements 1.01.2022-31.12.2022	356	68	1,223	939	-902	21	67,076	68,781
Cost as at 31.12.2022	6,570	7,404	72,291	708,200	639,352	552	113,419	1,547,788
Accumulated depreciation	0	-462	-16,048	-217,269	-245,134	-490	0	-479,403
Carrying amount as at 31.12.2022	6,570	6,942	56,243	490,931	394,218	62	113,419	1,068,385
Prepayments	0	0	0	0	628	0	0	628
Total property, plant and equipment as 31.12.2022	6,570	6,942	56,243	490,931	394,846	62	113,419	1,069,013

Movements 1.01.2023-31.12.2023

Additions	650	236	0	0	0	0	174,065	174,951
Reclassified from construction in progress	0	0	6,362	48,506	67,556	53	-123,054	-577
An asset taken into account when reclassifying an operating lease	0	0	0	0	-24	0	0	-24
Reclassification between groups at carrying amount	0	0	0	-883	883	0	0	0
Capitalised borrowing costs (Note 21)	0	0	0	0	0	0	551	551
Disposals and write-offs at carrying amount	0	0	-15	0	-69	0	0	-84
Prepayments	0	0	0	0	1,104	0	0	1,104
Depreciation charge	0	-75	-3,008	-20,191	-24,988	-38	0	-48,300
Total movements 1.01.2023-31.12.2023	650	161	3,339	27,432	44,462	15	51,562	127,621

Property, plant and equipment as at 31.12.2023

Cost as at 31.12.2023	7,220	7,641	78,521	750,000	704,120	546	164,981	1,713,029
Accumulated depreciation	0	-538	-18,939	-231,637	-266,544	-469	0	-518,127
Carrying amount as at 31.12.2023	7,220	7,103	59,582	518,363	437,576	77	164,981	1,194,902
Prepayments	0	0	0	0	1,732	0	0	1,732
Total property, plant and equipment as at 31.12.2023	7,220	7,103	59,582	518,363	439,308	77	164,981	1,196,634

Construction in progress mainly consists of equipment, 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 551 thousand (2022: EUR 109 thousand). The capitalisation rate is 3.87% (2022: 0.72%).

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 and licenses	Total
Intangible assets as at 1.01.2022		
Cost as at 1.01.2022	22,070	22,070
Accumulated amortisation	-10,553	-10,553
Carrying amount 1.01.2022	11,517	11,517
Intangible assets not yet available for use	3,096	3,096
Total intangible assets as at 1.01.2022	14,613	14,613
Movements 1.01.2022-31.12.2022		
Additions	5,494	5,495
Amortisation charge	-3,138	-3,138
Disposals and write-offs at carrying amount	-57	-57
Total movements 1.01.2022-31.12.2022	2,299	2,299
Intangible assets as at 31.12.2022		
Cost as at 31.12.2022	25,414	25,414
Accumulated amortisation	-13,583	-13,583
Carrying amount as at 31.12.2022	11,831	11,831
Intangible assets not yet available for use	5,081	5,081
Total intangible assets as at 31.12.2022	16,912	16,912
Movements 1.01.2023-31.12.2023		
Additions	8,112	8,112
Amortisation charge	-5,145	-5,145
Total movements 1.01.2023-31.12.2023	2,967	2,967
Intangible assets as at 31.12.2023		
Cost as at 31.12.2022	27,014	27,014
Accumulated amortisation	-14,525	-14,525
Carrying amount as at 31.12.2023	12,489	12,489
Intangible assets not yet available for use	7,390	7,390
Total intangible assets as at 31.12.2023	19,879	19,879

Note 12. Borrowings

In thousands of euros

31.12.2023 31.12.2022

Short-term borrowings		
Bonds issued	0	224,936
Current portion of long-term bank loans	10,558	10,558
Accrued interests	757	1,705
Lease liabilities	7	66
Total short-term borrowings	11,323	237,265
Long-term borrowings		
Long-term bank loan	66,186	76,734
Lease liabilities	0	25
Total long-term borrowings	66,186	76,759
Borrowings are denominated in the following currencies:		
Borrowings denominated in EUR	77,509	314,024
Total borrowings (Note 5)	77,509	314,024

Reconciliation of borrowings

In thousands of euros	Short-term borrowings				Long-term borrowings			Total
	Bank loans	Accrued interests	Lease liabilities	Bonds issued	Bonds issued	Bank loans	Lease liabilities	
Balance as at 01.01.2022	10,558	1,387	65	0	224,749	87,278	68	324,105
Increase in borrowings	0	0	12	0	0	0	22	34
Repayment of borrowings	-10,558	0	-70	0	0	0	0	-10,628
Transfers	10,558	0	59	224,936	-224,936	-10,558	-64	-5
Non-cash movements	0	0	0	0	187	13	0	200
Accrued interests	0	2,374	0	0	0	0	0	2,374
Paid interests	0	-2,056	0	0	0	0	0	-2,056

Balance as at 31.12.2022	10,558	1,705	66	224,936	0	76,733	26	314,024
Repayment of borrowings	-10,558	0	-85	-224,936	0	0	0	-235,568
Transfers	10,558	0	26	0	0	-10,558	-26	0
Non-monetary movements	0	0	0	0	0	11	0	11
Accrued interests	0	3,622	0	0	0	0	0	3,623
Paid interests	0	-4,570	0	0	0	0	0	-4,570
Balance as at 31.12.2023	10,558	757	7	0	0	66,186	0	77,509

The average effective interest rate on borrowings was 3.07% in 2023 (2022: 0.79%).

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 63,769 thousand (2022: EUR 70,972 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 (2022: EUR 7,209 thousand).

2. Loans from the Nordic Investment Bank

Elering has two loans with outstanding balance of EUR 12,975 thousand (2022: EUR 16,319 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 (2022: EUR 3,349 thousand).

3. Eurobonds

Elering had issued Eurobonds in the nominal value of EUR 225 million. The Eurobonds were listed on the London Stock Exchange and were redeemed on 3 May 2023 and a coupon rate of 0.875%.

4. Overdraft agreements

Elering has entered into three overdraft agreements in the total amount of EUR 100 million, with an interest margin of 1-month EURIBOR plus a margin of 0.92-1.07%. Overdraft agreements have been concluded until April 2026. The loans have not been withdrawn at 31.12.2023.

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 euros

	31.12.2023	31.12.2022
Trade payables	36,283	48,094
including debts for FTR transactions	3,091	94
Payables for purchased property, plant and equipment and intangible assets	23,916	8,177
Subsidies due to biogas producers	0	3,711
Subsidies due to electricity producers	20,439	2,590
Other payables	7,960	768
Total financial liabilities within trade and other payables in the statement of financial position (Note 5)	88,598	63,340
Taxes payable:		
VAT	335	3,328
Corporate income tax and income tax on fringe benefits	672	6
Social security tax	389	558
Personal income tax	45	318
Excise tax	30	26
Unemployment insurance tax	8	37
Contributions to mandatory funded pension	81	25
Pollution tax	0	1
Total taxes payable	1,560	4,299
Accrued expenses - employee benefits:		
Wages and salaries	783	635
Bonuses	1,589	1,532
Holiday pay	393	343
Social security and unemployment insurance tax	671	633
Total accrued expenses - employee benefits	3,436	3,143
Other payables	18	124
Total trade and other payables	93,613	70,906

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 euros</i>	2023	2022
Contract liability from connection and other service fees at the beginning of the period	72,355	36,154
Connection and other service fees received	63,075	38,227
Connection and other service fees recognised as revenue (Note 16)	-2,247	-2,026
Contract liability from connection and other service fees at the end of the period	133,183	72,355

Government grants

<i>In thousands euros</i>	2023	2022
Deferred income from government grants at the beginning of the period	261,627	206,815
Grants received for acquisition of property, plant and equipment	38,644	60,843
Reclassification of received grants to cover operating costs (Note 7)	-390	0
Amortisation of grants in other income (Note 17)	-6,959	-6,031
Deferred income from government grants at the end of the period	292,922	261,627

Congestion fees

<i>In thousands euros</i>	2023	2022
Deferred congestion fees at the beginning of the period	341,279	176,558
Congestion fees calculated on an accrual basis*	127,869	227,736
Congestion fees recognised for the construction of new transmission capacities (Note 17)	-1,873	-1,292
Use of congestion fees to cover losses	-7,566	-60,740
Use of congestion fees to cover operating costs	-4,914	-983
Deferred congestion income at the end of the period	454,795	341,279
Total deferred income	747,717	602,906
Total contract liability from connection and other service fees and deferred income	880,900	675,261

* In the cash flows of investing activities, the congestion fees are recorded in the gross amount of fees received, from which the use of the congestion fees to cover losses and operating expenses, which are recorded in the net method of operating cash flows, has been deducted.

Note 15. Equity

Elering's share capital consists of 229,890 shares with the nominal value of EUR 1,000 (31.12.2022: 229,890 shares with the nominal value of EUR 1,000). The shares have been paid for in full. See also Note 5 and 6.

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

In 2023 dividends totalling EUR 13,5 million were paid out and dividends per share totalled EUR 58,72 and the payment of dividends resulted in an income tax expense of EUR 2,34 million (in 2022 no dividends were paid).

As of 31.12.2023, Elering's statutory reserve capital totalled EUR 18,721 thousand (31.12.2022: EUR 17,850 thousand). As at 31.12.2023, Elering has the obligation to additionally transfer EUR 1,402 thousand (31.12.2022: EUR 871 thousand). In 2023, Elering additionally transferred to statutory reserve capital EUR 871 thousand (2022: EUR 255 thousand).

The distributable retained earnings of Elering as of 31.12.2023 amounted to EUR 164,026 thousand (31.12.2022: EUR 150,891 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 31.12.2023, it would be possible to distribute EUR 123,352 thousand as net dividends (31.12.2022: EUR 113,986 thousand) and the corresponding income tax would amount to EUR 40,674 thousand (31.12.2022: EUR 36,906 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 1,275 thousand.

Note 16. Revenue

Analysis of revenue by activity

In thousands euros

2023

2022

Sales of balancing and regulation services

Balancing electricity	73,200	150,975
Balancing gas	9,484	33,942
Regulation services	8,366	15,408
Total sales of balancing electricity and regulation services	91,050	200,325

Sales of electricity and gas network services

Electricity network services	92,339	86,385
Gas network services	14,395	13,708
Other electricity network services	33,258	72,212
Other gas network services	2,753	2,467
Total sales of network services	142,745	174,772

Sales of other goods and services

Revenue from connection fees (Note 14)	2,247	2,026
Lease of transmission equipment (Note 22)	943	941
Other services	7,728	8,800
Other goods	35	111
Total sales of other goods and services	10,953	11,878
Total revenue	244,748	386,975

Note 17. Other income

<i>In thousands euros</i>	2023	2022
Government grants related to acquisition of property, plant and equipment (Note 14)	6,959	6,031
Amortization of congestion fees (Note 14)	1,873	1,292
Profit from sale of property, plant and equipment	51	24
Fines, penalties and compensations received*	447	3,642
Grants for operating expenses	399	41
Other income	324	116
Total	10,053	11,146

*In December 2022, the arbitration court awarded a fine in favor of Elering AS along with arrears. In the 2022 annual report, the claim in the amount of 3,610 thousand euros is reflected under other income. Since the claim was not received in 2023, the company has started enforcement proceedings, which management estimates will take up to two years. In connection with the above, the company reclassified the receivable as non-current.

Note 18. Goods, raw materials and services

In thousands euros

2023

2022

Electricity and gas purchased to provide the balancing service

Purchase of balancing energy	66,356	141,235
Purchase of balancing gas	8,831	33,576
Purchase of power regulation service	7,689	14,232
Expenses of emergency reserve power plant to provide balancing services	-211	-54
Total electricity purchased to provide the balancing service	82,665	188,989

System services

Reactive energy	165	401
Operating expenses of emergency reserve power plant	931	659
Total system services expenses	1,096	1,060

Losses in electricity and gas network

Electricity network losses	34,410	90,058
Gas network losses	2,356	1,611
Total electricity and gas to compensate for network losses	36,766	91,669

Maintenance and repair works

On facilities and equipment related to core activities	11,678	10,058
On production buildings and sites	999	1,196
Disassembly works and waste processing	613	845
Other maintenance and repair costs	597	605
Total maintenance and repair works	13,887	12,704

Other costs

Other costs	14,948	14,714
Operative switching and dispatching management expenses	545	556
Total other costs	15,493	15,270

Total goods, raw materials and services	149,907	309,692
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Note 19. Other operating expenses

<i>In thousands euros</i>	2023	2022
Information technology	1,886	1,843
Training and other miscellaneous operating expenses	1,604	908
Research and consulting	1,186	1,684
Telecommunication	1,004	1,056
Security, insurance and occupational safety	981	904
Office expenses	588	582
Research and development costs (R&D)	463	492
Transportation and tools	80	58
Other expenses	259	62
Total other operating expenses	8,051	7,589

Elering's statement of comprehensive income includes expense relating to short-term leases and leases of low-value assets in the amount of EUR 277 thousand (2022: EUR 219 thousand).

Note 20. Staff costs

<i>In thousands euros</i>	2023	2022
Base salaries, additional remuneration, bonuses, vacation pay	10,808	9,594
Termination benefits	22	18
Other remuneration	401	317
Total remuneration to employees	11,231	9,929
Social security tax	3,737	3,302
Unemployment insurance tax	82	73
Total staff costs	15,050	13,304
Incl. compensations to the members of the Management and Supervisory Board		
Salaries, additional remuneration bonuses, vacation pay	590	543
Social security tax	221	203
Fringe benefits	63	58
Income tax on fringe benefits	16	14
Total compensations to the members of the Management and Supervisory Boards	890	818
Average number of employees	287	262
Average number of employees by type:		
Persons working under an employment contract	284	258
Persons providing services under law of obligations act	3	4
Members of the Management and Supervisory Boards	6	8
The average monthly pay of all employees including benefits	3,809	3,564

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 euros

2023

2022

Financial income

Interest income	5,423	189
Profit by equity method	20	8
Foreign exchange gains	1	0
Total financial income	5,444	197

Financial costs

Interest expenses	-3,916	-2,749
Foreign exchange losses	-33	0
Other financial costs	-17	-3
Total financial costs	-3,966	-2,752

Less: capitalised borrowings costs (Note 10) 551 109

Total financial costs recognised in the statement of comprehensive income -3,415 -2,643

Net financial income (costs) (Note 6) 2,029 -2,446

Note 22. Operating lease

Elering as a lessor

Operating lease revenue

<i>In thousands euros</i>	2023	2022
Buildings	207	80
Transmission equipment	943	941
Other	2	2
Total operating lease revenue	1,152	1,023

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. See also Note 10 and 16.

Information about assets (facilities) leased out under operating leases

<i>In thousands euros</i>	31.12.2023	31.12.2022
Acquisition cost	4,914	5,708
Accumulated depreciation at the end of period	-996	-5,216
Carrying amount	3,918	492

Depreciation charge

<i>In thousands euros</i>	2023	2022
Depreciation charge	647	360

Estimated future lease payments under operating leases

<i>In thousands euros</i>	31.12.2023	31.12.2022
Less than 1 year	1,019	942
From 1 year to 5 years	255	1,177
Total future minimum lease payments	1,274	2,119

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:

<i>In thousands euros</i>	<i>31.12.2023</i>	<i>31.12.2022</i>
Trade receivables		
Companies controlled or significantly influenced by the State	23,867	25,801
Total trade receivables	23,867	25,801
incl. from network operators	20,814	21,496
Trade payables and other liabilities		
Companies controlled or significantly influenced by the State	3,500	8,618
Total trade payables and other liabilities	3,500	8,618

Income and expense items with related parties were as follows:

<i>In thousands euros</i>	<i>Related party</i>	<i>2023</i>	<i>2022</i>
Revenue from sale of goods	Companies controlled or significantly influenced by the State	21,294	49,692
Revenue from sale of services	Companies controlled or significantly influenced by the State	85,704	83,507
Total revenue from sale of goods and services		106,998	133,199
Purchase of goods	Companies controlled or significantly influenced by the State	7,819	16,825
Purchase of services	Companies controlled or significantly influenced by the State	11,797	21,703
Total purchase of goods and services		19,616	38,528
Expenditures on non-current assets	Companies controlled or significantly influenced by the State	665	1,187

- 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 2023 and 2022.

The potential payroll liability would be EUR 124 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 31.12.2023, Elering has contractual capital expenditure commitments in respect of property, plant and equipment totalling EUR 259,711 thousand (31.12.2022: EUR 190,699 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.

Contingent liabilities from pending litigations. A lawsuit in the amount of EUR 2.9 million has been filed against the Company. The dispute concerns negotiations that were held in connection with the construction of a gas pipeline. The Company does not consider the claims justified, as the parties never signed a contract for the implementation of the mentioned construction works. The plaintiff was not successful in the public procurement process, and the contract for construction works was concluded with the contractor who was recognized as successful in the public procurement process. Elering has acted in accordance with the Public Procurement Act.

AB INTER RAO LIETUVA has filed a claim in the arbitration proceedings against LITGRID AB, AS "Augstsprieguma tīkls" and Elering based on the balance energy purchase-sale agreement for electrical systems. Until 31.12.2022, INTER RAO provided balance energy purchase and sale services to the Baltic system operators in connection with the participation of the Baltic system operators in the BRELL system. In 2022, the Baltic system operators ceased payments to INTER RAO due to sanctions. INTER RAO demands from system managers a total of 12.5 million euros for the period until 31.12.2022 for mediated electricity. The corresponding claim is recorded in the balance sheet as a debt to suppliers. The payments were suspended due to Russia's aggression against Ukraine and related sanctions thereto. In addition, INTER RAO demands more than 38 million euros in compensation for the period after the end of the purchase-sale agreement. A penalty charge is added to the main claim. The defendants have objected to the jurisdiction of the arbitral tribunal. If the court finds it possible to make a decision on the merits of the matter, either of 12.5 million and the late payment or also 38 million and the late payment, then the dispute has a direct financial impact for Elering and Baltic system operators in the amount which exceeds already recognized liability of 12.5 million euros. Elering is jointly and severally liable with co-defendants Baltic system operators for any possible compensation awarded by the arbitration award. Since the rest of the claim is outside the contract (Elering, together with other TSOs, has canceled the contract), Elering considers this claim to be unfounded. It was clear to the parties that the Baltic TSOs do not wish to continue with the services. The claim is distributed among the Baltic system managers as follows: LITGRID 42%, Elering 32% and AST 26%.



Independent Auditor's Report

To the Shareholder of Elering AS

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 2023, 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 2023;
- 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, comprising material accounting policy information 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.

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 its strategic goals, Overview of economic activities and performance results for 2023, "Our Elering" action plan for involving and motivating employees, Corporate governance and Compliance with corporate responsibility principles in Elering's activities (but does not include the financial statements and our auditor's report thereon).

AS PricewaterhouseCoopers
Tatari 1, 10116 Tallinn, Estonia; License No. 6; Registry code: 10142876
T: +372 614 1800, www.pwc.ee

Translation note:

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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 that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

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.

Translation note:

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- 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.

AS PricewaterhouseCoopers

Janno Hermanson
Auditor's certificate no. 570

Peep Kivistik
Auditor's certificate no. 732

11 March 2024
Tallinn, Estonia

Translation note:

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Profit allocation proposal

The retained earnings of Elering AS as of 31.12.2023 were EUR 165,428 thousand.

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

To pay as dividends to the shareholder	EUR 20,000 thousand
To transfer to the statutory reserve capital	EUR 1,402 thousand
Not to distribute the remaining retained earnings	EUR 144,026 thousand

Signatures of the Management to the 2023 Annual Report

The signing of Elering AS 2023 Annual Report on 11.03.2024.



*Chairman of the
Management Board*
Kalle Kilk



*Member of the
Management Board*
Riina Käi



*Member of the
Management Board*
Erkki Sapp



*Member of the
Management Board*
Reigo Kebja

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* Classification</i>	<i>1.1.2023 - 31.12.2023</i>	<i>1.1.2022 - 31.12.2022</i>
35121 Transmission of electricity – transmission through the transmission network	139,729	177,559
35221 Natural gas transmission	17,149	16,176
35141 Trade of electricity (balancing electricity)	75,203	156,346
35231 Trade of gas (balancing gas)	9,484	33,942
77399 Renting and leasing of other machinery, equipment and tangible goods	943	941
47770 Retail sale of other second-hand goods	35	111
68201 Renting and operating of own or leased real estate	209	81
46699 Other sales	1,996	1,819

* EMTAK – classification of Estonian economic activities

Photos:

- Ain Köster
- Elering AS
- Estfilm Production OÜ
- Karl Jakob Toplaan
- Liis Eiser
- Mart Gabrel
- Nikolai Dorovatovski
- Rainar Kurbel