Annual Report 2022

Through the Energy Crisis with the Trust and Support of Our Customers

Management Report

Sustainability Report

Financial Statements

Eesti Energia

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Eesti Energia

2022

REVENUE

2.2 billion EUR

ADJUSTED NET PROFIT

128 million EUR

INVESTMENTS

445 million EUR

EMPLOYEES

5361*

SALES VOLUMES

Electricity	10.5 TWh	Heat	0.8 TWh
Gas	1.9 TWh	Shale oil	405 th t

PRODUCTION

Electricity	6.3 TWh	Share of renewable energy from heat and electricity production 28%
Heat	1.2 TWh	
Shale oil	424 th t	

Total CO_2 emission 6.8 million t

* as of 31.12

Dear reader

We developed Eesti Energia's Journey to Zero strategy in 2021. It is a journey we are taking with our customers and partners to reach carbon neutrality by 2045. In order to achieve the goal, we have to know and support our customers even better than today. We will produce electricity from only renewable sources by 2035 and will embrace the circular economy to have a carbon neutral chemicals industry by 2040.

Hando Sutter
Chairman of the Management Board

On 24 February 2022, Russia started a full-scale war against the country and the people of Ukraine. This in turn triggered an energy crisis in Europe, which used to be highly dependent on cheap natural gas imports from Russia. The crisis was further aggravated by Russia's termination of electricity exports to Finland and the Baltic countries. As a result, electricity generation capacities of over 2,000 MW were cut off from the local market – this is more than the capacity of unit 3 of the Finnish Olkiluoto nuclear power plant.

The year 2022 proved that we could rely on our strategy even during the energy crisis: we continued offering customers energy solutions and flexibility services and investing in additional renewable electricity production assets.

The Eesti Energia Group produces electricity from oil shale, wind, solar, waste wood, retort gas, municipal solid waste, water and biomass. We produced 6,260 GWh of electricity in 2022. A quarter of this was renewable electricity. Even though we are going to discontinue the use of oil shale for electricity production by the end of the decade, last year's energy crisis drove up demand for oil shale power. We again fired up our thermal power plants to full capacity. Compared with 2021, our electricity output grew 20% and our oil shale mining increased by a third. Eesti Energia's output covered 71% of total electricity consumption in Estonia in 2022, making Estonia after a break of several years a net electricity exporter in May, June, July and September.

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We were able to rapidly increase our oil shale mining and electricity production volumes thanks to quick recruitment of additional staff and timely maintenance of plant and equipment. We were the largest recruiter in Estonia in 2022, hiring 500 people, mostly in Ida-Viru county.

However, headcount grew across the Group as 1,500 people joined our organisation. Nearly half of the new jobs were created to offer energy solutions in Estonia, Latvia, Lithuania and Poland. It was our largest-ever year of recruitment.

Customers needed the assistance of energy companies more than ever in 2022. We received over 726,000 customer inquiries. Mostly people sought advice on how to reduce their energy costs. We helped customers choose an electricity plan that would meet their consumption habits or to replace their gas boiler with a more economical heat pump.

Customers' interest in becoming a micro-producer of electricity spiked. Eesti Energia installed 1271 solar power plants. Moreover, one in every three customers that purchased a solar solution was also interested in installing a storage solution.

The role of the network operator Elektrilevi is to ensure the connection of micro-producers, primarily solar power plants, to the distribution network. The volume of connection applications in the Eletkrilevi network set an all-time record in Estonia and exceeded all earlier projections. Altogether, over 12,800 micro-producer connection applications were submitted, which is over five times more than a year earlier. During the year, Elektrilevi connected to its network electricity production capacities of 117,8 MW, most of which came from solar power plants.

The connection of additional small producers to the distribution network requires continuous network development work. In 2022, Elektrilevi invested a total of 126 million euros in the reliability of the network as well as in enabling new connections, which is the largest investment in the company's operating history in one year.

The energy crisis has proven that renewable power production is the quickest way to reducing electricity costs. In 2022, over 162,000 customers decided to sign 5-10-year power purchase agreements with Eesti Energia in order to fix their fixed costs for a longer period. This is high recognition and a sign of trust. Customers that have entered into long-term power purchase agreements with

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us directly contribute to the development of new wind and solar farms. In the past three years, we have signed long-term power purchase agreements on 16 TWh, of which 7.8 TWh in 2022.

In order to bring more affordable and environmentally friendly electricity to the market, the Group's renewable energy company Enefit Green made six investment decisions in the amount of half a billion euros in 2022 – three for an onshore wind farm and three for a solar park. As of the end of 2022, Enefit Green had a total of six wind farms under construction with a total capacity of 546 megawatts and four solar parks with a total capacity of 50 megawatts. Enefit Green, which was established in 2016 and listed five years later, has become a rapidly growing renewable energy producer in the Baltic Sea region.

Transition to renewable energy requires the electricity system to be much more flexible both in controlling production and consumption and in storing energy. In hours when demand for electricity is high, every megawatt-hour of electricity that is not consumed lowers the price for the whole society. We have been offering automatic frequency restoration reserve (aFRR) service with a regulation capacity of 25 MW with our Auvere power plant since 2021 already. In 2022, we supplemented the range of facilities offering the service with generating unit 8 of the Eesti power plant, generating unit 11 of the Balti power plant and four wind farms of Enefit Green with a total additional capacity of 55 MW. The provision of network balancing service to the Finnish transmission system operator Fingrid in cooperation with the Estonian transmission system operator Elering demonstrates that we are ready to provide the service to the Baltic electricity system if the market emerges.

We sustained growth in all our core markets, becoming the second largest market player in both Latvia and Lithuania where we operate under the Enefit brand. Our overall number of customers across all markets grew by more than 20% compared with 2021.

Eesti Energia's present management board will hand over the management of the company in April. The Group is in top shape. Within eight years we have transformed from a fossil electricity producer and supplier into a renewable energy producer that provides a range of energy solutions to both households and corporate customers. In 2015 the Group generated 21% of its revenue outside Estonia. The year 2021 was the first in our history when Eesti Energia's electricity sales outside Estonia exceeded its electricity sales in Estonia and in 2022 we generated already 52% of our revenue in foreign markets.

Eesti Energia remains committed to the promise of transitioning to carbon-free production operations, which was given in 2021. Execution of the ambitious plan requires a strong organisation. We delivered our best ever TRI*M indices for employee engagement and management quality in 2022. Since 2016, employee engagement has increased by nine points to 69 and management quality has improved by ten points to 71. With those results, Eesti Energia is setting a positive example for most service and industrial enterprises in the region. Furthermore, according to an employer reputation survey conducted by Kantar Emor, Eesti Energia was the most attractive employer in Estonia in 2022.

On behalf of the management board of Eesti Energia, I sincerely thank each and every one of the Group's employees, customers and business partners. It has been a great honour for the current management board to share this ambitious and extraordinary journey with you. Through our joint efforts we have made strong progress towards the 2045 carbon neutrality goal.

Hando Sutter
Chairman of the Management Board

Group's Key Figures and Ratios

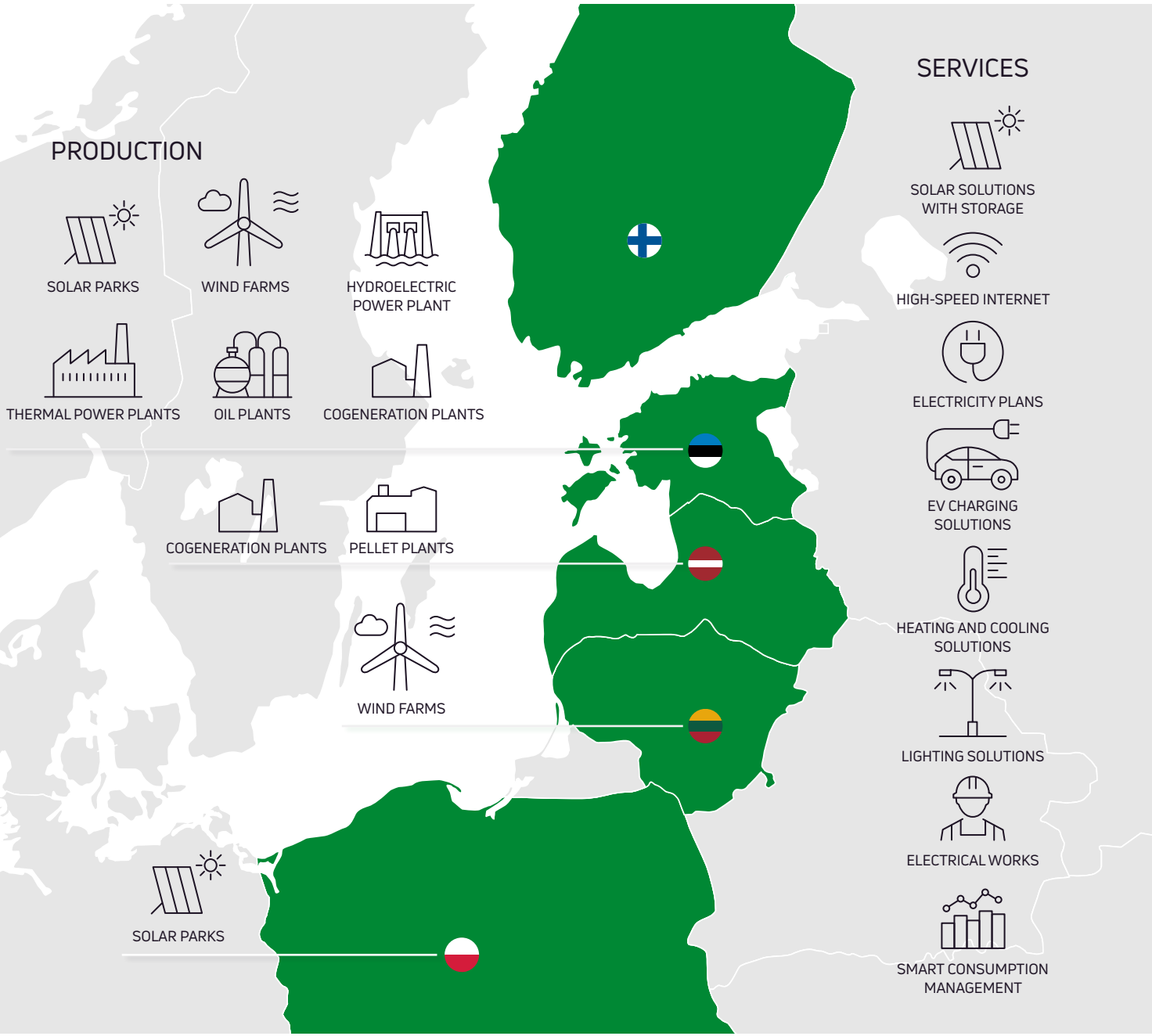
		2021	2022
Total electricity sales, of which	GWh	9,435	10,537
retail sales	GWh	8,633	9,873
Electricity distributed	GWh	7,172	6,708
Shale oil sales	th t	420	405
Heat sales	GWh	911	817
Average number of employees	No.	4,357	4,833
Electricity production	GWh	5,217	6,260
Shale oi production	th t	438	424
Heat production	GWh	1,272	1,186
Sales revenues	m€	1,313.0	2,218.2
EBITDA	m€	317.6	420.4
Adjusted* EBITDA	m€	243.0	333.0
Net profit	m€	111.5	215.7
Adjusted* net profit	m€	36.9	128.3
Investments	m€	253.3	445.2
Cash flow from operating activities	m€	176.4	508.7
Non-current assets	m€	3,366.7	3,969.9
Equity	m€	2,465.6	3,120.1
Net debt	m€	758.6	774.1
Net debt / EBITDA	times	2.4	1.8
EBITDA/ interest cover	times	11.3	14.7
Leverage	%	23.5	19.9
ROIC	%	5.2	6.9
EBITDA margin	%	24.2	19.0

* Profit excluding the fair value adjustments of long-term PPAs.

GRI 201-1

We are an international energy company

We provide beneficial and convenient energy solutions and produce energy in an increasingly environmentally friendly way.



Legal name: Eesti Energia AS
Headquarters address: Lelle 22, 11318, Tallinn, Estonia

The sole shareholder of Eesti Energia is the Republic of Estonia, represented at the shareholders' meeting by the Minister of Finance.

GRI 2-1, GRI 2-7

Operating Environment

We are an international energy company and the main factors that influence our business are electricity, fuel oil, emission allowance and gas prices competition in the energy and customer markets, regulations that govern the energy sector and the development of new technologies. Our operating environment has also been strongly affected by Russia's aggression against Ukraine which started last year and triggered an energy crisis.

According to the International Monetary Fund, the global economy grew by 3.2% and Estonia's economy expanded by 1.8% in 2022. Economic growth slowed, mainly due to the energy crisis, which was caused by Russia's aggression, and the resulting price inflation and changes in the supply chains.

OUR PERFORMANCE IN 2022 WAS SIGNIFICANTLY INFLUENCED BY THE FOLLOWING MOVEMENTS IN MARKET PRICES
(compared with a year earlier):

- Electricity prices were record-high due to exorbitant natural gas and CO_2 emission allowance prices.
- Emission allowance prices surged to record heights because of geopolitical events and low gas inventories which caused the market price of natural gas to soar and thus increased the use of coal and oil shale in electricity production.
- The world market prices of oil products spiked after the start of Russia's aggression. By the end of the year, however, the market adjusted to the situation and the prices moved back to their levels before the energy crisis.
- Gas prices surged to historic highs due to changes in the supply chains and low natural gas inventories.

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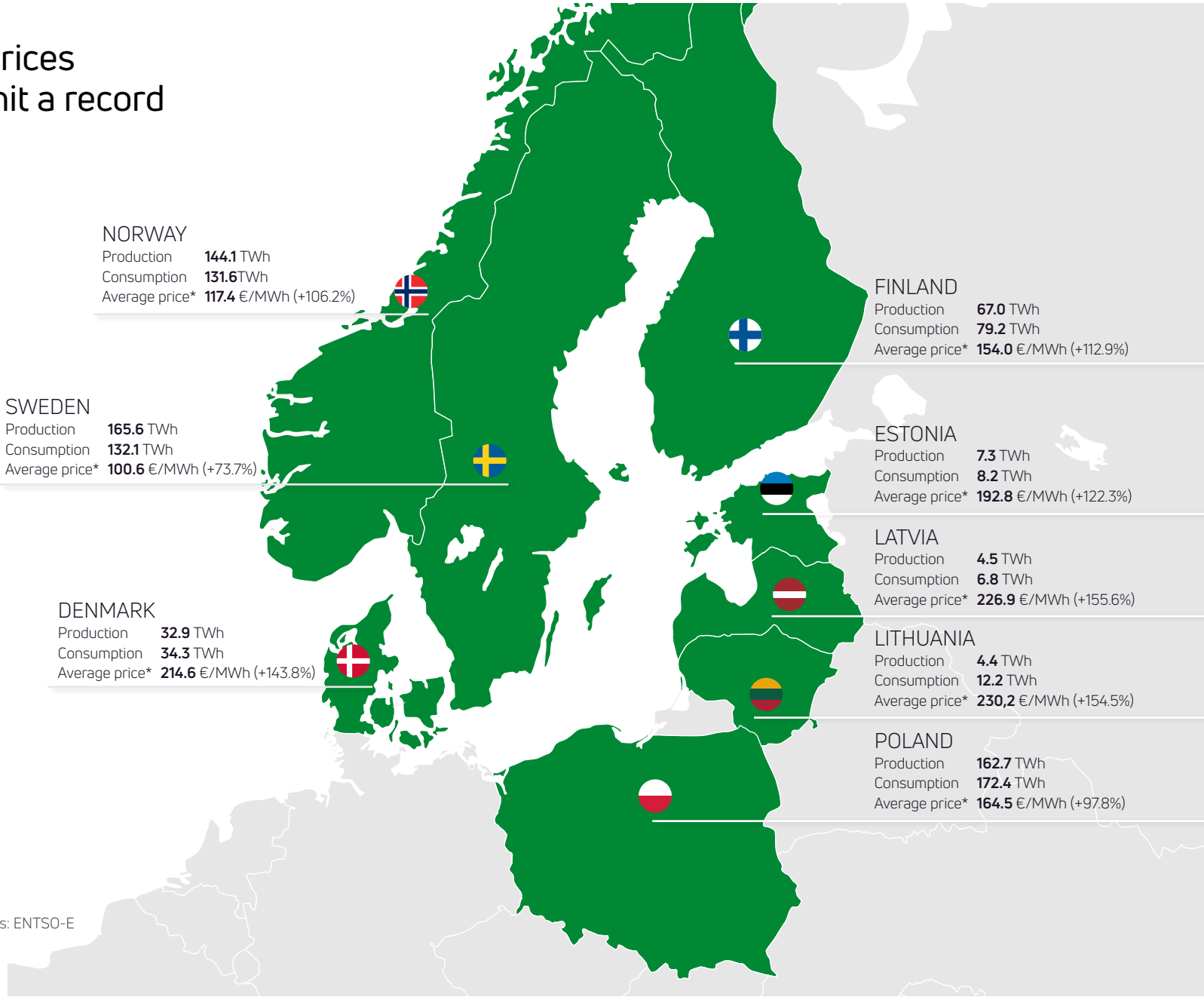
Average electricity prices in our core markets hit a record

Estonia participates in the Nord Pool power exchange, where electricity producers that sell electricity on the power exchange trade with electricity suppliers that buy electricity from the power exchange in order to resell it to end consumers. Our operations are the most sensitive to electricity prices in Estonia, Latvia, Lithuania and Poland because we both produce and sell electricity in those countries. Additionally, we sell electricity in Finland.

The electricity markets of Estonia and its neighbouring countries are well connected by means of interconnectors. Therefore, electricity production and prices are also affected by various factors outside our core markets, such as the levels of Norwegian hydro reservoirs and wind conditions in the region.



* Source for production and consumption volumes: ENTSO-E
Source of annual average price: Nord Pool

Baltic electricity prices were influenced by record-high natural gas prices

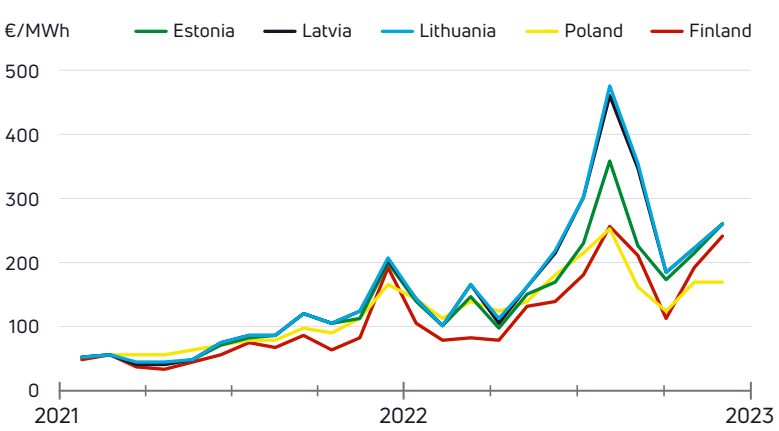
The Nordic and Baltic market area produced 426 TWh and consumed 404 TWh of electricity in 2022. Compared with a year earlier, electricity production in the Nordic and Baltic market area decreased by 4 TWh and consumption decreased by 23 TWh. Norway and Sweden produced more electricity than they consumed in 2022. In Estonia, Latvia, Lithuania, Finland and Denmark, consumption exceeded domestic production and the countries had to import electricity.

Electricity prices in Estonia and the neighbouring countries were influenced by the market price of natural gas and weather factors in 2022. Electricity prices spiked sharply in the summer when gas and CO_2 emission prices reached historic heights.

Moreover, as several power plants went into large-scale maintenance and renewable energy production was low, the Baltic region experienced an electricity deficit in Q3. Due to the high output of the Finnish Olkiluoto 3 nuclear plant, electricity prices in Finland were low in that period. This also influenced electricity prices in Estonia, causing historically large price differences between the Baltic countries.

The average price of natural gas on the Dutch gas trading platform TTF was 136.1 €/MWh in 2022 (+90.4 €/MWh, +198% compared with 2021). At the beginning of the year, the price of natural gas trended downward because import flows to the European gas markets were high. By the end of the heating period, however, inventories in Europe's gas storage facilities had dropped to their historic lows. This in combination with growing supply risks caused a lot of uncertainty, which triggered a surge in gas prices.

Average electricity prices in our home markets



Source: Nord Pool

Fuelled by changes in the supply chains and negative shocks on the supply side of the gas market during the year, natural gas prices hit their historic highs in the second half of 2022. In the last quarter of the year, gas prices began to drop and by the end of December the price of natural gas was more or less at the same level where it had been the beginning of the year. The decrease in gas prices was supported by warm weather and a decrease in the demand for gas in Europe.

In the second half of 2022, the European Parliament's Committee on Industry, Research and Energy endorsed the RePowerEU plan, which aims, among other things, to reduce the European Union's dependence on Russian gas. By the end of the year, the European Union had reduced its overall gas consumption by 20.1% compared with average figure for the previous five-year period, exceeding its target by 5.1 percentage points. The strongest reduction was achieved by Finland and the Baltic countries where gas consumption decreased by over 35%.

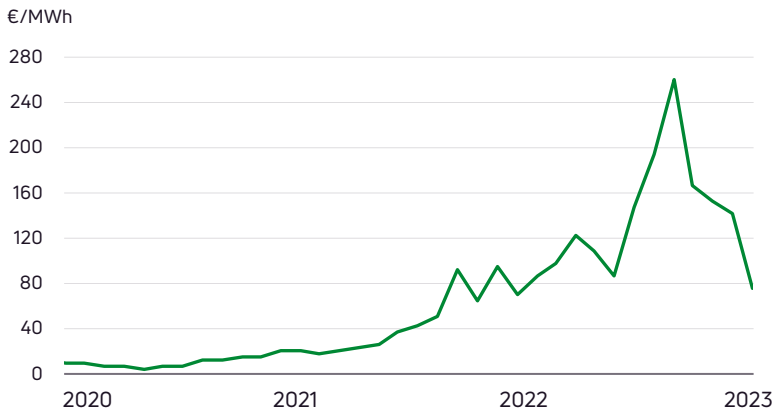
During peak hours, the electricity price in the region is typically determined by gas-fired power plants.

High natural gas prices have created a situation in Europe where the cost price of electricity produced from gas is higher than the cost price of electricity produced from oil shale or coal.

Growing use of coal-fired power plants as an alternative to gas-fired power plants has triggered a sharp increase in the price of coal. At the same time, the use of coal, whose carbon intensity is half higher than that of natural gas, has increased the demand for CO_2 emission allowances, driving up their prices.

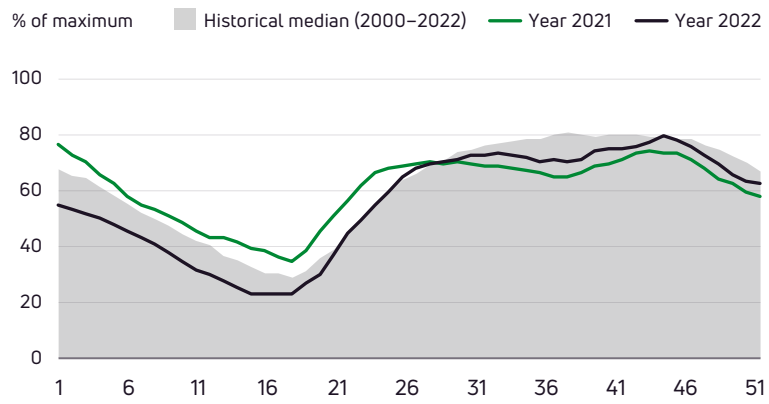
Interconnectors supply the Baltic countries with Nordic hydropower, which is cheaper than other types of electricity. The average level of the Nordic hydro reservoirs in 2022 was 55.9% of the maximum, which is 5.1 percentage points lower than in 2021 and 5.7 percentage points below the historical median.

TTF natural gas price



Source: TTF

Weekly levels of Nordic hydro reservoirs



Source: Nord Pool

Our business was affected by regulations

The energy crisis of 2022 created pressure for the review and amendment of regulations in Europe.

Our performance was strongly affected by the amendments to the Estonian Energy Market Act which established universal service in electricity. The national support measure enabled households, small businesses and local governments in Estonia to purchase electricity at a price temporarily established by the Competition Authority starting from Q4 2022.

According to the amendments adopted by the Estonian parliament, the universal service will be available until April 2026. This means that in addition to 2022 it will affect our performance in subsequent years and, therefore, we have recognised a loss of approximately 37 million euros due to negative value of derivative instruments (86 million euros in our power generation subsidiary Enefit Power). However, the sustainability of the universal service will be determined by market prices: if the latter fall, consumers are likely to opt out of the universal service.

A development positive for our electricity production business was the enactment of a goal that by 2030 domestic electricity consumption in Estonia should be fully met by renewable electricity. The goal provides a solid basis for accelerated development of new renewable energy capacities.

Politicians' increased interest to take action in order to revise the regulatory environment of the energy sector was not only characteristic of Estonia in 2022. In October, the EU issued a council regulation on an emergency intervention to address high energy prices in the union's energy market. This had a direct impact on our business in all the markets where we operate. On the basis of the regulation, various measures were introduced, such as price caps for the majority of electricity producers and a windfall tax on the surplus profits of oil producers. The regulation is also considered to be controversial because in a situation where Europe has an acute need for new generation capacities, energy companies' ability to make new investments was artificially undermined. Member states have applied the regulation in different ways. For example, Estonia and Latvia issued a joint statement on the publication of the regulation, stating that they would not impose additional taxes on producers.

CO_2 emission allowance prices hit record highs

The purpose of the European Union's Emissions Trading System (EU ETS) is to reduce greenhouse gas emissions in Europe by motivating energy producers to use less polluting raw materials and invest in more efficient production technologies.

The price of emission allowances has a strong impact on the cost of electricity produced by the direct burning of oil shale, particularly at our older production facilities whose carbon intensity is higher. At the same time, a higher CO_2 emission allowance price increases the competitiveness of our renewable energy production units.

Prices of CO_2 emission allowances

Source: Intercontinental Exchange

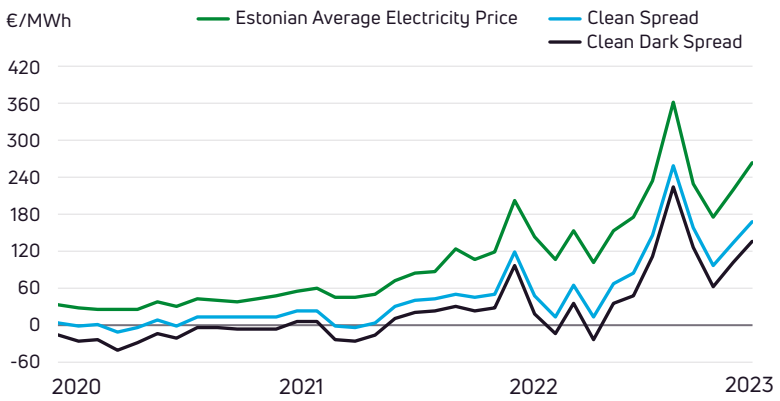
At the beginning of 2022 the price of CO_2 emission allowances was 80.0 €/t and continued to rise until March, when it dropped by 40% within a month and then stabilised at 78 €/t. Until mid-year, emission allowance prices were influenced by the soaring natural gas price, which caused a jump in the production of the more carbon intensive coal power in Europe. At the beginning of the second half-year, the European Parliament's Committee on Industry, Research and Energy adopted a decision on using the revenues from the sale CO_2 emission allowances to finance the achievement of renewable energy and energy efficiency targets. CO_2 emission allowance prices were additionally influenced by a special measure announced in the summer on the basis of which approximately 250 million allowances will be auctioned off over the next four years to finance the lowering of energy costs. As a result, the CO_2 emission allowance price dropped from its annual peak of 92.2 €/t to 66.5 €/t.

By the end of the year, the carbon allowance price rose to 83.9 €/t in response to the revision of the EU climate targets. The European Parliament's Committee on Environment, Public Health and Food Safety agreed the emission reduction target for sectors covered by the EU ETS. The sectors are expected to cut their emissions by 62% compared with the 2005 levels by 2030. The new target is 19 percentage points higher than the one set in 2014. The average price of CO_2 emission allowances was 81.2 €/t in 2022, 51.3% (+27.5 €/t) higher than in 2021.

A key indicator in energy production is the clean dark spread (CDS), which reflects an electricity producer's profit margin after the deduction of fuel and CO_2 emission allowance costs from the average market price of electricity.

Eesti Energia's CDS was 72.1 €/MWh in 2022 (+58.7 €/MWh compared with 2021). The oil shale cost component in CDS increased by 11.9 €/MWh year on year. The combined effect of the change in the CO_2 emission allowance and oil shale cost components was -47.4 €/MWh.

Eesti Energia's carbon free spreads' and Clean Dark Spreads' relation to Estonian electricity price



Source: Nord Pool, Eesti Energia

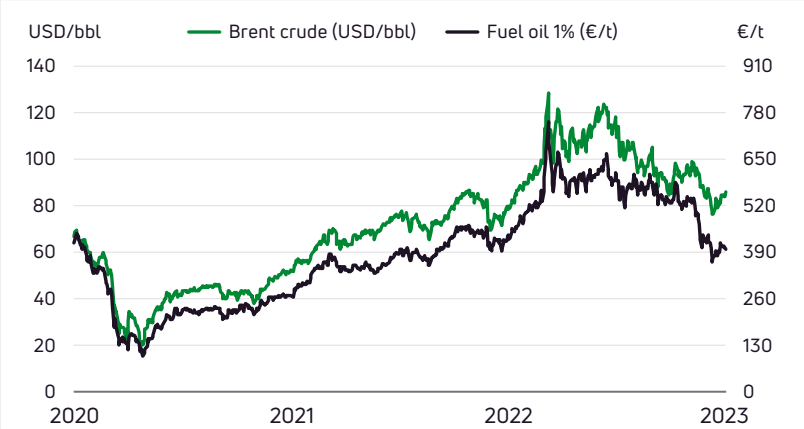
The world market prices of oil products increased compared with a year earlier

A widely-traded oil product that is closest in nature to our shale oil is fuel oil with 1% sulphur content whose price depends mainly on that of Brent crude oil.

A rise in the prices of crude oil and fuel oil is positive for Eesti Energia because it raises the sales price of our shale oil.

In the first half of 2022, the average price of Brent crude oil was 104.4 USD/bbl, which is 60,6% (+39.4 USD/bbl) higher than in the first half of 2021. The price of Brent crude rose from 85.5 USD/bbl in January to 117.2 USD/bbl in June. The main factors that affected the price in the first half of the year were supply

Liquid fuels prices



Source: Platts

disruptions resulting from geopolitical events and low liquid fuel production levels, which did not meet the growth in demand that followed the lifting of the Covid-19 restrictions.

In the second half of 2022, the average price of Brent crude was 93.1 USD/bbl, which is 21.8% (+16.7 USD/bbl) higher than a year earlier. In the second half of the year, the price of Brent crude was mainly influenced by the decision of the US, announced in April, to release 180 million barrels of oil reserves over the next six months. Oil prices were also strongly affected by the Federal Reserve's and the European Central Bank's decisions to raise interest rates. At the end of the year, the oil price was also influenced by the 60 USD/bbl price cap imposed on Russian oil by the EU, G7 and other countries as well as the OPEC+ decision to cut oil production by 2 million barrels per day.

The average price of Brent crude oil was 98.9 USD/bbl in 2022, +28 USD/bbl (+40%) up on a year earlier. The market price of fuel oil with 1% sulphur content followed the trend of Brent crude oil in 2022. The average price of fuel oil with 1% sulphur content was 542.0 €/t in 2022, which is 43.7% (+164.5 €/t) higher than in 2021.

LIQUID FUEL PRICES

Average price		2022	2021	2020
Brent crude oil	USD/bbl	98.9	70.9	43.2
Fuel oil 1%	€/t	542.0	377.4	234.9
Euro exchange rate	EUR/USD	1.05	1.18	1.14

Eesti Energia's Journey in 2022

The energy trilemma, in other words finding a balance between energy affordability, environmental impact and security of supply, has become a nationally important topic in all of Eesti Energia's home markets. Eesti Energia is convinced that the fastest and most favourable solution to the energy crisis for society lies in electrification, during which renewable electricity replaces other energy sources, such as motor fuel or natural gas. We carry out electrification in cooperation with the customer. This is our common journey to zero and CO_2 neutrality.

That is why Eesti Energia's subsidiary Enefit Green is planning to increase its renewable energy production capacity fourfold. This will boost electricity production in our main markets, making sustainable and affordable electricity available to the consumer. It will also improve the security of energy supply in the region.

Activities related to aforementioned Sustainable Development Goals.

We help consumers save energy and reduce their carbon footprint by offering smart energy solutions. In an environment of volatile electricity prices, customers seek stability. We therefore offer long-term renewable power purchase agreements, energy consumption management, and economical heating and

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cooling as well as lighting solutions. To support wider adoption of electric vehicles, we provide charging solutions.

Transition to more sustainable energy consumption is supported by growth in the number of micro-producers. Eesti Energia is a partner to customers that wish to set up their own solar power plants. We provide added value by offering solar solutions together with storage solutions so that, for example, households could also use the renewable electricity they have produced in the evening when demand for favourably priced electricity is higher. The role of our subsidiary Elektrilevi, which is a distribution network operator, is to make sure that small electricity generators in Estonia, particularly new solar power plants, can connect to the network.

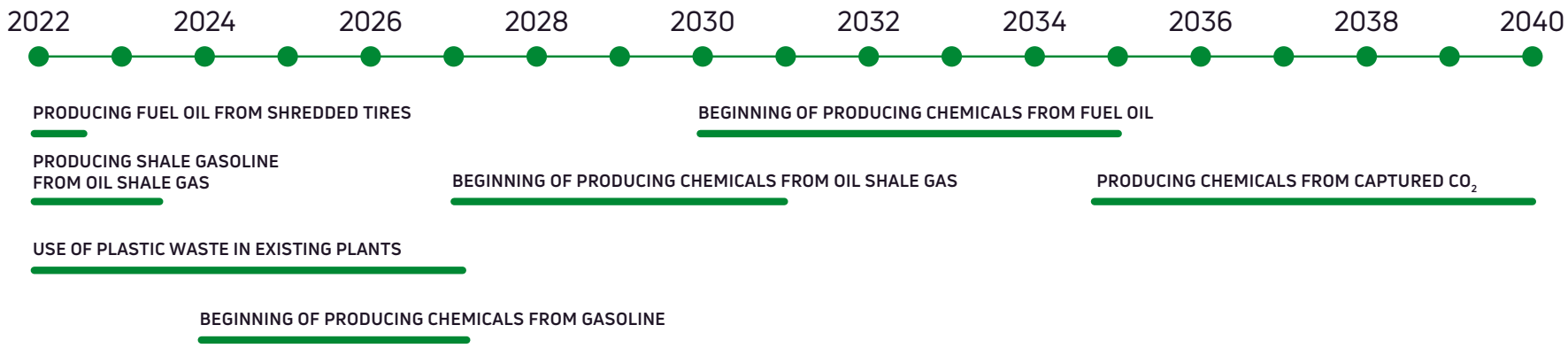
A key element of Eesti Energia's long-term carbon neutrality strategy is gradual transition from shale oil production to the production of raw materials for the chemical industry. We are working towards this goal together with various partners, including research institutions.

Our Enefit technology allows the co-pyrolysis of oil shale and waste, such as old tyres and mixed plastic waste, which to date have been regarded as non-recyclable. After recycling they can be used to produce materials and items for everyday use. A development outlook that is based on true circularity will also make the industry in Ida-Viru county, Estonia, sustainable.

KEY GOALS FOR 2022–2026

- **80%** of our customers will use at least one green product or service.
- The capacity of our renewable energy production assets will grow more than **fourfold** to 1,900 MW.
- The carbon intensity of our energy production operations will decrease by **43%**, from 0.37 t/MWh to 0.21 t/MWh.
- We will have a plan for achieving carbon neutrality in chemical industry by **2040** and in energy production by **2045**.

Our roadmap to a carbon-neutral chemical industry



Customers' expectations

Customers wish that energy experts would offer comprehensive, compact and simple solutions that meet their needs. They expect convenient and smart solutions that enable them to benefit from energy consumption management or to self-produce energy. Additionally they seek solutions that help them to keep their energy costs under control.

Responsibility is becoming a key factor – customers increasingly prefer companies that produce energy from renewable sources and help customers either produce renewable energy or consume energy more sustainably.

Owner's expectations

The Republic of Estonia that is Eesti Energia's sole owner expects the company to operate profitably and generate stable dividend income. The expected dividend is an average of 50-100% of the net profit of the owner's share of the consolidated parent company over a five-year periood. In doing that, we will gradually have to increase the share of electricity produced from renewable sources in our controllable power production operations that help maintain security of supply. The owner also expects us to add value to oil shale consistent with the climate policy and to retain jobs in Ida-Viru county.

The distribution network operator is expected to gradually improve the reliability and availability of the network in a manner that is not too costly for the consumer.

In addition, the owner expects Eesti Energia to ensure a controlled electricity production capacity of at least 1000 MW in Estonia until the end of 2026.

Eesti Energia's green transition is underpinned by three pillars:

- Offering customers useful and environmentally sustainable end-to-end solutions
- Building solar and onshore and offshore wind farms and developing energy storage systems
- Discontinuing the use of oil shale for electricity generation and transforming the shale oil production business into a chemicals industry that contributes to the circular economy

We have set ourselves the goals that by 2035 at the latest we will be a company that produces electricity from renewable sources only and by 2045 at the latest all our production operations will be carbon neutral.

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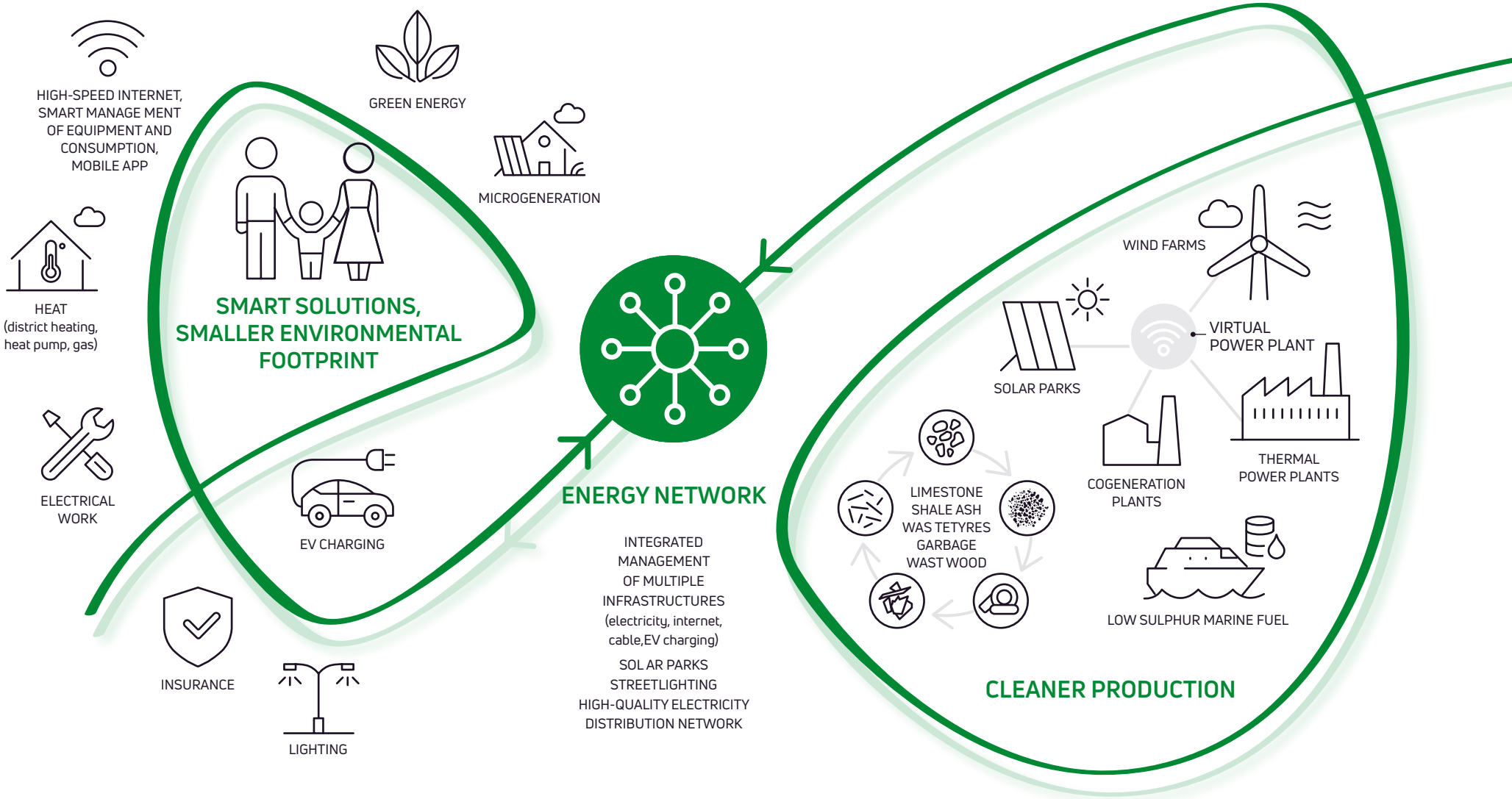
The New Energy World

As an enabler of the energy transition and with the support of an excellent customer experience, **we will reach one million satisfied customers in the Baltic Sea region.**



Useful and Convenient Customer Solutions on the Journey to Carbon Neutrality

High electricity and gas prices affected all our customers in 2022. Eesti Energia's role is to be a supportive energy partner that is always available and helps implement innovative energy solutions.

Customer solutions and customer satisfaction

Customers needed our support more than ever

The energy crisis triggered a sharp increase in customer inquiries in Estonia, Latvia and Lithuania. Altogether, 726,000 customer inquiries were resolved.

Activities related to aforementioned Sustainable Development Goals.

We advised customers by email and phone as well as via our self-service portal, app and online chat. In Estonia alone we answered over 300,000 customer calls, which is 30% more than in 2021.

A major share of customer inquiries in Estonia were related to universal service in electricity – the national electricity price support measure. We shared information about universal service, electricity price formation and energy saving solutions in a wide range of channels to provide customers with every

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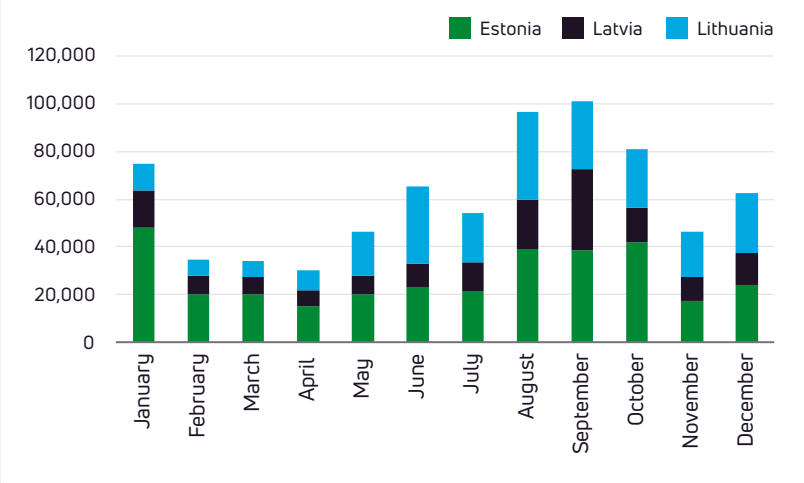
help possible. We used content marketing, direct mail, email, the post offices operated by Omniva, the retail stores operated by Coop and numerous other channels. Furthermore, we created the **Energy Wisdom** website to provide advice to our customers in Estonia, Latvia and Lithuania.

A Kantar Emor survey commissioned by Eesti Energia confirms that the consistent and massive outreach activities have served their purpose. People's confidence regarding energy market developments has increased. According to respondents, they are now more informed about energy and have a better understanding of the formation of the electricity price. It is important to have more informed customers because knowledge is the first step towards higher confidence and the use of smarter energy services.

Reliability and a strong value proposition attracted more customers

Our customer numbers increased in all our markets in 2022. By the year-end, the overall figure broke a record, rising to 605,397 (excluding the customers of the distribution network operator Elektrilevi). Our sales volumes in Latvia, Lithuania and Poland grew significantly. Our competitive edge is a very strong value proposition. As a reliable electricity supplier, we respect our contractual obligations and never unilaterally change fixed-price contracts.

Customer inquiries in 2022



Growth in the number of customers in 2022 by country

2022	January	February	March	April	May	June	July	August	September	October	November	December
Estonia	422,608	423,940	425,917	427,897	428,565	429,763	423,198	423,119	423,837	423,634	425,474	425,524
Latvia	40,579	43,295	44,280	45,309	46,689	48,176	51,768	58,119	64,517	66,488	67,003	69,391
Lithuania	25,375	30,616	33,680	39,463	51,284	75,976	81,115	95,262	98,954	98,722	100,064	102,945
Poland	1,298	1,334	1,537	1,700	1,876	1,789	1,803	1,858	1,874	1,911	2,391	2,454
Finland	4,084	3,781	3,742	3,707	3,556	3,529	3,658	4,139	5,272	5,059	5,059	5,083
TOTAL	493,944	502,966	509,156	518,076	531,970	559,233	561,542	582,497	594,454	595,814	599,991	605,397

We have been operating in **LATVIA** since 2006 and have gained the second position in the Latvian market both as a provider of energy and a provider of energy solutions.

Our share of the Latvian energy supply market is 24.7 %

We have been operating in **LITHUANIA** since 2007 and have grown to be the second-largest electricity supplier there.

Our share of the Lithuanian energy supply market is 17.4 %

POLAND has become our second-largest energy supply market after Estonia over the last couple of years. In Poland, we can see the fastest growth potential in the development of renewable energy as well as the provision of smart energy services to customers.

Our current market share in Poland is 0.9 %

Our solutions helped customers cope with the energy crisis

In addition to seeing Eesti Energia as a competitive electricity supplier, our customers also value us as a provider of smart solutions that enable substantial energy savings. Both private and business customers use our solar and heating solutions, storage and lighting services, smart electric vehicle charging and flexible energy consumption management solutions.

By the end of 2022, 188,518 of Eesti Energia's customers had chosen at least one sustainable energy solution, such as a renewable energy-based electricity plan, a solar solution, or an at-home electric vehicle charging system.

Last year we started offering smart charging service under the electric vehicle charging brand Enefit Volt. The new solution allows customers to automatically schedule their charging to the time when the power exchange price is the lowest. The service, which was launched in Estonia in February, was made available to our Latvian and Lithuanian customers by the end of the year and will soon become available in Poland.

Moving towards a greener future with our customers

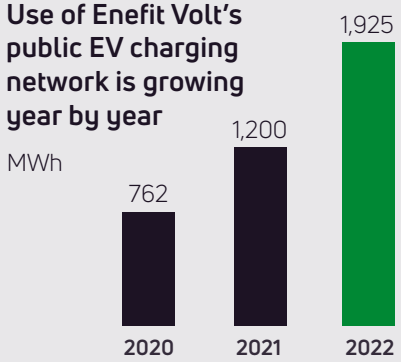
Share of customers using at least one green service or product

8% 2021

31% 2022

80% Target for 2026

Use of Enefit Volt's public EV charging network is growing year by year



Our public electric vehicle charging network broke a record. The amount of electricity charged in July alone enabled our customers to cover at least one million emission-free kilometres. We are planning to expand our electric vehicle charging network to Latvia, Lithuania and Poland.

Last year saw a surge in households' interest in self-generating electricity and supplying it to the network. 1,271 happy solar power plant owners joined our customer base in 2022. One in three customers interested in solar panels is also interested in the installation of a storage solution.

Besides energy solutions, we offer telecommunications solutions. Last year we continued expanding our new-generation internet network so that internet and television services that require a high-speed connection would also reach rural areas. Already more than 13,000 customers have decided in favour of our Enefit high-speed internet. The service we offer is operator-neutral, i.e. the customer can always choose the most suitable service provider from all market participants when joining our network.

Long-term power purchase agreements speed up wind power development

The most affordable and sustainable electricity comes from wind and solar farms. Customers' interest in long-term renewable power purchase agreements has exceeded our expectations. There are more and more consumers that wish to sign up to 10-year green energy purchase agreements in order to fix their costs for a longer period. Over the past three years, we have signed such long-term power purchase agreements on 16 TWh, of which agreements on 7.8 TWh in 2022.

Customers that sign a long-term power purchase agreement with us directly contribute to the development of new wind and solar farms. In recent years, the market price of electricity has been too unstable for renewable energy developers to make investments with a life of nearly 30 years. In order to ensure investment security, developers either need national support schemes or ways to fix the sales price of their future output. This is why long-term fixed-price power purchase agreements are a win-win solution for all parties – the developer, the electricity supplier and the customer. Eesti Energia has been leading the way with long-term power purchase agreements in the Baltic region.

The most profitable power plant was the virtual one

The transition to renewable energy requires much greater flexibility from the electricity system, both in terms of production and consumption management as well as energy storage. When demand for electricity is high, electricity not consumed is equivalent to electricity produced. With our help, devices and equipment whose operation can be timed can be used to earn extra income through smart and flexible energy management.

In 2021, we started providing automatic frequency restoration reserve (aFRR) service with the Auvere power plant with 25MW capacity. In 2022, we increased our capacity to provide the service by 55 MW by including generating unit 8 of the Eesti power plant, generating unit 11 of the Balti power plant and four wind farms of Enefit Green among the facilities that can provide the service.

Provision of the network balancing service to the Finnish transmission system operator Fingrid in cooperation with the Estonian transmission system operator Elering demonstrates that we are ready to provide the service to the Baltic electricity system as soon as there is a market for it.

Last year we regulated electricity consumption in Estonia at the request of the transmission system operator Elering, scaling consumption down by 570 MWh and up by 37 MWh. We also continued preparations for launching flexible energy management in Lithuania and Finland, where the agreements with the first customers have already been signed.

In 2022, we prepared a pilot project for a unique solution for solar energy production and storage and flexible energy management to be implemented at the Estonia dairy farm in Järva county.

Estonia dairy farm in Järva county

The capacity of a solar farm will be doubled to 348 kW and a 150 kW battery system will be installed to store its output. 150 kWh can meet the electricity needs of an average household for 16 days.

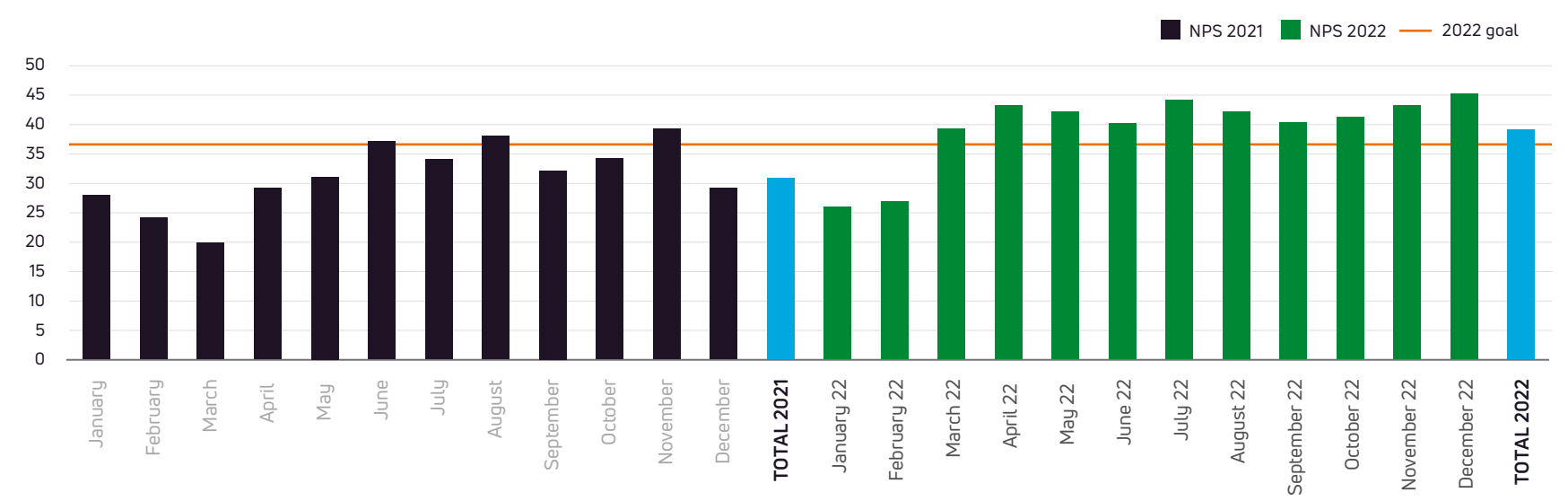
A flexible energy management solution for household customers reached the customer testing phase by the end of 2022.

Satisfied customers are our greatest asset

Customers value our reliability and expect us to deliver on our promises, to provide high-quality advice and to offer smart services. We measure customers' satisfaction with our customer service as well as our products and services in all markets with the net promoter score.

In an environment of high energy prices, customers needed assistance, which caused a spike in customer inquiries. To better help our customers, we increased the capacity of our service channels. We reorganised work, hired additional staff and involved external partners. In addition, we proactively informed people about developments in the energy market, different energy solutions and energy saving options through all possible channels.

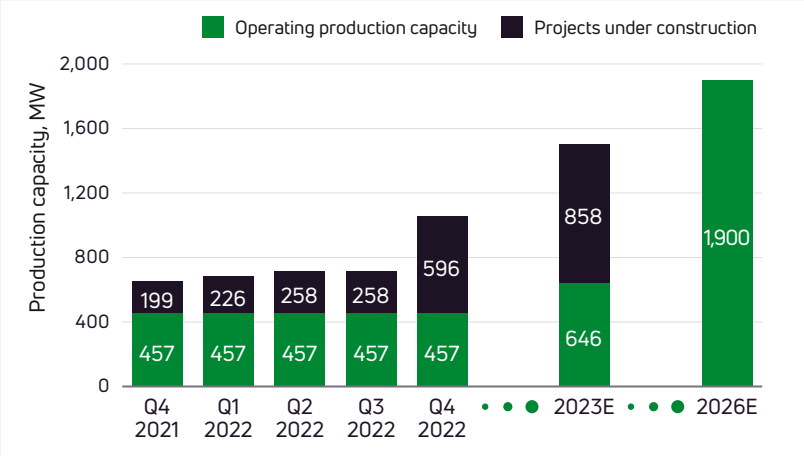
Customer service Net Promoter Score (NPS)



Growth in renewable energy output will solve the energy crisis

Long-term power purchase agreements support wind power development

Goal: 4× increase in production capacity



The fastest way to achieve carbon neutrality is to replace different types of energy with electricity produced from renewable sources. Therefore, our renewable energy company Enefit Green has set itself an ambitious goal of increasing its renewable electricity production to 4.5 TWh by 2026. In 2022, Enefit Green's electricity production was 1.1 TWh.

In the development of new solar and wind farms, Enefit Green increasingly relies on long-term power purchase agreements, which provide consumers

The fastest way to reach carbon neutrality lies in electrification, during which renewable electricity replaces other energy sources.

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with long-term price assurance. In the case of new development projects, 60% of a wind or solar farm's projected electricity output is pre-sold under long-term power-purchase agreements and 40% is sold on market terms. By the end of 2022, Enefit Green had signed long-term power purchase agreements in the volume of 10.5 TWh.

As the end of 2022, Enefit Green had a total of six wind farms under construction in Estonia, Lithuania and Finland with a total capacity of 546 megawatts and four solar parks, two of which in Estonia and two in Poland with a total capacity of 50 megawatts.

Out of the above projects, the Sopi-Tootsi wind farm will have the strongest impact on Estonia. It is going to be the largest renewable energy production area in the country with output sufficient to cover 8.5% of total electricity consumption and 40% household electricity consumption in Estonia. Another development which will have a significant impact on electricity consumers in our main markets is the Kelme project in Lithuania, which will have a total capacity of nearly 320 MW.

Enefit Green is also building a unique hybrid wind and solar farm in the Lüganuse municipality in Estonia. The 21 MW wind and the 32 MW solar farm are being built simultaneously. They will use the same equipment, substation and connection to deliver electricity to consumers. The hybrid farm will also use a single connection capacity to supply wind and solar power to the grid. It is a reasonable solution as wind power production is the highest from autumn to spring, while solar power production is the highest from spring to autumn. This means that the wind and solar farm's overall electricity output will be more even throughout the year and the limited grid resource will be more efficiently used.

Another unique project in Enefit Green's portfolio is the development of a solar farm in the industrial area of the Estonia mine. It will be built on a 27-metre-high structure made of waste rock generated during oil shale mining. The solution allows recycling waste rock and land of low value as well as reducing shading losses in solar energy production.

Out of farms under construction, the 43 MW Šilale II wind farm in Lithuania whose construction began in 2021 produced its first electricity in 2022. The 75 MW Akmene wind farm should start producing electricity in early 2023. The construction of the 21 MW Purtse and the 72 MW Tolpanvaara wind farms is on schedule – both will come online in 2023.

To boost the production of renewable electricity, Enefit Green has increased the number of planned solar farms in its short-term development portfolio.

Thus, last year Enefit Green acquired land use rights for a future hybrid project in Vändra, the Seinapalu and Arakavälu solar farm development projects as well as solar farm development projects in Lihula and Pärnu-Jaagupi (all in Estonia). The company is also planning to build a 75 MW solar farm in the Sopi-Tootsi area.

In addition, Enefit Green has been making strong progress with some projects which are still in the planning phase. For example, after the resolution of a legal dispute, the company has relaunched the development of the Risti wind farm, which has reached the phase of approval of the preselected site.

Development of the Gulf of Riga offshore wind farm is in the EIA stage

Offshore wind farms are the most realistic option for Estonia to alleviate its energy deficit and produce large quantities of affordable renewable electricity before the end of the decade. We continued the development of the Gulf of Riga offshore wind farm last year with the aim of making an investment decision by 2025. Extensive environmental impact assessment (EIA) activities were launched and a preliminary analysis of the technical solution began. The latter is supported by the European Union. An important step was the initiation of a national designated spatial plan for the construction of the farm's electricity connections. We continued to work with the world's leading wind energy developer Ørsted and preparations began for the separation of the development project from Eesti Energia.

The Gulf of Riga project is the most advanced offshore wind farm development in Estonia and, when completed, will produce half of all the electricity consumed in Estonia. It will contribute significantly to solving the energy crisis as well as achieving the renewable energy targets.

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Thermal power plants helped cope with the energy crisis

Eesti Energia's thermal power plants play an important role in ensuring the security of electricity supply in an energy crisis.

In 2022, we increased the production of oil shale electricity to cover the shortage of electricity production in Estonia and its neighbouring countries, and to produce electricity for the universal service in electricity, which was launched in Estonia.

Enefit Power's controllable production facilities produced approximately 30% more electricity in 2022 than they did in 2021: 3,981 GWh in 2021 and 5,131 GWh in 2022, which is approximately 70% of total electricity produced in Estonia. As the main fuel of Enefit Power's controllable power plants is oil shale, the volume of oil shale extraction grew by a third, driven by higher electricity production. The increase in oil shale extraction and hence electricity production was underpinned by successful recruitment of additional labour and timely maintenance operations.

At the end of 2022, Eesti Energia had 1,369 MW of controllable electrical net generation capacity. Out of Enefit Power's plants, the Eesti power plant contributed 866 MW, the Balti power plant 192 MW, the Auvere power plant 272 MW and Enefit-280 12 MW. In addition, Enefit Green has cogeneration plants in Iru and Paide with capacities of 17 MW and 2 MW, respectively. This ensures that we can provide the 1,000 MW capacity expected by the owner, which is sufficient to cover the average electricity consumption of Estonian households.

		2021	2022	Change	%
Oil shale extraction	th t	6,375	8,367	+1,992	+31.2%
Total electricity production	GWh	5,217	6,260	+1,043	+20.0%
Share of renewable electricity in total electricity production	%	31.6%	23.2%	-8.4 pp	
CO_2 emissions (Eesti Energia Group)	th t	5,041	6,834	+1,770	+35.9%

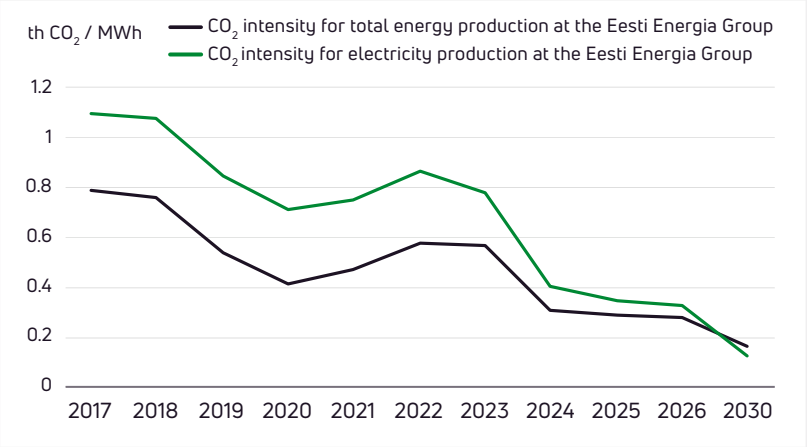
The current energy crisis will have a short-term effect on our carbon neutrality strategy

Despite temporary growth in CO_2 emissions, brought about by the energy crisis, we will be able to meet the owner's expectation regarding the 2030 target for the carbon intensity of our electricity production already in the next few years. We will be able to replace our oil shale-fired electricity production capacities with new renewable energy production capacities and oil shale with alternative fuels by 2030. We are planning to fully transition to carbon-neutral electricity generation by 2035.

The share of oil shale in electricity production will decrease as we build new renewable energy production capacities and increase the use of retort gas and waste wood in electricity production. Using retort gas helps to reduce the use of oil shale and the carbon intensity of electricity production.
The environmental impact of electricity production can also be reduced by the use of waste wood. More than half of the waste wood used in the power plants of Enefit Power is of such a low quality that it would not be suitable for incineration in other boiler installations. It includes, for example, parts of demolished buildings, old frames, doors and furniture. The use of waste wood in Eesti Energia's electricity production decreased in 2022 by 30% compared with a year earlier. The main reason for this is poor availability and rising prices of waste wood.

The energy crisis led to the need to launch older reserve plants operating on oil shale, which had previously been shut down for a long time. Due to increased emissions, the group paid EUR 73.1 million in 2022 in the form of various environmental taxes and resource charges. Expenses on CO_2 emission allowances amounted to 544.4 million euros based on the average market price for the year. In addition, Enefit Power made environmental investments of 10.4 million euros. Investments were made in both preventive measures aimed at reducing the Group's environmental impacts as well as corrective activities designed to reduce emissions to air and the renewal of air monitoring systems.

Eesti Energia's CO_2 intensity forecast based on our carbon neutrality strategy

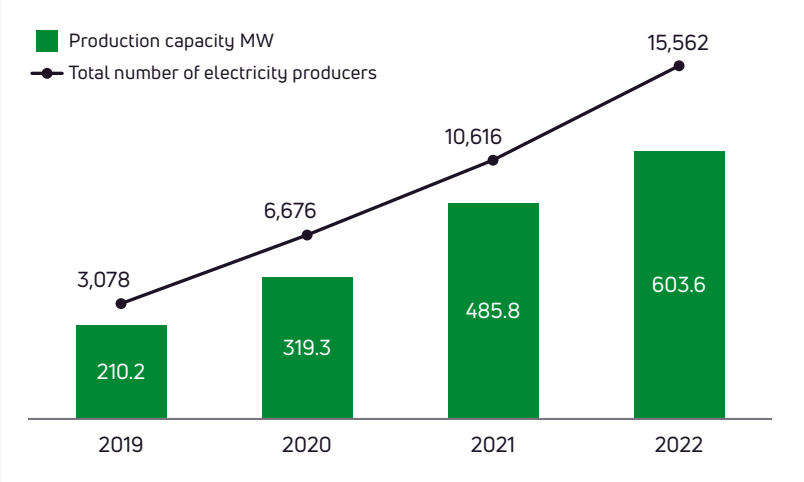


Electricity distribution service is the backbone of green transition

Exceptional number of producer connections

The number of micro-producer connection applications submitted in Estonia set an all-time record and exceeded all previous forecasts. Elektrilevi received more than 12,800 micro-producer connection applications, which is over five times more than a year earlier (2,290 in 2021). Based on signed distribution service agreements, 4,946 electricity producers with a total capacity of 117.8 MW joined the network in 2022. Altogether, there are more than 15,562 electricity and micro-producers with a total capacity of 603.6 MW in Elektrilevi's distribution network.

Number of electricity producers in Elektrilevi's network



Rise in connection applications:

pcs	2021	2022
Number of micro-producer connection applications	2,290	12,850 (forecast 1,600)
Number of electricity producer connection applications	2,705	3,486 (forecast 2,500)
Number of consumer connection applications	15,522	12,723 (forecast 13,200)
TOTAL	20,517	29,059

The average time of preparing quotes for the connection of micro-producers was 39 days in 2022. Elektrilevi's goal is to be able to issue quotes for the connection of micro-producers within 30 days.

To achieve the goal, from 2022 customers can submit their electricity and micro-producer connection applications online in Elektrilevi's self-service environment. In order to ensure the best customer experience, we made

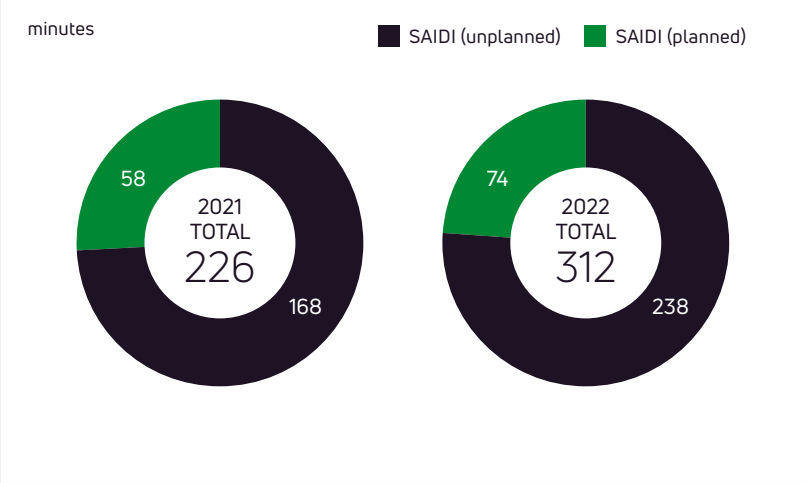
the connection process in the online service environment transparent and traceable for the customer. Micro-producer connections that require limited resources (small-scale jobs) were assigned a fixed price, which significantly increased the speed of issuing connection quotes. We also expanded our teams and changed the procedure for processing micro-producer connection applications so that customers can reduce the capacity of their power-generating modules during the application process and thereby avoid costly and time-consuming network reinforcement works. Furthermore, we updated the map of free capacities so that it would reflect which medium-voltage power lines in Elektrilevi's distribution network have spare capacity for the connection of solar power plants. This enables customers to choose more suitable locations for their power plants right from the start.

The unprecedented interest in micro-generation required us to make additional investments in the distribution network. The Estonian state allocated to Elektrilevi 8 million euros for network investments. Together with its own contribution, Elektrilevi invested 16 million euros to accelerate green transition. The project involved upgrading 500 km of power lines and creating micro-generation capacities for 4,500 households.

Weatherproof networks reduce supply interruptions

System Average Interruption Duration Index (SAIDI) that reflects average customer interruption duration increased compared to 2021. The rise is attributable to extremely windy weather at the start to the year – by April the number of storm days equalled the full-year figure for 2021. The index was also affected by a snow storm that hit the islands of Saaremaa and Hiiumaa at the end of the year, causing network damage that took more than a week to repair completely.

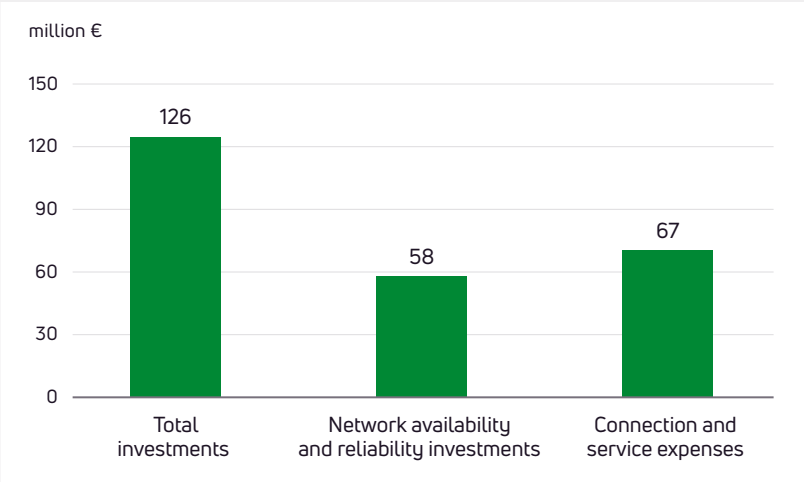
Average customer interruption duration



Elektrilevi's goal is to replace the old bare conductor overhead network with either weatherproof insulated overhead cables or underground cables.

At the end of 2022, Elektrilevi's network comprised approximately 60,000 km of power lines, 33% of which were underground and 66% overhead lines. In densely populated areas new power lines will be installed underground and in less populated areas the existing bare conductor overhead lines will be replaced by insulated overhead cables.

Network investments



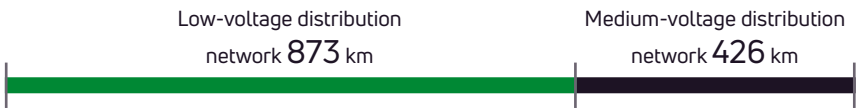
We consider both insulated overhead lines and underground cables to be weatherproof. To date, 94,7% of the low-voltage distribution network and 43,4% of the medium-voltage distribution network has been made weatherproof. Over the last decade, the share has increased by 26%, which means that a quarter of the entire network has been rebuilt. As a result, the number of unplanned supply interruptions has decreased significantly, falling almost threefold from 33,000 to 12,000 over the same period.

We have successfully integrated the Netfix machine learning application into our daily workflow in order to reduce the number of unplanned supply interruptions. The application uses meter data to predict potential network faults and thus helps prevent unplanned supply interruptions in the low-voltage network.

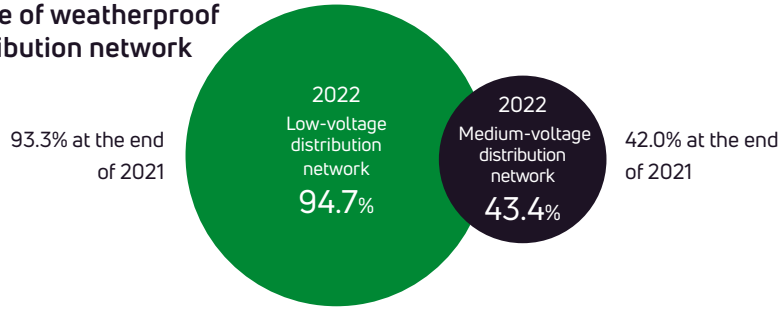
During the year we analysed more than 1,200 potential network faults and in 866 cases an actual problem was identified. The resulting savings exceeded 400,000 euros.

Elektrilevi develops the distribution network in a uniform manner across Estonia and carries out comprehensive risk assessments in all locations.

Weatherproof network construction volume in 2022: approx. 1,300 km (2021 1000 km), of which



Share of weatherproof distribution network



Elektrilevi's customer satisfaction

Elektrilevi had 512,301 customers at the end of 2022.

According to our annually conducted customer satisfaction survey, Elektrilevi's TRI*M index was 33 and customer satisfaction score 74 in 2022. The figures for 2021 were slightly higher: TRI*M index was 42 and customer satisfaction score 85.

Although the expertise of our consultants and service providers is highly valued, the most satisfied customers are those who use Elektrilevi's self-service and online chat (chat). Of course, the expectations of customers are the highest in terms of the connection service - both when issuing offers and when performing the contract. The surge in producer connection applications has lengthened our service delivery periods, which is frustrating for customers.

In addition, Elektrilevi's customer satisfaction was also significantly affected by the increase in the price of electricity. Accurate metering data is therefore increasingly important as the use of estimated meter readings confuses customers. Customer satisfaction also reflects the consequences of global supply chain disruptions, which have additionally prolonged our contract performance periods.

In 2022, we launched a new electricity plan with four different charges per kWh, which enables customers to control their costs by managing their consumption.

Elektrilevi continues to invest in the development of its website and self-service channel. In 2022, the national authentication service was implemented in the self-service environment. Micro-producers can now use it to monitor the progress of their connection process, sign agreements and make payments. 62% of all operations are conducted using the self-service portal.

Elektrilevi's power failure notification application Maru is gaining popularity: in 2022 it was used 212,229 times and the number of unique users was 107,495. Maru provides an environment where users experiencing outages or other issues with service quality, particularly during storms, can quickly exchange urgent information with the network operator.

Elektrilevi handled 622 customer claims in 2022, out of which 206 were compensated. The total amount of claims paid was 166,349 euros.

Customer satisfaction was highest in self-service and online chat. The development of these channels is in focus in the future as well.

Major Steps Towards a Circular Economy-based Carbon-free Chemicals Industry

Roadmap for a circular economy-based chemicals industry completed

The goal of Eesti Energia is to have a carbon-neutral chemicals industry by 2040. Along the way, we will gradually replace the production of shale oil with the production of compounds necessary for the plastics and other sectors of the chemicals industry. Thereby, we reduce the environmental footprint in, for example, agriculture, automotive, packaging, wood and construction industries.

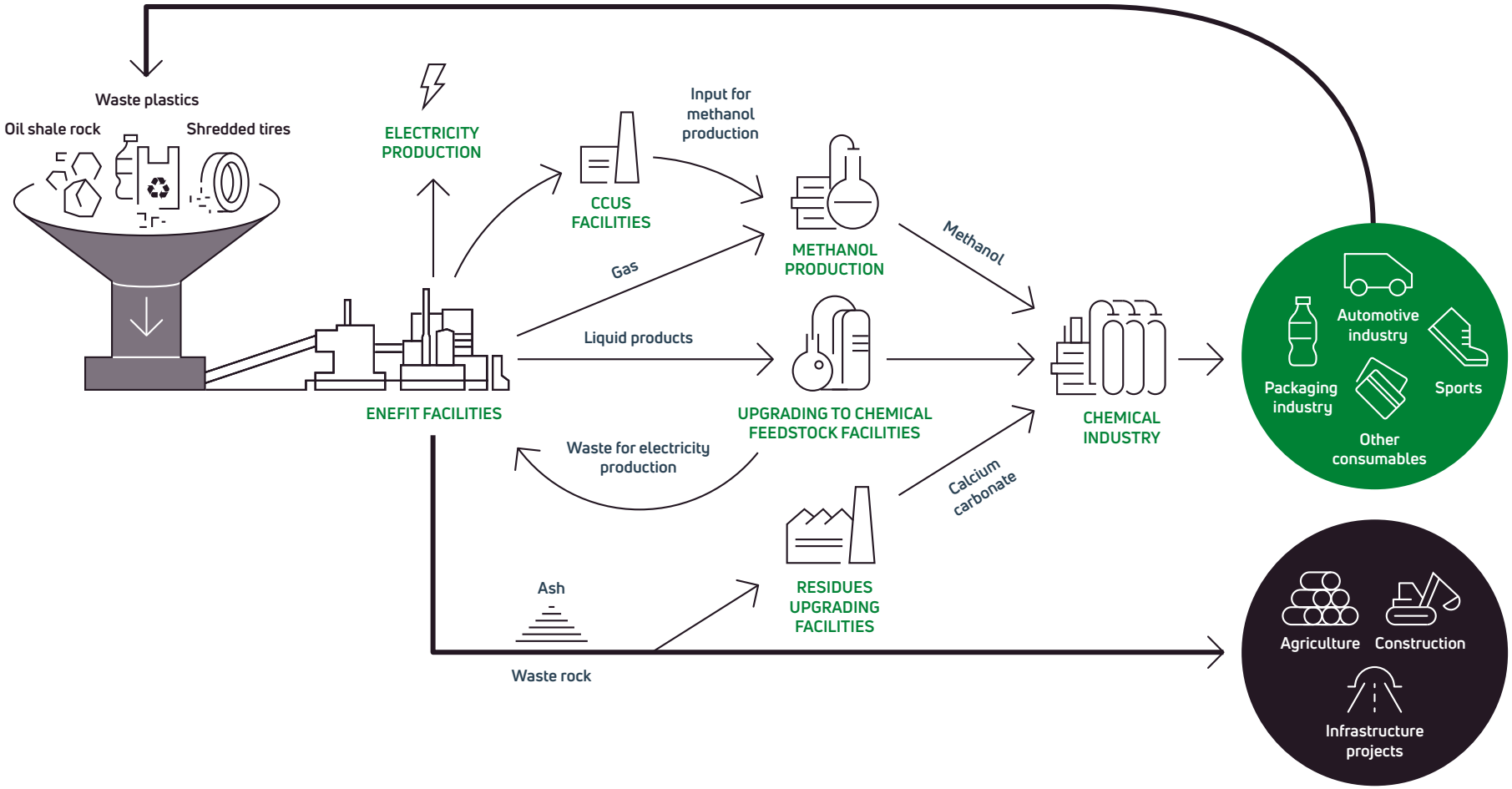
Activities related to aforementioned Sustainable Development Goals.

This is the next stage in the development of our oil shale industry, where in addition to oil shale, we also use waste plastics and waste tires as raw materials.

In 2022, we completed the preparation of a detailed roadmap for a circular economy-based chemicals industry until 2040. We also took major steps on the path outlined in the roadmap. We conducted a study together with TalTech (Tallinn University of Technology) by which we selected two technologies that have the greatest potential to capture the carbon emissions of pyrolysis plants. The next step is to determine the most suitable one in cooperation with technology providers and to identify the best ways to use the captured CO_2 with the assistance of our research and development partners.

Chemical industry based on circualr economy

In the next development stage of our oil shale industry we will also introduce waste tires and waste plastic left from waste management, in addition to oil shale, and produce new products from it in a carbon-neutral way, for example, raw materials for the clothing and plastics industry.



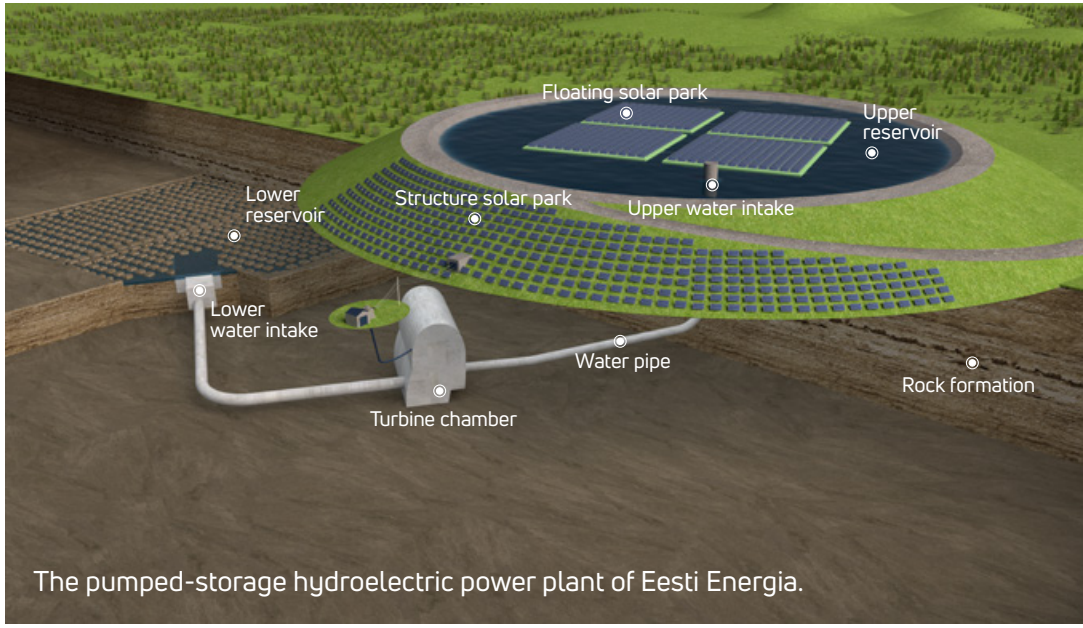
Circular economy reduces the environmental footprint

Waste-free production is a key component of the vision of a circular economy-based carbon-neutral chemicals industry. This means that the waste rock and ash generated in the process of adding value to oil shale by transforming it into chemical products will be used as a raw material in other industries. Our existing large-scale energy production units also have a lot of circular economy potential. By unlocking that potential, we can help reduce the environmental footprint of agriculture and the automotive, packaging, timber and construction industries.

Using waste rock in large circular economy projects

POil shale mining generates waste rock that we both use and sell to partners. The goal for the period 2022–2026 is to utilise all the waste rock generated by our production operations.

In 2022, oil shale production in our Estonia mine generated 2.98 million tonnes of mining waste (waste rock), which was fully reused. In addition, we reused 924 thousand tonnes of waste rock accumulated in previous years. Waste rock was mostly used to build base structures for solar farms (3.35 million tonnes). 77.9 thousand tonnes of waste rock and crushed stone was used to improve the Group's infrastructure, primarily through road construction and maintenance. Waste rock and crushed stone sales to customers totalled 261 thousand tonnes. In response to customer requests, we began to offer crushed stone in even finer fractions (0-4mm).



The pumped-storage hydroelectric power plant of Eesti Energia.

At the end of the year, we launched an analysis and an environmental impact assessment of the technical solution of a pumped-storage hydroelectric power plant with a capacity of up to 225 MW planned to be built by 2026 in the industrial area of the Estonia mine, which is located in Ida-Viru county. The pumped-storage plant is a large-scale circular economy project – both the waste rock generated in the process of adding value to oil shale and the closed passageways of the mine can be used in the construction of the new facility. When operational, the plant will serve as a powerful energy storage system, helping ensure energy security and the stability of the electricity network.

In the industrial area of the Estonia mine, we completed the base structure (made of waste rock) for a planned 3 MW solar farm and continued to build a similar structure for another farm.

The construction of the Enefit280-2 plant, which plays an important role in the transition to the chemical industry, reached the installation of important technological equipment - the retort, which may be called the heart of the plant, crushing equipment for the fuel feed system, ash removal equipment and a condensation column.

A landmark cooperation project was carried out in partnership with the infrastructure construction company GoTrack, which used our waste rock in the construction of a railway track between Keila and Valingu. It was the first time when waste rock was used in public railway construction in such a large quantity. This shows that waste rock and crushed stone as available and valuable materials also have potential in the construction of Rail Baltica.

Multiple options for recycling oil shale ash

In 2022, we continued to explore the possibilities of recycling oil shale ash in the plastics industry, construction aggregate industry, agriculture, road construction and geopolymer production. The target for the 2022–2026 strategy period is to recycle 0.4 million tonnes of oil shale ash. The processing of oil shale ash into mineral building materials will enable us to additionally bind carbon dioxide. When in 2020 we sold 60 thousand tonnes of ash and in 2021 77 thousand tonnes, then in 2022 we sold already 100 thousand tonnes. We are planning to significantly increase the volume – ash can be used as a filler or raw material in a number of different products, including the soil improver Enefix. Each tonne of Enefix lime fertiliser saves and binds to the soil approximately 4.9 tonnes of CO_2.

Waste rock usage in the construction of a railway track between Keila and Valingu.

For the first time in the history of Eesti Energia, we shipped approximately 4,000 tonnes of ash to the Nordic construction sector in 2022.

Recycling plastic waste and old tyres

We use by-products and waste that are difficult to use elsewhere and therefore require disposal (such as waste wood, old tyres, etc.) as raw material for energy production. In collaboration with partners, we turn such material into new raw materials and products.

In 2022, we signed long-term supply agreements with partners that are going to supply our Enefit pyrolysis plants with scrap tyre chips, which will partly replace oil shale as a raw material, starting from 2023.

Laboratory and bench testing of the co-pyrolysis of plastic waste have proven that the co-processing of plastic waste and oil shale in our pyrolysis plants has great potential. We will continue the development activities with industrial scale testing in 2023.

To manage and improve its environmental activities, the Eesti Energia Group has implemented certified environmental management systems that comply with the environmental management standard ISO 14001 and the EU EcoManagement and Audit Scheme (EMAS). We consistently review and enhance our environmental management systems.

Tests carried out with tyre chips

EESTI ENERGIA GROUP OBSERVES THE FOLLOWING PROMISES IN ITS DECISIONS AND ACTIVITIES:

1. Our activities and decisions are **consistent** with the principles of environmental law and the requirements of environmental legislation.

2. **We analyse** the environmental impacts and risks of our activities and continuously **develop** and improve our environmental activities.

3. We continue to consistently reduce the carbon intensity of our energy production operations and have set ourselves the goals to **achieve carbon-neutral energy production** in 2045 and to discontinue the use of oil shale for electricity production in 2035.

4. **We help our customers plan and implement their green transition** by offering a complete spectrum of energy solutions. We believe electrification and transition to renewable energy are the fastest ways to achieve carbon neutrality.

5. **We reduce the environmental impacts of our operations and consider the community in all our activities.** To minimise emissions and waste and to achieve resource efficiency, we apply the best possible techniques. We monitor the changes taking place in the environment and prepare environmental reports.

6. **We apply the principles of circular economy**, reduce waste and promote recovery, recycling and reuse.

7. **We improve environmental awareness** among our employees and in society. We contribute to progress through research and development activities and our environmental information is public.

8. **We create conditions** for restoring or maintaining biodiversity and ensure appropriate nature protection.

9. **In purchasing** services, products and raw materials, we prefer green public procurement.

10. **We apply green office principles** and practices to ensure a healthy working environment and observance of environmentally responsible principles. We reduce the use of paper, sort waste, consume water, electricity and heat efficiently and use environmentally friendly vehicles.

Contents

Research and development activities aimed at reducing environmental impacts and creating smarter solutions

Eesti Energia invested 11.9 million euros in research and development in 2022. Our research and development activities are focused on reducing the environmental footprint, developing higher-value products and offering smarter and more useful services to customers.

The two most important research studies conducted in 2022 were the selection of CO_2 capture technologies in cooperation with TalTech and an analysis of the use of big data in monitoring customers' energy consumption profiles and forecasting customers' energy behaviour.

We carried out this analysis together with the University of Tartu. We intend to deploy the knowledge obtained in our business operations and to further develop the solutions produced.

Our most important research and development partners are TalTech, TalTech Virumaa College, the University of Tartu and the Estonian University of Life Sciences, VTT as well as international corporations involved in the energy technology, data science, renewable energy and petrochemicals industries.

Eesti Energia is a member of several organisations that stand for innovation, such as the European Clean Hydrogen Alliance, the Estonian Circular Economy Industries Association, the 2% Club of Innovation-Intensive Businesses and the Innovation Start-up Chamber set up by the Estonian Employers' Confederation, the Innovation Leaders Club and the Estonian Plastics Association. Additionally, we participate in a number of international research and development projects that focus on electric vehicle charging and apartment building renovation solutions.

We collect new ideas from employees and external stakeholders via the Enefit Idea Hub. The aim is to support Eesti Energia's growth by identifying new business opportunities that would have an annual effect of 5–10% of the Group's EBITDA. The Idea Hub has attracted over 1,600 ideas to date. In 2022, we continued to implement business accelerators. This has helped us significantly shorten the time required to create customer solutions that are based on new technologies and business models. So far, 27 ideas have been used in the accelerators and nearly half of them have been transformed into solutions which are already available to customers or in the final stages of development.

The Idea Hub has attracted over 1,600 ideas to date.

Increasing the sustainability of buildings and the vehicle fleet

We consistently reduce the environmental impacts of our offices. Every year, we transform at least one of our offices to comply with the Green Office certificate requirements. In 2022, the Pärnu office was certified.

The European Green Office certificates are awarded to organisations that have distinguished themselves by environmentally conscious solutions in their work environment, such as sorting waste, consuming water and energy more efficiently and raising employee awareness. We have currently five green offices.

At the end of 2021 our company cars included 22 electric vehicles, but by the end of 2022 the number had increased to 32. This represents 7.5% of the total vehicle fleet. The target is to increase the proportion of electric vehicles to 20% by the end of 2024. During the year our electric vehicles covered more than 750,000 km, enabling us to save 152 tonnes of CO_2 (based on the average emissions of cars with internal combustion engines in Estonia).

To encourage personal use of electric vehicles, we have installed electric vehicle chargers in the car parks managed by the Group. Our office staff can also use electric scooters with appropriate safety gear to cover shorter distances.

Our Veskiposti office in Tallinn complies with the Green Office certificate.

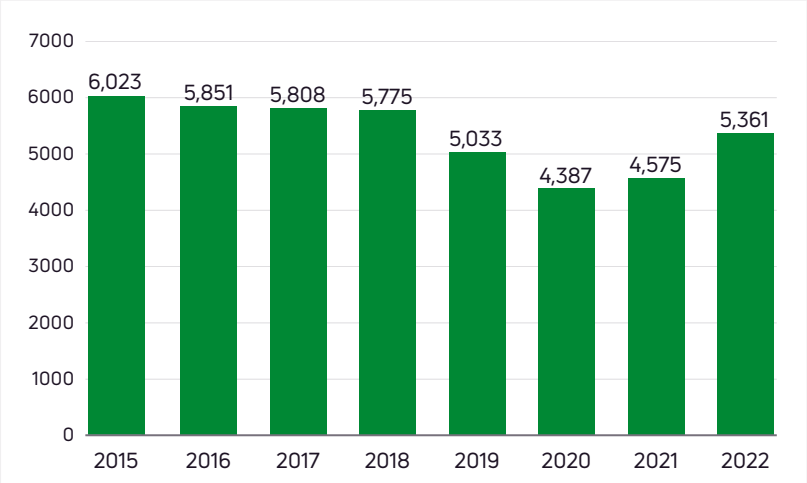
In acquiring production machinery and equipment, we observe the principle that every piece of new equipment should be safer, more efficient and more environmentally friendly than the previous one. In 2022, Enefit Power signed purchase agreements for nine modern and more efficient bulldozers, which emit approximately 80% less particulate matter and approximately 50% less nitrogen oxides than the previous models. The machines will be delivered in Q1 2023.

A People-first Journey to Zero

Largest and fastest recruiter in Estonia

Eesti Energia's employees are the ones who work daily to implement the Group's strategy in all our markets. 2022 was a historic year for Eesti Energia as an employer. Our team grew by nearly 800 new employees across the markets – headcount rose from 4,575 at the beginning of the year to 5,361 at the end of the year. The growth was also reflected in labour market surveys: according to recruitment agencies CV Online and CV Keskus, we were the biggest and fastest recruiter in Estonia in 2022.

Number of people employed in Eesti Energia



Activities related to aforementioned Sustainable Development Goals.

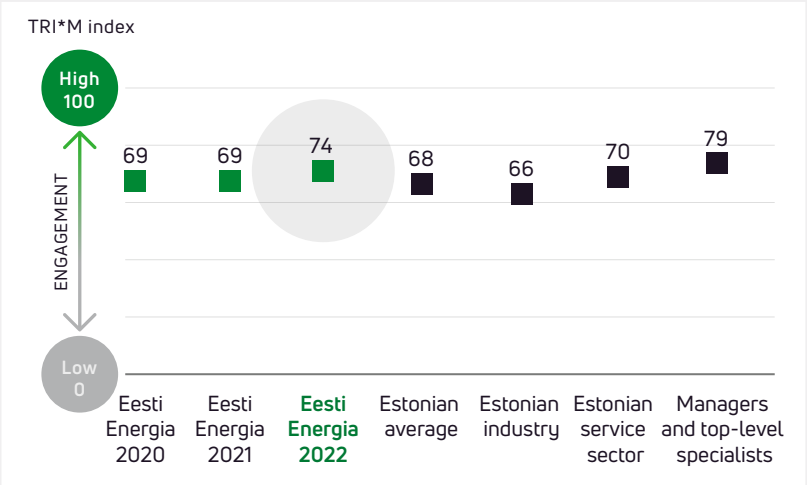
In 2022, we recruited the largest number of people, i.e. more than 500 employees, in Estonia, mostly in Ida-Viru county. Outside Estonia our staff grew to 289 people over the year.

Our employee engagement and management quality improved

Based on an employee engagement survey carried out at Eesti Energia in 2022, the engagement of our employees grew by 7%, rising from 69 to 74 points. Our management quality improved by 13%, increasing from 71 to 80 points. These are our all-time best results.

According to employees, Eesti Energia's strengths include clear occupational safety rules and policies, straightforward goals, opportunities to apply knowledge and skills, a good work environment and high management quality. Eesti Energia's strong market position is highly appreciated as well. At the same time, employees are concerned about the competitiveness of their remuneration and one third of employees want to have more development and career opportunities inside the Group.

Eesti Energia's employee engagement grew



GRI 404-2

Systematic employee development

Employee development is an integral part of Eesti Energia's organisational culture. A major share of our development and training activities is aimed at improving technical competences which are vital for the Group's operation. We also use development activities to embed sustainability and customer-orientation in our culture.

A significant employee development milestone in 2022 was the launch of the Enefit Academy. It is a trilingual learning centre for employees, which is focused on developing value-based management, accountability and empowerment, leadership, self-management and network-based cooperation competencies as well as a customer-centric and sustainable mindset. By the end of the year, more than 1,100 employees had benefited from various study options offered by the learning centre.


Enefit Academy

We ensure effective induction of new employees by means of a well-managed onboarding programme that provides new staff with the necessary knowledge of the Group's strategy, value chain, main business lines and goals. The programme includes ethics, fraud risk, cyber security and equal treatment training.

We believe that the improvement of corporate culture, employee wellbeing and commitment requires high management quality. We have therefore created programmes that grow new leaders and managers and support the current ones in their daily work. We also helped develop and support the EBS 21st Century Sustainable Leadership programme, which is focused on data-based progress towards sustainability in different phases and areas of the business value chain.

To date, the Coursy e-learning environment has been used by at least 2,600 employees of Eesti Energia who completed a total of 9,431 e-courses in 2022.

In addition to traditional classroom training, our employees can attend experience clubs, co-vision groups and language cafés as well as learn from more experienced colleagues through development partnerships. For example, in cooperation with various in-house and external experts we launched a series of monthly lectures, titled 'The Journey to Zero', to provide insights into sustainability and green transition. Each lecture has been attended by more than 500 people on average. To support growth in the share of women employed in the energy sector, we organized three events under the title 'Women in Energy' to inspire women to become managers and leaders in the energy industry.

Compulsory and voluntary online courses also play an important role in employee development.

We inspire and teach next-generation energy expertse

We need more and more specialists with engineering knowledge to produce more renewable energy, offer innovative solutions to our customers and implement Eesti Energia's ambition to transform into a carbon-neutral chemicals industry. We therefore systematically and consistently work to attract new talent.

In 2022, we provided internship opportunities to 155 future specialists. We are open to both young people and people with more experience who are looking for a career change.

We accept interns predominantly in Harju county and Ida-Viru county, which account for about 45% of all internships each. The share of internship opportunities in other regions is considerably smaller.

In Estonia, we are the largest training base provider and a strategic cooperation partner to TalTech. We contribute to the development and creation of study programmes, carrying out research and building education environments. For example, we allocated 170,000 euros for the renovation of a study hall in TalTech's innovation and business centre Mektory. We also supported TalTech in the creation of four modern study programmes in 2022.

We use study tours to introduce pupils to the world of work and show them how energy is produced at our facilities. In 2022, we organised study tours for 1,403 pupils.

We are partners to education initiatives such as the Estonian Research Council, Enerhack, Edumus, CyberBattle and Hack4Education with whom we help create study opportunities and support learning. In 2022, we supported the establishment of TiVo, a TalTech students' organisation whose ambition is to raise society's awareness and develop projects in the field of hydrogen technologies.

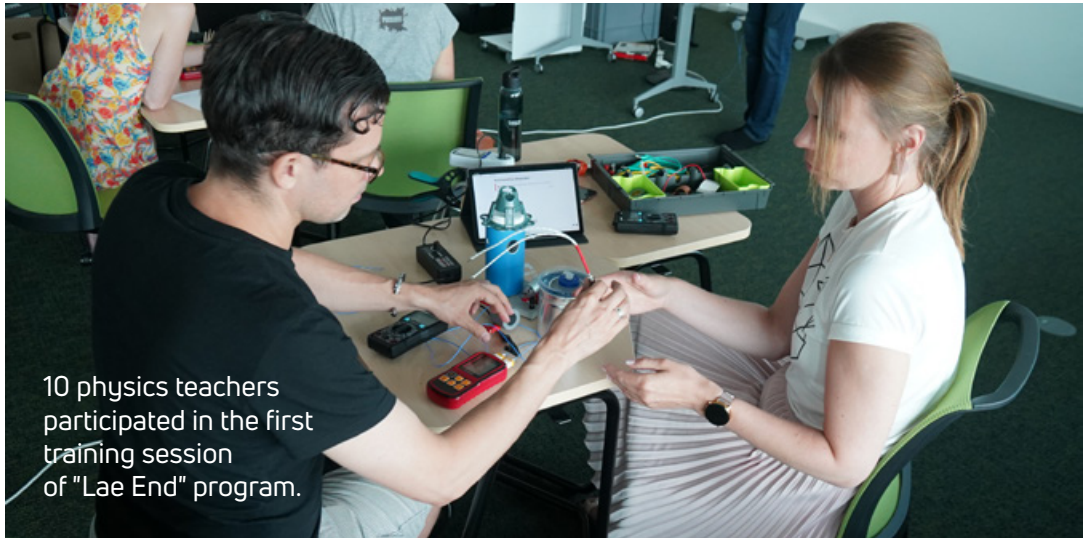
We have long-standing and effective partnerships with students' organisations such as BEST (the Board of European Students of Technology) and INSÜK (the Student Council of TalTech's School of Engineering). We award scholarships to students of vocational schools and universities. In 2022, 13 scholarship recipients were selected in the spring round of scholarship funding and a further 26 are expected to be selected in the autumn round. We also supported the creation of the Arvo Ots scholarship for students studying thermal engineering in order to contribute to the sustainability of the study programme and improve students' motivation to study. Together with the IT faculty of TalTech, we awarded additional scholarships to the authors of the five best graduation theses at the bachelor's and the master's level.

In Ida-Viru county, Eesti Energia and local governments have been organising a competition for the scholarships of the Energy Fund for Young Talent for ten years already. In that time, the Fund has supported more than 500 talented young people

We inspire middle school pupils to study physics

Various studies indicate that there is a serious shortage of engineers already today and a survey by OSKA reflects that in the next decade the Estonian labour market will lack two thirds of engineers needed (OSKA report 2021). By 2030, Eesti Energia's current engineers will be ten years older and their average age will have risen from 42 to 52 years.

In order to have smart young talent who could implement our journey to zero strategy in years to come, we partnered up with ABB, LHV, Fermi Energia, Nordecon and Metrosert and created the 'Lae End' ('Charge yourself') programme that supports and promotes the study of physics. Through the programme, we recognise and support middle school physics teachers and make the best physics learning practices available to all Estonian pupils. In 2022, we supported the programme with 99,000 euros, the first 100 schools were provided with innovate study aids and new inspiring study videos had more than 7,000 views.



10 physics teachers participated in the first training session of "Lae End" program.

Eesti Energia, the City of Tallinn, Tallinn University of Technology (now TalTech) and AS Tallinna Soojus founded the Energy Discovery Centre in 1999. The mission of the centre, which is located in the historical building of the former Tallinn power plant, is to promote sciences and the engineering profession among young people. The science-filled centre enables visitors to discover the world of energy through exciting and practical exhibits. We supported the Energy Discovery Centre in 2022 with 75,000 euros to offer visitors of all ages an opportunity to explore the secrets of natural sciences and energy.

Employee health and safety is a priority for Eesti Energia

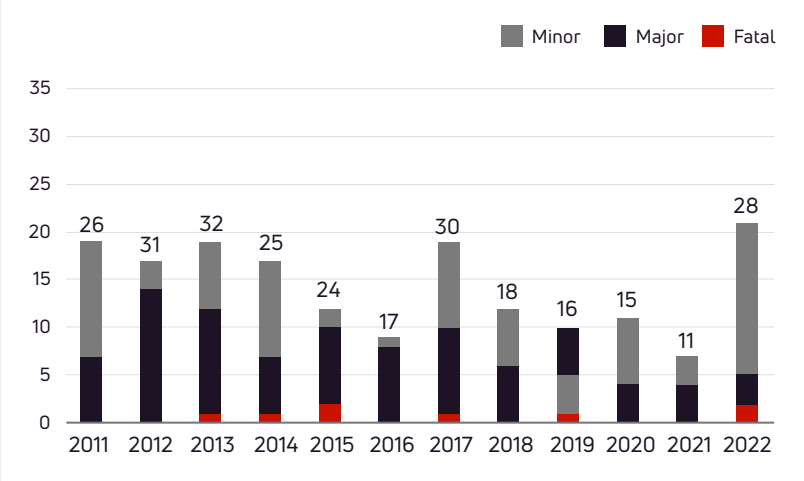
On 2 January 2022, two employees lost their lives during the scheduled maintenance of the Enefit 280 shale oil plant at Enefit Power's chemicals industry in Ida-Viru county. The investigation initiated by the company and the police revealed the breach of safety requirements during the work: ventilation was insufficient, air analyses and temperature measurements were not carried out before the start of the work, safety harnesses were not used, and the assessment of risk factors before the start of the work was insufficient. The group has absolute zero tolerance for such tragic accidents at work. To avoid them, an updated occupational safety strategy was completed in 2022, and a number of activities were carried out during the year to improve occupational safety.

In 2022, we drew up action plans to reduce high-risk activities and mapped the most dangerous activities in our production operations. At the end of April, we organised an occupational safety forum for production managers, specialists and workers, which was attended by 500 people. In the summer, we conducted an occupational safety survey among the employees of our large-scale energy production units, which showed that 230 workers had witnessed or been involved in breaches of occupational safety rules.

At the end of October, the management board of Eesti Energia approved an updated incident investigation policy. The policy describes the principles of investigating the root causes of incidents and the most important steps in the investigation process. The purpose of investigating root causes is to prevent similar incidents from occurring and/or to reduce the consequences of potential future incidents. The focus is on identifying systemic and organisational faults and deficiencies, because the detection and elimination of such deficiencies has a much broader effect on the organisation as a whole. We also conducted four training sessions on incident investigation for specialists and managers from across the Group.

Of accidents at work 2 resulted in the death of the employee, 5 were serious and 21 were minor accidents.

Accidents at work



We care about the health of our employees and customers

Throughout the year, we organise events that promote healthy lifestyles. In 2022, medical professionals helped us prepare 8 different health check packages based on the risk analyses of our employees' working environment and the nature of their work. In cooperation with Peaasjad MTÜ, a non-profit association connecting people who care about mental health, we conducted a mental health campaign, during which employees could test and assess the state of their mental balance.

We made health insurance available to employees in 2022. The solution enables our employees in all markets to use paid healthcare when necessary.

More than 2,300 employees from across the Group decided to enrol in the health insurance programme. In addition, we set up a network of volunteer health promoters across the Group that will plan and organise various joint activities to support health promotion at our entities. Due to the situation in Ukraine, we provide employees with free psychological counselling and reimburse employees' visits to an occupational psychologist if they are referred by an occupational medical practitioner.

Eesti Energia has a sports club that supports employees' physical and sports activities, including participation in public sports events. To expand individual training options, in 2022 the sports club joined the Stebby environment that can be used to find suitable recreational services offered by more than 2,000 service providers. The sports club had 1,365 members at the end of 2022.

We help promote exercise and healthy lifestyles through the Estonian Health Trails foundation. The health and wellbeing trail network has grown to 123 well-maintained trails with a total length of more than 1,100 km. Last year, 23 of the trails were also supplied with artificial snow. We supported the development of health trails with 85,000 euros in 2022. Based on the data provided by motion sensors installed during the year as well as track masters, the health trails were visited around 8 million times in 2022. According to a study by Kantar Emor, one in three Estonians has visited the health trails.

Strong community relations

We care about the development of the communities in which we operate or are planning to operate. In carrying out development projects, we observe the principles of transparency and community engagement. We set up joint working groups to resolve issues relevant to the local community and to

provide information and regularly discuss the topics raised by the community during the planning process. In 2022, working groups were created for Enefit Green's developments in Estonia and Lithuania, the Gulf of Riga offshore wind farm development as well as mine expansion projects in Ida-Viru county, Estonia.

We strongly believe that local communities should benefit from development projects carried out in their area. We contribute to the wellbeing of people living near our production facilities through non-profit associations established by local governments.

Our last year's community activities in Ida-Viru county included organising ViruFest – a family event for the local community traditionally held in August – together with the chemicals company Viru Keemia Grupp, supporting the recreational activities of young people from the Energy Fund for Young Talent set up in cooperation with the Association of the Local Governments of Ida-Viru county, and promoting chemistry and information technology at events organised at local upper secondary schools. Out of the 123 health trails whose development we support, 12 are located in Ida-Viru county. In 2022, our subsidiary Enefit Green supported local projects in Estonia with 142,458 euros in total, which was paid to non-profit associations in the communities where its wind farms are located. Enefit Green has also signed agreements with local governments in Lithuania under which we supported local communities with 137,729 euros in 2022.

Transparent Corporate Management Decisions

Eesti Energia's sole owner is the Republic of Estonia. The owner is represented by the minister of finance.

Principles of corporate governance

The objective of Eesti Energia's supervisory board and management board is to develop and manage Eesti Energia so that we would be a positive example for other companies in terms of clear strategy, good corporate governance practices, operating efficiency, financial performance and collaboration with stakeholders. The management board and the supervisory board manage Eesti Energia in accordance with the owner's expectations, the Group's strategy, vision and values, and applicable laws and regulations. We have adopted key performance indicators for our strategic goals, which are used to set and measure the achievement of goals and to continuously assess the effectiveness of work done. These allow us to assess whether we are on track to meet our goals. The Group's strategic goals are set for a period of five years and updated annually. In order to achieve the strategic goals, managers engage and empower the staff consistent with our values and Group-wide management principles. We use internal communication channels to keep employees informed about the organisation's goals and their achievement. We make sure that our people have a safe work environment and a high work ethic. We pay our employees a competitive salary and notice and recognise them. The Group's management board and supervisory board are accountable to the owner for the achievement of the owner's expectations and the goals

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Activities related to aforementioned Sustainable Development Goals.

set. The Group strives to be transparent in its economic activities, disclosure of information and relations with the owner, customers, suppliers and other stakeholder groups. Eesti Energia presents and comments on its financial results four times a year and makes the presentations available on its website.

Code of ethics

Eesti Energia has adopted a Code of Ethics, which states, among other things, that the organisation does not tolerate any discrimination, harassment, bullying, abuse or other inappropriate behaviour. All employees are treated fairly and equitably, regardless of their ethnicity, age, race, gender, language, origin, skin colour, religion, disability, sexual orientation, or political or other beliefs.

Eesti Energia has decided that it is not necessary to adopt a separate diversity policy in addition to the Code of Ethics. When selecting our employees and managers, we always keep in mind the best interests of Eesti Energia. Our personnel selection process is gender-neutral and non-discriminatory and based on the person's education, skills, prior experience and, where applicable, compliance with legal requirements.

Organisational structure and governing bodies

For effective management, it is critical that the Group has a clear and logical structure, that we are aligned with the organisation's goals and needs, and that we take into account the changes in the business environment.

The governing bodies of the Group's parent, Eesti Energia AS, are the general meeting, the supervisory board and the management board. In strategic matters, they are supported by the Group's strategic management team.

General meeting

Eesti Energia's highest governing body is the general meeting, which decides among other things:

- the establishment and acquisition of new companies;
- the liquidation of existing companies;
- the appointment and removal of members of the supervisory board;
- major investments;
- the appointment of the auditor; and
- the approval of the results of the financial year.

The annual general meeting is convened once a year, within six months after the end of the Group's financial year at the time and in the place determined by the management board.

Supervisory board

The supervisory board is a governing body that has the following main responsibilities:

- planning the Group's activities;
- organising the Group's management and supervising the activities of the management board;
- approving and supervising the implementation of the Group's strategy; and
- adopting major strategic decisions.

The supervisory board communicates the results of its supervision activities to the owner. Eesti Energia's supervisory board has seven members who have been appointed by the resolution of the minister of finance that represents the owner, taking into account the proposals made by the nomination committee for the supervisory board members of companies in which the state is a shareholder. The supervisory board is headed by a chairman. The requirements and expectations for members of the supervisory board are set out in the Commercial Code and the State Assets Act of the Republic of Estonia. The supervisory board is also guided by the articles of association of Eesti Energia AS and the rules of procedure of the supervisory board.

The term of office of the previous supervisory board expired on 11 May 2022. The general meeting extended the terms of office of Andres Liinat, Einari Kisel, Meelis Einstein and Tarmo Porgand and appointed Taavi Tamkivi and Ahti King as two new members of the supervisory board. The general meeting elected Anne Mere as the new chair of the supervisory board and decided that the entire board will be in office until 11 May 2025. The new composition of the supervisory board does not include Väino Kaldoja, Ants Pauls and Ivo Palu. On 20 December 2022, the general meeting removed Ahti Kuningas and Taavi Tamkivi from the supervisory board and appointed Luukas Kristjan Ilves and Allan Niidu as members of the supervisory board in their stead with terms of office expiring on 19 December 2025.

The remuneration of the members of Eesti Energia's supervisory board is regulated by the State Assets Act. According to the Act, the amount of the remuneration and its payment procedure are at the discretion of the owner. Having taken into consideration the proposal made by the nomination committee for the supervisory board members of companies in which the state is a shareholder, the owner has assigned the chairman of the supervisory board and a member of the supervisory board remuneration of 2,000 euros and 1,000 euros per month, respectively. Members of the supervisory board are not entitled to any termination benefits or additional remuneration.

As a rule, the supervisory board meets once a month, with the exception of July. In 2022, the supervisory board held 13 meetings.

In addition to participating in the meetings of the supervisory board, members of the supervisory board actively support the activities of Eesti Energia. They visit Eesti Energia's entities and business units to gain insights and meet the owner's representatives, business partners and stakeholder groups where this is important for Eesti Energia.

In 2022, the legal adviser of the supervisory board was attorney at law Sven Papp from law firm Ellex Raidla.

Supervisory board members' participation in meetings and remuneration

	Meeting attendance 2022	Total remuneration 2022 (EUR)	Total remuneration 2021 (EUR)
Anne Mere	7	15,273	
Einari Kisel	12	12,000	12,000
Andres Liinat	13	12,000	12,000
Meelis Einstein	13	12,000	12,000
Tarmo Porgand	10	9,826	
Väino Kaldoja	6	8,727	24,000
Ahti Kuningas	6	7,315	
Taavi Tamkivi	4	7,315	
Ants Pauls	6	4,364	12,000
Ivo Palu	6	4,364	12,000
Raigo Uukkivi	3	2,174	12,000
Allan Niidu	1	370	
Luukas Kristjan Ilves		370	

Supervisory boards of subsidiaries and associates

The terms of office and responsibilities of the supervisory board members of Eesti Energia's subsidiaries and associates are set out in their articles of association. As a rule, the supervisory boards consist of members of Eesti Energia's management board and strategic management team.

At least half of the members of the supervisory board of our renewable energy company Enefit Green have to be independent in the meaning of the Corporate Governance Recommendations promulgated by the Estonian Financial Supervision and Resolution Authority. When the supervisory board has an odd number of members, the number of independent members may be one less than the number of dependent members.

As regulated in the Electricity Market Act, our distribution network operator Elektrilevi has an additional obligation to ensure full independence of the members of its management board and supervisory board. The members of Elektrilevi's governing body or management may not simultaneously be members of the governing body or management of the Group's other entities. By way of exception, the members of the governing bodies of Elektrilevi and its subsidiary Imatra Elekter may overlap if this does not entail risks to the independence of the network operator. Proposals concerning the members of Elektrilevi's supervisory board are made by the nomination committee for the supervisory board members of companies in which the state is a shareholder.

The meetings of the supervisory boards of subsidiaries and associates take place according to need and legal requirements. Meetings are called in accordance with the Group's rules, the articles of association of the subsidiary or associate, the law and agreements with co-owners.

Supervisory board

as at 31 December 2022

ANNE MERE
Chairman

Beginning of term of office:
12 May 2022
Chairman since:
12 May 2022
End of term of office:
11 May 2025

ANDRES LIINAT
Member

Beginning of term of office:
12 May 2017
End of term of office:
11 May 2025

LUUKAS KRISTJAN ILVES
Member

Beginning of term of office:
20 December 2022
End of term of office:
19 December 2025

EINAR KISEL
Member

Beginning of term of office:
12 May 2017
End of term of office:
11 May 2025

ALLAN NIIDU
Member

Beginning of term of office:
20 December 2022
End of term of office:
19 December 2025

MEELIS EINSTEIN
Member

Beginning of term of office:
12 May 2020
End of term of office:
11 May 2025

TARMO PORGAND
Member

Beginning of term of office:
12 May 2022
End of term of office:
11 May 2025

Management board

The Group's executive management is the responsibility of Eesti Energia's management board. In managing the company, the management board follows the instructions of the supervisory board, relevant guidelines, the owner's expectations and the Group's strategy that has been approved by the supervisory board. The chairman of the management board is appointed by the supervisory board. Members of the management board are approved by the supervisory board based on the proposals made by the chairman of the management board.

The composition of the management board did not change in 2022 and at the year-end, the management board of Eesti Energia comprised the chairman of the management board Hando Sutter and the members of the management board Andri Avila, Raine Pajo, Margus Vals and Agnes Roos.

The remuneration of the members of Eesti Energia's management board is regulated by the State Assets Act. The amount of the remuneration is at the discretion of the supervisory board, which takes into account the proposals of the remuneration committee set up under the supervisory board. Members of the management board are remunerated for fulfilling their responsibilities as members of the management board. Their remuneration is set out in their service contracts, which can be altered subject to mutual agreement. A member of the management board may be paid additional remuneration.

The total amount of additional remuneration paid during a financial year may not exceed fourfold average monthly remuneration received by the member of the management board in the previous financial year. The assignment of additional remuneration must be justified and consistent with the Group's performance, value added and market position. Termination benefits may only be paid when the supervisory board removes a member of the management board on its initiative before the member's term of office expires and the amount may not exceed the management board member's remuneration for three months. As a rule, the management board meets once a week. Where necessary, meetings are held electronically. In 2022, the management board held 56 meetings, 7 of them electronically.

Management board members' participation in meetings and total remuneration

	Meeting attendance 2022	Total remuneration 2022 (EUR)	Total remuneration 2021 (EUR)
Hando Sutter	52	297,334	243,950
Raine Pajo	50	204,000	167,700
Margus Vals	51	192,000	155,700
Andri Avila	50	192,000	155,700
Agnes Roos	51	190,085	155,332

Management board

as at 31 December 2022

HANDO SUTTER
Chairman

Beginning of term of office:
1 December 2014
Volituste kehtivuse tähtaeg:
31 March 2023

PREVIOUS CAREER
- Nord Pool Spot AS: Regional Market Manager, Estonia, Latvia, Lithuania and Russia
- US Invest AS: Development Adviser
- Olympic Entertainment Group AS: Chief Operating Officer

EDUCATION
- Estonian Business School, MBA Course
- Tallinn University of Technology, Mechanical Engineer

ANDRI AVILA
Member

Beginning of term of office:
1 March 2015
Volituste kehtivuse tähtaeg:
31 March 2023

PREVIOUS CAREER
- Premia Foods AS: Member of the Management Board/ Chief Financial Officer
- Olympic Entertainment Group AS: Chairman of the Management Board
- Olympic Entertainment Group AS: Member of the Management Board/Chief Financial Officer/ Chief Operating Officer

EDUCATION
- Concordia International University Estonia, International Business Administration *cum laude*

MARGUS VALS
Member

Beginning of term of office:
1 December 2014
Volituste kehtivuse tähtaeg:
31 March 2023

PREVIOUS CAREER
- Eesti Energia AS: Director of Strategy
- Eesti Energia AS: Director of Energy Trading

EDUCATION
- London Business School, Master of Science in Finance
- Tallinn University of Technology, BA in Economics

RAINE PAJO
Member

Beginning of term of office:
1 December 2006
Volituste kehtivuse tähtaeg:
31 March 2023

PREVIOUS CAREER
- Eesti Energia: Member of the Management Board, Technical Director, environment, electricity and heat production, mining, energytrading, technology industry, oil production
- OÜ Põhivõrk (current name Elering): Chairman of the Supervisory Board, Member of the Management Board, Head of Development Department, Director of Electrical Grid Planning Division, Client Account Manager
- Finnish Transmission System Operator Fingrid Oy: Network Planner
- AS Ecomatic: Product Manager

EDUCATION
- Tallinn University of Technology, MA in Business Administration
- Tallinn University of Technology, MSc and Doctor of Engineering
- Tallinn University of Technology, Electrical Engineertrading, technology industry, oil production

AGNES ROOS
Member

Beginning of term of office:
1 December 2019
Volituste kehtivuse tähtaeg:
31 March 2023

PREVIOUS CAREER
- Eesti Energia AS: Head of Business Technology and IT
- Swedbank: Group Head of Application Management Division
- Swedbank: Group Head of Delivery Group Lending, Deposits and Payments
- Swedbank: Baltic Head of IT Application Management Baltic delivery department
- Hansapank: Head of IT Development
- Hansapank: Baltic Banking Product area manager

EDUCATION
- University of Tartu, Economics

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Strategic management team

The purpose of the Group's strategic management team is to enable the leadership of the Group to focus on discussing strategic matters, implementing the strategy and analysing related topics. In 2022, the strategic management team consisted of the members of the management board of Eesti Energia, the chairman of the management board of Enefit Green, the chairman of the management board of Elektrilevi, the chairman of the management board of Enefit Power, the chairman of the management board of Enefit Connect, the marketing and communication director, the employee experience director, the energy trading director, the environmental manager and, as observers, the heads of the risk management and internal audit department and the legal department.

Differences applying to the management of distribution network operators Elektrilevi OÜ and Imatra Elekter AS

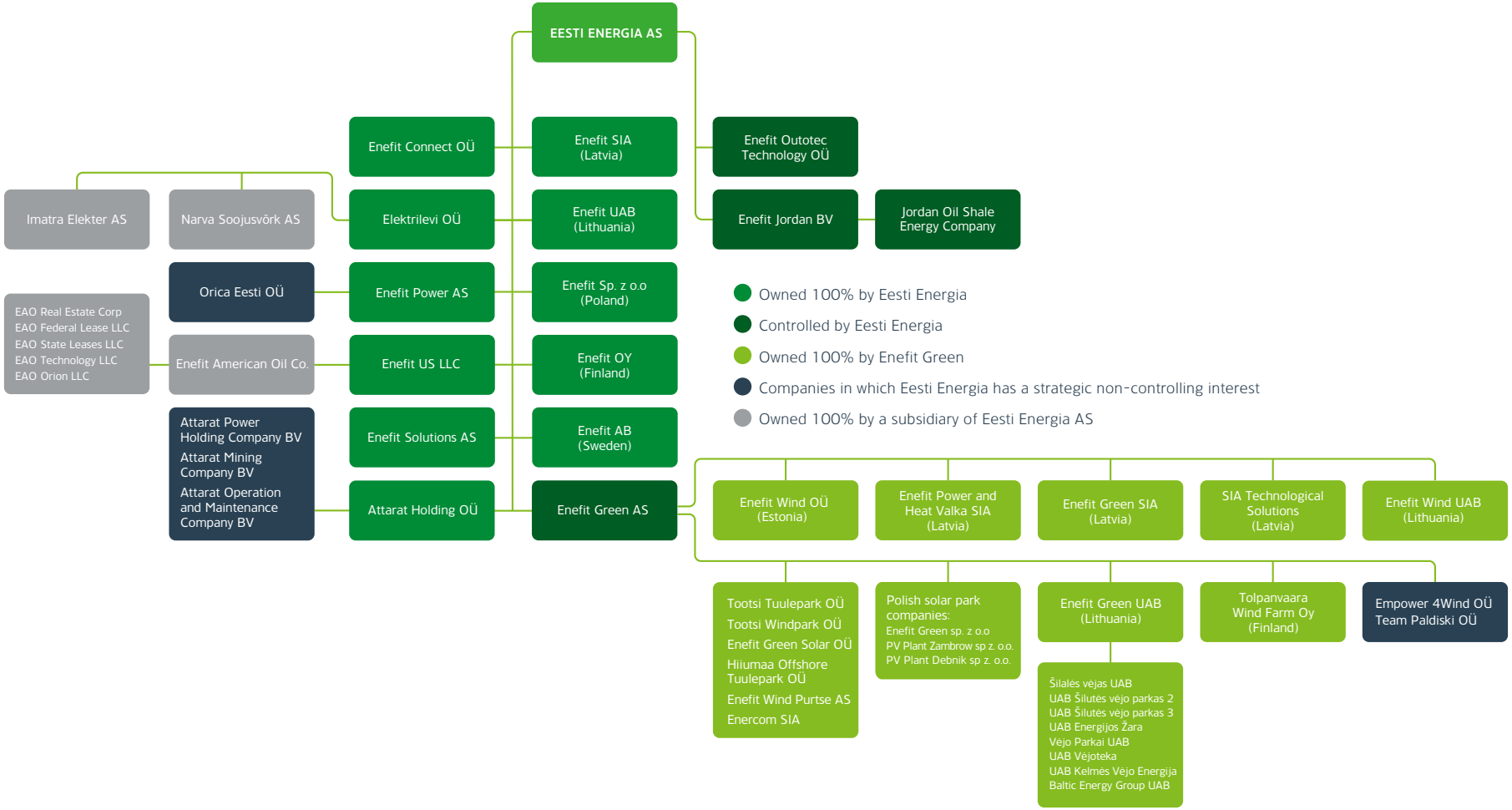
Under the Electricity Market Act and the common rules for the internal market in electricity, the distribution network operators Elektrilevi and its subsidiary Imatra Elekter have to ensure, among other things, that all market participants are treated equally and that the network operator's information is protected. In line with the law and best practice, we have put in place differences applying to the management of Elektrilevi and Imatra Elekter which ensure their independence in adopting investment decisions, conducting procurements and maintaining the confidentiality of information pertaining to market participants and contracts with customers.

Differences applying to the management of listed company Enefit Green AS

The day-to-day executive management of our renewable energy company Enefit Green whose shares are listed on the stock exchange is the responsibility of Enefit Green's management board that manages the company consistent with the Group's strategy that has been approved by the supervisory board. At least half of the members of the supervisory board have to be independent in the meaning of the Corporate Governance Recommendations. When the supervisory board has an odd number of members, the number of independent members may be one less than the number of dependent members.

Group structure

at 31 December 2022



The following changes took place in 2022:
- Enefit Green acquired the wind farm development Tootsi Windpark OÜ from Eesti Energia AS.
- Enefit Green AS acquired Rääbiste Põllud OÜ (Enefit Green Solar OÜ).
- Enefit Green AS Polish subsidiaries Cirrus Sp. z o.o, Velum Sp. z o.o, INCUS Sp. z o.o.,Humilis Sp. z o.o, Energy Solar 15 Sp. z o.o and PV Sielec Sp. z o.o were merged into one company Enefit Green Sp zoo.

The Group's procurement practices and relationships with partners

In 2022, the Group's management board approved the Code of Ethics for Partners. The purpose of the document is to inform our partners about the ethical requirements that are a prerequisite for our cooperation. In drafting the Group's ethical requirements, we were guided by the principles that our partners play an important role in ensuring Eesti Energia's sustainability and that due to its impact on society the Eesti Energia Group is subject to a higher than average due diligence obligation. We expect our partners to observe the principles set out in the Code and to fully comply with all applicable laws and regulations. Based on internationally recognised standards for promoting social and environmental responsibility, the Code requires more than mere legal compliance. The topics covered by the Code of Ethics for Partners are consistent with the Ten Principles of the UN Global Compact.

The procedures for making procurement decisions in the Eesti Energia Group are outlined in uniform and detailed rules of procedure, which apply to all of the Group's Estonian entities. The rules precisely define the decision-making powers of managers of different levels. The decision-making powers of budget managers, members of management, the management boards and the supervisory boards of entities are defined separately. The limits of the powers may differ slightly depending on the nature of a particular decision (approval of a transaction, acceptance of source documents, initiation of a procurement, etc.) or a particular area (for example, in order to comply with the special requirements that apply to Elektrilevi under the Electricity Market Act). The procurement procedures for Group companies registered outside Estonia have been set out in separate rules of procedure which apply to foreign Group entities. The transparency and legality of decisions is ensured by the pre-approval requirement.

The policies applicable to the Group's contractual partners and suppliers are set out in ANNEX 2.

Audit committee and external auditor

The audit committee is a body set up by the Group's supervisory board. It is responsible for advising the supervisory board in matters related to accounting, external audit, risk management, internal control and internal audit, supervision and budgeting, and legal and regulatory compliance.

The audit committee has four members. The composition and the chairman of the audit committee are appointed by the Group's supervisory board. The audit committee meets according to an agreed schedule at least once a quarter. The audit committee submits its report to the supervisory board once a year, before the supervisory board approves the Group's annual report.

Eesti Energia's financial statements are audited in accordance with International Standards on Auditing. Under Eesti Energia's articles of association, the appointment of the auditor of the financial statements is the responsibility of the general meeting. The general meeting has appointed audit firm PricewaterhouseCoopers (PwC) as the auditor of the financial statements for financial year 2022. The person authorised to sign the auditor's report depends on the country of incorporation of the Group entity. The auditor responsible for the audit of the consolidated financial statements is certified public accountant Jüri Koltsov. Eesti Energia does not disclose the fee paid to the external auditor because the Group believes that this could undermine the outcomes of future procurements.

Risk Management

The Group's risk management is the responsibility of the Group's management board. Overseeing risk management activities and processes to make sure that they function properly is the responsibility of the Group's supervisory board, audit committee and internal audit department.

Implementing a process for managing the risks which are inherent in our operations and affect our performance is the responsibility of the managers of Group entities and units.

The Group's risk appetite is outlined in its strategy and expressed in its budget. The Group's risk tolerance is set out in Group-wide policies, thresholds and limits as well as external regulatory requirements and permits. We have established risk management mandates, limits and thresholds, for example for the management of financial risks (including price risk relating to production assets, counterparty credit risk and liquidity risk) and environmental risk.

THE PURPOSE OF EESTI ENERGIA'S RISK MANAGEMENT ACTIVITIES IS TO:

- support the development and implementation of Eesti Energia's strategy;
- help achieve the Group's financial and operating targets;
- identify potential opportunities;
- prevent undesirable events.

Risk management framework and organisation

Our risk management framework consists of the risk management principles and policies established by the Group's management board, which describe the risk management process, stakeholders' roles and responsibilities, and the principles and policies for managing the main areas of risk that may affect the achievement of the Group's objectives. In developing our risk management principles and policies, we rely on international standards and best practice. Our risk management measures are aimed at preventing the realisation of risks and we update them based on changes in the Group's strategy, activities and organisational structure.

The risks involved in and affecting our activities are identified and assessed and losses are prevented by the governance and supervision process implemented by and functioning within the Group.

1. Setting objectives

The risk management process is the process of identifying and analysing risks that are material from the standpoint of achieving the Group's goals, and defining and implementing the measures needed to hedge such risks.

2. Risk identification

Risk identification proceeds from the organization's objectives. The results of the Group's activity may be jeopardized both by internal and external factors as well as on the level of individual companies, units or activities. The purpose of identifying and assessing risks is to prepare a list of key risks that may hinder, worsen or postpone the activity of the company or unit and thereby also impact achievement of the Group's objectives. It is just as important to identify risks that arise due to failure to seize opportunities.

3. Assessment of risks

The assessment of risks consists of defining the significance of the risk, meaning the potential qualitative and/or quantitative impact of its realization and the likelihood of realization.

4. Risk treatment/responding to risks

If risk identification and assessment turns up risks whose possible frequency of realization and/or loss stemming from realization is rated non-tolerable, measures are taken to reduce the likelihood of the occurrence of the risk and/or potential loss. In addition, if the loss arising from realization of the risk is not non-tolerable but the implementation of reduction measures is not complicated or expensive, the implementation of the measures must always be considered.

The choices may include:

a) risk reduction or hedging;
b) risk avoidance, meaning deciding not to commence or continue activity that incurs a risk;
c) elimination of a risk source;
d) sharing a risk with other parties (insurance activity);
e) accepting risk with a reasoned decision.

5. Monitoring of risks

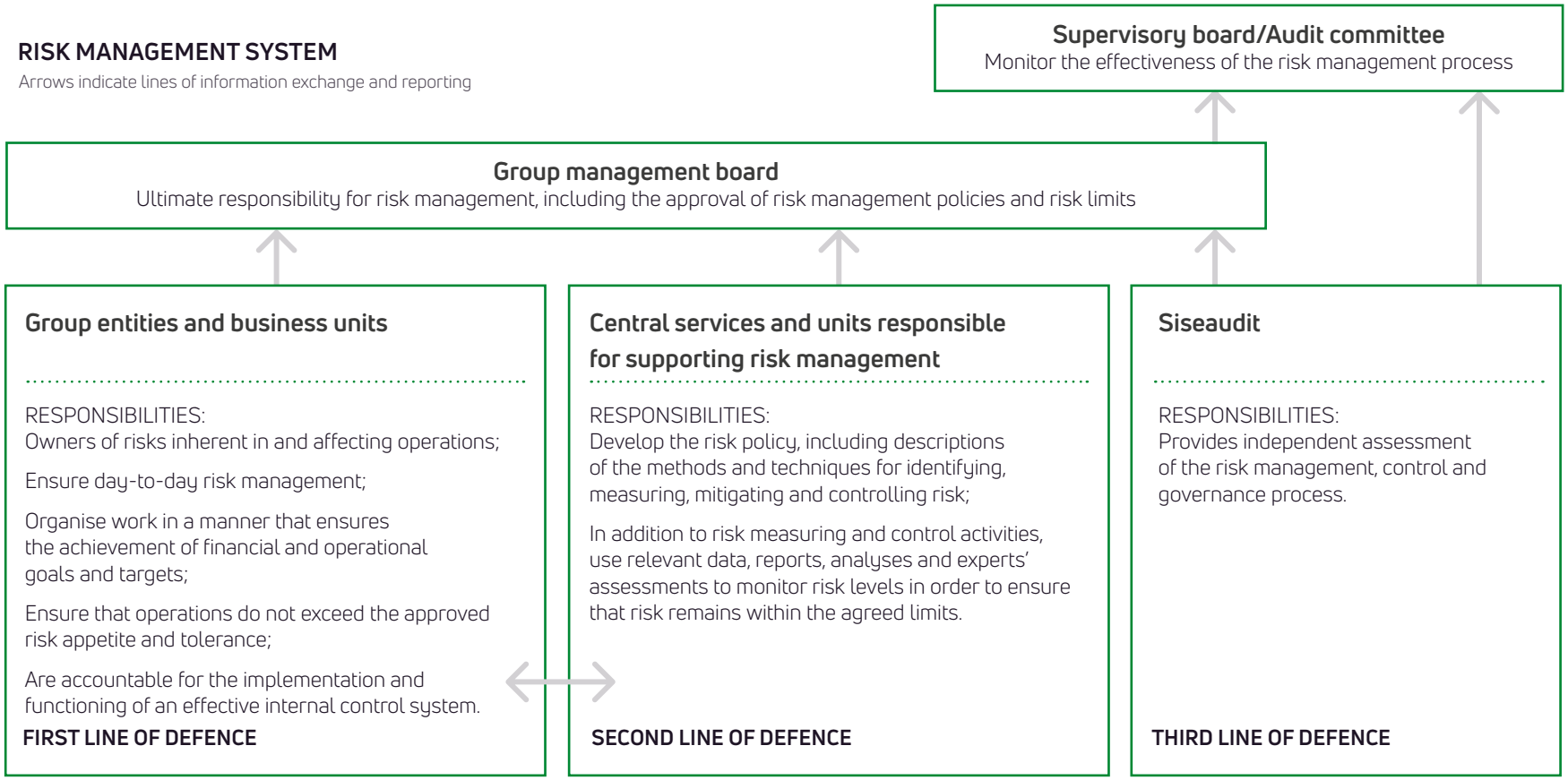
The fulfilment of agreed-upon measures must be monitored to assess continual functioning and, if necessary, to make changes or implement new measures.

6. Reporting

To monitor risks, their magnitude and effectiveness of measures and to assess the strategic and activity objectives for considering risks, reporting is required in a sufficient volume and at a sufficient frequency.

RISK MANAGEMENT SYSTEM

Arrows indicate lines of information exchange and reporting



Risk profile

Our risk profile describes the risks which affect our business and activities the most, such as strategic risk, financial risk (including market, credit, liquidity, interest rate and currency risk), technological and technical risk, legal risk, compliance risk, environmental risk, work environment and occupational safety risk, security and fire risk, tax risk, regulatory risk, third party risk, information technology (IT) risk, fraud risk, personnel risk, weather risk and information management and knowledge risk.

Assessing and updating the risk profile is part of our day-to-day management activities. We assess the risks involved in both existing activities and those under development.

Principal risks and their mitigation

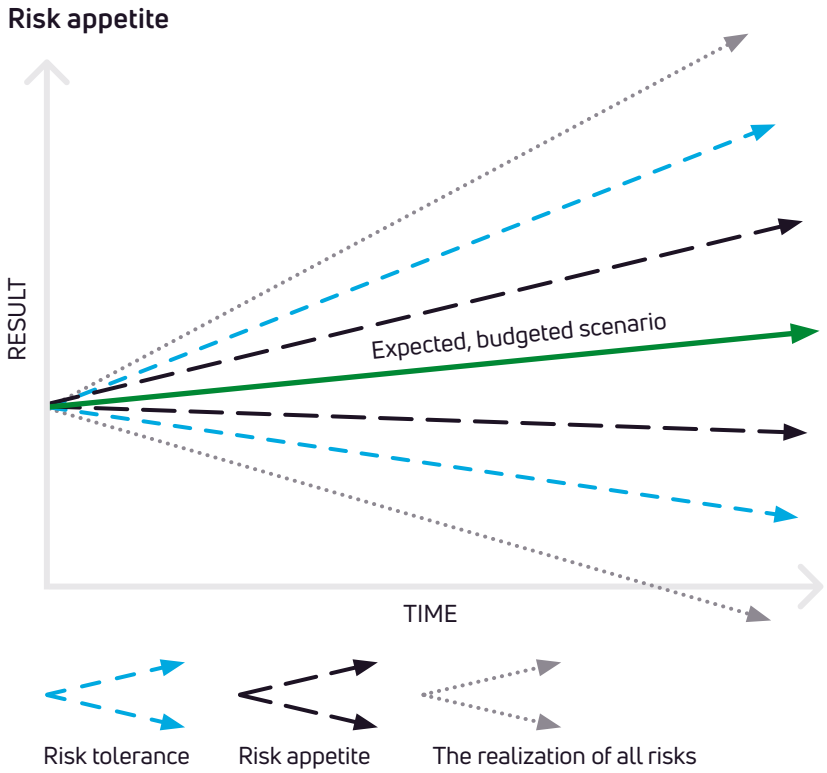
Risks that have a strong impact on the achievement of our objectives include market risk, which is part of financial risk, legal risk, environmental risk, IT risk, technological and technical risk and operational risks. We pay a lot of attention to ensuring the continuity of essential services and business-critical operations, data protection and occupational safety.

Market and financial risks

Market risk is the risk that changes in the market (demand, the prices of products and services) will expose the Group to changes in the values of its assets or liabilities or the amount of income earned on its assets and services.

The volatility of the prices of energy carriers may reduce our ability to sell the electricity and oil we have produced and affect income from long-term agreements on the purchase and sale of electricity. The most significant market risk is price risk, which is the risk of changes in the prices of electricity, liquid fuels and emission allowances. We use derivative financial instruments to hedge market risks.

One of the main focus areas in 2022 was improving our offering to customers in connection with the signature of long-term green power purchase agreements with external producers. Another focus area throughout the year was better management of market and credit risks in an environment of high prices, caused by soaring electricity and gas prices.



Legal risk

The Group's operation is strongly influenced by treaties, conventions and regulations adopted in the markets where we operate, the European Union and internationally. Legal risk, which arises from political decisions, regulators' activities in the interpretation of regulations, and similar sources, influences our day-to-day business activities. We manage legal risk by monitoring the trends and developments in the legal environment, participating actively in public discussions and the development of new legislation, and making sure that our activities comply with laws and regulations.

Environmental risk

Our strategic goal is to limit our environmental footprint and to be a leader of green transition. Environmental risk arises in the situation where the Group's activity or failure to act causes environmental damage, which is not in accordance with the agreed goals.

We avoid damage to the environment and prevent adverse environmental impacts by implementing appropriate technological solutions, improving efficiency and applying the principles of circular economy in energy production. To control, manage and reduce our environmental impacts, we have implemented an environmental management system, which complies with the requirements of ISO 14001 and the EU Eco-Management and Audit Scheme (EMAS), and observe applicable environmental laws and regulations as well as the requirements of environmental permits that have been issued to us on the basis of those laws and regulations.

IT-risk

IT risk is the risk that a Group entity cannot meet its business goals due to deficiencies in its IT solutions. The main IT risks are the failure of IT systems and loss of data (including customer data) or data confidentiality.

We manage the risk by carrying out and updating the risk analyses of all essential and business-critical activities and increasing our employees' awareness of information and cyber security risks by organising various IT security training courses and seminars.

Technological and technical risk

We define technological and technical risk as the possibility that technological solutions do not meet strategic expectations or a failure of control, management or security systems will cause interruption of services or production operations, an incident with a significant impact, or a significant loss (including environmental damage).

To manage the risk, we work with research institutions and technology developers, have implemented asset management standard ISO 55001 and after each event of a significant impact carry out a root cause analysis along with the development of measures to reduce the probability of the occurrence of similar events.

Operational risks

Operational risks result from inadequate or ineffective processes, people, equipment, systems or external events. Operational risks are managed by applying policies, standards, management principles and performance indicators. The impact of some operational risks is mitigated by purchasing insurance cover.

We pay a lot of attention to mitigating occupational safety and work environment risks. All our production entities have implemented an occupational health and safety management system. We believe it is important to include employees in identifying work environment risks and improving the safety culture. Besides the safety instruction provided during initial and further on-the-job training, we arrange separate safety training courses and days. Our goal is to work without accidents and occupational diseases.

Because of the scale and volume of the Group's operations we pay a lot of attention to managing fraud risk. We mitigate the threat of the realisation of fraud risk and resulting losses by increasing the share and effectiveness of preventive measures while maintaining day-to-day fraud detection and related response capabilities.

For better management of fraud risk, the Group has created a special fraud risk management unit, adopted a code of ethics and established fraud risk management principles that comply with international standards. We also operate a hotline that complies with the requirements of the EU Whistleblower Directive, run various information and training programmes (e.g. e-courses on the ethics code and corruption prevention training) and cooperate with domestic and foreign law enforcement authorities and professional associations.

We have put in place a system for declaring economic interests by which employees who may encounter conflicts of interest in fulfilling their responsibilities must declare their economic interests and confirm their independence through regular self-assessment.

Risk reporting

The Group's risk reporting and information exchange processes ensure that risk-related information reaches all relevant stakeholders. We measure the success of our risk management processes and activities and the achievement of our risk management goals using key performance indicators and validate it by the assessment of the maturity of risk management.

The risks which have a significant impact on the achievement of the Group's goals and targets are regularly reported to the Group's management teams, management board and audit committee. Management and other relevant parties are notified without delay of any significant events and any potential and actual changes in the Group's risk profile.

Financial Results

Revenue and EBITDA

Eesti Energia delivered record results in 2022 due to larger sales volumes and higher energy prices.

The Group's revenue for 2022 was 2,218 million euros, 69% up on 2021 (+905.3 million euros). Revenue growth was driven by electricity revenue, which grew (+714.0 million euros) through an increase in both sales volume and the average sales price. Electricity distribution revenue grew due to a higher average sales price although sales volume declined. Shale oil revenue decreased, mainly due to a lower sales volume. Revenue from the supply of natural gas was boosted by the sales price, which was significantly higher than a year earlier. Revenue from other products and services grew, supported by higher revenue from the provision of frequency reserve service and pellet sales.

EBITDA grew by 32% (+102.8 million euros) year on year, rising to 420.4 million euros. EBITDA includes the effects of changes in the value of long-term power purchase agreements (PPAs), which in 2022 amounted to 87.4 million euros (2021: 74.6 million euros). Adjusted EBITDA (EBITDA excluding the above effects) for 2022 was 333.0 million euros (+90.0 million euros, +37%). Net profit

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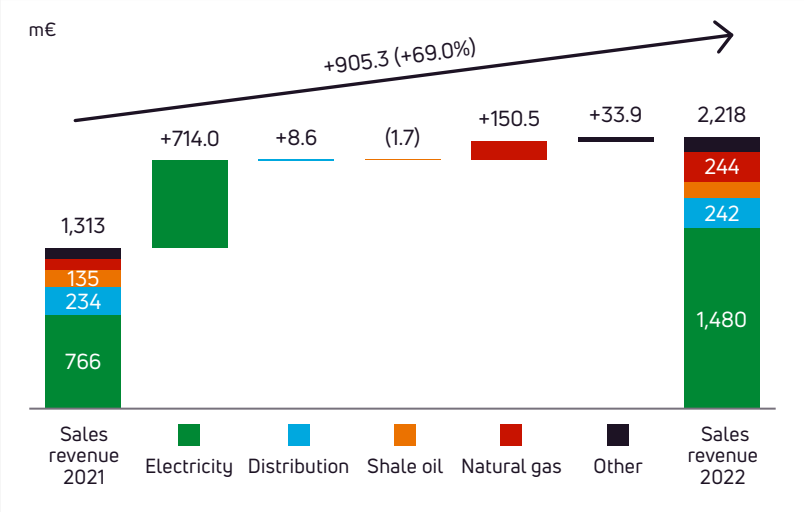
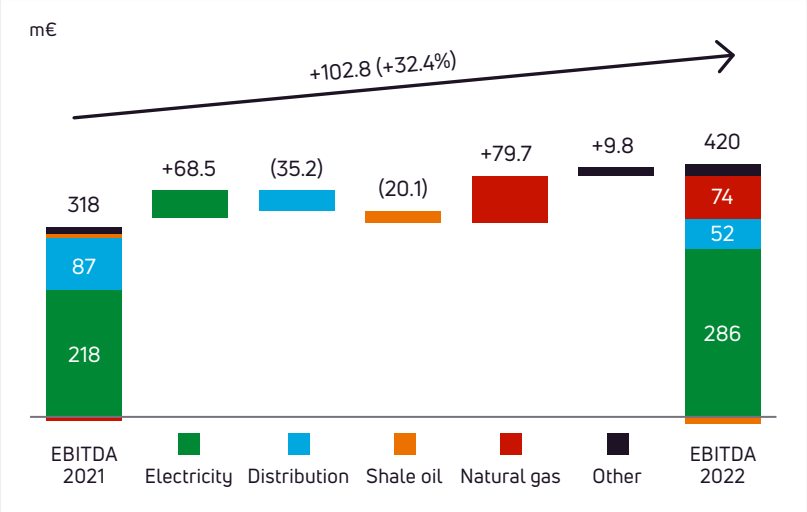
for 2022 was 215.7 million euros (+104.2 million euros, +93%) and adjusted net profit 128.3 million euros (+91.4 million euros).

In terms of the core products, the Group's overall EBITDA growth was underpinned by electricity and natural gas EBITDA. The increase in electricity EBITDA was largely attributable to derivative financial instruments: gains on realised derivative transactions grew significantly. A substantially larger sales volume also played a role. The growth in natural gas EBITDA was driven by gains on the revaluation of unrealised derivative financial instruments and supported by significant growth in variable profit. Electricity distribution EBITDA decreased due to higher variable and fixed costs and a smaller sales volume. Shale oil EBITDA decreased, mainly due to the realisation of derivative positions taken at a lower price level. EBITDA on other products and services increased.

Group's sales revenue breakdown and change



Group's EBITDA breakdown and change



Electricity

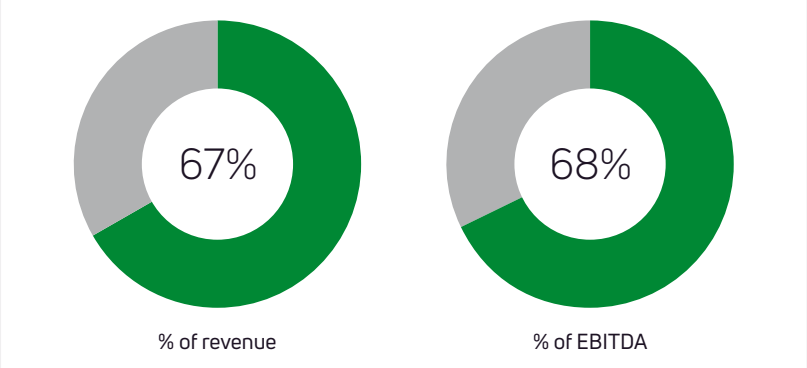
Electricity revenue

Electricity revenue grew by 93% compared with 2021, mainly due to higher sales prices. Hedging transactions had a negative effect (-59.1 million euros) on revenue growth. Revenue from the sale of electricity amounted to 1,480.4 million euros (+93%, +714.0 million euros).

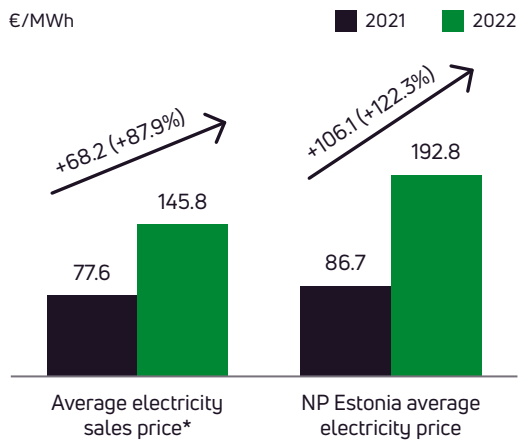
Average sales price

The Group's average sales price of electricity was 145.8 €/MWh in 2022, which is 87.9% (+68.2 €/MWh) higher than in 2021. The average sales price excludes the impact of derivative transactions. The average sales price including the impact of derivative transactions would have been 140.2 €/MWh, which is 73.4% (+59.3 €/MWh) higher than a year earlier. Derivative transactions yielded a loss of 59.1 million euros (-90.0 million euros compared to 2021) in 2022.

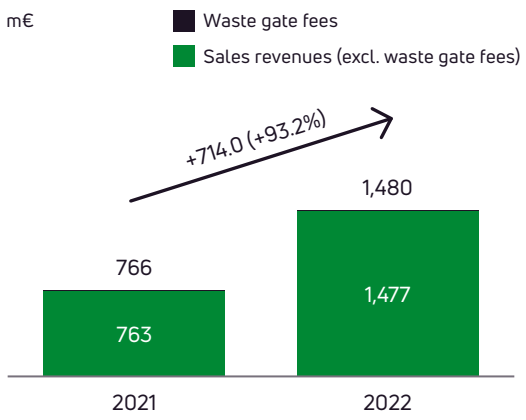
Share of electricity product in Group's sales revenue and EBITDA



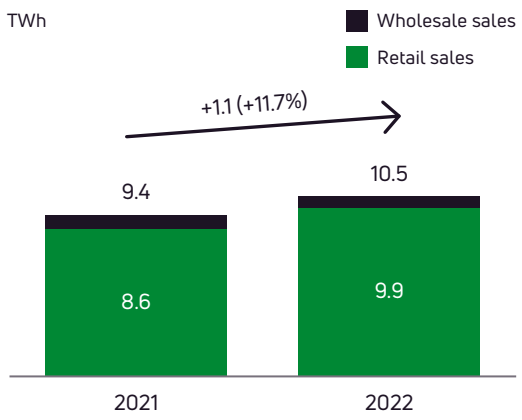
Average sales price



Electricity sales revenue



Electricity sales volume



* Total average sales price of electricity product (including retail sales and wholesale sales). Average sales price excludes sales and gain on derivatives and municipal waste gate fees.

Electricity sales volume and Eesti Energia's market share

Electricity sales volume increased by 11.7% year on year. Wholesale sales decreased by 137 GWh (17.1%), dropping to 665 GWh, while retail sales grew by 1,239 GWh (+14.4%), rising to 9,873 GWh. Retail sales broke down between markets as follows: Estonia 4,195 GWh (+19 GWh), Latvia 1,784 GWh (+530 GWh), Lithuania 2,274 GWh (+314 GWh), Poland 1,567 GWh (+360 GWh) and Finland 53 GWh (+16 GWh).

In terms of customers' electricity consumption volumes, Eesti Energia's market share in Estonia was 56% in 2022, which is 1 percentage point smaller than in 2021. Our market shares in Latvia and Lithuania were 25% and 19%, respectively. Compared with 2021, we increased our market share by 8 percentage points in Latvia and 2 percentage points in Lithuania.

Electricity production

We produced 6,260 GWh of electricity in 2022, which is 20% (+1,043 GWh) more than in 2021. Production growth was supported by a rise in electricity prices, which was fuelled by record-high natural gas prices and the ban on electricity imports from third countries, and held back by high CO_2 emission allowance prices.

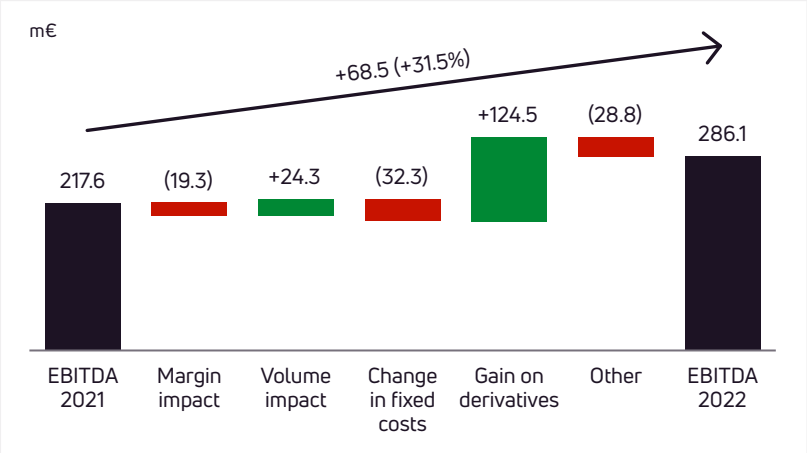
Our renewable energy output decreased by 196 GWh (-11.9%) compared with 2021, dropping to 1,451 GWh. Wind farms contributed 912 GWh. Wind power production decreased by 7% (71 GWh) year on year, mainly due to less favourable wind conditions and a slight decline in the availability of the wind farms. Electricity produced from other renewable sources, primarily biomass, amounted to 539 GWh.

Key figures of the electricity product

		2022	2021
Return on fixed assets	%	16.8	11.0
Electricity EBITDA	€/MWh	27.2	23.1

Electricity EBITDA

Electricity EBITDA change



Electricity EBITDA grew by 32% (+68.5 million euros), rising to 286.1 million euros in 2022.

The effect of a lower margin on EBITDA development was -19.3 million euros. Average electricity revenue per megawatt hour grew by 68.2 euros. While revenue from municipal waste gate fees and renewable energy support decreased year on year, total revenue per megawatt hour was 67.2 euros

larger than a year earlier (impact +708.0 million euros). Average variable costs grew by 69.0 euros per megawatt hour (impact -727.3 million euros), mainly due to higher electricity purchase costs, CO_2 emission allowance costs and environmental charges.

Electricity sales volume grew by 12%, improving EBITDA by 24.3 million euros.

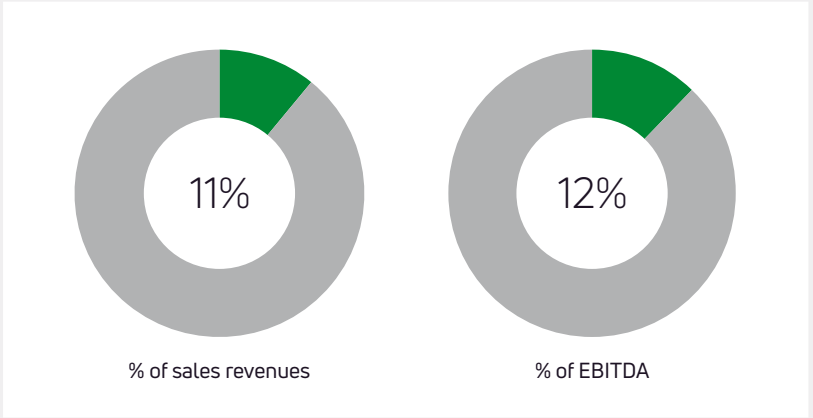
Growth in fixed costs lowered EBITDA compared with 2021 by 32.3 million euros of which 20.8 million euros resulted from higher labour costs. Wages and salaries grew across the Group but the strongest impact came from the increase of oil shale and electricity production capacity at Enefit Power. Growth in repair and maintenance costs had an impact of -6.6 million euros.

Realised derivative transactions improved EBITDA by 124.5 million euros year on year.

Other impacts of -28.8 million euros mostly reflect the change in the value of unrealised derivative financial instruments.

Distribution

Share of distribution product in Group's sales revenue and EBITDA



Distribution revenue, sales volume and price

In 2022, electricity distribution revenue grew by 3.7% (+8.6 million euros), rising to 242.1 million euros, while sales volume decreased by 6.5% (-464 GWh), dropping to 6,708 GWh. Sales volume dropped because consumption declined in connection with the weather, which was warmer during the winter and cooler during the summer months than a year earlier.

The average sales price of the distribution service was 36.1 €/MWh (+3.5 €/MWh, +10.8%).

Distribution losses

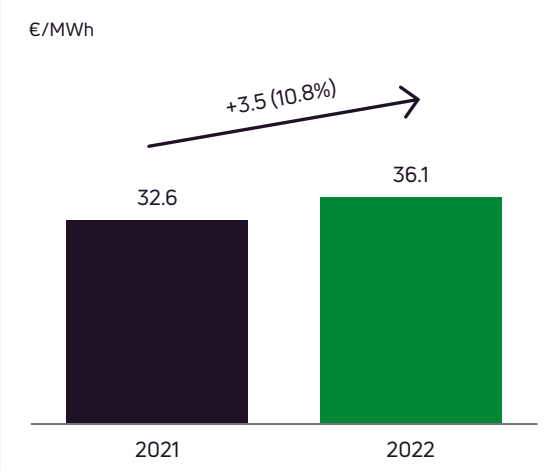
Electricity distribution losses totalled 285 GWh in 2022, accounting for 3.8% of electricity entering the network (2021: 307 GWh, 4.0%). Distribution losses decreased by 7.2% compared with 2021.

The share of distribution losses decreased because of smart metering, continuous monitoring and a decline in electricity distribution volume.

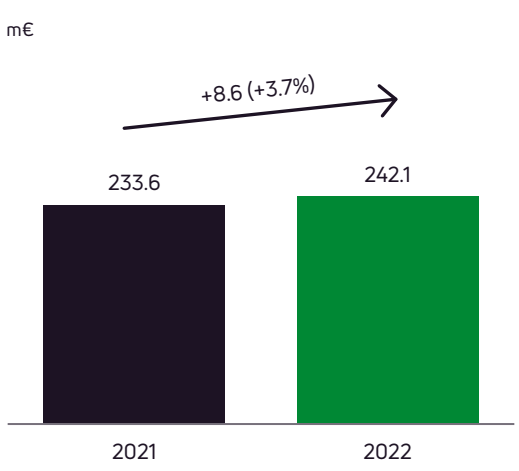
Key figures of the distribution product

		2022	2021
Return on fixed assets	%	-0.1	3.3
Distribution losses	GWh	285.0	307.1
Adjusted RAB	mln €	888.0	856.1

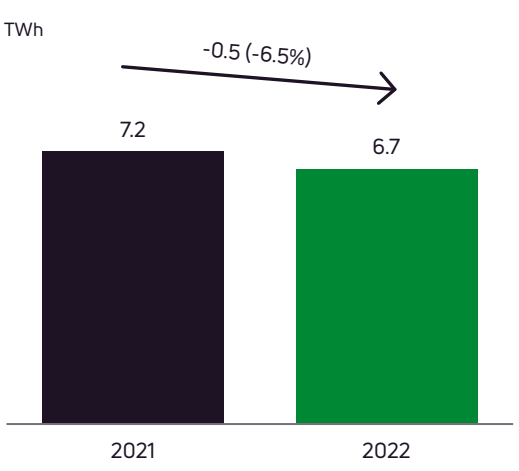
Distribution average sales price



Distributon sales revenue

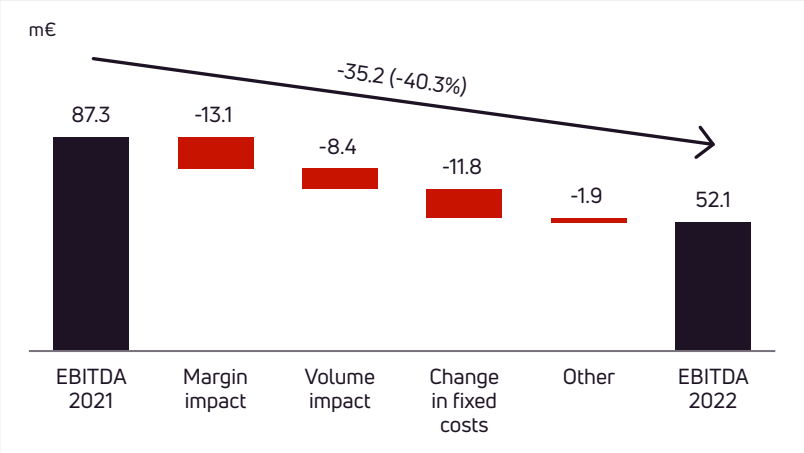


Distribution volume



Distribution EBITDA

Distribution EBITDA change



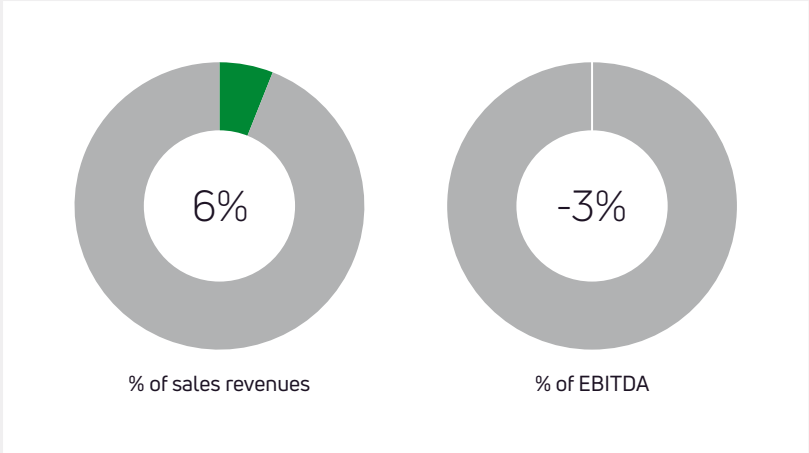
Distribution EBITDA for 2022 was 52.1 million euros, which is 40% (-35.2 million euros) lower than a year earlier.

The effect of a negative margin change on EBITDA development was -13.1 million euros, the figure including the impacts of a higher sales price of +23.2 million euros and higher variable costs of -36.3 million euros. The rise in average variable costs is attributable significant growth in the costs of electricity purchased to cover distribution losses. The effect of a lower average margin was reinforced by the negative effect of a smaller sales volume: the effect of a 6.5% decrease in sales volume lowered EBITDA by 8.4 million euros year on year.

Fixed costs related to the distribution service grew by 11.8 million euros as repair and maintenance costs increased by 5.2 million euros and labour costs by 4.2 million euros. Other impacts of -1.9 million euros are attributable to the negative goodwill on the acquisition of Imatra Elekter in 2021.

Shale Oil

Share of shale oil product in Group's sales revenue and EBITDA



Shale oil revenue and sales volume

We sold 405 thousand tonnes of shale oil in 2022, which generated revenue of 133.2 million euros. Shale oil revenue decreased by 1.3% (-1.7 million euros) and sales volume declined by 3.4% (-14.2 thousand tonnes) compared with 2021. Sales volume decreased due to more extensive repairs, which lowered output.

Shale oil price

The average sales price of shale oil (excluding the effect of derivative transactions) grew by 45.0% (+175.3 €/t) year on year, rising to 565.2 €/t in 2022. The rise was driven by a higher price level in the global liquid fuels market.

Derivative transactions resulted in a loss of 236.6 €/t. In 2021, the loss on derivative transactions was 68.3 €/t. The average sales price of shale oil including the impact of derivative transactions was 328.6 €/t (+2.2%, +7.0 €/t) in 2022. The world market price fuel oil with 1% sulphur content, which is the reference product for shale oil, grew by 43.6% year on year.

Shale oil production volume

We produced 424 thousand tonnes of shale oil in 2022, which is 3.2% (-13.9 thousand tonnes) less than in 2021. The decline in output resulted from large-scale repair and reconstruction works, which interrupted production.

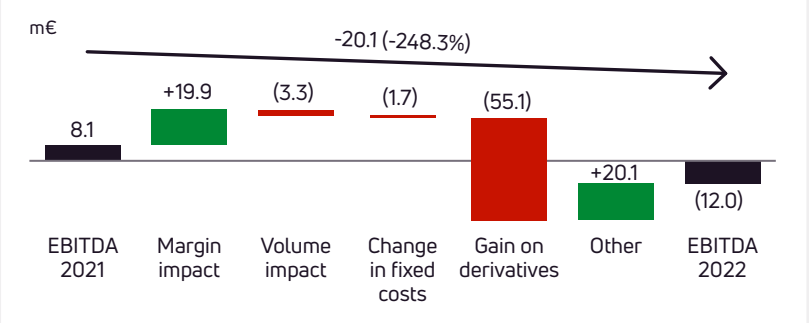
Key figures of the shale oil product

		2022	2021
Return on fixed assets	%	-10.3	-4.3
Shale oil EBITDA	€/tonn	-29.5	19.2

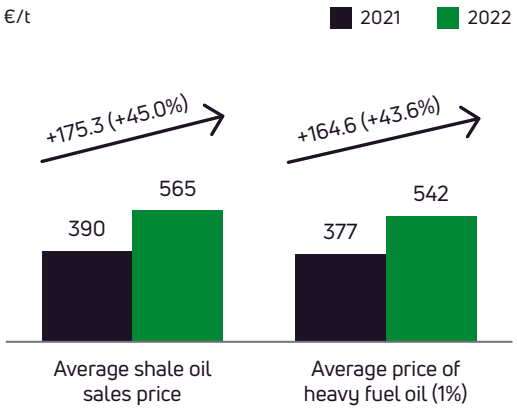
Shale oil EBITDA

Shale oil EBITDA for 2022 was negative at 12.0 million euros (-20.1 million euros compared with 2021).

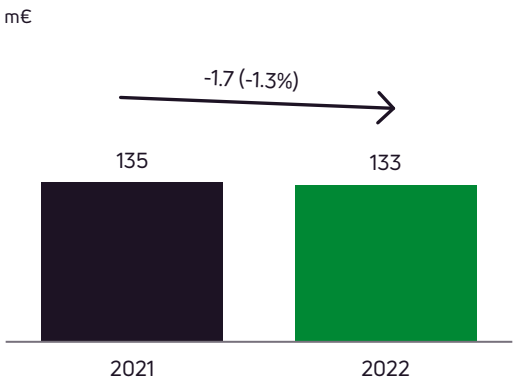
Shale Oil EBITDA change



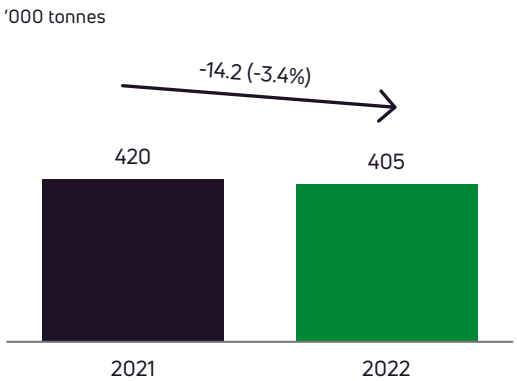
Average shale oil sales price



Shale oil sales revenue



Shale oil sales volume



The impact of a higher margin was +19.9 million euros (+49.1 €/t). The figure reflects the impacts of a higher average sales price of +71.1 million euros and higher average variable costs of -51.2 million euros. Variable costs grew because CO_2 emission allowance costs and environmental charges increased. The impact of a decrease in sales volume was -3.3 million euros.

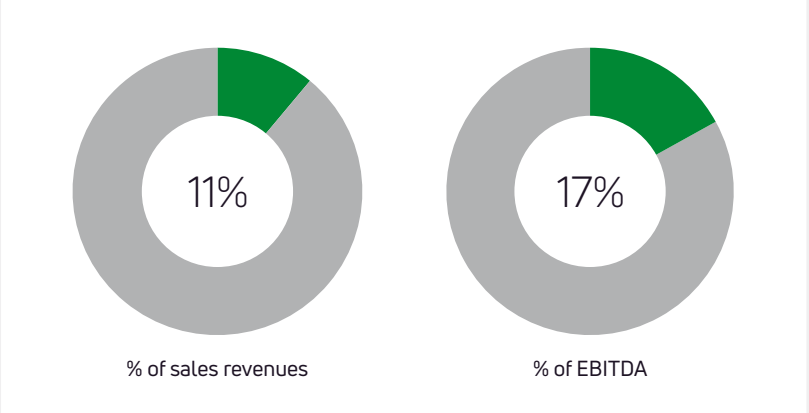
Fixed costs grew by 1.7 million euros year on year, mostly due higher labour costs and slight growth in repair and maintenance costs.

The change in the outcome of derivative transactions lowered shale oil EBITDA by 55.1 million euros. Realised derivative transactions resulted in a loss of 95.9 million euros compared with a loss of 40.8 million euros in 2021.

Other impacts on shale oil EBITDA (+20.1 million euros) are mainly attributable to the loss on the change in the value of unrealised derivative transactions recognised in the comparative period.

Natural Gas

Share of natural gas product in Group's sales revenue and EBITDA



Natural gas revenue and sales volume

In 2022, the Group's natural gas revenue grew by 161.2% (+150.5 million euros) year on year, rising to 243.9 million euros, while sales volume decreased by 19.5% (-457.3 GWh), dropping to 1,893.6 GWh. Sales of natural gas broke down between markets as follows: Estonia 436 GWh (-182 GWh), Latvia 258 GWh (-462 GWh), Lithuania 434 GWh (+118 GWh) and Poland 766 GWh (+69 GWh).

Average sales price of natural gas

The average sales price of natural gas was 128.8 €/MWh in 2022, which is 224.3% (+89.1 €/MWh) higher than in 2021.

Key figures of the natural gas product

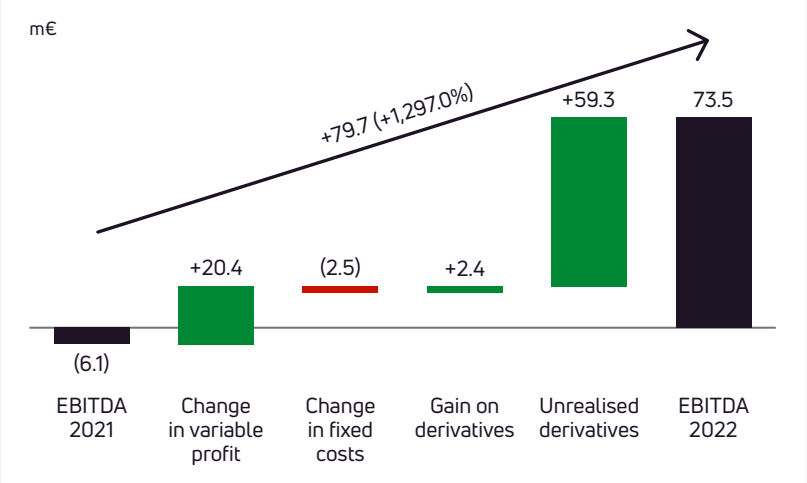
		2022	2021
Natural gas EBITDA	€/MWh	38.8	-2.6

Natural gas EBITDA

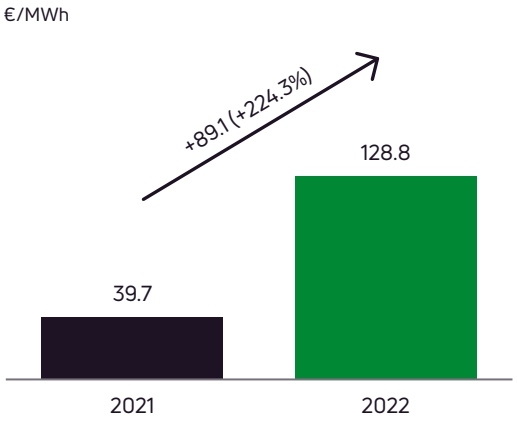
Natural gas EBITDA for 2022 was 73.5 million euros (+79.7 million euros).

Variable profit on the sale of natural gas grew by 20.4 million euros. The effect of growth in fixed costs on EBITDA development was -2.5 million euros and the impact of realised derivative transactions was +2.4 million euros compared with a year earlier. The factor with the strongest impact on natural gas EBITDA was the change in the value of unrealised derivative financial instruments of +59.3 million euros (-12.6 million euros in 2021 and +46.7 million euros in 2022).

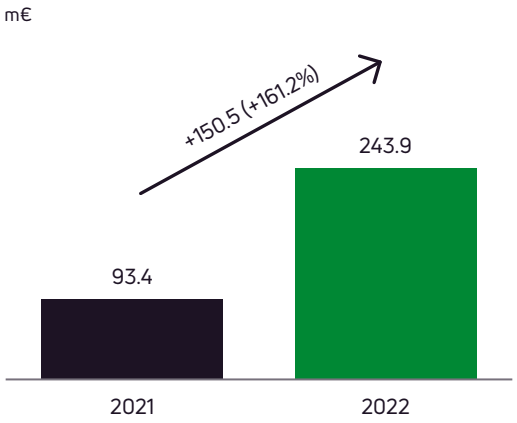
Natural gas EBITDA change



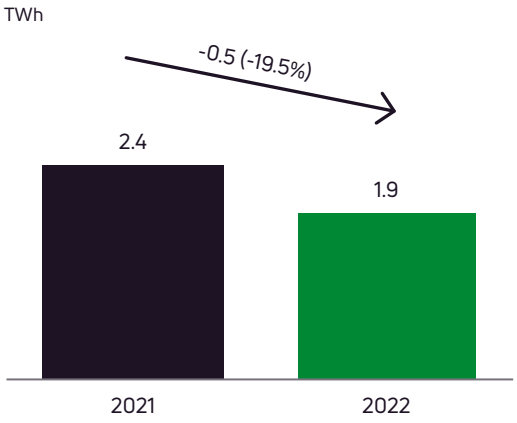
Average natural gas sales price



Natural gas sales revenue



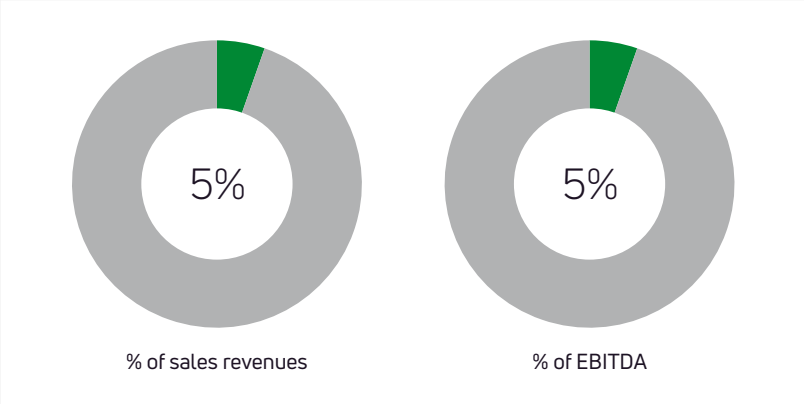
Natural gas volume



Other Products and Services

The segment of other products and services comprises the sale of heat, industrial equipment and ancillary services. Our main ancillary services are charging, lighting, solar and flexibility services as well as services related to heating and cooling equipment. The effects of one-off transactions are also reported in this segment.

Share of other products and services in Group's sales revenue and EBITDA



Revenue from the sale of other products and services

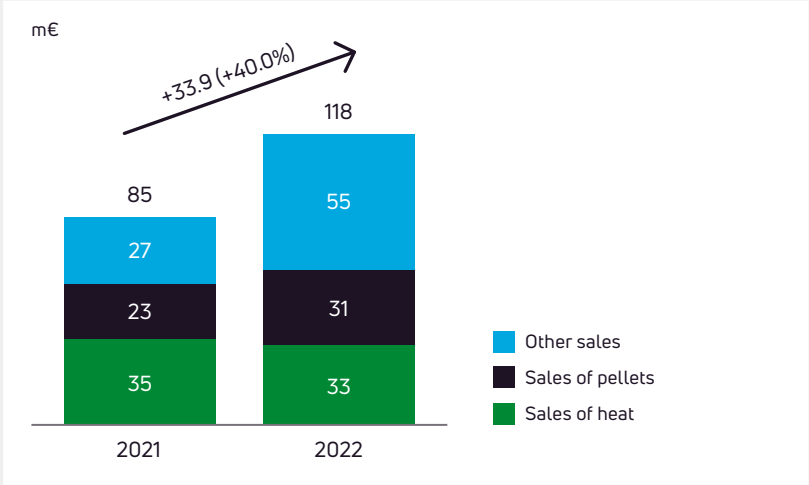
Revenue from the sale of other products and services in 2022 amounted to 118.5 million euros, which is 40.0% (+33.9 million euros) larger than in 2021.

Revenue from the sale of heat decreased by 2.2 million euros due to a smaller sales volume. External heat sales volume decreased by 94 GWh (-10%).

Revenue from the sale of pellets grew by 7.8 million euros.

Total revenue from other products and services grew by 28.2 million euros, mainly through growth in the supply of frequency reserve service (+15.0 million euros), solar services (+6.2 million euros) and mining products (+6.1 million euros).

Sales revenue from other products and services



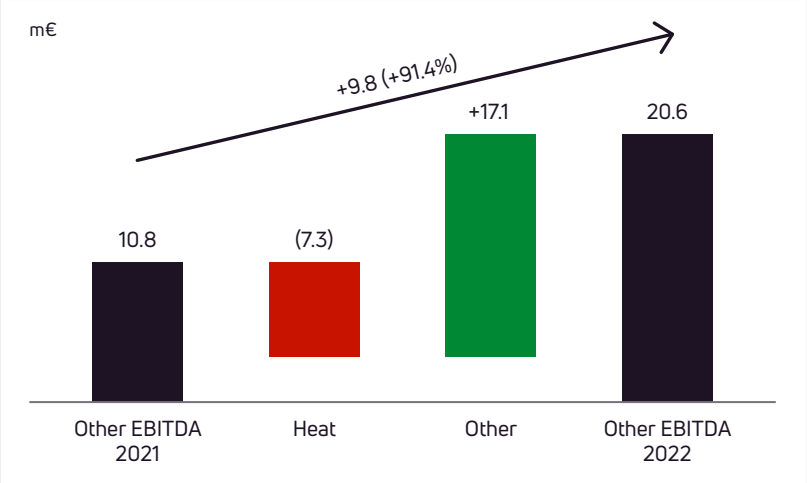
EBITDA on other products and services

EBITDA on other products and services grew by 9.8 million euros in 2022, rising to 20.6 million euros.

Heat EBITDA decreased by 7.3 million euros due to considerably higher variable and fixed costs.

Other impacts improved the segment's EBITDA by +17.1 million euros. The largest items with a positive effect were improvements in the EBITDA of frequency reserve service and other ancillary services in 2022. Other impacts also include the effects of one-off transactions and events.

Other products and services EBITDA change



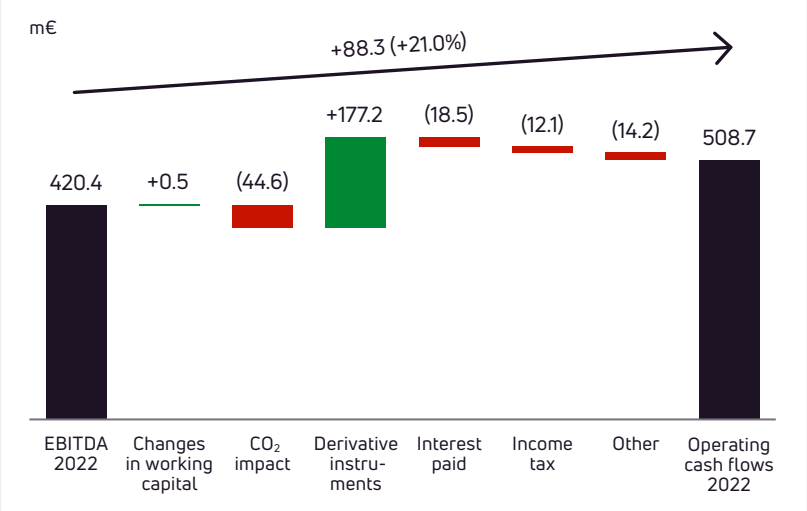
Cash Flows

Net operating cash flow for 2022 was 508.7 million euros, 88.3 million euros (21%) larger than EBITDA, which amounted to 420.4 million euros.

Changes in working capital increased net operating cash flow by 0.5 million euros compared with EBITDA. Working capital was mainly influenced by an increase in current liabilities of 153.7 million euros, an increase in inventories of -62.8 million euros and an increase in current receivables of -58.8 million euros. Other changes in working capital had an effect of -32.3 million euros on operating cash flow.

Settlements related to CO_2 emission allowances reduced operating cash flow by 44.6 million euros compared with EBITDA.

EBITDA to operating cash flows development



The impact of derivative financial instruments (excluding CO_2 instruments) was +177.2 million euros. The figure includes, among other items, the impacts of electricity derivatives of +166.1 million and shale oil derivatives of +14.9 million euros. The impacts of derivative financial instruments comprise both monetary and non-monetary impacts on EBITDA and operating cash flow.

Interest paid on borrowings reduced operating cash flow by 18.5 million euros. Income tax paid in 2022 amounted to 12.1 million euros.

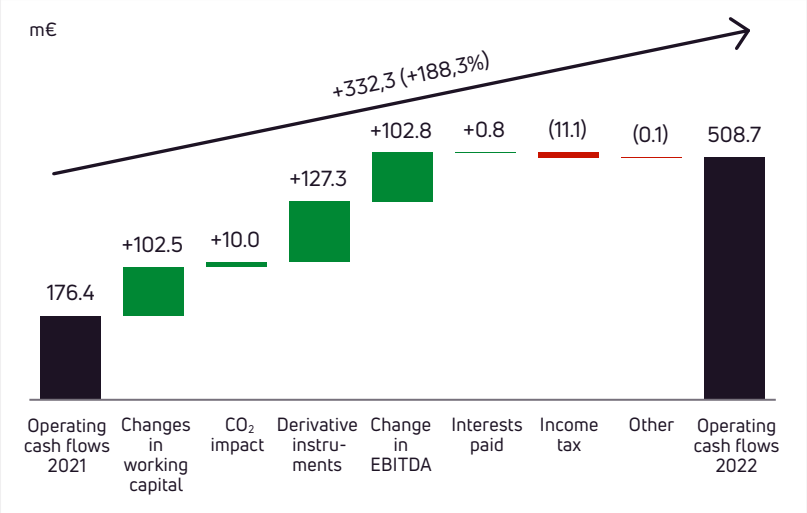
Other impacts totalled -14.2 million euros, including the impacts of the recognition of connection fees of -12.1 million euros and non-current asset sales of -1.6 million euros.

Net operating cash flow grew by +188.3% (+332.3 million euros) compared with 2021.

Changes in working capital had an impact of +102.5 million euros compared with 2021. The figure includes the impacts of a change in current receivables of +91.7 million euros, a change in current liabilities of +98.3 million euros and a change in inventories of -66.3 million euros.

Settlements related to CO_2 emission allowances had an impact of +10.0 million euros.

Operating cash flow changes



The impact of derivative financial instruments (excluding CO_2 instruments) was +127.4 million euros. The figure includes the impacts of electricity derivatives of +156.5 million euros and shale oil derivatives of (28.4) million euros.

Income tax paid in 2022 was 11.1 million euros larger than in 2021.

Interest paid on borrowings in 2022 was 0.8 million euros smaller than a year earlier.

Investment

Investments made in 2022 were the largest in Eesti Energia's history due to rapid development of renewable energy capacities. We invested 445.2 million euros in 2022 (+76%, +191.9 million euros).

Renewable energy

To increase our renewable energy production capacity, we invested in the Purtse wind farm in Estonia 14.6 million euros, and in the Akmene and Šilale wind farms in Lithuania 62.5 million euros and 30.7 million euros, respectively. Investments made in the Tolpanvaara wind farm in Finland amounted to 18.3 million euros. The Purtse, Šilale, Akmene and Tolpanvaara wind farms are scheduled to be completed in 2023.

Additionally, we invested in solar farm developments in Estonia and Poland. Investments made in the Vändra and Purtse solar farms in Estonia totalled 10 million euros and 6.2 million euros, respectively, while investments in the Zambrow solar farm in Poland amounted to 4.8 million euros. The Zambrow and Purtse solar farms are scheduled to be completed in 2023.

Network services

Investments made to maintain and continuously improve the quality of the electricity distribution service totalled 125.5 million euros (2021: 99.5 million euros), including investments of 67.1 million euros in network connections.

Elektrilevi built 352 new substations and 1,299 km of network (2021: 372 new substations and 1,136 km of network). At the end of 2022, 94.7% of Elektrilevi's

low-voltage distribution network was weatherproof (at the end of 2021: 93.3%). During the year, the weatherproof network grew by 1,077 km and the bare conductor network decreased by 802 km. At the end of 2022, 72.8% of the total low- and medium-voltage distribution network was weatherproof.

Imatra Elekter built 13 new substations and 40 km of network. By the end of 2022, 93.2% of its low-voltage distribution network was weatherproof (by the end of 2021: 92.0%). During the year, the weatherproof network grew by 33 km and the bare conductor network decreased by 30 km. At the year-end, 66.1% of the total low- and medium-voltage distribution network operated by Imatra Elekter was weatherproof.

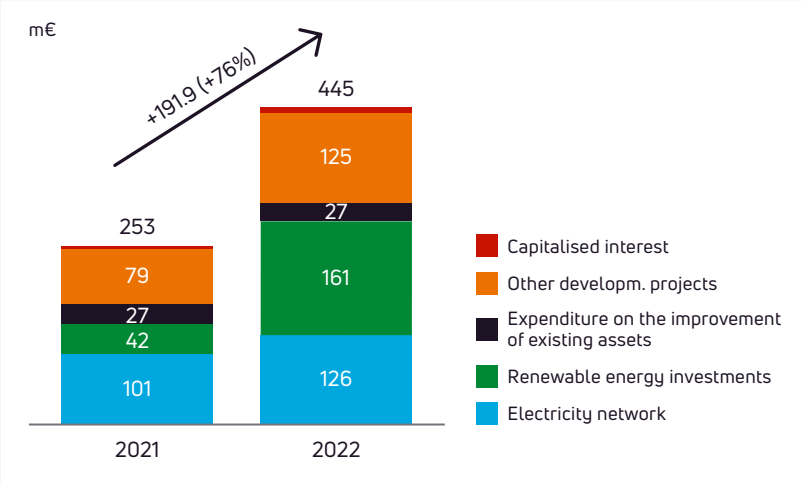
Large-scale energy production

We invested 81.8 million euros in the development of the chemicals industry, which is scheduled to be completed in 2024 and will increase our annual shale oil output to 700,000 tonnes.

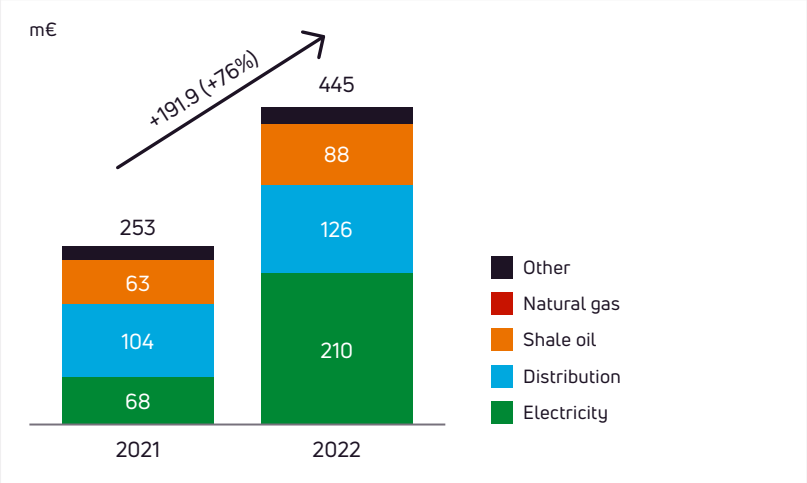
Capital expenditures on increasing the capacity of the Auvere power plant to use retort gas totalled 2.4 million euros. After the completion of the project, the plant can cover up to 35% of its primary energy need with oil shale gas. This will enable us to increase the flexibility and efficiency of our production operations and to optimise our shale oil and electricity production.

Investments in the project of improving the availability of the Auvere power plant by the reconstruction of its external heat exchangers amounted to 4.2 million euros.

Capex breakdown by projects



Investment breakdown by products



Financing

Development projects in the energy sector are generally capital intensive. Our own available funds are not always sufficient to build new production facilities or to undertake significant business expansion. To carry out major development projects, we therefore raise debt capital from the market.

In adopting financing decisions, we observe Eesti Energia's financing policy, which sets out our financing principles as well as the permitted debt ratio and sources of debt financing. According to the policy, Eesti Energia's target is to keep its net debt to EBITDA ratio below 3.5 in the long term (the ceiling may be exceeded for a short term when major investments or acquisitions are made).

Our main sources of debt capital are the international bond market and investment loans from the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the Nordic Investment Bank (NIB) and commercial banks. We also use revolving credit and guarantee facilities obtained from regional banks.

Borrowings and credit ratings

The Group's borrowings as at the end of 2022 totalled 1,050 million euros at nominal value and 1,055 million euros at amortised cost (at the end of 2021: 963 million euros at nominal value and 957 million euros at amortised cost). Borrowings as at the reporting date consisted of Eurobonds listed on the London Stock Exchange of 500 million euros and loans from EIB

of 55 million euros, from NIB of 80 million euros, from EBRD of 7 million euros (31 million Polish zloty) and from commercial banks of 408 million euros (including revolving credit facilities of 70 million euros) (all nominal amounts). At the reporting date, the Group's loans included loans of 275 million euros taken by the subsidiary Enefit Green (the figure includes the 7 million euro loan from EBRD). The loans taken by the Group's parent from commercial banks amounted to 220 million euros, consisting of a loan of 150 million euros provided by Swedbank, which will mature in June 2024, and a revolving credit facility of 70 million euros provided by OP Corporate Bank.

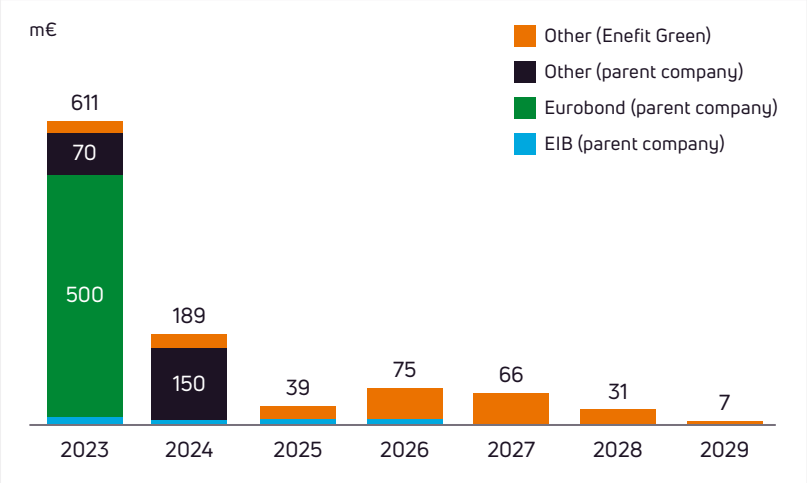
During the year, Enefit Green made regular loan repayments of 21.1 million euros to the local commercial bank SEB and to EBRD and early loan repayments of 94.3 million euros, of which 38.6 million euros was the repayment of an investment loan to Swedbank and 55.7 million euros was the repayment of an investment loan to SEB. The parent of the Group made regular loan repayments of 137.9 million euros, the figure consisting of repayments of 17.9 million euros to EIB, 70 million euros to Swedbank (revolving credit facility) and 50 million euros to OP Corporate Bank (revolving credit facility).

The Group's liquid assets as at the end of 2022 totalled 280.5 million euros (cash at bank). In addition, at the reporting date the Group had undrawn loans of 495 million euros, of which 445 million euros was attributable to the parent and 50 million euros was attributable to the subsidiary Enefit Green. In 2022, Enefit Green signed new loan agreements of 180 million euros (a loan of 80 million euros maturing in January 2034 from NIB, a loan of 50 million euros maturing in December 2027 from SEB and a loan of 50 million euros maturing in December 2027 from Swedbank).

The Group's revolving credit facilities amounted to 320 million euros at the end of 2022 (150 million euros from OP Corporate Bank, 100 million euros from SEB and 70 million euros from Swedbank), of which the 70 million euros from Swedbank was drawn down. The revolving credit lines comprise loans raised by the parent of 270 million euros and loans raised by the subsidiary Enefit Green of 50 million euros.

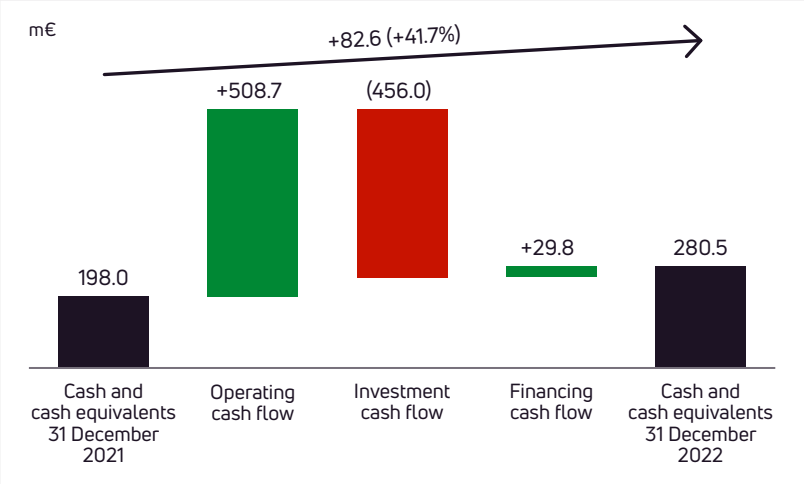
The Group's undrawn long-term investment loans totalled 245 million euros at the end of 2022. The figure comprises loans raised by Eesti Energia from EIB in December 2019 and June 2020 of 175 million euros and 70 million euros, respectively.

Debt maturity



The parent's revolving credit facilities mature as follows: 120 million euros in September 2023 (50 million euros was undrawn at the reporting date) and 150 million euros in September 2025 (150 million euros was undrawn at the reporting date). Enefit Green's revolving credit facilities mature as follows: 20 million euros in both September 2024 and September 2026 (both amounts were fully undrawn at the reporting date) and 10 million euros in May 2025 (10 million euros was undrawn at the reporting date).

Liquidity development in 2022



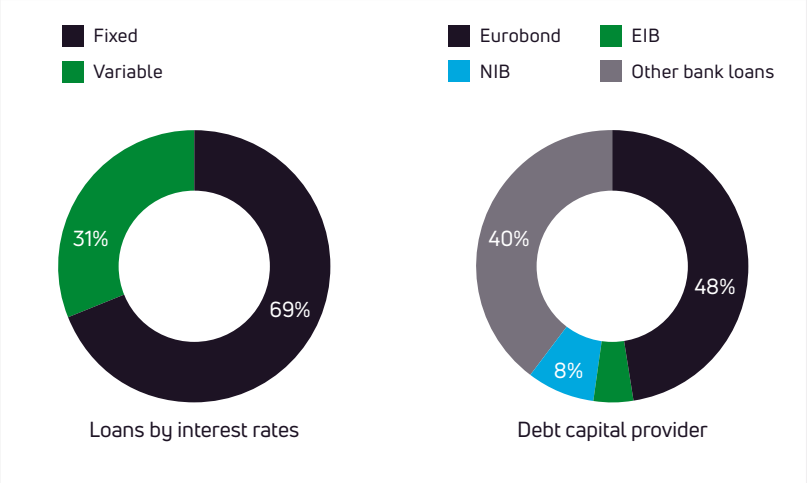
The weighted average interest rate of Eesti Energia's borrowings at the end of 2022 was 2.47% (at the end of 2021: 1.69%).

At the reporting date, the Group had borrowings of 723 million euros with fixed interest rates and borrowings of 327 million euros with floating interest rates (at the end of 2021: borrowings of 573 million euros with fixed interest rates and borrowings of 391 million euros with floating interest rates). Out of total borrowings, 99% were denominated in euros. One loan liability of 7 million euros (the loan from EBRD) was denominated in Polish zloty.

After the reporting period, in January 2023, Eesti Energia's subsidiary Enefit Green signed a loan agreement of 100 million euros with NIB and a loan agreement of 225 million euros with SEB to support the construction of Enefit Green's new wind and solar farms in the Baltic countries. In January 2023, Eesti Energia drew down 50 million euros of the revolving credit facility provided by OP Corporate Bank. In February 2023, the Group's parent raised a sustainability linked loan of 600 million euros with a term of 5 years and a variable interest rate to finance the repurchase of bonds which mature in September 2023 and investments in the Group's carbon neutrality strategy.

The credit rating agency S&P updated its credit analysis for Eesti Energia in November 2022 but the rating and outlook did not change. At the year-end, Eesti Energia's credit ratings were the same as earlier: BBB- (Standard and Poor's, outlook negative) and Baa3 (Moody's, outlook stable). Eesti Energia's financing policy sets the target of maintaining investment grade credit ratings from international rating agencies.

Loan breakdown by interest rates and borrowers



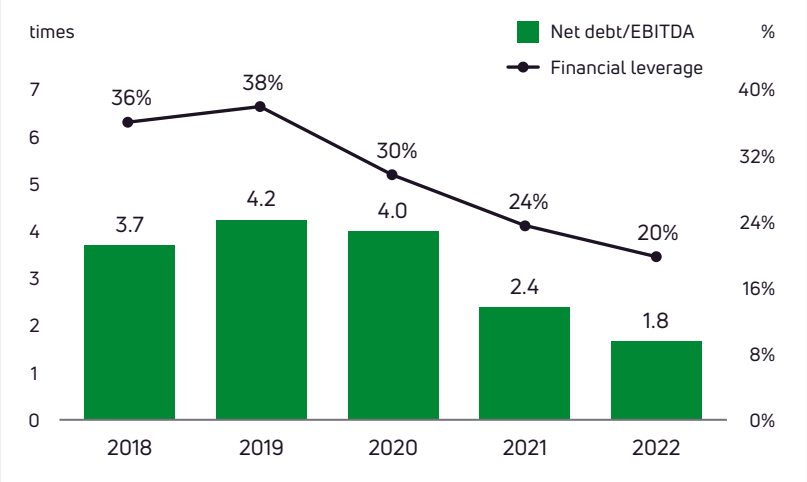
Equity and financial ratios

The Group's equity stood at 3.1 billion euros at the end of 2022. Eesti Energia's sole owner is the Republic of Estonia.

In 2022, the Group paid the owner a dividend of 47 million euros. The Group's net debt was 774 million euros at the end of 2022 (at the end of 2021: 759 million euros). The net debt to EBITDA ratio was 1.8 at the reporting date (at the end of 2021: 2.4). The current net debt to EBITDA ratio is below the target ceiling of 3.5 set out in the Group's financing policy.

Under its loan agreements, Eesti Energia has undertaken to comply with certain financial covenants. At the reporting date, the Group was in compliance with all contractual covenants.

Net debt/EBITDA and financial leverage



Outlook for 2023

The main factors that affect the Group's performance in 2023 are developments in the energy markets and the general economic environment.

We expect energy market volatility to decrease in 2023. In the liquid fuels market, prices moved back to the levels prior to the Russian aggression already at the end of 2022. We expect the market prices of electricity to decrease somewhat and stabilise in 2023. Besides energy prices, our performance is strongly influenced by other developments in the overall economic environment. Exceptionally high inflation will continue to have a strong effect on the purchase prices of goods and services also in 2023. The increase of interest rates by central banks will affect financing costs.

We forecast that our revenue, investments and EBITDA will grow in 2023. We expect revenue growth to be driven by electricity revenue, which should grow through a larger sales volume. Revenue growth will be supported by higher revenue from the sale of natural gas, distribution service and ancillary services. Our main ancillary services are charging, lighting, solar and flexibility services as well as services related to heating and cooling equipment. We are planning to increase our investments compared with 2022.

The largest development investments will be made in expanding our renewable energy portfolio and developing the chemicals industry.

Eesti Energia's Sustainability Report

Eesti Energia's sustainability report, which has been prepared on the basis of the GRI (Global Reporting Initiative) Standards, has been integrated into Eesti Energia's annual report for 2022. The information presented in the sustainability report is based on Eesti Energia's strategic goals, the most significant impacts of its business activities, its stakeholder groups and global sustainable development goals (SDGs). The report contains the consolidated results of the Eesti Energia Group and its subsidiaries, except where otherwise indicated.

The information presented in the sustainability report covers the reporting period from 1 January 2022 to 31 December 2022. The agreed starting point for evaluating the Group's sustainability indicators is the level in 2022 except for the CO_2 intensity of our energy production operations where the baseline year is 2020.

The Group will publish a more comprehensive environmental, social and governance (ESG) report for the financial year 2023. Eesti Energia's sustainability report has not been audited and is based on the company's own data.

GRI 2-3

Sustainability priorities of the Eesti Energia Group

The Group's sustainability focus areas are aligned with its strategy for 2022–2026 and its strategic goals. Responsibility for the implementation of the strategy and the achievement of the goals rests with the Group's management board and the managers of Group companies and units. The Group has appointed a person responsible for each strategic goal, and shared goals and annual targets are agreed at the level of the strategic management team. Progress towards goals related to the Group's sustainability priorities is monitored at the level of the management board and by persons accountable for the focus areas.

ESG GOAL	Focus area	Target for 2026	Result for 2021	Result for 2022	Contribution to global SDGs
Mitigating global warming and reducing the negative environmental footprint of energy production	We are a supportive energy partner that helps its customers reduce their environmental footprint.	80% of our customers will use at least one green product or service.[1]	8%	31%	7 AFFORDABLE AND CLEAN ENERGY; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 11 SUSTAINABLE CITIES AND COMMUNITIES; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 13 CLIMATE ACTION
	We increase the Group's renewable energy production capacity.	The capacity of our renewable energy production assets will grow more than fourfold, to 1,900 MW.	428 MW	450 MW	
	We reduce the carbon intensity of the Group's energy production operations.	The carbon intensity of the Group's energy production operations will decrease by 43%, from 0.37 t/MWh to 0.21 t/MWh.	0.43 t/MWh	0.55 t/MWh	
People-first journey to zero	We ensure a safe working environment.	The lost time injury frequency rate (LTIFR) will be ≤ 1.0	1,09	2,55	3 GOOD HEALTH AND WELL-BEING; 5 GENDER EQUALITY; 8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES
	We are an organisation that values its people.	Eesti Energia's management quality will be ≥ 86.[2]	71	80	
Transparent and ethical corporate governance	We operate in a transparent and ethical manner.	The percentage of employees that have experienced unethical behaviour within the Group will be ≤ 5%.[3]	21%	18%	16 PEACE, JUSTICE AND STRONG INSTITUTIONS

1. The percentage of customers using at least one green journey product, such as a green energy contract (e.g. renewable electricity-based Fixed Plus) or solution provided by the Group.
2. Measured through Eesti Energia's annual employee engagement and management quality survey. We focus on management quality as this has a strong effect on employee engagement.
3. Employees give feedback on a 5-point scale during the employee engagement and management quality survey. Respondents are asked to specify the forms of unethical behaviour they have experienced during the year. Based on feedback obtained, departmental action plans are produced and in the case of critical issues guidance is provided by the ethics committee.

GRI 305-4

The Group's stakeholders and significant developments in 2022

Eesti Energia's success is determined and influenced by its ability to build strong relations with its stakeholders. The most important stakeholder group that contributes to the implementation of the Group's strategy is employees. However, there are also other key stakeholder groups whose engagement and expectations greatly influence how, and how quickly, our strategy can be executed. We will carry out an ESG project at Eesti Energia in 2023 in order to identify the expectations of our stakeholder groups, define our material sustainability topics and analyse our risks and opportunities.

Overview of Eesti Energia's key stakeholders

Stakeholder group	How we engage	Significant developments in 2022
The owner's representative, i.e. the ministry of finance	- Exchanging information consistent with the Group's corporate governance procedure	- The owner updated its expectations for Eesti Energia on 25 August 2022. - Eesti Energia paid the owner a dividend of 46.7 million euros for 2021.
Employees	- Assessing internal cooperation - Providing internal communication channels - Requesting feedback through an engagement survey - Enabling the reporting of hazards, unethical behaviour etc. - Carrying out activities to improve management culture - Organising regular meetings with trade unions	- Employee assessment of internal cooperation improved from 4.1 to 4.3. - A pilot mobile intranet was successfully launched for employees working without computers (ca 2,100 people). - Employee engagement increased from 64 to 79 (TRI*M). - The internal training programme Enefit Academy was launched. - Based on a survey by Emor, Eesti Energia was the most reputable employer among working people in 2022. - Two information days were held for trade union trustees. - All trade unions had collective bargaining agreements effective until the end of 2022.
Household and corporate customers	- Measuring customer satisfaction (Net Promoter Score, NPS) - Analysing the quality of customer calls - Developing the service network based on customer feedback - Involving customers in service development - Using newsletters, seminars, meetings with customers	- Eesti Energia's household and corporate customer NPS for all markets rose from 31 to 39 during the year. - The customer satisfaction index (TRI*M) of Elektrilevi's household and corporate customers dropped from 42 to 33. While customers value our consultants' work very highly, the delays in processing producer connection applications had a negative impact on customer satisfaction. - Our energy literacy website Energy Wisdom had 120,000 visitors in 2022. - We provided price stability to nearly 163,000 household and corporate customers through the Fixed Plus electricity plan. - Despite enormous time pressure, we managed to implement all national energy support measures on time.

Stakeholder group	How we engage	Significant developments in 2022
Central and local government agencies	- Exchanging information regularly through consultations, meetings and feedback on development plans - Organising project meetings with local governments in areas where our development projects are located	- We offered the service of a central purchasing entity to eight state institutions and procured goods and services worth 87 thousand euros. Also, we helped Estonia in organising procurements related to helping Ukraine. - The Group's renewable energy production declined from 1.6 TWh to 1.5 TWh. - The Group's subsidiary Enefit Green made investment decisions on 335 MW of wind power and 3 MW of solar power. - Group's distribution network operator Elektrilevi connected 3,446 electricity-producers to the electricity network in Estonia and increased the share of the weatherproof network from 72.3% to 73.7%. - We launched the analysis of the technical solution of a pumped-storage hydroelectric power plant. The project will contribute to the security of electricity supply in the Baltics. - We began to work with Elering to provide system services. Through the cooperation, we help ensure the stability of the electricity system.
Professional organisations, non-profit associations and environmental organisations	- Communicating regularly through consultations and meetings	- Eesti Energia Group and its subsidiaries were members of over 40 associations or organisations across their core markets in 2022.
Suppliers of services and equipment, strategic partners	- Identifying potential suppliers, making contact and building relations - Making and disclosing procurement plans - Obtaining post-tender feedback from bidders - Increasing internal purchasing competencies among the Group's managers	- The Group purchased goods of more than 965 million euros through various procurements in 2022. - We decided to start measuring NPS starting from 2023 by asking feedback from procurement bidders .
Research and educational institutions	- Meeting regularly with the representatives of universities: at working meetings held at least monthly and management-level meetings held at least annually - Establishing new partnerships with universities and research institutions both in and outside our core markets	- We completed a study for mapping carbon capture technologies in cooperation with TalTech and an analysis of the use of big data in the evaluation and forecasting of customer profiles and behaviour in collaboration with the University of Tartu. - We provided scholarships of 53,000 euros to students of various universities. - We offered 115 internships. - We helped modernise 7 university-level study programmes.
Journalists	- Providing information to journalists - Observing best communication practice in media relations - Providing training to spokespeople	- Our media coverage in Estonia increased from 6,589 to 11,218 articles in 2022.

Stakeholder group	How we engage	Significant developments in 2022
Local communities	- Meeting regularly with the communities - Communicating opportunities for cooperation proactively via our website and direct meetings - Participating in the governing bodies of the Estonian Health Trails programme and the Lae End ('Charge Yourself') programme for promoting the study of physics	- We supported 34 promising young people in Ida-Viru county through the Energy Fund for Young Talent. - For the tenth time, we organised the Narva Energy Run, the biggest running event in Ida-Viru county. - As there are not many big family events in Ida-Viru county, we teamed up with VKG to organise ViruFest, a family day for local people, which was attended by around 3,000 children and adults. - The health and wellbeing trails supported by Eesti Energia were visited around 8 million times in 2022. As a donor of the programme, we contributed to the development and maintenance of the trails. - We created a virtual reality headset solution for the visualisation of wind farms.
Eesti Energia Group's creditors, Enefit Green's investors	- Investor relations: general meeting, communication of quarterly results, stock exchange releases and press releases	- Eesti Energia Group extended its loan agreements with SEB (50 million euros). - Enefit Green made early loan repayments of 94.3 million euros (loans from SEB and Swedbank) and signed new loan agreements (with SEB, Swedbank and NIB) of 180 million euros in total to finance its renewable energy projects. - Enefit Green paid investors a dividend of 39.9 million euros, i.e. 0.151 euros per share. - Enefit Green signed its first green guarantee agreements.
Landowners	- Communicating with landowners in a professional manner	- In 2022 we measured for the first time landowners' NPS regarding the maintenance of power line corridors; the NPS rose from 3.7 to 3.8 over the year. - We introduced a remuneration system for partners responsible for the maintenance of power line corridors which factors in landowners' satisfaction. - We updated information for landowners on the distribution network operator's website elektrilevi.ee.

Eesti Energia's sustainability KPIs

1. Mitigating global warming and reducing the negative environmental footprint of energy production

Main indicators

Sustainable customer solutions		2021	2022	Comments
CO_2 not emitted thanks to the Group's green customer solutions	tCO_2e		1,592,626	
Volume of long-term renewable power purchase agreements signed with customers	TWh	8.4	7.8	
Number of micro-producers connected to Elektrilevi's distribution network	no	10,471	15,562	
Share of weatherproof network	%	72.3	73.7	
Flexibility assets connected to the virtual power plant	MW	279.6	539.2	
including production assets	MW			
Total portfolio		268	529	
Assets of Eesti Energia		111	290	
including consumption assets	MW			
Total portfolio		11.6	10.2	
Assets of Eesti Energia		5.7	5.7	
The Group's research and development (R&D)expenditure	EURm	11.4	11.9	The Group's R&D expenditure is calculated using the internationally accepted Frascati methodology.

The Group's energy production and sales		2021	2022
Electricity production	GWh	5,217	6,260
of which renewable electricity	GWh	1,647	1,451
Share of renewable electricity production	%	32%	23%
Heat production	GWh	1,272	1,186
Electricity sales	GWh	9,435	10,537
of which renewable electricity sold	%	24	23
Gas sales	GWh	2,351	1,894
Heat sales	GWh	911	817

The Group's energy consumption		2021	2022
Electricity consumption	GWh	570	545
of which losses	GWh	300	272
Heat consumption	MWh	5,325	5,103
Consumption of liquid fuels	GWh	136	149
Consumption of waste wood	GWh	1,695	1,253
Consumption of mixed municipal waste	thousand tonnes	238	216
Water consumption			
Cooling water	million m^3	707.7	737.7
Pumped mining water	million m^3	130.5	125.7
Domestic water consumption in the Group's offices	m^3	5 ,581	6,111

Waste generation		2021	2022
Oil shale fly and bottom ash	million tonnes	3.5	4.4
of which recycled	million tonnes	0.1	0.1
Waste rock	million tonnes	1.9	3
of which recycled	million tonnes	2.9	3.9

Emissions		2020	2021	2022
Scope 1 (*Direct*) Preliminary data	thousand t CO_2e	3,887	5,156	6,922
Scope 2 (*Energy indirect*) Preliminary data	thousand t CO_2e	256	231	197
Scope 3 (*Other indirect*) Preliminary data	thousand t CO_2e	1,372	1,311	1,384
SOx	thousand t	2.6	3.9	6.4
NOx	thousand t	2.6	3.3	3.9
Dust emissions	thousand t	0.7	0.7	1.8
Water pollutants				
Suspended matter	thousand t	0.5	2.6	0.6
Sulphates	thousand t	63	70	65

Categories of GHG emissions and emissions sources included in the assessment are described in ANNEX 4.

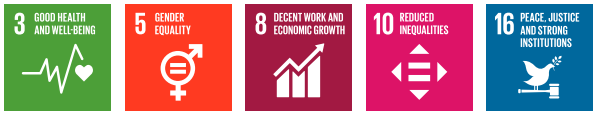
GRI 302-1 GRI 303-3

GRI 305-1 GRI 305-2 GRI 305-3 GRI 305-7

GRI 306-1 GRI 306-4 GRI 306-5

Other indicators		2021	2022	Comment
Officially recorded violations of the limit values set out in environmental permits	no			
of which emissions to air		0	0	
other indicators		0	0	
The Group has an environmental policy in place	Yes/ No	Yes	Yes	
The Group's environmental policy describes the principles related to waste, water, energy and recycling		Yes	Yes	
The Group has carried out an energy audit in accordance with the energy efficiency directives of the European Parliament and of the Council		Yes	Yes	The Group's energy audit meets the energy audit requirements laid down in Regulation No. 76 of 26 December 2016 "Minimum requirements for energy audits" of the Minister of Economic Affairs and Infrastructure, established based on the Energy Sector Organisation Act.
The Group's climate and environmental impacts are addressed at the level of the supervisory board		Yes	Yes	This includes approving the strategy, monitoring owner's expectations and achievement of strategic KPIs, and initiating, reviewing and closing strategic projects.
The Group's climate and environmental impacts are addressed at the level of the management board		Yes	Yes	This includes updating the strategy, setting and monitoring the achievement of strategic KPIs, preparing investment decisions for industry-related projects, and reviewing projects.

2. A journey to zero that values people



Number of employees and breakdown by age group		2021	2022
Up to 30	no		
Women		150	218
Men		297	524
Women	%	36	29
Men		64	71
31-50			
Women	no	569	663
Men		1,786	2,089
Women	%	24	24
Men		76	76
51 and older			
Women	no	374	399
Men		1,400	1,468
Women	%	21	21
Men		79	79
Total		**4,576**	**5,361**
Women	no	1,093	1,280
Men		3,483	4,081
Women	%	24	24
Men		76	76

Term of employment contract		2021	2022
Open-ended	no		
Women		1,033	1,224
Men		3,318	3,945
Fixed-term			
Women		60	56
Men		165	136
Average length of service	year	13.11	11.39
Part-time employees	no	70	81
Women	no	35	33
Men		35	48

Distribution of employees by segment		2021	2022
Managers	no	408	398
Women		92	89
Men		316	309
Specialists	no	2,121	2,461
Women		790	951
Men		1,331	1,510
Performers	no	2,013	2,474
Women		198	229
Men		1,815	2,245
Trainees	no	32	27
Women		13	11
Men		19	16
Trustees	no	2	1
Women			
Men		2	1
Rental workers	no	0	0
Women			
Men			
Total	no	**4,576**	**5,361**

The Group's employees by country		2021	2022
Estonia	no	4,382	5,075
Women		1,007	1,135
Men		3,375	3,940
Lithuania		56	105
Women		32	62
Men		24	43
Latvia		96	123
Women		35	54
Men		61	69
Poland		38	54
Women		18	28
Men		20	26
Germany		2	2
Women			
Men		2	2
Finland		1	1
Women		1	1
Men			
USA		1	1
Women			
Men		1	1
Total		**4,576**	**5,361**
Women		1,093	1,280
Men		3,483	4,081

Employees of Group companies		2021	2022
Enefit Connect	no	746	805
Women		181	202
Men		565	603
Enefit Green		171	183
Women		26	29
Men		145	154
Customer services		312	447
Women		212	309
Men		100	138
Enefit Power		1,646	1,975
Women		260	290
Men		1,386	1,685
Enefit Solutions		854	1034
Women		45	48
Men		809	986
Elektrilevi		48	52
Women		11	16
Men		37	36
Support and core functions		799	865
Women		358	386
Men		441	479
Total		**4,576**	**5,361**

Personnel turnover in the Group		2021	2022
Average number of employees	no	4,360	4,835
Women		993	1117
Men		3,367	3,718
Total number of employees that left	no	650	785
Women		205	196
Men		445	589
Total turnover rate	%	15	16
Women		21	18
Men		13	16
Employees who resigned voluntarily	no	299	404
Women		102	127
Men		197	277
Voluntary turnover rate	%	7	8
Women		10	11
Men		6	7

Turnover in the Group by segment		2021	2022
Managers			
average number of employees	no	406	403
total number of employees that left		53	51
employees who resigned voluntarily		28	31
total turnover rate	%	13	13
voluntary turnover rate		7	8
Specialists			
average number of employees	no	1,976	2,210
total number of employees that left		292	335
employees who resigned voluntarily		199	231
total turnover rate	%	15	15
voluntary turnover rate		10	10
Performers			
average number of employees	no	1,948	2,194
total number of employees that left		217	319
employees who resigned voluntarily		69	140
total turnover rate	%	11	15
voluntary turnover rate		4	6

New employees of the Group by segment		2021	2022
Managers	no	51	24
Women		9	9
Men		42	15
Specialists		428	626
Women		187	280
Men		283	346
Performers		264	808
Women		33	59
Men		231	746
Trainees		123	115
Women		58	37
Men		65	78
Rental workers		1	
Women			
Men		1	
Total		**908**	**1,573**
Women	no (%)	287 (32)	385 (25)
Men	no (%)	621 (68)	1,188 (75)

The Group's employees on parental leave		2021	2022
Total	no	**92**	**99**
Women		83	87
Men		9	12

Gender distribution of senior managers in the Group		2021	2022	Comment
Total	no	**60**	**68**	Management board members, managers of Group companies and heads of core and support functions
Women	%	17	21	
M1		12	12	
Women	no	3	3	
Men		9	9	
M2		48	56	
Women		7	11	
Men		41	45	
Members of the supervisory board				
Supervisory board of Eesti Energia		7	7	
Women			1	
Men		7	6	
Supervisory board of Elektrilevi		3	4	
Women			1	
Men		3	3	
Supervisory board of Enefit Green		5	5	
Women		1	1	
Men		4	4	

Gender distribution of engineers and ICT employees in the Group		2021	2022
Total	no	**1,059**	**1,149**
Women	no (%)	217 (21)	236 (21)
Men		842 (79)	913 (79)

Average monthly gross salary		2021	2022	Change in 2021-2022
All employees	EUR	2,056	2,293	12%
Trainees		602	697	11%
Performers		1,503	1,705	11%
Specialists		2,221	2,498	16%
Managers		3,987	4,474	17%
Annual remuneration fund	EUR million	111	125	13%

Average monthly gross salary by segment and gender		2021	2022	Comment
Total for all segments	EUR			
Women		1,732	2,101	Includes a variety of workforce members from consultants to miners.
Men		1,870	2,296	
Managers				
Women		4,004	4,097	
Men		3,971	4,363	
Specialists				
Women		1,767	2,094	
Men		2,275	2,658	
Performers				
Women		1,143	1,428	
Men		1,452	1,775	

Median annual gross remuneration ratio for women and men		2021	2022
All employees	ratio*	0.9:1	0.9:1
Trainees		n/a	n/a
Performers		0.79:1	0.8:1
Specialists		0.78:1	0.78:1
Managers		1.0:1.0	0.93:1
Annual salary of the highest-paid employee compared to the annual median remuneration of all employees	ratio	7.2:1	6.1:1

* median pay for men = 1 compared to median pay for women

Occupational health and safety		2021	2022	Comment
Occupational health and safety management system	Yes/No	Yes	Yes	
Occupational health and safety requirements for Eesti Energia's contractual partners		Yes	Yes	
Principles for reporting, registering and investigating hazardous situations and near misses		Yes	Yes	
Number of employees enrolled in the health insurance programme	no	n/a	2 395	The Group offers a health insurance programme to its employees from 2022.
Membership of Eesti Energia's Sports club	no	1,205	1,365	
Accidents at work	pc	11	27	
of which fatal accidents		0	2	
of which serious accidents		4	4	
of which minor accidents		7	21	
Accidents at work with partners		6	11	
Lost time injury frequency rate		1.09	2.55	An index measuring the safety of the organization's working environment, which reflects the number of lost time injuries occurring in a workplace per one million hours worked in the reporting period. It covers accidents at work due to which an employee is away from work for more than 24 hours. Working hours are defined as the working hours of all employees worked during a given period since the beginning of the calendar year.

Other relevant employee-related indicators		2021	2022	Comment
Engagement index	TRI*M index	69	74	
Management quality index	index	71	80	
Performance interviews conducted	no	2,104	n/a	The deadline for performance interviews is 20 March.
Covered by the collective agreement	%	42	36	
Share of employees who participated in at least one training course offered by the Group	%	68	66	Includes training events entered in the Group's training calendar and does not reflect development activities related to public training courses or seminars. In 2022, the result was significantly affected by the high level of recruitment due to the energy crisis.

3. Transparent and ethical corporate governance

Ensuring ethical behaviour		2021	2022	Comment
The Group complies with the requirements for the exclusion of child labour and the treatment of minorities	Yes/No	Yes	Yes	Sections 3.5 and 3.6 of the partners' code of ethics.
The Group has adopted a code of ethics	Yes/No	Yes	Yes	
The Group has established ethical requirements for its partners	Yes/No	Yes	Yes	
Share of members of the company's governing bodies to whom the ethical requirements of the group have been introduced.	%	100	100	Group's strategic management team
Share of employees who have completed the Code of Ethics e-course, no	%	98.8	90.9*	This e-course is intended for managers and specialists, i.e. all employees using computers. The 2022 result is given as of the end of 2022. * The 2022 course will remain open until 100% completion rate is achieved. This is a mandatory course.
Public procurements where the procurement partner has signed the ethical requirements document	%	≥99	≥99	The ethical requirements document is included in the documents of each tender.
Share of tenders with less than three bidders	%	16.5	15.96	The goal is to have more than three bidders for all tenders.
Number of messages received by the Group's whistleblowing channels	pc	66	47	Threats, unethical and fraudulent behaviour can be reported 24/7 by notifying Eesti Energia's fraud risk management department in person, by phone (466 6000) or by e-mail (annateada@energia.ee), or by informing the external law firm by phone (640 7199) or by e-mail (annateada@ellex.ee).
Employees who participated in the engagement survey that included ethics-related questions	%	90	90	Ethics-related questions are included in the Group's annual engagement survey in which all employees participate.
Employees who have been exposed to unethical (including disrespectful) behaviour during the past year	%	21	18	Employee feedback received through the engagement survey
Violations related to the processing of customer data	pc	0	1	On 20 September 2022, the Eesti Energia website mistakenly displayed other customers' addresses and email details to customers visiting the website. We informed the affected customers personally about the incident and reported the incident to the Data Protection Inspectorate. At the year-end, the proceedings were still ongoing.

GRI 2-26 GRI 205-2 GRI 308-1 GRI 2-23 GRI 416-2

Other topics related to corporate governance		2021	2022	Comment
Group's tax footprint	million EUR	77.2	124.5	
Resource charges		20.5	55.9	
Environmental taxes		13.7	17.3	
Labour taxes		32.9	40.4	
Excise taxes		10.2	11.0	
Environmental charges				
Resource charges		20.5	55.9	
Pollution charges		13.7	17.3	
Toleration fees paid to landowners	EUR	231,299	232,810	Profit-yielding land and in-building substations
Cooperation projects with communities related to renewable energy developments	EUR	279,194	280,187	
Political contributions	EUR	0	0	

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Consolidated Income Statement

in million EUR	1 JANUARY – 31 DECEMBER		Note
	2022	2021	
Revenue	2,218.2	1,313.0	5, 26
Other operating income	458.7	162.3	27
Change in inventories of finished goods and work in progress	5.3	(11.0)	12
Raw materials and consumables used	(1,687.8)	(888.9)	28
Payroll expenses	(167.6)	(135.9)	29
Depreciation, amortisation and impairment	(177.2)	(172.1)	5, 6, 8, 9, 33
Other operating expenses	(406.4)	(121.9)	30
OPERATING PROFIT	**243.2**	**145.5**	
Finance income	3.0	0.6	31
Finance costs	(23.0)	(26.2)	31
Net finance costs	**(20.0)**	**(25.6)**	5, 31
Profit from associates under the equity method	2.5	2.0	5, 10, 33
PROFIT BEFORE TAX	**225.7**	**121.9**	5
Corporate income tax expense	(10.0)	(10.4)	32
PROFIT FOR THE YEAR	**215.7**	**111.5**	
PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Equity holder of the parent	189.8	104.4	
Non-controlling interest	25.9	7.1	11
Basic earnings per share (EUR)	0,25	0,14	35
Diluted earnings per share (EUR)	0,25	0,14	35

The notes on pages 109–205 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

in million EUR	1 JANUARY – 31 DECEMBER		Note
	2022	2021	
PROFIT FOR THE YEAR	**215.7**	**111.5**	
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Revaluation of hedging instruments net of reclassifications to profit or loss	490.2	177.4	21
Of which share of non-controlling interest	3.3	-	11, 21
Impact of comprehensive income of associates	7.6	(0.8)	10, 21
Currency translation differences on the translation of foreign operations	(3.3)	3.0	21
Other comprehensive income for the year	**494.5**	**179.6**	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**710.2**	**291.1**	
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holder of the parent	681.0	284.0	
Non-controlling interest	29.2	7.1	

The notes on pages 109–205 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

in million EUR	31 DECEMBER 2022	31 DECEMBER 2021	Note
ASSETS			
Non-current assets			
Property, plant and equipment	3,253.6	2,979.5	6
Right-of-use assets	11.2	9.5	9
Intangible assets	81.9	86.3	8
Prepayments for non-current assets	44.9	45.9	6
Deferred tax assets	3.8	1.9	
Derivative financial instruments	496.5	187.6	13, 15, 16
Investments in associates	76.9	54.9	10
Non-current receivables	1.0	1.1	14
Total non-current assets	**3,969.8**	**3,366.7**	
Current assets			
Inventories	176.8	114.1	12
Greenhouse gas allowances and guarantees of origin	444.1	208.6	17
Trade and other receivables	430.8	336.6	14
Derivative financial instruments	204.2	160.2	13, 15, 16
Cash and cash equivalents	280.5	198.0	13, 16, 18
Total current assets	**1,536.4**	**1,017.5**	
Total assets	**5,506.2**	**4,384.2**	

in million EUR	31 DECEMBER 2022	31 DECEMBER 2021	Note
EQUITY			
Total equity and reserves attributable to equity holder of the parent			
Share capital	746.6	746.6	19
Share premium	259.8	259.8	
Statutory reserve capital	75.0	75.0	19
Other reserves	711.0	219.8	21
Retained earnings	1,160.7	1,017.6	19
Total equity and reserves attributable to equity holder of the parent	**2,953.1**	**2,318.8**	
Non-controlling interest	166.9	146.8	11
Total equity	**3,120.0**	**2,465.6**	
LIABILITIES			
Non-current liabilities			
Borrowings	449.0	788.3	13, 22
Deferred tax liabilities	22.1	21.8	32
Other payables	4.8	3.0	23
Derivative financial instruments	32.1	37.8	13, 15
Contract liabilities and government grants	351.1	300.9	24
Provisions	22.7	27.5	25
Total non-current liabilities	**881.8**	**1,179.3**	
Current liabilities			
Borrowings	605.6	168.2	13, 22
Trade and other payables	293.2	255.5	23
Derivative financial instruments	169.1	116.1	13, 15
Contract liabilities and government grants	0.5	0.7	24
Provisions	436.0	198.8	25
Total current liabilities	**1,504.4**	**739.3**	
Total liabilities	**2,386.2**	**1,918.6**	
Total liabilities and equity	**5,506.2**	**4,384.2**	

The notes on pages 109–205 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

in million EUR	1 JANUARY – 31 DECEMBER		Note
	2022	2021	
Cash flows from operating activities			
Cash generated from operations	538.6	196.8	33
Interest and loan fees paid	(18.5)	(19.3)	31
Interest received	0.8	-	31
Corporate income tax paid	(12.1)	(1.0)	32
Net cash generated from operating activities	**508.8**	**176.5**	
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	(453.6)	(217.5)	6, 8, 23
Proceeds from grants related to property, plant and equipment	6.5	2.5	
Proceeds from sale of property, plant and equipment	2.9	7.2	6, 27
Dividends received from associates	1.6	2.3	7, 10
Contribution to the share capital of associates	(14.1)	(9.2)	7, 10
Acquisition of subsidiaries, net of cash and cash equivalents acquired	-	(24.1)	
Loans granted	(0.1)	-	7
Proceeds from sale of shares in associates	0.7	-	7
Net cash used in investing activities	**(456.1)**	**(238.8)**	
Cash flows from financing activities			
Loans received	340.0	130.0	22
Repayments of bank loans	(253.2)	(201.6)	22
Payments of lease principal	(1.2)	(1.2)	22
Dividends paid	(55.8)	-	32
Proceeds from issue of shares in a subsidiary	-	91.2	
Proceeds from sale of shares in a subsidiary	-	75.0	
Net cash generated from financing activities	**29.8**	**93.4**	
Net cash flow	**82.5**	**31.1**	
Cash and cash equivalents at the beginning of the period	198.0	166.9	13, 16, 18
Cash and cash equivalents at the end of the period	280.5	198.0	13, 16, 18
Net change in cash and cash equivalents	**82.5**	**31.1**	

The notes on pages 109–205 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

in million EUR	Share capital	Share premium	Statutory reserve capital	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity	Note
Equity as at 31 December 2020	**746.6**	**259.8**	**62.1**	**40.2**	**898.5**	**2,007.1**	**1.2**	**2,008.3**	
Profit for the year	-	-	-	-	104.4	104.4	7.1	111.5	
Other comprehensive income for the year	-	-	-	179.6	-	179.6	-	179.6	21
Total comprehensive income for the year	**-**	**-**	**-**	**179.6**	**104.4**	**284.0**	**7.1**	**291.1**	
Increase of statutory reserve capital	-	-	12.9	-	(12.9)	-		-	
Partial disposal of shares in a subsidiary	-	-	-	-	27.7	27.7	138.5	166.2	
Total contributions by and distributions to owners of the company, recognised directly in equity	**-**	**-**	**12.9**	**-**	**14.8**	**27.7**	**138.5**	**166.2**	
Equity as at 31 December 2021	**746.6**	**259.8**	**75.0**	**219.8**	**1,017.6**	**2,318.8**	**146.8**	**2,465.6**	
Profit for the year	-	-	-	-	189.8	189.8	25.9	215.7	
Other comprehensive income for the year	-	-	-	491.2	-	491.2	3.3	494.5	11, 21
Total comprehensive income for the year	**-**	**-**	**-**	**491.2**	**189.8**	**681.0**	**29.2**	**710.2**	
Dividends paid	-	-	-	-	(46.7)	(46.7)	(9.1)	(55.8)	32
Total contributions by and distributions to owners of the company, recognised directly in equity	**-**	**-**	**-**	**-**	**(46.7)**	**(46.7)**	**(9.1)**	**(55.8)**	
Equity as at 31 December 2022	**746.6**	**259.8**	**75.0**	**711.0**	**1,160.7**	**2,953.1**	**166.9**	**3,120.0**	

Additional information about equity is disclosed in Note 19.

Notes to the Consolidated Financial Statements

1. General information

The consolidated financial statements of Eesti Energia Group for the year ended 31 December 2022 include the financial information of Eesti Energia AS (parent company, legal form: limited company) and its subsidiaries (the Group) and the Group's interests in associates.

Eesti Energia is an international energy company that operates in the electricity and gas markets of the Baltic countries, Finland and Poland and in the international liquid fuels market. The Group is engaged in mining oil shale, producing power, heat and oil, developing oil shale refining know-how and technologies as well as providing services and products to customers. The company's objective is to add value to Estonia's primary natural resource in the most efficient manner possible and to reduce the ecological footprint of the oil shale energy sector. Besides oil shale, electricity is also generated from sun, wind, water, mixed municipal waste and biomass. Outside Estonia, the Group operates under the Enefit trademark. The Group has investments in associates which operate in Jordan.

The registered address of the parent company is
Lelle 22, Tallinn 11318, Republic of Estonia.
The sole shareholder of Eesti Energia AS is the Republic of Estonia.
The bonds of Eesti Energia AS are listed on the London Stock Exchange.

These consolidated financial statements of the Group were authorised for issue by the Management Board on 24 March 2023. Under the Commercial Code of the Republic of Estonia, the annual report must additionally be approved by the Supervisory Board of the parent company and authorised for issue by the General Meeting of Shareholders.

1.1 Key events in 2022

Main changes in market inputs

The Group's results are strongly influenced by the prices of electricity, natural gas, oil products and emission allowances as well as environmental charges. Market prices influence both the Group's revenue and energy purchase costs, which are reported in the income statement, and trade receivables, which are reported in the statement of financial position. In 2022, the market prices of energy were significantly affected by Russia's aggression against Ukraine, which triggered an energy crisis along with record-high and volatile energy prices. Further information about the movements in market prices is provided in the operating environment section of the management report.

The market prices of electricity affect the Group's electricity sales revenue and electricity purchase costs. In 2022, electricity prices soared to record heights due to exceptionally high prices of natural gas and CO_2 emission allowances. The average market price in Estonia was 192.8 €/MWh (+106.1 €/MWh, +122% up from 2021). Average electricity prices in the Group's other main markets (Latvia, Lithuania, Poland, Finland) also broke records. High prices have a significant impact on the revenue, purchase costs and profitability of the Group's electricity segment. See Notes 5, 26 and 28 for further information.

The market prices of natural gas affect the Group's natural gas sales revenue and purchase costs. In 2022, the prices of natural gas were extremely volatile due to high market uncertainty. The average price of natural gas on the Dutch gas trading platform TTF was 136.1 €/MWh (+90.4 €/MWh, +198% up from

2021). Information about the revenue, purchase costs and profitability of the natural gas segment is provided in Notes 5, 26 and 28.

The world market prices of oil products affect the sales revenue of the shale oil segment. The market prices of oil products spiked after Russia's aggression against Ukraine. By the end of the year, however, the market had adjusted to the situation and prices had dropped back to the levels before the energy crisis. A widely-traded oil product that is closest in nature to the Group's shale oil is fuel oil with 1% sulphur content whose price depends mainly on that of Brent crude oil. The average market price of fuel oil was 542.0 €/t in 2022 (+164.6 €/t, +44% up from 2021). The impacts of market prices on shale oil revenue are offset by hedging transactions. Information about the revenue and profitability of the shale oil segment is provided in Notes 5 and 26.

The price of CO_2 emission allowances has a significant impact on the cost of electricity produced by direct burning of oil shale, particularly at the Group's older production facilities whose carbon intensity is higher. A rise in the emission allowance price increases expenses on greenhouse gas emissions (Note 28) and the provision for greenhouse gas emissions in the statement of financial position (Note 25). Th average price of CO_2 emission allowances was 81.2 €/t in 2022 (+27.5 €/t, 51.3% compared with 2021). Due to the energy crisis and high market prices of electricity, the production of electricity from oil shale grew substantially, increasing CO_2 emissions in 2022 to 6.8 million tonnes (+1.8 million tonnes, +36% up from 2021).

Environmental charges have a direct impact on the costs of producing electricity from oil shale and shale oil. Consistent with regulations, the rate of the oil shale resource charge depends on the market price of fuel oil. In 2022, the market price of fuel oil increased significantly compared with a year earlier and therefore the rate of the oil shale resource charge increased as well. The amount of environmental charges is also increased by growth in production volumes. The movements in expenses on environmental charges, including the oil shale resource charge, are disclosed in Note 28.

Eesti Energia's thermal power plants played an important role in ensuring the security of electricity supply during the energy crisis. In 2022, the Group increased the production of electricity from oil shale to cover the electricity generation deficit in Estonia and the neighbouring countries and to produce electricity for the national universal service in electricity launched in Estonia during the year. The Group's subsidiary Enefit Power AS produced 29% more electricity at its controllable production facilities in 2022 than it did in 2021 (5,131 GWh in 2022 compared with 3,981 GWh in 2021). Since the primary fuel for the controllable power plants of Enefit Power AS is oil shale, the growth in electricity production was accompanied by an increase in oil shale mining, which grew by one third (8,367 thousand tonnes in 2022 compared with 6,375 thousand tonnes in 2021). The growth in oil shale mining and electricity production was supported by successful hiring of additional workforce and timely maintenance of the production facilities.

Electricity distribution is a regulated service and thus the price for the service needs to be approved by the Competition Authority. The average price of the distribution service was 36.1 €/MWh in 2022 (32.6 €/MWh in 2021). The average price of the distribution service increased due to higher market prices of electricity, which have a direct impact on the cost of electricity purchased to cover distribution losses, which is an important component in the price of the distribution service. Electricity distribution revenue and profitability are disclosed in Notes 5 and 26.

Regulatory changes

On 15 September 2022, the parliament of Estonia adopted amendments to the Electricity Market Act and the Competition Act which enabled household consumers to buy electricity at a regulated price by means of the universal

service starting from 1 October 2022. The amendments imposed on Eesti Energia the obligation to produce the electricity required to provide the universal service and to sell it to electricity suppliers for the provision of the universal service. The new legislation provided the bases for the approval of the production price of electricity purchased through the universal service and designated the Competition Authority as the approver. The producer's price is added the electricity supplier's cost component. An additional amendment which took effect in October widened the scope of the universal service, making it available to certain commercial consumers: from 1 November 2022 the universal service has been available to companies that have less than 50 employees and whose annual turnover or total assets do not exceed EUR 10 million. The universal service is also available to non-profit associations, foundations and self-employed people whose annual electricity consumption does not exceed 1 GWh. A further amendment which took effect in November made the universal service available to local government agencies and institutions starting from 1 December 2022. For further information and impacts, see Notes 2.12.7, 3.3, 4, 6, 15 and 34.

Consistent with the legislative amendments adopted by the Estonian parliament, the universal service will be available to household consumers and local governments until April 2026 and to companies until the end of 2023 (see the management report for further information about regulatory changes).

A development positive for the electricity production business was Estonia's enactment of a goal that by 2030 the country's domestic electricity consumption should be fully covered by renewable electricity. The goal provides a solid basis for accelerated development of new renewable energy capacities. In October, after extensive discussions between the energy ministers and heads of state of the countries belonging to the EU, the EU issued a council regulation on an emergency intervention to address high energy prices in the union's energy market. This had a direct impact on the Group's business in all its markets.

The regulation, which introduced various measures including price caps for a large number of electricity producers and a windfall tax on the surplus profits of oil producers, is considered to be controversial because it artificially undermines energy companies' ability to make new investments in a situation where Europe desperately needs new production capacities. Fortunately, member states have applied the regulation in different ways. For example, Estonia and Latvia issued a joint statement on the publication of the regulation, stating that they would not impose additional taxes on producers.

Poland adopted tax changes according to which Polish small and medium-sized enterprises (SMEs) are compensated for the electricity price that exceeds 785 PLN/MWh, which is calculated as the net amount for every 10 days (the profit payable by the Group less the SME compensation). As a result, the Group incurred a loss of EUR 0.4 million in 2022.

Key developments regarding investments in infrastructure

The Group invested EUR 14.6 million in the Purtse wind farm in Estonia, EUR 62.5 million and EUR 30.7 million, respectively, in the Akmenė and the Šilale wind farms in Lithuania, and EUR 18.3 million in the Tolpanvaara wind farm in Finland in order to increase its renewable energy production capacity. The Purtse, Šilale, Akmenė and Tolpanvaara wind farms are scheduled to be completed in 2023. The Group also invested EUR 10.0 million in the Vändra solar farm and EUR 6.2 million the Purtse solar farm in Estonia and EUR 4.8 million in the Zambrow solar farm in Poland. The Zambrow and Purtse solar farms are scheduled to be completed in 2023.

On 21 September 2022, the Group's subsidiary Enefit Green AS acquired Rääbiste Põllud OÜ (new business name: Enefit Green Solar OÜ), a company developing two large solar farms in western Estonia, for EUR 6.6 million. The developments, which are located in Lihula and Pärnu-Jaagupi, have

a total planned capacity of up to 165 MW and total projected annual output of 169 GWh. The quantity is sufficient to meet the annual electricity consumption of around 50,000 average Estonian households and the farms are expected to come online after four years. The transaction was accounted for as the acquisition of assets because it did not meet the definition of a business combination (Note 11).

Investments in maintaining and continuously improving the quality of the distribution service totalled EUR 125.5 million (2021: EUR 99.5 million), including investments of EUR 67.1 million made in network connections (2021: EUR 50.0 million).

Investments in the development of the chemicals industry amounted to EUR 81.8 million in 2022 (2021: EUR 50.2 million). The chemicals plant, which will be completed in 2024, will increase the Group's annual shale oil output to 700 thousand tonnes.

Further information about the investments is disclosed in Note 6.

Other changes

The Group's payroll expenses grew by 26% compared with 2021 due to the need for additional employees in the large-scale energy production business line. The Group's year-end number of employees increased by 17% (see Note 29).

Inventories grew by EUR 62.8 million (+55%) compared with the end of 2021. Natural gas inventories showed the strongest growth, increasing by EUR 28 million. The growth in natural gas inventories was mainly due to a significant price increase: the average price of natural gas increased by 95 €/MWh in 2022 (see Note 12).

Information about changes related to derivatives and hedging instruments is disclosed in Notes 2, 3.1.1.2.1, 3.1.1.4, 3.3, 13 and 15.

2. Significant accounting policies

The principal accounting policies used in the preparation of these consolidated financial statements are set out below. The accounting policies have been consistently used for all reporting periods presented, unless otherwise specified.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) Interpretations, as adopted by the European Union.

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets and liabilities (including derivative financial instruments) that are measured at fair value through profit and loss.

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in applying accounting policies. The areas involving a higher degree of judgement and where accounting assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.2 Changes in accounting policy and disclosures

(a) Adoption of New or Revised Standards and Interpretations

The following new standards, amendments and interpretations became effective for the Group from 1 January 2022:

Proceeds before Intended Use, Onerous Contracts – Cost of Fulfilling a Contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (*effective for annual periods beginning on or after 1 January 2022*)
The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management. The amendment has an impact on the recognition of Group's investments as items of construction in progress. Previously, the Group accounted for large-scale investments using the approach whereby the proceeds arising during the testing period of an asset were deducted from the carrying amount of the asset under construction. Under the new requirements, the proceeds arising during the testing period are recognised immediately in profit or loss. In the near term, the accounting policy change will have the strongest effect on the recognition of the new chemicals plant and the proceeds arising during its testing period in 2024.

(b) New standards and interpretations not yet adopted

Certain new or revised standards and interpretations have been issued that are mandatory for the Group in annual periods beginning on or after 1 January 2023, and which the Group has not early adopted.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (*effective date to be determined by the IASB; not yet adopted by the EU*). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary and the shares of the subsidiary are transferred during the transaction. The amendments may have an impact on the recognition of the Group's transactions with associates.

Classification of Liabilities as Current or Non-current - Amendments to IAS 1 (*effective for annual periods beginning on or after 1 January 2024; not yet adopted by the EU*) – These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that

condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. According to the Group's assessment, the application of the amendments will not have a material impact on its financial statements.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (*effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU*) - The amendments to IAS 1 on the classification of liabilities as current or non-current were issued in January 2020 with an original effective date of 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. According to the Group's assessment, the application of the amendments will not have a material impact on its financial statements.

Amendments to IAS 1 and IFRS Practice Statement 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 their material accounting policy information rather than their significant accounting policies. The amendments provided the definition of material accounting policy information. The amendments 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 amendments provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendments to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support the amendments, 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. According to the Group's assessment, the application of the amendments will have a material impact on its financial statements. The amendments will be adopted in 2023 and, as a result, the accounting policies section of the Group's financial statements (Note 2) will become considerably shorter.

Amendments to IAS 8: Definition of Accounting Estimates (*effective for annual periods beginning on or after 1 January 2023*) - The amendments to IAS 8 clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. According to the Group's assessment, the application of the amendments will not have a material impact on its financial statements.

There are no other new standards, amendments or interpretations not yet effective that are expected to have a material impact on the Group.

2.3 Emission allowances and green certificates

Emission allowances

The European Union Emissions Trading System (EU ETS) was created in 2005 to reduce the emission of greenhouse gases, particularly carbon dioxide. Within the framework of the system, countries have allocated certain installations emission allowances free of charge or at prices below fair value.

Emission allowances are purchased and sold on designated exchanges, where installations that need more emission allowances than have been allocated to them free of charge or at a price below market value have to purchase additional allowances to meet their obligations.

During the first trading period, 2005–2007, trading was conducted only in European Union Allowances (EUAs). During the second trading period, 2008–2012, trading was conducted in parallel with the first commitment period in the Kyoto Protocol, and the EU Emissions Trading System was opened up to international trading in Certified Emission Reduction units (CERs) and Emission Reduction Units (ERUs).

Starting with the third trading period (2013–2020) there is no free or subsidised allocation of emission allowances for the power generation sector, meaning that all power generators must purchase all of their emission allowances. Among other sectors, free allowances are allocated to the refinery sector (including the production of shale oil), to the production of measurable heat (including district heating) and to the burning of waste gases for electricity production. The given activities are also performed by installations belonging to the Group. See details from Note 34 regarding the estimated amount of free allowances allocated to the Group in 2023 and from Note 17 regarding the amount of free allowances allocated to the Group in 2021 and 2022.

Greenhouse gas emission allowances controlled by the Group are accounted for as current intangible assets. Greenhouse gas emission allowances received from the state free of charge are recognised at zero cost. Any additionally purchased allowances are recognised at acquisition cost or based on the revaluation method, if the Group has acquired the greenhouse gas emission allowances more than presumably needed and has a plan to sell the allowances.

As carbon dioxide is emitted, an obligation arises to deliver emission allowances (EUAs, CERs, ERUs) to the authorities in the respective countries. An expense and a corresponding provision are recognised in the cases where the emission allowances that were received free of charge do not cover this obligation. The provision for greenhouse gas emission allowances is set up at the average price of the greenhouse gas emission allowances that are owned by the Group and that will be allocated to the Group free of charge. When the Group surrenders the greenhouse gas emission allowances to the state for the greenhouse gases emitted, both the provision and the intangible assets are reduced by equal quantities and amounts.

Green certificates – guarantees of origin

A guarantee of origin (GoO) is an electronic document acquired by the consumer, which certifies that the electricity has been produced from renewable sources (green energy) or in an efficient cogeneration process. One GoO (green certificate) is issued for every 1 MWh of electricity produced. A GoO is valid for 12 months after the issue of the document.

The purchase and sale of GoOs is the responsibility of the energy trading unit of the Eesti Energia Group. Customer service units order GoOs to be able to prove the origin of green energy to customers.

The Group produces green energy, acquires GoOs from the market and also sells GoOs to third parties.

Every country has its own registry for GoOs where the GoO needs to be cancelled (used). Estonia, Latvia, Lithuania, Finland and Sweden are members of the Association of Issuing Bodies (AIB), which is an organisation for countries whose purpose is to develop and use the European Energy Certificate System. Poland has its own national registry. GoOs can be transferred between the registries of the countries that are members of the AIB.

GoO are cancelled using the FIFO (first-in, first-out) formula, which means that the GoOs that have been purchased earlier are cancelled earlier in order to prevent their expiry.

The Group uses derivative instruments to mitigate the price risk of future transactions involving GoOs because there are quantitative accounting differences between purchases and sales.

The derivative transactions are divided into two:

a) certificates acquired for trading: these are derivative transactions which are recognised in profit or loss within other operating income or other operating expenses on a monthly basis (see also Note 2.14); and
b) certificates acquired for contracts with customers, which meet the 'own use' criterion.

Significant accounting policies for GoOs:

a) GoOs which have been acquired or produced are recognised as current intangible assets;
b) GoOs produced by the Group are recognised at zero cost;
c) GoOs purchased by the Group are recognised at cost and charged to expenses in the same period.

2.4 Consolidation

(a) Subsidiaries

A subsidiary is any entity of which the Group has control. The Group controls an entity when it has exposure, or rights, to variable returns from its involvement with the entity and the ability to use its power over the entity to affect the amount of those returns. Subsidiaries are fully consolidated from the date the Group gains control to the date the Group loses control over them.

The Group accounts for business combinations by applying the acquisition method. The consideration transferred at the acquisition of a subsidiary is measured at fair value, which is the sum of the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree, and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

For each business combination, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If a business combination is achieved in stages, the acquisition date carrying amount of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gain or loss arising from such remeasurement is recognised in the income statement.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Contingent consideration is classified either as equity or financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes in fair value recognised in the income statement. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, fair value of any previously held interest and the amount of any non-controlling interests over the net fair value of the identifiable assets acquired and liabilities assumed. If the consideration is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement.

Business combinations of entities under common control are accounted for using the accounting policies described above. In preparing consolidated financial statements, the financial statements of the parent and its subsidiaries are consolidated on a line-by-line basis. In the preparation of consolidated financial statements, intragroup transactions, balances and unrealised gains are eliminated. Unrealised losses are also eliminated. Where necessary, amounts reported by subsidiaries are adjusted to ensure conformity with the Group's accounting policies.

In the parent's separate financial statements, investments in subsidiaries are accounted for at cost less any accumulated impairment losses.

(b) Changes in interests in subsidiaries without loss of control

Transactions with non-controlling interests that do not result in a loss of control of a subsidiary are accounted for as an equity transaction – that is, as transactions with the owners in their capacity as owners. The difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration received, or receivable is recognised directly in retained earnings.

(c) Disposal of subsidiaries

When the Group loses control of a subsidiary, any investment retained in the entity is remeasured to its fair value at the date when control is lost and the change in the carrying amount is recognised in the income statement. The fair value is the initial carrying amount of the investment retained that is subsequently accounted for as an associate, a joint venture or a financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for on the same basis as if the Group had directly disposed of the related assets and liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the income statement.

(d) Associates

Associates are all entities over which the Group has significant influence but not control. This generally means holding 20% to 50% of the voting power. Investments in associates are accounted for using the equity method and are initially recognised at cost. The carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only the proportion of the amounts previously recognised in other comprehensive income is reclassified to the income statement if that gain or loss would be required to be reclassified to the income statement on the disposal of the related assets or liabilities.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in the associates' other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses of an associate equal or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group assesses at each reporting date whether there is any objective evidence that the investment in an associate is impaired. If there is, the Group calculates the amount of the impairment loss as the difference between the recoverable amount and the carrying amount of the investment and recognises the amount within other gains (losses) from associates in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Where necessary, the accounting policies of associates are adjusted to ensure consistency with the policies adopted by the Group.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker responsible for allocating resources and assessing the performance of operating segments is the Management Board of the parent company.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each Group's entity are recorded in the currency of the primary economic environment in which the entity operates (the functional currency). The Group has subsidiaries in Poland whose functional currency is the Polish zloty (PLN) and in the United States of America whose functional current is the US dollar (USD). The consolidated financial statements are presented in euros (EUR), which is the functional currency of the parent company and presentation currency of the Group. The figures in the consolidated financial statements have been rounded to the nearest million, unless stated otherwise.

(b) Transactions and balances

Monetary assets and liabilities denominated in a foreign currency are translated using the closing official exchange rate of the European Central Bank or, if the European Central Bank does not quote the particular currency, the official exchange rate of the central bank of the country issuing the foreign currency is used. Foreign exchange gains and losses arising on translation are recognised in the income statement, except for gain and loss from the revaluation of cash flow hedging instruments recognised as effective

hedges, which is recognised in other comprehensive income. Exchange gains and losses on borrowings and cash and cash equivalents are presented as finance income and costs; other exchange gains and losses are presented as other operating income and expenses.

(c) Group companies

The results and financial position of the subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate of the European Central Bank at the date of the balance sheet;
- income and expenses are translated using the average exchange rates of the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

The closing rates used for translating assets and liabilities were as follows: 31 December 2022: EUR/PLN 4.6808 and EUR/USD 1.0530; 31 December 2021: EUR/PLN 4.5969 and EUR/USD 1.1326. Income and expenses were translated as follows 2022: EUR/PLN 4.69 and EUR/USD 1.07; 2021: EUR/PLN 4.57 and EUR/USD 1.18.

None of the subsidiaries of the Group operate in a hyper-inflationary economy.

2.7 Classification of assets and liabilities as current or non-current

Assets and liabilities are classified in the statement of financial position as current or non-current. An asset is classified as current when it is expected to be realised in the next financial year or during the normal operating cycle of the Group. A liability is classified as current when it is due, or expected, to be settled in the next financial year or during the normal operating cycle of the Group. All other assets and liabilities are classified as non-current.

2.8 Property, plant and equipment

Property, plant and equipment (PPE) are tangible items that are used in the Group's operating activities and have an expected useful life of over one year. Items of property, plant and equipment are presented in the statement of financial position at historical cost less any accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of an item. The cost of a purchased item of property, plant and equipment comprises the purchase price, transportation and installation costs, and other costs directly attributable to the acquisition or implementation of the asset. The cost of a self-constructed item of property, plant and equipment includes the cost of materials, services and labour incurred in its construction and implementation.

If an item of property, plant and equipment consists of components with significantly different useful lives, these components are accounted for as separate items of property, plant and equipment.

When the construction of an item of property, plant and equipment lasts for a substantial period of time and is being funded by a loan or any other debt instrument, the related borrowing costs (interests) are capitalised as part of the cost of the item being constructed. Borrowing costs are capitalised if

the borrowing costs and expenditures for the asset have been incurred and the construction of the asset has commenced. Capitalisation of borrowing costs ceases when the construction of the asset is complete or when its construction has been suspended for an extended period of time.

Subsequent expenditure on an item of property, plant and equipment is included in the carrying amount of the item or recognised as a separate asset only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. A replaced component or a proportionate share of a replaced asset is derecognised. Current maintenance and repair costs are charged to expenses as incurred.

Land is not depreciated. Other items of property, plant and equipment are depreciated using the straight-line method to allocate their depreciable amounts (cost less residual value) over their estimated useful lives, as follows.

Items of property, plant and equipment have been assigned the following useful lives:

Buildings	**30–50 years**
Facilities, including	
electricity lines	12.5–50 years
other facilities	10–60 years
Machinery and equipment, including	
transmission equipment	5–45 years
power plant equipment	7–32 years
other machinery and equipment	3–30 years
Other items of property, plant and equipment	**3–10 years**

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when its residual value increases to an amount greater than its carrying amount, it is permanently withdrawn from use or classified as held for sale. The depreciation rate, depreciation method and residual value of an asset are reviewed at each reporting date during the annual stocktaking, when subsequent expenditures are recognised and in the case of any significant changes in development plans. When the estimated useful life of an asset differs significantly from the previous estimate, it is treated as a change in the accounting estimate, and the remaining useful life of the asset is changed, as a result of which the depreciation charge of the following periods also changes.

When the recoverable amount of an item of property, plant and equipment (i.e. the higher of its fair value less costs of disposal and its value in use) decreases below its carrying amount, the item is written down to its recoverable amount (Note 2.10).

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. To determine the gain or loss from the sale of property, plant and equipment, the carrying amount of the asset sold is subtracted from the proceeds. Gains and losses arising from the derecognition of items of property, plant and equipment are recognised in profit or loss within other operating income and other operating expenses, respectively.

2.9 Intangible assets

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

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

Intangible assets (except for goodwill) are amortised over their estimated useful lives using the straight-line method.

Intangible assets (except for goodwill) are tested for impairment when there is any indication of impairment, similarly to items of property, plant and equipment. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amount with their recoverable amount.

(a) Goodwill

Goodwill acquired in a business combination is not subject to amortisation. Instead, for the purpose of impairment testing, goodwill is allocated to cash-generating units and an impairment test is performed at the end of each reporting period (or more frequently if an event or change in circumstances indicates it is necessary). The allocation is made to those cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose. Goodwill is allocated to a cash generating unit or a group of units that is not larger than an operating segment. Goodwill is written down to its recoverable amount when the latter is less than it's carrying amount. Impairment losses on goodwill are not subsequently reversed. Goodwill is reported in the statement of financial position at the carrying amount (cost less any impairment losses) (Note 2.10). When determining a gain or loss on the disposal of a subsidiary, the carrying amount of goodwill relating to the entity sold is regarded as part of the carrying amount of the subsidiary.

(b) Contractual rights

Contractual rights acquired in a business combination are recognised at fair value on acquisition and are subsequently carried at cost less any accumulated amortisation. Contractual rights are amortised over the expected duration of the contractual right using the straight-line method. Further details on contractual rights is disclosed in Note 8.

(c) Software

Costs associated with the day-to-day maintenance of computer software are recognised as an expense as incurred. Acquired computer software which is not an integral part of the related hardware is recognised as an intangible asset. Development costs that are directly attributable to the design and testing of identifiable software controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software and use it;
- management intends to complete the software and use it;
- there is an ability to use the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources for completing the development and using the software are available;
- the expenditure attributable to the software during its development can be reliably measured.

Capitalised software development costs include payroll expenses and other expenses directly attributable to the development. Development expenditures that do not meet the above criteria are recognised as an expense as incurred. Development costs initially recognised as an expense are not recognised as an asset in a subsequent period. Computer software development costs are amortised over their estimated useful lives (not exceeding 15 years) using the straight-line method.

(d) Exploration and evaluation assets of mineral resources

Expenditures that are included in the initial measurement of exploration and evaluation assets include the acquisition of rights to explore; topographical, geological, geochemical and geophysical studies; exploratory drilling; sampling and activities related to evaluation of the technical feasibility and economic viability of extracting a mineral resource.

Exploration and evaluation assets are initially recognised at cost. Depending on the nature of the asset, the exploration and evaluation assets are classified as intangible assets or items of property, plant and equipment. Some exploration and evaluation assets are treated as intangible (e.g. drilling rights), whereas others are tangible (e.g. vehicles and drilling rigs). To the extent that a tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is part of the cost of the intangible asset. After initial recognition, exploration and evaluation assets are measured using the cost model.

Exploration and evaluation assets are tested for impairment (Note 2.10) when one or more of the following circumstances are present:

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on future exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

(e) Mining rights

Mining rights controlled by the Group are accounted for as current or non-current intangible assets depending on the expected realisation period. Mining rights received from the state free of charge are recognised at zero cost. The fee for extracted natural resources that is paid according to the volume of natural resources extracted is recognised in expenses as incurred (Note 2.22).

2.10 Impairment of non-financial assets

Assets that have indefinite useful lives except for land (for example goodwill) and intangible assets not yet ready for use are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation or depreciation and land are assessed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised at the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's:

- fair value less costs of disposal; and
- value in use.

If the fair value of the asset less costs to sell cannot be determined reliably, the recoverable amount of the asset is its value in use. The value in use is calculated by discounting the expected future cash flows generated by the asset to their present value.

An impairment test is carried out if any of the following indicators of impairment exist:

- the market value of similar assets has decreased;
- the general economic environment and the market situation have deteriorated, which is why it is likely that the cash flows generated by the assets will decrease;
- market interest rates have increased;
- the physical condition of the assets has deteriorated considerably;
- revenue generated by assets is less than expected;
- the results of some operating segments are worse than expected;
- the activities of a certain cash-generating unit are expected to be terminated.

An impairment test is also performed when the Group identifies any other evidence of impairment.

An impairment test is performed either for an individual asset or a group of assets (cash-generating unit). A cash-generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows generated by other assets or groups of assets. An impairment loss is recognised immediately as an expense in the income statement.

At the end of each reporting period, the Group assesses whether there is any indication that an impairment loss recognised in a prior period for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. Based on the results of the estimation, the impairment loss may be reversed in part or in full. An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.11 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use, and the sale of the assets is considered highly probable. These assets are carried at the lower of their carrying amount and fair value less costs to sell.

2.12 Financial assets

2.12.1 Classification

The Group classifies its financial assets in the following measurement categories:

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

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

2.12.2 Recognition and derecognition

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

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

2.12.3 Measurement

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

2.12.4 Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

All of the Group's debt instruments have been classified into the amortised cost measurement category.

2.12.5 Amortised cost

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 the income statement and presented in other income/(expenses). Foreign exchange gains and losses and impairment losses are presented as separate line items in the income statement.

2.12.6 Equity instruments

The Group has no investments in equity instruments, except for investments in associates.

2.12.7 Derivative financial instruments

Derivative financial instruments are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments that are not used in hedge accounting are included in the profit or loss for the year. The Group also applies hedge accounting. Accounting principles for hedge accounting are disclosed in Note 2.14.

Under the amendments to the Electricity Market Act, from 1 October 2022 Eesti Energia has had the obligation to sell electricity to all electricity suppliers for the provision of the universal service. The obligation constitutes a derivative transaction for the mitigation of price risk, which is measured at fair value through profit or loss (for further information, see Note 2.14(b)).

2.12.8 Impairment

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

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

For trade receivables without a significant financing component the Group 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. The Group uses a provision matrix in which allowance for impairment losses is calculated for trade receivables falling into different ageing or overdue periods.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.14 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method for recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if it is, the nature of the item being hedged. The Group uses cash flow hedging instruments in order to hedge the risk of changes of the prices of natural gas, shale oil and electricity.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, and also its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents whether there is economic relationship between the derivatives that are used in hedging transactions and the changes in the cash flows of the hedged items. At inception of the hedge, the Group documents sources of hedge ineffectiveness. Hedge ineffectiveness is quantified in each reporting period and recognised in the income statement.

The fair values of derivative financial instruments used for hedging purposes are disclosed in Note 15. Movements on the hedge reserve in other comprehensive income are disclosed in Note 21. The full fair value of hedging derivatives is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(a) Cash flow hedges

The effective portion of changes in the fair value of derivatives (for options only the intrinsic value) that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement as a net amount within other operating income or other operating expenses.

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects profit or loss (for instance, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is reclassified to the income statement

when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is reclassified in profit and loss as other operating income or operating expenses.

(b) Derivatives measured at fair value through profit or loss

Derivatives which are not designated as hedging instruments, including the universal service, are carried at fair value through profit or loss. The gains and losses arising from changes in the fair value of such derivatives are included within other operating income or other operating expenses in the income statement.

(c) Power purchase agreements

The Group has signed long-term physically settled power purchase agreements with energy producers, handling the volume and balancing risk and selling the power to the exchange or to its own retail customers. The contracts are not considered to meet the requirements to be classified as contracts held for normal purchase or sale (own use). The Group accounts for the contracts as derivatives measured at fair value through profit and loss in accordance with IFRS 9. At the settlement date, the Group physically settles the contracts by taking delivery of the power and selling the power either on the exchange or to its own retail customers.

The Group has signed long-term financially settled power purchase agreements with energy producers. At the settlement date the derivate is settled based on the difference between a fixed price and the agreed upon underlying market rate. The Group accounts for the contracts as derivatives measured at fair value through profit and loss in accordance with IFRS 9 or cash flow hedges if particular agreements have been designated and qualify as such.

(d) Derivative instruments for purchase of goods for own use

Derivative contracts that are entered into and continue to be held for the purpose of the receipt of the underlying commodity in accordance with the Group's expected purchase requirements are accounted for as regular purchases of underlying commodities. For example, any futures contracts for buying greenhouse gas emissions allowances that are necessary for the Group's electricity production purposes are not recognised as derivatives in the statement of financial position; the emissions allowances purchased are recognised as intangible assets when settlement of future contract occurs and emissions allowances are transferred to the Group. Any payments made to the counterparty before the settlement date are recognised as prepayments for intangible assets.

If the terms of the contracts permit either party to settle it net in cash or another financial instrument or the commodity that is the subject of the contracts is readily convertible to cash, the contracts are evaluated to determine if they qualify for own use treatment. Contracts that do not qualify for own use treatment, are accounted for as derivatives as described above.

2.15 Cash and cash equivalents

Cash and cash equivalents comprise balances on current accounts, cash in transit and short-term highly liquid investments with banks.

2.16 Trade receivables

Trade receivables are amounts due from customers for energy sold or services performed in the ordinary course of business.

Trade receivables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade

receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. Material receivables are assessed individually. The rest of the receivables are collectively assessed for impairment, using previous years' experience of impairment which is adjusted to take account of forward-looking information. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within other operating expenses. When a receivable is classified as uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement against other operating expenses.

If collection is expected within one year or less or within the normal operating cycle, the receivables are classified as current assets. If not, they are presented as non-current assets. Non-current receivables from customers are recognised at the present value of the collectible amount. The difference between the nominal value and the present value of the collectible receivable is recognised as interest income during the period remaining until the maturity date using the effective interest rate.

2.17 Inventories

Inventories are stated in the statement of financial position at the lower of cost or net realisable value.

The cost of inventories is assigned using the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labour, and other direct and indirect costs (based on normal operating capacity of the production facilities).

Borrowing costs are not included in the cost of inventories. The cost of raw and other materials consists of the purchase price, transport costs and other costs directly attributable to their acquisition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

2.18 Share capital and statutory reserve capital

Ordinary shares are classified as equity. No preference shares have been issued. Unavoidable costs directly attributable to the issue of new ordinary shares are recognised in equity as a deduction from the proceeds. Shares approved by the General Meeting but not yet registered in the Commercial Registry are recognised in equity as unregistered share capital.

The Commercial Code requires the parent company to set up a statutory reserve capital from annual net profit allocations, the minimum amount of which is 1/10 of the parent company's share capital. The amount of allocation to annual statutory reserve capital is at least 1/20 of the net profit of the financial year until the reserve reaches the limit set for reserve capital. Reserve capital may be used to cover a loss that cannot be covered from distributable equity, or to increase share capital. Capital reserve may not be used to make distributions to shareholders.

2.19 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payables are classified as current liabilities if payment is due within one year or less or within the normal operating cycle. If not, they are presented as non-current

liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the term of the borrowing using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred and treated as a transaction cost when the draw-down occurs.

Borrowings are recognised as current liabilities unless the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the end of reporting period.

2.21 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

The capitalised borrowing costs are recognised in the statement of cash flows within interest and loan fees paid.

2.22 Taxation

(a) Corporate income tax on dividends in Estonia

Under the Income Tax Act, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and transfer price adjustments. The tax rate for profit distributions is 20% (calculated as 20/80 of the net distribution). From 2019, regular dividend distributions are subject to a lower, 14% income tax rate (calculated as 14/86 of the net distribution). Thus, in calculating the income tax payable on dividends, a resident company can apply a lower tax rate of 14% and the ordinary tax rate of 20%. The more favourable tax rate may be applied to a dividend distribution that amounts to up to three preceding financial years' average distribution of retained earnings on which the company has paid income tax. In calculating the average dividend distribution of the three preceding financial years, 2018 is the first year that is taken into account. In certain circumstances, dividends received can be redistributed without any additional income tax expense.

Corporate income tax paid on dividends is recognised in the income statement as income tax expense and in the statement of financial position as a deferred tax liability to the extent of the planned dividend payments exceeding the annual distributable profits earned.

The maximum income tax liability which would accompany the distribution of Company's retained earnings is disclosed in the notes to the financial statement.

(b) Other taxes in Estonia

The following taxes had an effect on the Group's expenses :

Tax	Tax rate
Social security tax	33% of the payroll paid to employees and of fringe benefits
Unemployment insurance tax	0.8% of the payroll paid to employees
Fringe benefit income tax	20%, calculated as 20/80 of net fringe benefits provided to employees
Pollution charges	Paid for contamination of the air, water, ground water, soil and waste storage, and based on tonnage and type of waste. Pollution charge rates for emission of pollutants into the air have remained unchanged since 2015: the charge rate per tonne for emission of pollutants into the ambient air is EUR 2–1,278 (except mercaptans, which is EUR 31,785), for emission of pollutants into water bodies or groundwater is EUR 7.09–24,326, and for waste disposal is EUR 0.63–29.84 per tonne.
Fee for extraction right for oil shale	EUR 0.275–10 per tonne of oil shale extracted
Water utilisation charges	EUR 1.70–180.55 per 1000 m^3 of pond or ground water used (2021: EUR 1.63-178.76 per 1000 m^3 of pond or ground water used).
Land tax	0.1–2.5% on taxable value of land per annum
Tax on heavy trucks	EUR 3.50–232.60 per truck per quarter
Excise tax on electricity	EUR 0.5–1.0 (from 1 May 2020 to 30 April 2023) per MWh of electricity
Excise tax on natural gas	EUR 40–55.744 per 1000 m^3 of natural gas (from 1 May 2020 to 30 April 2023)
Excise tax on shale oil	EUR 57–414 per 1000 kg of shale oil (from 1 May 2020 to 30 April 2023)
Excise tax on oil shale	EUR 0.93 per gigajoule (from 1 May 2020 to 30 April 2023)
Corporate income tax on non-business expenses	20%, calculated as 20/80 of non-business expenses

(c) Income tax rates in foreign countries in which the Group operates

Latvia	Income earned by resident legal persons is taxed at a rate of 20/80 upon distribution
Lithuania	Income earned by resident legal persons is taxed at an income tax rate of 15%
Germany	Income earned by resident legal persons is taxed at an income tax rate of 30–33% (from 31 December 2022 24.6%–36.1%), (corporate tax, trade tax and solidarity surcharge combined)
the USA	Income earned by resident legal persons is taxed at an income tax rate of 21%
Jordan	Income earned by resident legal persons is taxed at an income tax rate of 20%. Jordan Oil Shale Energy is fully exempted from income tax according to the contracts concluded with the Hashemite Kingdom of Jordan.
the Netherlands	Income earned by resident legal persons is taxed at an income tax rate of 25% (from 28 November 2022 25.8%)
Poland	Income earned by resident legal persons is taxed at an income tax rate of 19%
Finland	Income earned by resident legal persons is taxed at an income tax rate of 20%

(d) Deferred income tax

Deferred income tax is recognised in foreign subsidiaries, except for Latvia, for temporary differences arising between the tax bases and carrying amounts of assets and liabilities. Deferred income tax assets and liabilities are recognised under the liability method. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset and liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred income tax is also recognised in case of temporary differences between the Group's carrying amounts of assets and liabilities and their tax bases (the tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes).

Pursuant to the laws of the Republic of Estonia, an entity's profit of the accounting year is not taxable in Estonia. The obligation to pay company income tax arises upon distribution of profit and it is recognised as an expense (in profit or loss for the period) when dividends are declared. Due to the nature of the taxation system, no deferred income tax assets or liabilities arise in entities registered in Estonia, except for possible deferred income tax liabilities related to an entity's investments in subsidiaries, associate and joint undertaking, and branches.

Deferred income tax liability arises for the Group in countries where the entity's reporting year profit is taxable. For the Group, deferred income tax liability also arises in respect to investments in an Estonian and Latvian subsidiary and associate undertaking, except for if the Group is able to control the timing of the reversal of the taxable temporary differences and it is probable that the reversal will not occur in the foreseeable future. Examples of taxable temporary reversal are the payment of dividends, the sale or liquidation of an investment, and other transactions.

The Group has control over the dividend policy of subsidiaries and is able to control the timing of the reversal of the temporary differences in respect to the relevant investment. If the parent company has decided not to distribute the subsidiary's profit in the foreseeable future, it does not recognise the deferred income tax liability. If the parent company assesses that the dividend will be paid in the foreseeable future, the deferred income tax liability is measured to the extent of the planned dividend payments exceeding the annual distributable profits earned.

The Group measures deferred income tax liability using the tax rates valid at the reporting date that are expected to apply to the taxable temporary differences of the period in which the temporary differences are expected to reverse.

Deferred income tax assets are recognised on deductible temporary differences to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

2.23 Employee benefits

Short-term employee benefits

Short-term employee benefits include wages and salaries as well as social security contributions and benefits relating to temporary suspension of the employment contract (holiday pay and similar payments) where the suspension of the contract occurs within 12 months after the end of the period in which the employee rendered the employee service, and other benefits payable after the end of the period in which the employee rendered the employee service.

If an employee has provided services in the reporting period in return for which benefits are expected to be paid, the Group recognises a liability (accrued expense) for the expected amount of the benefit after deducting any amount already paid.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value. Redundancy provisions are set up for redundancies occurring in the course of restructuring (Note 2.24).

Other employee benefits

Provisions have been recognised for benefits arising from collective agreements and other contracts and compensation payable for work-related injuries and damage to health (Note 2.24).

2.24 Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be estimated reliably. A provision is measured at the present value of the expenditures expected to be required to settle the obligation using an interest rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Provisions are recognised based on management's estimates. If required, independent experts may be involved. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of an outflow of resources may be small for any individual item, it may be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognised (if the other recognition criteria are met).

Provisions are reviewed at the end of each reporting period and adjusted to reflect current best estimates. The costs related to setting up provisions are charged to operating expenses or included in the cost of an item of property,

plant and equipment when the provision is related to the dismantlement, removal or restoration or other obligation, incurred either when the item is acquired or as a consequence of having used the item during a particular period.

Provisions are used only for expenditures for which they were originally recognised.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the Group settles the obligation. The reimbursement is recognised as a separate asset. The amount of the reimbursement may not exceed the amount of the provision.

(a) Provisions for post-employment benefits and work-related injury compensation

If the Group has an obligation to pay post-employment benefits to their former employees, a provision is recognised to cover these costs. The post-employment benefits can be divided into the following subcategories:

- provision for compensation of work-related injuries;
- provision for payments of scholarships;
- provision for pensions.

The provision for compensation of work-related injuries are formed to fulfil the Group's obligations to former employees arising from the law. The amounts of benefits awarded to the former employee and the expected payment period are either fixed by a specific court order and/or the individual agreements between the former employee and the Group.

The following aspects are taken into account during the recognition process of provisions for payments of scholarships and provisions for pensions:

- the conditions laid down in the commitments made;
- expected number of recipients;
- expected or agreed pay-out period.

(b) Environmental protection provisions

Environmental protection provisions are recognised to cover environmental damages that have occurred before the end of the reporting period when required by law or when the Group's past environmental policies have demonstrated that the Group has a constructive present obligation to liquidate the environmental damage. Experts' opinions and prior experience in performing environmental work are used to estimate the provisions.

(c) Provision for termination benefits

Provisions for termination benefits have been recognised to cover the redundancy costs when the Group has disclosed a restructuring plan describing the costs associated with the plan, the business or part of the business affected, the main locations affected by the restructuring, the locations, functions and estimated number of employees receiving the compensation, and has created a legitimate expectation on the part of the parties concerned that the Group will carry out the restructuring, either by starting to implement the plan or by informing the parties concerned of the main features of the plan.

(d) Provision for the dismantling cost of assets

The provisions for the dismantling of assets are recognised to cover the estimated costs relating to the future dismantling of assets if

the dismantling of assets is required by law or if the Group's past practice has demonstrated that the Group has a present constructive obligation to incur these costs. The present value of the dismantling costs of assets is included within the cost of property, plant and equipment.

(e) Provisions for greenhouse gas emissions

The accounting principles of the provision are disclosed in Note 2.3.

2.25 Contingent liabilities

Where it is not probable that an outflow of resources will be required to settle an obligation, or where the amount of an obligation cannot be measured with sufficient reliability, but the obligation may transform into a liability in certain circumstances, the obligation is disclosed in the notes to the financial statements as contingent liabilities.

2.26 Revenue recognition

Revenue is income arising in the course of the Group's ordinary activities. Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which the Group 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. The Group recognises revenue when it transfers control of a good or service to a customer. Revenue is shown net of value-added tax and different types of excise duty applicable to the Group (see Note 2.22).

(a) Sale of goods - wholesale

The Group manufactures and sells shale oil and shale in the wholesale market. Sales are recognised when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

No element of financing is deemed present as the sales are made with a credit term of up to 90 days, which is consistent with the market practice.

A receivable is recognised when the goods have been delivered as this is the point in time where the right to consideration becomes unconditional because only the passage of time is required before the payment is due.

If the Group provides any additional services to a customer after control of the goods has transferred to the customer, provision of the service is treated as a separate performance obligation and relevant revenue is recognised over the period in which the service is provided.

(b) Sale of services – electricity, gas, heat and waste treatment services

The Group provides electricity, gas and heat sale and waste treatment services under fixed and variable price contracts. Revenue from the services is recognised in the periods over which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided by the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. Revenue from the sale of electricity, gas and heat is recognised based on units delivered and revenue from the reception of waste is recognised based on units received.

Invoices are issued on a monthly basis. As permitted by IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

If the contract includes variable consideration, it is recognised as revenue only to the extent that it is highly probable that there will be no significant reversal of such consideration.

(c) Connection fees

When connecting to the electricity network, the customers must pay a connection fee based on the actual costs of infrastructure to be built in order to connect them to the network. The Management Board has concluded that the connection fees do not constitute a separate performance obligation from the sale of electricity or the ongoing provision of network transmission services, and therefore the revenue from connection fees is deferred and recognised as revenue over the estimated average useful lives of the assets providing the service, being 32 years. Connection fees received from customers are carried in the statement of financial position as contract liabilities within non-current liabilities.

(d) Financing component

The Group does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Group does not adjust any of the transaction prices for the time value of money.

2.27 Government grants

A government grant is recognised at fair value, when there is reasonable assurance that the grant will be received, and the Group will comply with all attached conditions. Grants related to income are recognised as income over the periods necessary to match them with the costs which they are intended to compensate.

Grants related to assets are accounted for using the gross method whereby the asset acquired with a grant is recognised at cost. The amount received as a government grant is recognised as deferred income related to the government grant. Related assets are depreciated, and the grant liability is recognised as income over the estimated useful life of the asset.

Support for electricity produced from renewable sources

In line with section 59 of the Estonian Electricity Market Act, the Group receives support (government grant related to income) of 5.37 cents per kilowatt hour of electricity produced from a renewable energy source with a generating installation whose net capacity does not exceed 125 MW.

The Group receives the grant monthly in accordance with the volume of electricity produced from a renewable energy source. The grant is not intended to compensate any specific costs but is a government measure to support and increase the transition to renewable energy in Estonia. The grant is accounted for using the gross method and reported within other operating income as a renewable energy grant.

2.28 Leases

(a) The Group as the lessee

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group determines the lease term as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. The Group reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee; and affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term. The Group revises the lease term if either there is a change in the non-cancellable period of a lease or there is a change in the exercise of termination or extension option.

Contracts may contain both lease and non-lease components. The Group's leases are mostly contracts including the rights to use land which do not contain non-lease components.

2.28.1 Initial measurement

At the commencement date, the Group recognises a right-of-use asset and a lease liability.

At the commencement date, the Group measures the right-of-use asset at cost. The cost of the right-of-use asset comprises:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group;
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are presented on a separate line in the statement of financial position.

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate, being the rate that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the Group as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with the average interest margin of the industry adjusted with the credit risk of the Group;

- makes adjustments specific to the lease, by taking into account factors such as the lease term, country, currency and security.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

(a) fixed payments, less any lease incentives receivable;

(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date. Variable lease payments that depend on an index or a rate include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate (such as LIBOR) or payments that vary to reflect changes in market rental rates. Some of the Group's leases contain variable lease payments;

(c) amounts expected to be payable by the Group under residual value guarantees;

(d) the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and

(e) payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

2.28.2 Subsequent measurement

After the commencement date, the Group measures the right-of-use asset applying a cost model. To apply the cost model, the Group measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

After the commencement date, the Group measures the lease liability by:

a) increasing the carrying amount to reflect interest on the lease liability;

b) reducing the carrying amount to reflect the lease payments made; and

c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Interest on the lease liability in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. After the commencement date, the Group recognises in the income statement interest on the lease liability and variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

If there are changes in lease payments, it may be necessary to remeasure the lease liability. The Group recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset with an exception when the Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset using the original discount rate for remeasurement. However, if the carrying amount of the right-of-use asset is

reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognises any remaining amount of the remeasurement in the income statement.

The Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate, if either:

(a) there is a change in the lease term. The Group determines the revised lease payments on the basis of the revised lease term; or

(b) there is a change in the assessment of an option to purchase the underlying asset. The Group determines the revised lease payments to reflect the change in amounts payable under the purchase option.

The Group remeasures the lease liability by discounting the revised lease payments using unchanged discount rate, if either:

a) there is a change in the amounts expected to be payable under a residual value guarantee. The Group determines the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee;

b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments (for example, a change to reflect changes in market rental rates following a market rent review).

The Group remeasures the lease liability to reflect those revised lease payments only when there is a change in the cash flows (i.e. when the adjustment to the lease payments takes effect). The Group determines the revised lease payments for the remainder of the lease term based on the revised contractual payments. The Group uses an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates.

The Group accounts for a lease modification as a separate lease if both:

a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

The Group has elected not to apply the requirements of IFRS 16 to short-term leases and leases for which the underlying asset is of low value. Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less.

(b) The Group as the lessor

Assets leased out under operating leases are accounted for using the same accounting policies that are applied to items of property, plant and equipment. Lease income from operating leases is recognised as income on a straight-line basis over the lease term.

2.29 Dividend distribution

Dividends are recognised when they are declared as a reduction of retained earnings and a liability to the shareholder.

2.30 Related party transactions

For the purposes of these consolidated financial statements, the related parties include the associates of the Group, the members of the Supervisory

and Management Boards of Eesti Energia AS and other individuals and entities which can control or significantly influence the Group's financial and operating decisions. As the shares of Eesti Energia AS belong 100% to the Republic of Estonia, the related parties also include entities under the control or significant influence of the state.

The Group has applied the exemption from disclosure of individually insignificant transactions and balances with the state and parties that are related to the entity because the state has control, joint control or significant influence over a such party.

3. Financial risk management

3.1 Financial risks

The Group's activities are exposed to various financial risks: market risk (including currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

The purpose of financial risk management is to mitigate financial risks and minimise the volatility of financial results. The risk and internal audit department under the Chairman of the Management Board and the Auditing Committee are engaged in risk management and responsible for the development, implementation and maintenance of the Group's risk management system. The Group's financial risks are managed in accordance with the principles established by the Management Board at the Group level. The Group's liquidity, interest rate and currency risks are managed in the finance department of the parent company.

3.1.1 Market risks

3.1.1.1 Currency risk

Currency risk is the risk that the fair value of financial instruments or cash flows will fluctuate in the future due to exchange rate changes. The financial assets and liabilities denominated in euros are considered to be free of currency risk when the entity has euro as the functional currency. All non-current borrowings and electricity export contracts are also concluded in euros to avoid currency risk. The Group has no material financial assets or liabilities open to currency risk.

3.1.1.2 Price risk

Price risk is the risk that the fair value and cash flows of financial instruments will fluctuate in the future for reasons other than changes in the market prices resulting from interest rate risk or foreign exchange risk. The sale of goods produced and services provided by the Group under free market conditions, the purchase of resources used in production, and financial assets recognised at fair value through profit or loss are impacted by price risk.

3.1.1.2.1 The price risk of commodities

The primary commodity price risks are the price risks associated with the sale of shale oil, the purchase and sale of electricity and natural gas, and the purchase of greenhouse gas emission allowances. The Group uses various derivative instruments to mitigate those price risks.

Derivatives used to hedge the risks associated with the purchase of electricity

The Group sells electricity to its customers in the retail market. Part of the customers have agreements with fixed rates. To hedge the risk of variability in electricity prices, the Group uses derivatives (futures, forward contracts and long-term power purchase agreements), which are entered into for the purchase electricity at each hour of trading. Transactions designed to hedge the risk of variability in electricity prices are designated as hedging instruments in cash flow hedges. The underlying hedged item is the risk components of highly probable forecast electricity purchase transactions: TGE Polish base and peak load prices (Polish market) and the Nord Pool system price, and the difference between the system price and the Finnish area price i.e. the price spread (markets other than Poland). Long-term cash-settled power purchase agreements hedge the exposure to the Nord Pool Lithuanian price area. The volume of derivative instruments entered into to hedge the price risk associated with the electricity sold to customers in Estonia, Latvia, Lithuania and Poland under long-term fixed-price contracts depends on the electricity sales volumes forecast based on the contracts signed for future periods. The hedge ratio of the hedging relationships is one to one.

	31 DECEMBER	
	2022	2021
Maturity date	2023–2033	2022–2033
Hedged volume, Nord Pool system price component	2.6 TWh	3.2 TWh
Hedged volume, Finnish area price component	2.3 TWh	2.7 TWh
Hedged volume, TGE Polish baseload price risk component	0.8 TWh	1.2 TWh
Hedged volume, TGE Polish peak load price risk component	-	0.01 TWh
Hedged volume, Lithuanian area price risk components (long-term PPAs)	4.8 TWh	3.8 TWh
Weighted average underlying price, Nord Pool system price component	57.76 EUR/MWh	31.78 EUR/MWh
Weighted average underlying price, Finnish area price component	7.1 EUR/MWh	5.32 EUR/MWh
Weighted average underlying price, TGE Polish baseload price risk component	172.51 EUR/MWh	84.80 EUR/MWh
Weighted average underlying price, TGE Polish peak load price risk component	-	138.38 EUR/MWh

Long-term power purchase agreements (PPAs) are not traded in an active market, for details on the determination of their fair value refer below to subsection 3.3 of the financial risk management note. The Group does not disclose the price for long-term power purchase agreements as it may damage its competitive position in the market.

Derivatives used to hedge the risks associated with the sale of electricity

The Group has electricity production facilities in Estonia that operate partially or in full on oil shale and it sells the produced electricity on the Estonian Nord Pool market. The Group uses derivatives (futures and forwards) to hedge the risk of variability in electricity prices, which are entered into for the sale electricity at each hour of trading. Transactions designed to hedge the risk of variability in electricity prices are designated as hedging instruments in cash flow hedges. The underlying hedged item is the risk components of highly probable forecast electricity sale transactions: the Nord Pool system price, and the difference between the system price and the Estonian area price i.e. the price spread. The volume of derivative transactions entered into to hedge the price risk of electricity sales depends on the production plan. The hedge ratio of the hedging relationships is one to one.

	31 DECEMBER	
	2022	2021
Maturity date	2023–2024	2022–2024
Hedged volume, Nord Pool system price component	0.04 TWh	0.5 TWh
Hedged volume, Estonian area price component	-	0.5 TWh
Weighted average underlying price, Nord Pool system price component	33.25 EUR/MWh	42.21 EUR/MWh
Weighted average underlying price, Estonian area price component	-	42.72 EUR/MWh

Derivatives used to hedge the risks associated with the purchase of natural gas

The Group sells natural gas to its customers in the retail market. Part of the customers have agreements with fixed rates. The Group uses derivatives (futures and forwards) to hedge the risk of variability in natural gas prices in the Polish market, which are entered into for the purchase of a specific amount of gas in each month. Transactions designed to hedge the risk of variability in gas prices are designated as hedging instruments in cash flow hedges. The underlying hedged item is the risk component of highly probable forecast gas purchase transactions: the purchase price of natural gas on the Polish power exchange TGE. The volume of derivative instruments entered into to hedge the price risk associated with the natural gas sold to customers in Poland under long-term fixed-price agreements depends on the natural gas sales volumes forecast based on the contracts signed for future periods. The hedge ratio of the hedging relationships is one to one.

	31 DECEMBER	
	2022	2021
Maturity date	2023–2024	2022–2023
Hedged volume, TGE Polish gas price risk component	0.32 TWh	0.63 TWh
Weighted average underlying price	69.99 EUR/MWh	48.53 EUR/MWh

Derivatives used to hedge the risks associated with the sale of natural gas

The Group sells gas to its customers in the retail market. Part of the customers have agreements with variable rates. The Group uses derivatives (futures and forwards) to hedge the risk of variability in natural gas prices in the Baltic market. From 1 March 2022, these instruments have been designated as hedging instruments in cash flow hedges.

To hedge the price risk associated with natural gas obtained from Inčukalns at a fixed rate and sold to customers in the Baltic countries under long-term variable-price agreements, the Group enters into derivative transactions to convert the fixed price of gas obtained from Inčukalns into a floating price.

The underlying hedged item is highly probable forecast variable-rate gas sale transactions that are priced against the TTF ICE Endex Future. The hedge ratio of the hedging relationships is one to one.

	31 DECEMBER	
	2022	2021
Maturity date	2023	-
Hedged volume, TTF ICE Endex Future (TWh)	0.04 TWh	-
Weighted average underlying price	114.42 EUR/MWh	-

Derivatives used to hedge the risks associated with the sale of shale oil and shale oil gasoline

The Group has shale oil production facilities in Estonia and it sells the produced shale oil and shale oil gasoline in the global energy markets. The Group uses derivatives (futures and swaps) to hedge the risk of variability in the prices of shale oil and shale gasoline (for shale gasoline from 1 January 2022). In these transactions, the counterparty undertakes to pay the difference between a fixed price and the market price in a given period of time. According to the Group's hedging policy, the purpose of hedging is to ensure a predefined amount of profit after variable expenses. Contracts are concluded for the sale of specific amounts of shale oil and shale oil gasoline in future periods and they are designated as hedging instruments in cash flow hedges.
The underlying hedged item is the risk component of highly probable forecast shale oil sales transactions: heavy fuel oil with 1% sulphur content or its separately identifiable subcomponents. For shale oil gasoline, the underlying hedged item is the risk component of highly probable forecast shale gasoline sale transactions: Naphtha Cargoes CIF NWE, or its separately identifiable subcomponents. The volume of derivative transactions entered into to hedge the price risk of the sale of shale oil and shale oil gasoline depends on long-term sales contracts signed for future periods and the production plan. Consistent with the Group's hedging strategy, derivative contracts are concluded for the next three years to the extent of up to 90% of the volumes of highly probable forecast sales transactions. The percentage of hedged sales volumes is higher for the years closer to the reporting date, due to the liquidity of the derivatives and the Group's hedging strategy. The hedge ratio of the hedging relationships is one to one.

Shale oil:	31 DECEMBER	
	2022	2021
Maturity date	2023–2025	2022–2024
Hedged volume, heavy fuel oil 1% sulphur content	823 thousand Mt	740 thousand Mt
Weighted average underlying price	385 EUR/Mt	303 EUR/Mt

Shale oil gasoline:	31 DECEMBER	
	2022	2021
Maturity date	2023–2025	-
Hedged volume, Naphtha Cargoes CIF NWE	129 thousand Mt	-
Weighted average underlying price	547 EUR/Mt	-

Effective and ineffective portions of hedges

The effective portion of the change in the fair value of the hedging instruments is recognised in other comprehensive income and reclassified to profit or loss where it is presented as revenue, a reduction of revenue, expenses, or a reduction of expenses when the forecast sales transaction occurs, or as other operating income or expense when it becomes clear that the occurrence of the forecast sales transaction in a given period is unlikely to occur. The Group has not identified any material sources of hedge ineffectiveness that are expected to affect the hedging relationships.

Potential sources of hedge ineffectiveness are the following:

- Compared with previous periods, foreign exchange rates became more volatile in the reporting period. Movements in foreign exchange rates may cause an imbalance in the economic relationship between the hedged item and the hedging instrument and a situation may arise where the values of the hedged item and the hedging instrument no longer move in the opposite direction. According to the assessment of the Group's management, it is highly unlikely that movements in foreign exchange rates would cause significant hedge ineffectiveness.

The above risks did not materialise in 2022 or 2021.

Changes in the fair values of hedging instruments, which are recognised in the hedge reserve, are disclosed in Note 21. Further information on derivatives is provided in Notes 13, 15 and 16.

Derivatives held for trading

Derivatives held for trading are mainly derivatives for the purchase and sale of natural gas because the Group does not apply the principles of hedge accounting to these products and markets (except for natural gas in Poland and variable price natural gas transactions in the Baltics (see the section Derivatives used to hedge the risks associated with the sale of natural gas) and long term PPAs which the Group has not designated as hedging instruments in cash flow hedges. In addition, natural gas, electricity, and oil derivatives offered to customers through intermediation transactions are classified as derivatives held for trading.

The Group has material open derivative net positions at the reporting date that are not designated as hedging instruments. The fair value of the given instruments is calculated based on the market prices of electricity, oil and gas products. The impact of reasonable changes in underlying commodity prices on the Group's financial results would be as follows:

- If the underlying market prices of electricity had been 10% higher/lower, it would have had the following impact on the Group's post-tax financial result: EUR 23.1 million and EUR (23.1) million (2021: EUR 19.8 million and EUR (19.8) million).
- If the underlying market prices of oil products had been 10% higher/lower, it would have had the following impact on the Group's post-tax financial result: EUR (3.6) million and EUR 3.6 million (2021: EUR (6.2) million and EUR 6.2 million).
- If the underlying market prices of natural gas had been 10% higher/lower, it would have had the following impact on the Group's post-tax financial result: EUR 0.75 million and EUR (0.75) million (2021: EUR 0.8 million and EUR (0.8) million).

3.1.1.3 Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value of financial instruments or cash flows will fluctuate in the future due to changes in market interest rates. Cash

flow interest rate risk arises from borrowings with floating interest rates is the risk that finance costs will increase when interest rates increase. Interest rate risk is mitigated partly by raising borrowings with fixed interest rates and partly by taking loans with floating interest rates and fixing the interest expense of floating rate loans with interest rate swaps.

Compared with the end of the previous financial year, there was a change in the Group's management of interest rate risk in connection with entering into interest rate swaps (IRSs) in March and April 2022. As at 31 December 2022, the Group had three interest rate swaps with a total notional amount of EUR 168.3 million. As at 31 December 2022, 68.9% of the Group's borrowings (excluding lease liabilities) had a fixed interest rate (31 December 2021: 59.5%) and the weighted average effective interest rate of bank loans, including the effect of interest rate swaps, was 2.6% (31 December 2021: 0.9%). The interest rate of the Group's bank loans depends on the base interest rate (for loan liabilities denominated in euros, the 3-month or 6-month Euribor; for loan liabilities denominated in Polish zloty, the 6-month WIBOR). As at 31 December 2022, an increase of 0.5 percentage points in the average base interest rate would have had an impact of EUR 2.1 million on the Group's annual profit before tax (31 December 2021: EUR 0.0 million). If the floating base interest rate as at 31 December 2022 had been 100 basis points higher, the Group's annual net profit would have been EUR 4.2 million (2021: EUR 1.8 million) lower.

Due to the aforementioned changes the market interest rates do not have a material effect on the Group's borrowings, however they may affect the fair value of the borrowings (Note 22).

3.1.1.4 Interest rate swaps

Interest rate swaps have been designated as hedging instruments in cash flow hedges. An economic relationship exists between the hedging instruments (interest rate swaps) and the hedged items (loan agreements), because as at 31 December 2022 the critical terms of all interest rate swaps matched the terms of the loan agreements (notional amounts, currencies, maturities, payment schedules). Future hedging transactions are entered into with a hedge ratio of one to one. The Group tests hedge effectiveness by using the hypothetical derivative method and compares the changes in the fair value of interest rate swaps with the changes in the fair value of loan agreements.

Potential sources of hedge ineffectiveness are the following:

- A change in the credit risk of the Group or the counterparty of the interest rate swap. The impact of credit risk may cause an imbalance in the economic relationship between the hedged item and the hedging instrument. According to the assessment of the Group's management, it is highly unlikely that changes in credit risk would cause significant hedge ineffectiveness.

Fair value is calculated using a third party model which is confirmed by the transaction partner. On the basis of the Group's internal calculations, the fair value of interest rate swaps is determined as the present value of the expected future cash flows based on the Euribor forward curves derived from observable market data. The fair value measurement takes into account the credit risk of the Group and the counterparty, which is calculated on the basis of credit spreads derived from credit default swaps or bond prices. The fair value of interest rate swaps qualifies as a level 2 measurement in the fair value hierarchy.

As at 31 December 2022, the Group had three interest rate swaps to hedge the interest rate risk of three loans (in the comparative period, there were no interest rate swaps):

- An interest rate swap with a notional amount of EUR 80.0 million, whereby the Group receives interest at a rate equal to 6 month EURIBOR and pays a fixed rate of interest of 1.1%. The swap is designed to hedge the exposure to the interest rate risk of a floating-rate loan that was drawn down on 30 September 2022.

- An interest rate swap with a notional amount of EUR 50.0 million, whereby the Group receives interest at a rate equal to 3 month EURIBOR and pays a fixed rate of interest of 1.049%. The swap is designed to hedge the exposure to the interest rate risk of a floating-rate loan that was drawn down on 24 September 2022.

- An interest rate swap with a notional amount of EUR 38.3, whereby the Group receives interest at a rate equal to 6 month EURIBOR and pays a fixed rate of interest of 1.125%. The swap is designed to hedge the exposure to the interest rate risk of a floating-rate loan that was drawn down on 30 June 2022.

3.1.2 Credit risk

Credit risk is the risk that the Group will incur a monetary loss caused by the other party to a financial instrument because of that party's inability to meet its obligations. Cash in bank deposits, derivatives with a positive value and trade and other receivables are exposed to credit risk.

According to the principles of depositing of available monetary funds of the Group, the following principles are followed:

- preserving capital;
- ensuring liquidity at the right moment for the needs of business;
- optimal return considering the previous two goals.

Available monetary funds can be deposited in the following domestic and foreign financial instruments:

- money market funds and interest rate funds in which holdings or shares can be redeemed or sold on a regular basis;
- deposits of credit institutions;
- freely negotiable bonds and other freely negotiable debt instruments.

Requirements for the level of credit risk of issuers and partners of financial instruments (including hedge transactions) and maximum positions of each partner are approved by the Group's committee of the financial risks.

The available monetary funds can be deposited only in financial instruments nominated in euros. In addition, there are certain requirements for the maturities of the financial instruments and diversification.

The unpaid invoices of customers are handled on a daily basis in the departments specifically set up for this purpose. The automated reminder and warning system sends messages to customers about overdue invoices with the warning that if they are not paid, the customers will be cut off from the electricity network. After that, a collection petition is filed at the court or a collection agency. Special agreements are in the jurisdiction of special credit committees.

The maximum amount exposed to credit risk was as follows as at the end of the reporting period:

in million EUR	31 DECEMBER	
	2022	2021
Trade and other receivables (Notes 13 and 14)*	402.0	322.2
Cash and cash equivalents (Notes 13, 16 and 18)	280.5	198.0
Derivatives with positive values (Notes 3.3, 13, 15 and 16)	700.7	347.8
Total amount exposed to credit risk	**1,383.2**	**670.0**

* Total trade and other receivables less prepayments

Trade receivables are presented net of expected credit losses. Although the collection of receivables can be impacted by economic factors, management believes that there is no significant risk of loss beyond the loss allowances already recognised. Other receivables do not contain any impaired assets.

More detailed information on credit risk is disclosed in Notes 14 and 16.

3.1.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations due to insufficient cash inflows. Liquidity risk is managed through the use of various financial instruments such as loans, bonds and commercial papers.

The Group's liquidity risk has two dimensions. Short-term liquidity risk is the risk that the Group's bank accounts do not include sufficient cash to meet the Group's financial commitments. Long-term liquidity risk is the risk that the Group does not have sufficient amount of unrestricted cash or other sources of liquidity to meet its future liquidity needs in order to carry out its business plan and meet its commitments, or that for the above reason the Group needs to raise additional cash in a hurry and on terms, which are less than optimal. Short-term liquidity risk is mitigated so that the Group keeps a certain amount of cash buffer in its bank accounts in order to have sufficient amount of cash available also in case there are deviations from the cash flow forecast. Long-term liquidity risk is mitigated by regular forecasts of liquidity needs for the next 12 months (including cash requirement for investments, loan repayments and dividends, and positive cash flow from operations) and by keeping sufficient liquidity buffer in the form of unrestricted cash, undrawn investment loans, and limits of liquidity loans. The Group's liquidity risk is managed at the Group level by the parent company's Financial Department.

As at 31 December 2022, the Group had spare monetary balances of EUR 280.5 million (31 December 2021: EUR 198.0 million). Additionally, as at the end of the financial year, the Group had undrawn loan facilities of EUR 495.0 million (31 December 2021: EUR 535.0 million) (Note 22).

The following liquidity analysis includes the division between the Group's current and non-current liabilities (including derivatives with net payments) by the maturity date of liabilities. All amounts shown in the table are contractual undiscounted cash flows. The payables due within 12 months after the end of the reporting period, except for borrowings, are shown at their carrying amount.

Liabilities by maturity date as at 31 December 2022:

in million EUR	Less than 1 year	Between 1 and 5 years	Later than 5 years	Total undiscounted cash flow	Carrying amount
Borrowings (Notes 3.2, 13 and 22)*	634.3	407.5	74.0	1,115.8	1,054.6
Derivatives (Notes 3.3, 13 and 15)	169.1	32.1	-	201.2	201.2
Trade and other payables (Notes 13 and 23)	202.3	4.8	-	207.1	207.1
Total	**1,005.7**	**444.4**	**74.0**	**1,524.1**	**1,462.9**

* Interest expenses have been estimated on the basis of the interest rates prevailing as at 31 December 2022.

Liabilities by maturity date as at 31 December 2021:

in million EUR	Less than 1 year	Between 1 and 5 years	Later than 5 years	Total undiscounted cash flow	Carrying amount
Borrowings (Notes 3.2, 13 and 22)*	179.7	817.8	3.7	1,001.2	956.5
Derivatives (Notes 3.3, 13 and 15)	116.1	37.8	-	153.9	153.9
Trade and other payables (Notes 13 and 23)	137.6	3.0	-	140.6	140.6
Total	**433.4**	**858.6**	**3.7**	**1,295.7**	**1,251.0**

* Interest expenses have been estimated on the basis of the interest rates prevailing as at 31 December 2021.

3.2 Capital management

All shares of Eesti Energia AS belong to the state. Decisions concerning dividend distribution and increases or decreases of share capital are made by the Republic of Estonia through the Ministry of Finance. Each financial year, the dividends payable by Eesti Energia AS to the state budget are defined by the order of the Government of the Republic of Estonia based on the dividend policy in place (see details from Notes 19 and 20).

The Group follows a strategy according to which in the long term net debt should not exceed EBITDA more than 3.5 times (2021: 3.5 times) and equity should be at least 50% (31 December 2021: 50%) of the total assets.
As at 31 December 2022 the net debt to EBITDA ratio was met (31 December 2020: the net debt to EBITDA ratio was met).

In 2022, bonds were transferred from long-term borrowings to short-term borrowings because the bonds are redeemable in autumn 2023 (see Notes 22 and 36).

As at 31 December 2022 and 31 December 2021, the net debt to EBITDA ratio and the equity to assets ratio were as follows:

in million EUR	31 DECEMBER	
	2022	2021
Borrowings (Notes 3.1, 13 and 22)	1,054.6	956.5
Less: cash and cash equivalents (Notes 3.1, 12 and 18)	(280.5)	(198.0)
Net debt	774.1	758.5
Total equity	3,120.0	2,465.6
EBITDA*	420.4	317.6
Assets	5,506.2	4,384.2
Net debt/EBITDA	1.8	2.4
Equity/assets	57%	56%
Total capital (net debt + total equity)	3,894.1	3,224.1
Debt to equity ratio	20%	24%

* EBITDA: profit before finance income and costs, profit (loss) from associates under the equity method, tax, depreciation, amortisation, impairment losses (see Note 5 for quantitative reconciliation of the amount)

Both EBITDA and net debt are alternative performance measures (APMs). These measures are not defined under the requirements of IFRS and may not be comparable with the APMs of other companies. The Group believes these APMs provide the readers of the consolidated financial statement with additional useful information in regard to the performance of the business and how it is managed and they are used by the management for performance analysis and reporting. These APMs should be viewed as supplemental to and not as a substitute for the measures presented in the consolidated financial statements which are prepared in accordance with IFRS.

3.3 Fair value

The Group estimates that the fair values of financial assets and liabilities reported at amortised cost in the statement of financial position as at 31 December 2022 and 31 December 2021 do not materially differ from the carrying amounts reported in the consolidated financial statements, with the exception of bonds (the fair value is calculated with the inputs that are classified to Level 1 in the fair value hierarchy, Note 22). The carrying amount of current accounts receivable and payables and loan receivables less impairments is estimated to be approximately equal to their fair value. For disclosure purposes, the fair value of financial liabilities is determined by discounting the contractual cash flows at the market interest rate which is available for similar financial instruments of the Group.

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

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (Level 2);
- inputs for the asset or liability that are not based on observable market data (Level 3).

The following tables present the Group's assets and liabilities that are measured at fair value by the level in the fair value hierarchy as at 31 December 2022 and 31 December 2021:

in million EUR	31 DECEMBER 2022			
	Level 1	Level 2	Level 3	Total
Assets				
Derivatives held for trading (Notes 13, 15 and 16)	58.2	35.3	183.3	276.8
Cash flow hedges (Notes 13, 15 and 16)	32.7	30.5	360.7	423.9
Total financial assets (Notes 3.1, 13, 15 and 16)	**90.9**	**65.8**	**544.0**	**700.7**
Liabilities				
Derivatives held for trading (Notes 13, 15 and 16)	63.9	0.5	46.8	111.2
Cash flow hedges (Notes 13, 15 and 16)	89.8	0.2	-	90.0
Total financial liabilities (Notes 3.1, 13 and 15)	**153.7**	**0.7**	**46.8**	**201.2**

in million EUR	31 DECEMBER 2021			
	Level 1	Level 2	Level 3	Total
Assets				
Derivatives held for trading (Notes 13, 15 and 16)	36.4	19.7	83.7	139.8
Cash flow hedges (Notes 13, 15 and 16)	98.1	14.4	95.5	208.0
Total financial assets (Notes 3.1, 13, 15 and 16)	**134.5**	**34.1**	**179.2**	**347.8**
Liabilities				
Derivatives held for trading (Notes 13, 15 and 16)	53.3	21.9	-	75.2
Cash flow hedges (Notes 13, 15 and 16)	71.0	7.7	-	78.7
Total financial liabilities (Notes 3.1, 13 and 15)	**124.3**	**29.6**	**-**	**153.9**

a) Financial instruments within level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. The Group's elektricity, natural gas, shale oil and shale gasoline derivatives that are traded on Nasdaq OMX, ICE, Platts European Marketscani, TGE, Argus and Nymex exchanges, are classified as Level 1 instruments.

The fair values of forwards, swaps and futures are determined on the basis of their forward prices at the reporting date.

b) Financial instruments within level 2

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. An instrument is included in level 2 if all the significant inputs required to establish the fair value of the instrument are observable. If one or more significant inputs are not based on observable market data, an instrument is included in level 3.

The values of the Group's derivatives arising from Baltic electricity and interest rate swap transactions is calculated using valuation techniques, which are based on the quotations of Nasdaq OMX and the interbank swap market at the reporting date.

c) Financial instruments within level 3

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. An instrument is included in level 3 if one or more significant inputs are not based on observable market data. The Group classifies the universal service, guarantees of origin (green certificates) and power purchase agreements (PPAs) as level 3 financial instruments .

The financial risk management department of the Group performs the valuations of derivative items required for financial reporting purposes, including level 3 fair values. This team reports directly to the financial risk committee who approves the valuation technique. Discussions of valuation processes and results are held between the financial risk committee and the valuation team at least once every quarter, in line with the Group's quarterly reporting periods.

Level 3 instruments

in million EUR	31 DECEMBER	
	2022	2021
Long-term PPAs	536.7	179.2
Guarantees of origin	(2.4)	-
Universal service	(37.1)	-
Total	**497.2**	**179.2**

The fair value of **long-term power purchase agreements (PPAs)** is calculated based on the actual long-term (over 5 years) PPAs that the Group has signed with its customers. The fair value calculations are made on a monthly basis using the weighted average price of long-term PPAs signed in the month

preceding the reporting date, which is converted into the baseload electricity price that is used to measure the value of the PPAs.

If the forecast prices changed by +/- 10%, the impact on the Group's net profit would be +/- EUR 21.5 million (2021: +/- EUR 19.7 million) and the impact on the Group's other comprehensive income would be +/- EUR 60.2 million (2021: +/- EUR 20.8 million).

The fair value of level 3 derivatives of **guarantees of origin (GoOs)** is calculated using a valuation technique, which is based on the bid and ask quotations of traders in GoOs. The fair value calculations are made on a daily basis.

If the market prices of the GoOs used in the calculations changed by +/- 10%, the impact on the Group's net profit would be +/- EUR 0.6 million (2021: no impact).

The fair value of level 3 derivatives of the **universal service** is calculated using a valuation technique, which is based on different inputs. The market price is found using valuation techniques, which are based on Nasdaq OMX quotations and fair value is calculated based on the difference between the market price and the universal service price established by the Estonian Competition Authority. The Group has estimated the quantities based on the forecasts of quantities provided by external resellers, taking into account the possible movement of customers between electricity plans (packages), which is estimated by reference to the comparison of the market price and the price of the universal service. The quantities of the universal service have been accounted for only until Q1 2024, because management estimates that thereafter the market price will be permanently lower than the established price of the universal service and customers will leave the universal service plan (See Note 4 for additional information about the estimates).

If the estimated prices changed by +/- 10%, the impact to the Group's net profit would be -/+ EUR 22.4 million (2021: no impact).

In million EUR	Cash flow hedges	Derivatives held for trading
Opening balance 1 January 2021	**0.0**	**10.9**
Gains recognised in other comprehensive income	95.5	-
Gains recognised in other operating income	-	72.8
Closing balance 31 December 2021	**95.5**	**83.7**
Gains recognised in other comprehensive income	265.2	-
Gains recognised in other operating income	-	99.6
Loss recognised in other operating expenses	-	(46.8)
Closing balance 31 December 2022	**360.7**	**136,5**

Gains recognised in other comprehensive income are accounted for within *Revaluation of hedging instruments net of reclassifications to profit or loss.* Gains recognised in other income are accounted for within *Gain from revaluation of derivatives*.

For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, the amount of the total unrealised gains for 2022 was EUR 92.5 million (2021: EUR 49.0 million). This amount is included in other operating income.

3.4 Offsetting financial assets and financial liabilities

a) Financial assets

The following financial assets are subject to offsetting:

in million EUR	31 DECEMBER 2022				
	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the statement of financial position	Net amount of financial assets presented in the statement of financial position (Notes 3.1, 3.3, 13, 15 and 16)	Related amounts not set off in the statement of financial position	Net amount
Derivative financial instruments	1,057.9	(357.2)	700.7	(0.6)	**700.1**

in million EUR	31 DECEMBER 2021				
	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the statement of financial position	Net amount of financial assets presented in the statement of financial position (Notes 3.1, 3.3, 13, 15 and 16)	Related amounts not set off in the statement of financial position	Net amount
Derivative financial instruments	410.2	(62.4)	347.8	(6.2)	**341.6**

b) Financial liabilities

The following financial liabilities are subject to offsetting:

in million EUR	31 DECEMBER 2022				
	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the statement of financial position	Net amount of financial liabilities presented in the statement of financial position (Notes 3.1, 3.3, 13, 15 and 16)	Related amounts not set off in the statement of financial position	Net amount
Derivative financial instruments	558.4	(357.2)	201.2	(0.6)	**200.6**

in million EUR	31 DECEMBER 2021				
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position (Notes 3.1, 3.3, 13, 15 and 16)	Related amounts not set off in the statement of financial position	Net amount
Derivative financial instruments	216.3	(62.4)	153.9	(6.2)	**147.7**

Agreements between the Group and the counterparties allow offsetting amounts related to specific individual transactions when mutual receivables are denominated in the same currency. Under some agreements, offsetting between two or more transactions is allowed.

4. Critical accounting estimates and assumptions

Accounting estimates and assumptions

The preparation of the financial statements requires the use of estimates and assumptions that impact the reported amounts of assets and liabilities, and the disclosure of assets accounted for off the statement of financial position and contingent liabilities in the notes to the financial statements. Although these estimates are based on management's best knowledge, actual results may ultimately differ from these estimates. Changes in management's estimates are recognised in the income statement of the period of the change.

The estimates presented below have the most significant impact on the financial information presented in the financial statements.

a) Determination of the useful lives of items of property, plant and equipment

The estimated useful lives of items of property, plant and equipment are based on management's estimate of the period during which the asset will be used. Previous experience has shown that the actual useful lives have sometimes been longer than the estimates. As at 31 December 2022, the carrying amount of the Group's property, plant and equipment was EUR 3,253.6 million (31 December 2021: EUR 2,979.5 million) and the depreciation charge for the reporting period was EUR 170.0 million (2021: EUR 166.8 million) (Note 6). The average remaining useful life of property, plant and equipment is 14.4 (31 December 2021: 18.6) years. If the average remaining useful life of property, plant and equipment increased/decreased by 1 year, depreciation expense would decrease by EUR 14.3 million (2021: EUR 8.7 million)/increase by EUR 16.3 million (2021: EUR 9.7 million).

b) Estimation of the recoverable amounts of property, plant and equipment and intangible assets

The Group performs impairment tests to determine the recoverable amounts of items of property, plant and equipment and intangible assets as and when needed. When carrying out impairment tests, management uses various estimates for the cash flows arising from the use, sales, maintenance and repairs of the assets, as well as estimates for inflation and growth rates and the likelihood of getting grants. The estimates are based on forecasts of the general economic environment, consumption and the sales price of electricity. Where necessary, the assistance of relevant experts is used. If the situation changes in the future, either additional impairment may have to be recognised, or previously recognised impairment may have to be partially or wholly reversed. The recoverable amounts of fixed assets used for electricity distribution service are influenced by the Competition Authority which determines the reasonable rate of return for the assets. If the revenue, expenses and investments related to the provision of distribution service remain within the expected limits, the revenue derived from the sale of the services guarantees a reasonable rate of return for the assets. Information about impairment losses incurred in the reporting and comparative period is disclosed in Notes 6 and 8.

c) Recognition and measurement of provisions

As at 31 December 2022, the Group had set up provisions related to environmental protection, termination of mining operations, dismantling of assets, employees and contracts totalling EUR 30.0 million (31 December 2021: EUR 33.1 million) (Note 25). The amount and/or timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of provisions, including the amount of future expenditure, inflation rates, and the timing of settlement of the expenditure. The actual expenditure may also differ from the provisions recognised as a result of possible changes in legislative requirements,

technology available in the future to restore environmental damages, and expenditure covered by third parties.

The Group adopted a new model for calculating the discount rate in 2022 because the old one was largely built on the yield curve derived from Eesti Energia's own bond and the forecasts of potential borrowing costs provided by banks. As Eesti Energia's bond will mature soon, a new bond has not been issued and forecasting the potential cost of long-term borrowings in the current volatile interest rate environment is difficult, the Group considered it necessary to adjust the model and rebase it on easily accessible and transparent data. The new model uses the yield curve of the European AAA-rated bonds, to which the Estonian sovereign credit default spread (CDS) and the spread of our own credit rating are added. See Note 25 for the impact of changes in discount rates.

d) Contingent assets and liabilities

When estimating contingent assets and liabilities, management considers historical experience, general information about the economic and social environment and the assumptions and conditions of possible events in the future based on the best knowledge of the situation. Further information is disclosed in Note 34.

e) Recognition of deferred tax on the undistributed earnings of the Group's Estonian and Latvian subsidiaries

As at 31 December 2022 and 31 December 2021 the Group has not recognised deferred tax liabilities associated with temporary taxable differences related to the undistributed retained earnings of the Estonian and Latvian subsidiaries in the amount of EUR 1,008.3 million (31 December2021: EUR 988.6 million). The Group has a written dividend policy that is based on the formal dividend expectations of its sole shareholder. Based on the implemented dividend policy, the Group has assessed that no dividends will be distributed from the retained earnings of the Estonian and Latvian subsidiaries in the foreseeable future. The Group is able to control the timing and amount of the dividend distributions of its subsidiaries.

f) Inputs used to calculate the fair value of level 3 instruments

The fair value of PPAs is calculated using mathematical models which are based on market prices and the weighted average prices of actual contracts signed with customers that have been converted to baseload electricity prices. The fair value of guarantees of origin is calculated using a valuation technique, which is based on the bid and ask quotations of traders in guarantees of origin. See further details from Note 3.3.

The inputs used to calculate the fair value of the universal service are described in Note 4 g) below.

g) Recognition of the universal service

Enefit Power AS is obliged by law to make monthly settlements with electricity suppliers for the difference between the price of the universal service and the market price of electricity (Nord Pool Estonian price area day-ahead price) calculated based on the quantities actually consumed during the previous month (Note 1.1). The Group continues to sell the electricity it produces in the open market. It does not sell electricity directly to suppliers or their customers. Accordingly, the instrument constitutes a cash-settled derivative which is measured at fair value through profit or loss (Notes 2.12.7 and 2.14). The fair value measurement of the derivative involves significant estimates by management, which are based on the following inputs:

- Forecasts of future electricity prices – The Group determines future market prices using valuation techniques, which are based on Nasdaq OMX quotations. Based on the forecast for electricity prices as at 31 December

2022, management estimated that demand for the universal service would exist until spring 2024, because from April 2024 the market price of electricity would fall significantly below the price of the universal service. The average forecast market price of electricity was 172.50 €/MWh for 2023 and 180.45 €/MWh for Q1 2024.

- The price of the universal service and its possible changes – The price of the universal service may change due to changes in production costs and political intervention. Both factors are affected by global trends (inflation, energy crisis, emission allowance prices, etc.). The fair value of the derivative as at 31 December 2022 was measured based on the price established by the Estonian Competition Authority, which was 154.08 €/MWh at the reporting date.

- Forecasts of the consumption volume (quantities) of the universal service (from the Group's perspective) – The Group forecasts the consumption quantities based on relevant forecasts obtained from external electricity suppliers, taking into account the possible movement of customers between electricity plans (packages), which is estimated by reference to the comparison of the market price and the price of the universal service. For the months when the price of the universal service is expected to be higher than the forecast market price of electricity, the Group factors in the movement of customers between electricity plans, i.e. customers switching over from the universal service to an exchange price-based electricity plan. The forecast quantity of electricity expected to be consumed through universal service provided by external suppliers in the period 1 January 2023 – 31 March 2024 was 1.2 TWh at the reporting date.

As at 31 December 2022, the fair value of the universal service derivative instrument measured at Group level was negative at EUR 37.1 million (Note 15). The fair value of the derivative is measured at each reporting date, and changes in market inputs (forecast electricity prices) or legislation (the price or legal basis for the universal service) have a material impact on its value.

The parent company is an electricity supplier that settles the difference between the price of the universal service and the market price of electricity with Enefit Power AS and the impact is eliminated in consolidation. The accounting treatment for the derivative in the parent's separate financial statements is consistent with the accounting policies applied by the Group. As at 31 December 2022, the fair value of the universal service derivative measured at the level of the parent was positive at EUR 48.8 million.

5. Segment reporting

For the purposes of monitoring the Group's performance and making management decisions, the Management Board uses product-based reporting. The Group has determined the main products and services, i.e. value-creating units that generate external revenues and profit, and built up a methodology of allocating revenues, expenses, and assets to the products.

The Group has distinguished four main products and services, which are presented as separate reportable segments, and a number of minor products and services, which are presented together within other segments:

1) **electricity** (production and sale of electricity generated from renewable and non-renewable sources, and electricity trading);
2) **distribution** (sale of the electricity distribution service in the regulated market and additional regulated services by Elektrilevi);
3) **shale oil** (production and sale of liquid fuels);
4) **natural gas** (sale of natural gas);
5) **other products and services** (including the production and sale of heat, sale of ancillary products and services (charging, lighting, solar, flexibility, and heating and cooling equipment services), construction and sale of power engineering equipment, sale of scrap metal, sale of mining products, sale of other products and services).

The Group began to present the natural gas segment separately as from 2022 because the sale of natural gas to external customers exceeded the quantitative thresholds provided in IFRS 8. As a result, segment reporting was retrospectively adjusted.

Th segment of other products and services includes by-products and services whose individual share of the Group's revenue and EBITDA is immaterial. None of these products and services meet the quantitative thresholds that would require separate reporting disclosures.

Segment revenues include revenues from external customers only, generated by the sale of respective products or services. As the segments are based on externally sold products and services (as opposed to legal entities), there are no transactions between segments to be eliminated.

All operating expenses of the Group are allocated to the products and services to which they relate. If a product (e.g. electricity) is produced by several Group entities in a vertically integrated chain, then the related expenses include the production cost of each entity involved in the production of the product (e.g. the cost of electricity includes the cost of oil shale used for its production). Group overheads are allocated to products and services proportionally to the revenue generated in relation to these costs.

The Management Board assesses the performance of the segments primarily based on EBITDA and it also monitors operating profit. Finance income and expenses, and income tax are not allocated to the segments. EBITDA is not a defined performance measure under IFRS. The Group's definition of EBITDA may not be comparable with similarly titled performance measures and disclosures by other entities.

The Group's assets are allocated to the segments based on their purpose of use. Liabilities are not allocated to the segments as they are managed centrally by the Group's finance department.

Under the Estonian Electricity Market Act, the sales prices of network charges need to be approved by the Estonian Competition Authority. The Estonian Competition Authority has an established methodology for approving the prices that considers the costs necessary to fulfil the legal obligations and ensures justified profitability on invested capital. Generally, the Estonian Competition Authority considers the annual average carrying amount of non-current assets plus 5% of external sales revenue as invested capital. The rate for justified profitability is the company's weighted average cost of capital (WACC). The sales prices for all other segments are not regulated by the law.

Also according to the District Heating Act the heating undertakings which sell heat to customers or to network operators who sell heat to customers or produce heat in the process of combined generation of heat and power must obtain the approval of the Competition Authority regarding the maximum price of the heat to be sold.

Revenue

The revenue from external customers reported to the Management Board of the parent company is measured in a manner consistent with that in the consolidated income statement.

in million EUR	31 DECEMBER	
	2022	2021
Revenue from external customers		
Electricity	1,480.4	766.4
Distribution service	242.1	233.6
Natural gas	243.9	93.4
Shale oil	133.2	135.0
Total reportable segments	**2,099.6**	**1,228.4**
Other	118.6	84.6
Total (Note 26)	**2,218.2**	**1,313.0**

A more detailed revenue breakdown between goods and services is provided in Note 26. In segment reporting, revenue from all goods and services is allocated to four main products and services and the segment of other products and services based on both the direct revenue from the product or service as well as the revenue from its associated sub-products and -services. Therefore, electricity and distribution revenues in Notes 5 and 26 are not directly comparable.

The reasons for growth in electricity, natural gas and distribution service revenues are described in Note 1.1.

The strongest contributors to growth in revenue from other products and services were pellet sales (+ EUR 7.8 million compared with 2021), sales of frequency reserve service (+EUR 15.0 million), sales of solar services (+ EUR 6.2 million) and sales of mining products (+ EUR 6.1 million).

EBITDA

in million EUR	31 DECEMBER	
	2022	2021
EBITDA		
Electricity	286.1	217.6
Distribution service	52.1	87.3
Natural gas	73.5	(6.1)
Shale oil	(12.0)	8.0
Total reportable segments	**399.7**	**306.8**
Other	20.7	10.8
Total	**420.4**	**317.6**
Depreciation, amortisation and impairment (Notes 6, 8 and 9)	(177.2)	(172.1)
Net finance costs (Note 31)	(20.0)	(25.6)
Profit from associates using the equity method (Note 10)	2.5	2.0
Profit before tax	**225.7**	**121.9**

* EBITDA: profit before finance income and costs, profit (loss) from associates under the equity method, tax, depreciation, amortisation and impairment losses.

The electricity segment's EBITDA for 2022 includes the effect of long-term PPAs which are not subject to hedge accounting and are therefore measured at fair value through profit or loss in an amount of EUR 87.4 million (2021: EUR 74.6 million).

Other profit and loss disclosures

Interest income and expenses, corporate income tax expense and profit (loss) from associates under equity method are not divided between segments and the information is not provided to the Management Board of the parent company.

Additional information about impairment, depreciation and amortisation is disclosed in Notes 6 and 8 and about recognition and reversal of provisions in Note 25.

in million EUR	1 JANUARY – 31 DECEMBER 2022		1 JANUARY – 31 DECEMBER 2021	
	Depreciation and amortisation	Recognition (-) and reversal (+) of provisions	Depreciation and amortisation	Recognition (-) and reversal (+) of provisions
Electricity	(80.8)	367.6	(76.7)	131.6
Distribution service	(53.1)	-	(51.3)	-
Shale oil	(18.4)	56.3	(20.6)	29.8
Natural gas	(0.1)	-	(0.0)	-
Total reportable segments	**(152.4)**	**423.9**	**(148.5)**	**161.4**
Other	(24.8)	12.9	(23.6)	8.8
Total (Notes 6, 8 and 25)	**(177.2)**	**436.8**	**(172.1)**	**170.2**

Assets

The amounts reported to the Management Board of the parent company with respect to total assets are measured in a manner consistent with that of the consolidated financial statements.

in million EUR	1 JANUARY – 31 DECEMBER 2022			1 JANUARY – 31 DECEMBER 2021		
	Total assets	Investments in associates (Note 10)	Capital expenditure (Notes 6 and 8)	Total assets	Investments in associates (Note 10)	Capital expenditure (Notes 6 and 8)
Electricity	2,989.3	2.8	209.8	2,134.0	2.4	68.1
Distribution service	1,292.6	-	126.1	1,212.2	-	101.8
Shale oil	547.7	1.3	88.1	450.0	1.6	63.3
Natural gas	154.7	-	-	111.1	-	-
Total reportable segments	**4,984.3**	**4.1**	**424.0**	**3,907.3**	**4.0**	**233.2**
Other	521.9	72.8	21.2	476.9	50.9	20.1
Total (Notes 6,8 and 10)	**5,506.2**	**76.9**	**445.2**	**4,384.2**	**54.9**	**253.3**

Group-wide information

External revenue by location of customers

in million EUR	1 JANUARY – 31 DECEMBER	
	2022	2021
Estonia	1,068.5	771.6
Lithuania	500.5	240.9
Latvia	299.8	143.3
Poland	285.7	106.9
United Arab Emirates	23.4	22.7
Denmark	12.7	17.4
Great Britain	12.2	-
Netherlands	3.9	-
Belgium	3.8	-
France	3.1	-
Nordic countries	3.0	6.1
Other countries	1.6	4.1
Total external revenue (Note 26)	**2,218.2**	**1,313.0**

* Nordic countries - Finland and Sweden

Allocation of non-current assets by location*

in million EUR	31 DECEMBER	
	2022	2021
Estonia	2,940.6	2,782.2
Lithuania	333.7	249.1
Finland	33.3	14.6
Latvia	31.9	33.1
USA	27.9	26.3
Poland	23.8	15.0
Other countries	0.4	0.9
Total (Notes 6, 8 and 9)	**3,391.6**	**3,121.2**

* assets other than financial instruments, deferred tax assets and investments in associates

In 2022, the Group had one customer whose sales revenue from electricity accounted for 10% or more of the total sales revenue of the Group. Sales to that customer in 2022 totalled EUR 1,370.6 million (2021: sales to that customer totalled EUR 532.8 million).

6. Property, plant and equipment

in million EUR	Land	Buildings	Facilities	Machinery and equipment	Other	Construction in progress	Prepayments	Total
Property, plant and equipment as at 31 December 2020								
Cost	87.7	331.9	1,252.6	3,226.7	5.3	70.8	3.1	4,978.1
Accumulated depreciation	-	(125.5)	(526.2)	(1,398.6)	(5.0)	-	-	(2,055.4)
Carrying amount at 31 December 2020 (Note 4)	**87.7**	**206.4**	**726.4**	**1,828.1**	**0.3**	**70.8**	**3.1**	**2,922.7**
Changes in 2021								
Investments in the acquisition of fixed assets (Note 5)	0.1	0.1	0.6	4.6	0.3	198.0	42.9	246.6
Depreciation charge and write-downs (Notes 4, 5 and 33)	-	(7.0)	(32.2)	(126.6)	(0.4)	(0.6)	-	(166.8)
Disposals (at carrying amount)	(0.5)	(2.3)	(0.1)	(0.9)	-	-	-	(3.8)
Acquisitions through business combinations	0.1	0.4	13.6	11.4	-	1.0	0.3	26.8
Effects of movements in foreign exchange rates	0.2	-	0.1	(0.6)	0.1	-	-	(0.2)
Transfers	0.2	1.8	55.6	73.5	1.4	(132.1)	(0.4)	-
Total changes in 2021	**0.1**	**(7.0)**	**37.6**	**(38.6)**	**1.4**	**66.3**	**42.8**	**102.6**
Property, plant and equipment as at 31 December 2021								
Cost	87.8	331.3	1,335.1	3,302.3	7.0	137.1	45.9	5,246.5
Accumulated depreciation	-	(131.9)	(571.1)	(1,512.8)	(5.3)	-	-	(2,221.1)
Carrying amount at 31 December 2021 (Note 4)	**87.8**	**199.4**	**764.0**	**1,789.5**	**1.7**	**137.1**	**45.9**	**3,025.4**
Changes in 2022								
Additions (Note 5)	6.2	-	0.1	6.5	0.2	415.5	8.0	436.5
Depreciation charge and write-downs (Notes 4, 5 and 33)	-	(6.9)	(33.6)	(128.7)	(0.5)	(0.3)	-	(170.0)
Disposals (at carrying amount)	(0.3)	(0.7)	-	(0.3)	-	-	-	(1.3)
Effects of movements in foreign exchange rates	0.2	0.1	-	(0.4)	-	-	-	(0.1)
Transfers	0.6	1.3	84.5	60.3	-	(129.7)	(9.0)	8.0
Total changes in 2022	**6.7**	**(6.2)**	**51.0**	**(62.6)**	**(0.3)**	**285.5**	**(1.0)**	**273.1**
Property, plant and equipment as at 31 December 2022								
Cost	94.5	330.7	1,418.2	3,351.9	6.9	422.6	44.9	5,669.7
Accumulated depreciation	-	(137.5)	(603.2)	(1,625.0)	(5.5)	-	-	(2,371.2)
Carrying amount at 31 December 2022 (Note 4)	**94.5**	**193.2**	**815.0**	**1,726.9**	**1.4**	**422.6**	**44.9**	**3,298.5**

For information about major capital investments, see Note 1.1.

An impairment test is performed when there is reason to assume that an asset is impaired, there is a need to reverse a previously recognised impairment loss or a cash-generating unit has been allocated a significant item of goodwill. According to the Group's estimates, assets that required impairment testing in 2022 were Eesti Energia's hybrid power generating units, oil-shale fired power generating units and wind farms, and the assets of Enefit American Oil (2021: the same assets). Information about cash-generating units to which goodwill has been allocated is provided in Note 8.

The main indications of possible impairment of a power plant are high volatility of electricity and emission allowance prices, as the value of power plant assets is sensitive to both. Wind warms are tested for impairment due to the goodwill allocated to those cash generating units.

Electricity prices surged to record heights and became extremely volatile in 2022 due to Russia's aggression against Ukraine and the energy crisis that followed. By the end of 2022, energy market volatility had subsided somewhat and analysts are forecasting more stable electricity price levels for the next few years. Emission allowance prices are closely linked to the EU climate policy and there are different visions regarding the development options of the EU Emissions Trading System. Accordingly, analysts' forecasts of emission allowance prices vary greatly.

Impairment tests performed on the assets of Eesti Energia's power plants

The power plants are treated as three separate cash-generating units: 1) the Auvere power plant, 2) the generating units which use only oil shale as fuel (oil shale-fired generating units), 3) the generating units that use oil shale as well as other fuels (hybrid generating units). The power plants have been divided into cash-generating units primarily based on the generating units' efficiency, capacity to use different fuels and replaceability in the Group's sales strategy, as well as the independence of management decisions related to the generating units. Both the hybrid generating units and the Auvere power plant produce electricity from oil shale as well as renewable and alternative fuels. The efficiency of the generating unit of the Auvere power plant is considerably higher than that of other generating units. At the end of 2022 and 2021 indications of impairment were identified only for the assets of the power plants' hybrid generating units.

At 31 December 2022, the carrying amount of the assets of the **hybrid generating units** was EUR 114.3 million (31 December 2021: EUR 123.0 million). The recoverable amount of the assets was estimated based on their value in use. The impairment test was conducted without taking into account potential investments in the reorganisation of production operations in connection with the green transition that have not yet been decided. The impairment testing did not indicate a need for recognising an impairment loss. The expected future cash flows were discounted using a discount rate of 10.6% (2021: 7.5%). A 1 percentage point increase in the discount rate would have an impact of EUR 0.5 million on the assets' recoverable amount, in which case the assets' value in use would still exceed their carrying amount (2021: the impact of a 1 percentage point increase in the discount rate would have been EUR 8 million, in which case the carrying amount of the assets would have still exceeded their carrying amount).

The recoverable amount of the assets of the hybrid generating units is sensitive to changes in electricity and emission allowance prices (2021: sensitive to changes in electricity and emission allowance prices).

The market price of electricity was forecast by relying on both the estimates of third party experts and the projections made based on relevant forward prices. It was forecast that from 2024 the electricity price would be in

the range of 90–126 €/MWh (2021: from 2023 the electricity price would be in the range of 69–87 €/MWh). If the projected electricity prices were 20% lower than the ones applied in the impairment test (2021: if the projected electricity prices were 20% lower than the ones applied in the impairment test), the recoverable amount of the assts of the hybrid generating units would be EUR 107 million lower (2021: EUR 237 million lower) and the carrying amount of the assets would exceed their value in use by EUR 39 million (2021: by EUR 123 million). The sensitivity of the electricity price was analysed based on an electricity price forecast in the range of 72–87 €/MWh (2021: an electricity price forecast in the range of 55–70 €/MWh). Due to the Group's sales strategy according to which the Group strives to sell more electricity during peak hours, the average quarterly sales price achieved by the Group in 2022 was 8–20% (2021: 5–18%) higher than the Nord Pool Spot price in the Estonian price area. The Group intends to pursue the same strategy in subsequent years. The test was performed taking into account the expected impacts of the following years' hedging transactions as well as the impact of the implementation of the universal service. The universal service reduced the recoverable amount of the assets of the hybrid generating units by EUR 19.4 million.

The market price of emission allowances was forecast by relying on both the estimates of third party experts and the projections made based on relevant forward prices. According to the forecast, from 2024 the emission allowance price would be in the range of 83 €/t to 98 €/t (2021: the emission allowance price would be in the range of 63 €/t to 83 €/t). If the forecast emission allowance prices were 20% higher than the level applied in the impairment test (2021: if the forecast emission allowance prices were 20% higher than the level applied in the impairment test), the recoverable amount of the assets would be up to EUR 52 million lower (2021: EUR 141 million lower) and the carrying amount of the assets would exceed their value in use by EUR 15 million (2021: EUR 31 million). The sensitivity of the emission allowance price was analysed based on an emission allowance price forecast in the range of 100 €/t to 117 €/t (2021: an emission allowances price forecast in the range of 79 €/t to 97 €/t).

In addition to the assets of the power plants' hybrid generating units, in 2022 impairment tests were performed on the assets of the power plants' **oil shale-fired generating units** because in 2020 the generating units were determined to be impaired and written down. The recoverable amount of the assets was found based on their value in use. The impairment testing did not indicate a need for reversing the previously recognised impairment loss.

Impairment tests performed on the assets of Eesti Energia's wind farms

The recoverable amount of the assets of the wind farms was estimated based on their value in use. The impairment testing did not indicate a need for recognising an impairment loss (2021: did not indicate a need for recognising an impairment loss). The expected future cash flows were discounted using a discount rate of 7.4% for wind farms in Lithuania and 7.5% for wind farms in Estonia (2021: 5.7% and 4.7%, respectively). If the discount rate increased by 1 percentage point, the recoverable amount of the assets would still exceed their carrying amount (2021: the same).

The assets of wind farms are the most sensitive to changes in the electricity price. The impairment test was performed using the same assumptions about the electricity price that were used in the impairment tests on the assets of power plants. If the forecast electricity prices decreased by 20% compared to the level applied in the impairment test, the recoverable amounts of the assets of the wind farms in Estonia and Lithuania would be EUR 57 million (2021: EUR 62 million) and EUR 52 million (EUR 53 million) lower, respectively, in which case the assets' value in use would still exceed their carrying amount. The recoverable amounts of wind farms were estimated taking into account the goodwill allocated to them.

Impairment test performed on the assets of Enefit American Oil

In 2022, the assets of Enefit American Oil were tested for impairment. The impairment testing did not indicate a need for recognising an impairment loss or reversing a previously recognised impairment loss (2021: the test did not indicate a need for recognising an impairment loss or reversing a previously recognised impairment loss). The methodology applied in estimating the recoverable amounts of the assets of Enefit American Oil was changed compared with earlier periods. The new methodology is based on the weighted average price of land plots of over 1,000 acres for sale in the State of Utah (2021: the methodology was based on the average price of land plots of over 100 acres for sale in the State of Utah in the vicinity (20 miles) of the Vernal area). The change in the methodology enables the Group to estimate the price of comparable land plots more accurately (the total area of the land belonging to Enefit American Oil is 17,305 acres).

Buildings and facilities leased out under operating leases

in million EUR	31 DECEMBER	
	2022	2021
Cost	5.8	6.3
Accumulated depreciation at the beginning of the financial year	(4.3)	(4.6)
Depreciation charge	(0.1)	(0.1)
Carrying amount	**1.4**	**1.6**

Assets which have been leased out are used partly in the Group's operating activities and partly to earn rental income. The cost and depreciation of the assets have been calculated based on the proportion of the parts that have been leased out.

7. Related party transactions

The sole shareholder of Eesti Energia AS is the Republic of Estonia. For the purposes of the Group's financial statements, related parties include associates, members of the management and supervisory boards of the parent company, and other companies over which these persons have control or significant influence. Related parties also include entities under the control or significant influence of the state.

The Group has applied the exemption from disclosure of individually insignificant transactions and balances with the state and other related parties because the state has control, joint control or significant influence over such parties.

Transactions with associates

in million EUR	1 JANUARY – 31 DECEMBER	
	2022	2021
Purchase of goods	21.6	10.2
Purchase of services	-	2.1
Proceeds from sale of services	1.5	0.3
Gain on disposal of ownership interest (Note 33)	0.6	-
Purchase of property, plant and equipment	0.1	-
Loans granted (Note 14)	0.1	-
Dividends received (Note 10)	1.6	2.3
Capital contributions made (Note 10)	14.1	9.2

On 2 May 2022, the Group sold a 10% interest in the associate Wind Controller OY for EUR 0.7 million, earning sales gain of EUR 0.6 million.

Transactions with entities over which the members of Supervisory and Management Board have significant influence

in million EUR	1 JANUARY – 31 DECEMBER	
	2022	2021
Purchases of goods and services	3.3	0.6

The sales of electricity, distribution service and heat to entities over which the state has control or significant influence have taken place in the ordinary course of business. The Group has performed in the reporting and comparative period purchase and sales transactions in material amounts with Elering AS, which is a fully state-owned enterprise.

Transactions with Elering AS

in million EUR	1 JANUARY – 31 DECEMBER	
	2022	2021
Purchase of services	79.8	78.0
Purchase of goods	54.4	23.5
Purchase of property, plant and equipment and prepayments	14.2	2.1
Sale of goods and services	39.0	19.0
Renewable energy grants (Note 27)	23.8	29.4

Transactions with Elering AS have been conducted in the ordinary course of business (e.g. purchases and sales of electricity and associated network services) on market terms and are not secured.

Receivables from and payables to Elering AS

in million EUR	31 DECEMBER	
	2022	2021
Receivables	3.3	4.6
Payables	4.9	9.1

The Group receives free greenhouse gas emission allowances from the Estonian Environmental Board which acts as the national administrator on the basis of a decision of the European Commission. The quantities of allowances allocated free of charge as well as their fair value which takes into account the market price of the emissions at the date of receiving them are disclosed in Note 17.

The remuneration paid to the members of the Supervisory and Management Boards is disclosed in Note 29. Receivables from associates are disclosed in Note 14 and payables to associates in Note 23. The change in receivables from related parties in 2022 is attributable to the extent of EUR 0.8 million to the effect of the exchange rate of the US dollar, because the base currency for the receivables is the US dollar, and to the extent of EUR 0.1 million to an additional loan, which was considered to be impaired (collection is doubtful) (2021: expected credit losses amounted to EUR 0.1 million). For further information about the loan, see Note 14.

The service contracts with members of the Management Bord stipulate that upon early termination of the contract, the member of the Management Board is entitled to 3 months' remuneration as a termination benefit.

In purchasing and selling distribution service, the prices set by the Estonian Competition Authority are used.

8. Intangible assets

in million EUR	Goodwill	Computer software	Unfinished acquisition of software	Other intangible assets	Exploration and evaluation assets	Contractual rights	Total
Intangible assets as at 31 December 2020							
Cost	26.2	44.6	15.4	2.7	2.2	28.5	**119.6**
Accumulated amortisation	-	(37.2)	-	(1.0)	-	(0.6)	**(38.8)**
Carrying amount at 31 December 2020	**26.2**	**7.4**	**15.4**	**1.7**	**2.2**	**27.9**	**80.8**
Changes in 2021							
Additions (Note 5)	-	0.9	5.8	-	-	-	**6.7**
Internally developed intangible assets (Note 5)	-	-	-	-	-	-	**-**
Amortisation charge and write-downs (Notes 5 and 33)	-	(3.8)	-	(0.3)	-	-	**(4.2)**
Effects on movements in foreign exchange rates	-	-	-	-	0.1	1.7	**1.8**
Acquisitions through business combinations	-	0.1	-	-	-	0.9	**1.0**
Transfers	-	11.9	(11.9)	-	-	-	**1.0**
Total changes in 2021	**-**	**9.1**	**(6.1)**	**(0.3)**	**0.1**	**2.6**	**-**
Intangible assets as at 31 December 2021							
Cost	26.2	57.0	9.3	2.6	2.3	30.5	**127.9**
Accumulated amortisation	-	(40.5)	-	(1.2)	-	-	**(41.7)**
Carrying amount at 31 December 2021	**26.2**	**16.5**	**9.3**	**1.4**	**2.3**	**30.5**	**86.3**
Changes in 2022							
Additions (Note 5)	-	0.1	2.4	-	-	-	**2.5**
Internally developed intangible assets (Note 5)	-	-	6.2	-	-	-	**6.2**
Amortisation charge and write-downs (Notes 5 and 33)	(0.6)	(5.2)	-	(0.1)	-	(0.2)	**(6.1)**
Effects on movements in foreign exchange rates	-	-	-	-	0.2	1.4	**1.6**
Transfers	-	8.7	(8.7)	-	-	(8.5)	**(8.5)**
Total changes in 2022	**(0.6)**	**3.6**	**(0.1)**	**(0.1)**	**0.2**	**(7.3)**	**(4.3)**
Intangible assets as at 31 December 2022							
Cost	25.6	62.4	9.2	2.5	2.5	23.2	**125.4**
Accumulated amortisation	-	(42.3)	-	(1.2)	-	-	**(43.5)**
Carrying amount at 31 December 2022	**25.6**	**20.1**	**9.2**	**1.3**	**2.5**	**23.2**	**81.9**

Goodwill

Allocation of goodwill to cash generating units

in million EUR	31 DECEMBER	
	2022	2021
Goodwill acquired on acquisition of Nelja Energia	19.9	19.9
Goodwill acquired on acquisition of solar farms in Poland	2.2	2.8
Other	3.5	3.5
Total goodwill	**25.6**	**26.2**

Goodwill was tested for impairment as at the reporting date by estimating the recoverable amounts of goodwill acquired through business combinations based on the discounted future cash flows of each cash generating unit to which goodwill has been allocated. In 2022, the Group identified the need for recognising an impairment loss for the assets of its solar farms in Poland and associated goodwill was written down by EUR 0.6 million (2021: the Group did not identify a need for write-down). The impairment tests of other assets did not indicate a need for recognising an impairment loss. The recoverable amounts of the cash generating units were measured based on their value in use.

The expected future cash flows of the cash generating unit to which the goodwill acquired on acquisition of Nelja Energia was allocated were discounted using a discount rate of 7.5% for Estonian wind farms and 7.4% for Lithuanian wind farms (2021: 4.7% for Estonian wind farms and 5.7% for Lithuanian wind farms). Other cash generating units to which goodwill was allocated were discounted using discount rates of 7.4% to 11.4% (2021: 5.9%).

The expected future cash flows for the cash generating unit to which the goodwill acquired on acquisition of Nelja Energia was allocated are sensitive to changes in the forecasts of the market price of electricity. The impairment test on the goodwill arising from the Nelja Energia acquisition was carried out together with the impairment test on the property, plant and equipment of the underlying cash generating unit (see the section Impairment tests performed on the assets of Eesti Energia's wind farms in Note 6). Further information about significant inputs and their sensitivity is also provided in Note 6.

Mineral resource exploration and evaluation assets

Mineral resource exploration and evaluation assets comprise the costs incurred in the exploration for and evaluation of oil shale resources acquired in the State of Utah, USA.

Contractual rights

Contractual rights comprise the value of mining rights acquired in the State of Utah, the estimated useful life of which is 20 years.

In August 2020, the Group acquired contractual rights for the development of the Tolpanvaara wind farm for EUR 8 million. The contractual rights include various construction permits, aviation permits, road connection permits, grid connection agreements and wind measurement technical documents which allow the construction of a wind farm on the designated land area. In 2022, the contractual rights of EUR 8 million were reclassified to construction in progress within property, plant and equipment. The expected useful life of the wind farm is 30 years and currently the asset is not yet depreciated. The expected completion date of the wind farm is 2024.

9. Right-of-use assets

in million EUR	Land	Office premises	Total
Cost at 31 December 2020	2.5	-	2.5
Accumulated depreciation	(0.3)	-	(0.3)
Carrying amount at 31 December 2020	**2.2**	**-**	**2.2**
Changes in 2021			
Additions	0.7	7.5	8.2
Depreciation charge	(0.2)	(0.7)	(0.9)
Cost at 31 December 2021	3.2	7.5	10.7
Accumulated depreciation	(0.5)	(0.7)	(1.2)
Carrying amount at 31 December 2021	**2.7**	**6.8**	**9.5**
Changes in 2022			
Additions	1.8	1.0	2.8
Depreciation charge	(0.3)	(0.8)	(1.1)
Cost at 31 December 2022	5.0	8.5	13.5
Accumulated depreciation	(0.8)	(1.5)	(2.3)
Carrying amount at 31 December 2022	**4.2**	**7.0**	**11.2**

The consolidated income statement includes the following amounts relating to lease contracts:

in million EUR	2022	2021
Interest expense	0.4	0.3
Lease expenses (Note 30)	4.9	4.7

10. Investments in associates

Set out below are the associates of the Group as at 31 December 2022 and 31 December 2021 which, in the opinion of management, are material to the Group:

Name of the company	Place of business	% of ownership interest 31 DECEMBER		Nature of the relationship	Measurement method	Carrying amount 31 DECEMBER	
		2022	2021			2022	2021
Orica Eesti OÜ*	Estonia	35.00%	35.00%	Note 1	Equity	3.7	3.5
Enefit Jordan B.V. Group	Jordan, Estonia	65.00%	65.00%	Note 2	Equity	-	-
Attarat Mining Co BV**	Netherlands, Jordan	10.00%	10.00%	Note 3	Equity	1.4	1.2
Attarat Power Holding Co BV Group**	Netherlands, Jordan	10.00%	10.00%	Note 3	Equity	68.8	48.0
Attarat Operation & Maintenance Co BV**	Netherlands, Jordan	10.00%	10.00%	Note 3	Equity	2.5	1.6
					Other investments in associates	0.5	0.6
					Total investments in associates	**76.9**	**54.9**

* The financial year of the associate is from 1 October to 30 September.
** The financial year of the associates is from 1 July to 30 June.

Note 1: Orica Eesti OÜ manufactures and sells explosives and is a strategic partner for Enefit Power AS.

Note 2: Enefit Jordan B.V. Group is engaged in an oil shale development project in Jordan. Enefit Jordan B.V. Group is recognised as an associate as according to the Shareholders' Agreement, the Group does not have the right to make any relevant decisions regarding Enefit Jordan B.V. Group without the consent of one or, in certain cases, both of other shareholders who hold the remainder of the shares (35%). Based on voting quorum requirements for different decisions, joint control is not established. Enefit Jordan B.V. Group had negative net assets as at 31 December 2022 and 31 December 2021. Loans to Enefit Jordan B.V have been written down (Note 14).

Note 3: Attarat Mining Co. BV was established to provide mining services in Jordan. Attarat Operation & Maintenance Co. BV is engaged in the mine management activities and Attarat Power Holding Co. BV Group is engaged in the development of an oil shale power plant in Jordan. On 16 March 2017, Attarat Power Holding Co. BV (APCO) signed an investment agreement for its oil shale fired power plant in Jordan. In connection with the investment agreement, a share sale agreement took effect by which Eesti Energia reduced its previous 65% interest in APCO to 10%. Although Eesti Energia AS sold 55% of the shares, it retained significant influence over the associate and access to the returns associated with an ownership interest, which means that the remaining 10% interest continues to be recognised as an investment in an associate.

Summarised financial information of associates

The name of the associate	Enefit Jordan B.V. Group		Orica Eesti OÜ		Attarat Mining Co BV		Attarat Power Holding Co BV Group		Attarat Operation & Maintenance Co BV	
in million EUR	31 DECEMBER		31 DECEMBER		31 DECEMBER		31 DECEMBER		31 DECEMBER	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Summarised statement of financial position:										
Cash	-	-	7.7	7.8	1.2	5.7	5.8	4.8	0.8	4.9
Other current assets	0.3	0.3	6.1	3.9	73.5	43.9	94.0	16.4	35.4	21.1
Fixed assets	-	-	1.3	2.0	1.5	2.0	2,259.3	1,927.9	0.6	0.6
Short-term liabilities	2.6	2.2	4.4	3.7	56.6	33.8	140.1	99.5	21.1	19.6
Long-term liabilities	59.4	48.1	-	-	-	-	1,495.8	1,366.0	-	-
Net assets	**(61.7)**	**(50.0)**	**10.7**	**10.1**	**19.6**	**17.8**	**723.2**	**483.6**	**15.7**	**7.0**
Summarised statement of comprehensive income:										
Revenue	-	-	32.9	19.4	54.6	4.2	-	-	27.4	27.1
Profit (loss) from continuing operations	(8.6)	(6.6)	4.9	4.3	1.8	(23.0)	(10.7)	(7.3)	8.7	8.6
Profit (loss) from discontinued operations	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	76.2	35.4	-	-
Movements in equity:										
Summarised net assets of associates at the beginning of the period	**(50.0)**	**(39.7)**	**10.1**	**10.1**	**17.8**	**36.8**	**483.6**	**327.0**	**7.0**	**5.2**
Profit or loss for the period	(8.6)	(6.6)	4.9	4.3	1.8	(23.0)	(10.7)	(7.3)	8.7	8.6
Other comprehensive income	-	-	-	-	-	-	76.2	35.4	-	-
Contributions to equity	-	-	-	-	-	-	141.0	92.1	-	-
Dividends declared	-	-	(4.3)	(4.3)	-	-	-	-	-	(7.5)
Effect of movements in foreign exchange rates	(3.1)	(3.7)	-	-	-	4.0	33.1	36.4	-	0.7
Summarised net assets of associates at the end of the period	**(61.7)**	**(50.0)**	**10.7**	**10.1**	**19.6**	**17.8**	**723.2**	**483.6**	**15.7**	**7.0**

The name of the associate	Enefit Jordan B.V. Group		Orica Eesti OÜ		Attarat Mining Co BV		Attarat Power Holding Co BV Group		Attarat Operation & Maintenance Co BV	
in million EUR	31 DECEMBER		31 DECEMBER		31 DECEMBER		31 DECEMBER		31 DECEMBER	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Reconciliation to carrying amounts:										
Group's interest in associates	(40.2)	(32.5)	3.7	3.5	1.9	1.8	72.3	48.4	1.6	0.7
Other adjustments	-	-	-	-	(0.5)	(0.6)	(3.5)	(0.4)	0.9	0.9
Notional goodwill	12.3	12.3	-	-	-	-	-	-	-	-
Group's share of negative net assets not recognised by the Group	27.9	20.2	-	-	-	-	-	-	-	-
Carrying amount at the end of the period	**-**	**-**	**3.7**	**3.5**	**1.4**	**1.2**	**68.8**	**48.0**	**2.5**	**1.6**

Individually immaterial associates

In addition to the interests in associates disclosed above, the Group also has interests in a number of individually immaterial associates that are accounted for using the equity method.

in million EUR	31 DECEMBER	
	2022	2021
Aggregate carrying amount of individually immaterial associates	0.5	0.6
Profit from continuing operations	0.0	0.2
Gain on disposal of associates	0.6	-

11. Subsidiaries

The Group had the following subsidiaries as at 31 December 2022 and 31 December 2021.

Name	Country of incorporation	Nature of business	Proportion of ordinary shares held by the Group (%)		Proportion of ordinary shares held by noncontrolling interests (%)	
			31 DECEMBER		31 DECEMBER	
			2022	2021	2022	2021
Elektrilevi OÜ	Estonia	Network operator	100.0	100.0	-	-
Imatra Elekter AS	Estonia	Network operator	100.0	100.0	-	-
Enefit Power AS	Estonia	Production of electricity, oil shale mining	100.0	100.0	-	-
AS Narva Soojusvõrk	Estonia	Distribution and sale of heat	100.0	100.0	-	-
Enefit Solutions AS	Estonia	Manufacture and supply of metal structures, power engineering and other industrial equipment	100.0	100.0	-	-
Enefit Green AS	Estonia	Construction and operation of wind farms	77.2	77.2	22.8	22.8
Attarat Holding OÜ	Estonia	Asset management	100.0	100.0	-	-
Enefit Outotec Technology OÜ	Estonia and Germany	Development and licensing of the new generation of Enefit shale oil production technology	60.0	60.0	40.0	40.0
Hiiumaa Offshore Tuulepark OÜ	Estonia	Development of wind farms	77.2	77.2	22.8	22.8
Tootsi Tuulepark OÜ	Estonia	Development of wind farms	77.2	77.2	22.8	22.8
Enefit Wind OÜ	Estonia	Production of electricity	77.2	77.2	22.8	22.8
Enefit Wind Purtse AS	Estonia	Development of wind farms	77.2	77.2	22.8	22.8
Enefit Connect OÜ	Estonia	Network co-management and energy solutions based on new technologies	100.0	100.0	-	-
Tootsi Windpark OÜ	Estonia	Development of wind farms	77.2	100.0	22.8	-
Enefit SIA	Latvia	Sale of electricity to end consumers	100.0	100.0	-	-
Enefit Power & Heat Valka SIA	Latvia	Production and sale of heat and electricity	77.2	77.2	22.8	22.8
Enercom SIA	Latvia	Development of wind farms	77.2	77.2	22.8	22.8
Technological Solutions SIA	Latvia	Cogeneration plant	77.2	77.2	22.8	22.8
Enefit Green SIA	Latvia	Production of pellets	77.2	77.2	22.8	22.8
4Energia SIA	Latvia	Management services	-	77,2	-	22,8
Enefit UAB	Lithuania	Sale of electricity to end consumers	100.0	100.0	-	-

Name	Country of incorporation	Nature of business	Proportion of ordinary shares held by the Group (%)		Proportion of ordinary shares held by noncontrolling interests (%)	
			31 DECEMBER		31 DECEMBER	
			2022	2021	2022	2021
Enefit Wind UAB	Lithuania	Production of electricity	77.2	77.2	22.8	22.8
Enefit Green UAB	Lithuania	Construction and operation of wind farms	77.2	77.2	22.8	22.8
Šilalės vėjas UAB	Lithuania	Development of wind farms	77.2	77.2	22.8	22.8
Šilutės vėjo parkas 2 UAB	Lithuania	Development of wind farms	77.2	77.2	22.8	22.8
Šilutės vėjo parkas 3 UAB	Lithuania	Development of wind farms	77.2	77.2	22.8	22.8
Energijos Žara	Lithuania	Development of wind farms	77.2	77.2	22.8	22.8
Vėjo Parkai UAB	Lithuania	Development of wind farms	77.2	77.2	22.8	22.8
Vejoteka UAB	Lithuania	Development of wind farms	77.2	77.2	22.8	22.8
Kelmes vejo energija UAB	Lithuania	Development of wind farms	77.2	77.2	22.8	22.8
Baltic Energy Group UAB	Lithuania	Research related to the development of an offshore wind farm	77.2	77.2	22.8	22.8
Enefit U.S., LLC	USA	Asset management	100.0	100.0	-	-
Enefit American Oil Co.	USA	Development of shale oil production	100.0	100.0	-	-
Enefit Sp. z o.o.	Poland	Sale of electricity to end consumers	100.0	100.0	-	-
Enefit Green sp z.o.o	Poland	Production of solar electricity	77.2	77.2	22.8	22.8
Cirrus sp z.o.o	Poland	Production of solar electricity	-	77.2	-	22.8
Velum sp z.o.o	Poland	Production of solar electricity	-	77.2	-	22.8
Incus sp z.o.o	Poland	Production of solar electricity	-	77.2	-	22.8
Humilis sp z.o.o	Poland	Production of solar electricity	-	77.2	-	22.8
Energy Solar 15 sp z.o.o	Poland	Production of solar electricity	-	77.2	-	22.8
PV Sielec Sp. z o.o.	Poland	Production of solar electricity	-	77.2	-	22.8
PV Plant Zambrow Sp. z o.o.	Poland	Development of solar farms	77.2	77.2	22.8	22.8
PV Plant Debnik Sp. z o.o.	Poland	Development of solar farms	77.2	77.2	22.8	22.8
Enefit AB	Sweden	Management services	100.0	100.0	-	
Enefit OY	Finland	Selling electricity to end consumers	100.0	100.0	-	-
Enefit Green Solar OÜ	Estonia	Renewable energy	77.2	-	22.8	-
Tolpanvaara Wind Farm Oy	Finland	Development of wind farms	77,2	77.2	22.8	22.8

Eesti Energia AS sold its investment in Tootsi Windpark OÜ to Enefit Green AS on 28 July 2022.

On 21 September 2022, Eesti Energia AS's 77.2% subsidiary Enefit Green AS (the buyer) and MindMap OÜ and Toorm OÜ (the sellers) signed an agreement on the purchase and sale of all the shares in Rääbiste Põllud OÜ (was renamed Enefit Green Solar OÜ on 21 September 2022), a company holding solar farm developments of 165 MW. The amount paid for the shares in Enefit Green Solar OÜ was EUR 6.6 million. The transaction was recognised as an acquisition of assets because it did not meet the definition of a business combination.

On 30 December 2022, the Polish entities Enefit Green sp zoo, Cirrus sp zoo, Velum sp zoo, Incus sp zoo, Humilis sp zoo, Energy Solar 15 sp zoo and PV Sielec SP zoo were merged into one entity, which was named Enefit Green sp.zoo.

All subsidiaries are consolidated. The share of voting power held by the parent in the subsidiaries directly does not differ from the share of ordinary shares held by it. The parent does not hold any preference shares in any of the subsidiaries.

Significant restrictions

The Electricity Market Act of Estonia provides that until the investments of the network operator (Elektrilevi OÜ) do not exceed the limits of the approved financing plan, the parent company may not intervene in the everyday economic activities of the network operator or in the decisions concerning the construction or upgrades of the network.

FINANCIAL INFORMATION REGARDING A SUBSIDIARY WITH SIGNIFICANT NON-CONTROLLING INTEREST

Set out below is the financial information for the only subsidiary that has non-controlling interests (NCI) that are material to the Group. The amounts disclosed are before inter-company eliminations.

in million EUR	Enefit Green Group	
Summarised statement of financial position	31 December 2022	31 December 2021
Cash	131.5	80.5
Receivables and prepayments	41.1	22.4
Derivative financial instruments	3.3	-
Inventories	14.2	9.5
Total current assets	**190.1**	**112.4**
Total non-current assets	**874.0**	**705.3**
Total current liabilities	**49.1**	**43.9**
Total non-current liabilities	**296.3**	**140.1**
Total liabilities	**345.4**	**184.0**
Equity	718.7	633.6
Non-controlling interest %	22.83%	22.83%
Non-controlling interest	164.1	144.7
Summarised statement of comprehensive income	1 January – 31 December 2022	1 January – 31 December 2021
Revaluation of hedging instruments net of reclassifications to profit or loss	14.6	(12.4)
Exchange differences on the translation of foreign operations	0.2	(0.1)
Net profit for the period	110.2	79.6
Comprehensive income for the period	125.0	67.1
Summarised statement of cash flows	1 January – 31 December 2022	1 January – 31 December 2021
Total cash flow from operating activities	126.2	117.2
Total cash flow from investing activities	(189.6)	(74.7)
Total cash flow from financing activities	114.4	27.2
Change in cash and cash equivalents	51.0	69.7

Profit and other comprehensive income for the period attributable to the non-controlling interests of the subsidiary were EUR 25.2 million and EUR 3.3 million, respectively (2021: profit for the period EUR 6.9 million). The accumulated non-controlling interests of the subsidiary as at 31 December 2022 were EUR 164.8 million. (31 December 2021: EUR 145.4 million).

12. Inventories

in million EUR	31 DECEMBER	
	2022	2021
Raw materials and materials at warehouses	**71.8**	**48.2**
Work in progress		
Stored oil shale	37.9	40.7
Stripping works in quarries	1.7	1.6
Other work in progress	0.7	0.2
Total work in progress	**40.3**	**42.5**
Finished goods		
Shale oil	10.2	6.5
Pellets	6.1	2.8
Other finished goods	0.6	0.4
Total finished goods	**16.9**	**9.7**
Goods purchased for sale		
Gas (Note 1.1)	41.4	13.4
Others goods purchased for sale	6.0	0.2
Total goods purchased for sale	**47.4**	**13.6**
Prepayments to suppliers	0.4	0.1
Total inventories (Note 33)	**176.8**	**114.1**

The amount of raw materials and materials at warehouses increased due to growth in production volumes, which created the need for the purchase of additional spare parts, equipment and similar inventories of EUR 18.6 million.

In 2022, inventories were written down by EUR 0.9 million (2021:no inventory write-downs).

Inventories recognised as an expense during the year ended 31 December 2022 amounted to EUR 335.9 million (2021: EUR 144.7 million).

13. Financial instruments by category

in million EUR	Assets measured at amortised cost	Financial assets at fair value through profit or loss	Derivatives to which hedge accounting is applied	Total
As at 31 December 2022				
Financial asset items in the statement of financial position				
Trade and other receivables excluding prepayments (Notes 3.1, 14 and 16)	402.0	-	-	402.0
Derivative financial instruments (Notes 3.1, 3.3, 15 and 16)	-	276.8	423.9	700.7
Cash and cash equivalents (Notes 3.1, 3.2, 16 and 18)	280.5	-	-	280.5
Total financial asset items in the statement of financial position	**682.5**	**276.8**	**423.9**	**1,383.2**
As at 31 December 2021				
Financial asset items in the statement of financial position				
Trade and other receivables excluding prepayments (Notes 3.1, 14 and 16)	322.2	-	-	322.2
Derivative financial instruments (Notes 3.1, 3.3, 14 and 16)	-	139.8	208.0	347.8
Cash and cash equivalents (Notes 3.1, 3.2, 16 and 18)	198.0	-	-	198.0
Total financial asset items in the statement of financial position	**520.2**	**139.8**	**208.0**	**868.0**

in million EUR	Liabilities measured at amortised cost	Liabilities at fair value through profit or loss	Derivatives to which hedge accounting is applied	Total
As at 31 December 2022				
Financial liability items in the statement of financial position				
Borrowings (Notes 3.1, 3.2 and 22)	1,054.6	-	-	1,054.6
Trade and other payables (Notes 3.1 and 23)	207.1	-	-	207.1
Derivative financial instruments (Notes 3.1, 3.3 and 15)	-	111.2	90.0	201.2
Total financial liability items in the statement of financial position	**1,261.7**	**111.2**	**90.0**	**1,462.9**
As at 31 December 2021				
Financial liability items in the statement of financial position				
Borrowings (Notes 3.1, 3.2 and 22)	956.5	-	-	956.5
Trade and other payables (Notes 3.1 and 23)	140.6	-	-	140.6
Derivative financial instruments (Notes 3.1, 3.3 and 15)	-	75.2	78.7	153.9
Total financial liability items in the statement of financial position	**1,097.1**	**75.2**	**78.7**	**1,251.0**

14. Trade and other receivables

in million EUR	31 DECEMBER	
	2022	2021
Current trade and other receivables		
Trade receivables		
Accounts receivable	349.4	290.0
Allowance for expected credit losses	(6.0)	(1.8)
Total trade receivables	**343.4**	**288.2**
Accrued income		
Other accrued income	1.4	2.7
Total accrued income	**1.4**	**2.7**
Prepayments	29.8	15.5
Restricted cash	42.6	29.8
Other receivables (Note 24)	13.6	0.4
Total current trade and other receivables	**430.8**	**336.6**
Non-current receivables		
Loan receivables from associates (Note 7)	12.6	11.7
Allowance for expected credit losses on loan receivables (Note 7)	(12.6)	(11.7)
Other non-current receivables	1.0	1.1
Total non-current receivables	**1.0**	**1.1**
Total trade and other receivables (Note 3.1)	**431.8**	**337.7**

The loan provided to the associate of Enefit Jordan B.V. Group is based on an agreement signed in 2011. The loan is denominated in US dollars, bears interest at the rate of 15% a year and has an indefinite repayment date. No interest income has been recognised by the Group, as its collection is not probable. See also Note 10. The change in non-current receivables is attributable to the extent of EUR 0.8 million to the effect of the exchange rate for the US dollar, because the base currency for the receivables is the US dollar, and to the extent of EUR 0.1 million to an additional loan. For further information, see Note 7.

Restricted cash comprises cash, which is held in then accounts of different financial partners as security for derivative transactions.

The biggest change within year-end prepayments for the two periods was an increase in the balance of prepaid value added tax by EUR 9.1 million.

Other receivables increased due to a government grant receivable by EUR 9.3 million. For further information, see Note 24.

The fair values of receivables do not significantly differ from their carrying amounts. Collection of receivables is not covered by securities. Most of the Group's receivables and prepayments are denominated in euros. Information about the credit quality of the receivables is disclosed in Note 16.

in million EUR	31 DECEMBER	
	2022	2021
Accounts receivable not yet due (Note 15)	320.3	260.0
Accounts receivable due but not classified as doubtful		
1-30 days past due	15.5	14.7
31-60 days past due	2.8	1.1
61-90 days past due	1.9	0.8
Total accounts receivable due but not classified as doubtful	20.2	16.6
Accounts receivable written down		
3-6 months past due	2.6	3.9
more than 6 months past due	6.3	9.5
Total accounts receivable that are more than 3 months past due	**8.9**	**13.4**
Total accounts receivable	**349.4**	**290.0**

To measure expected credit losses, trade receivables are 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 36 month before 31 December 2022 or 31 December 2021 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. The Group has identified 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.

According to management's assessment, the credit quality of receivables is high and in line with historical trends. The historical amounts of receivables written off as uncollectible have been as follows: EUR 1.6 million in 2022, EUR 0.9 million in 2021, EUR 1.5 million in 2020, EUR 0.5 million in 2019, EUR 0.2 million in 2018, EUR 0.4 million in 2017, EUR 0.6 million in 2016.

The loss allowances recognised consistent with the above policies were immaterial as at 31 December 2022 and 31 December 2021. The Group also assessed the expected credit losses of the trade receivables not yet due and up to 90 days past due and determined that the identified impairment loss was immaterial.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial as at 31 December 2022 and 31 December 2021.

Under the accounting policies of the Group, receivables more than 90 days past due are usually written down in full. The total loss allowance for receivables 90 days past due is adjusted based on prior experience of how many receivables classified as doubtful are collected in a later period and how many receivables 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 the evaluation.

Receivables from associates and restricted cash balances are assessed and analysed separately from other receivables using the full expected credit losses model.

Changes in allowance for expected credit losses on trade receivables

in million EUR	31 DECEMBER	
	2022	2021
Allowance for expected credit losses at the beginning of the period	**(1.8)**	**(1.6)**
Items considered doubtful and doubtful items collected during the period	(5.8)	(1.1)
Items written off as uncollectible	1.6	0.9
Allowance for expected credit losses at the end of the period	**(6.0)**	**(1.8)**

Other classes of receivables do not include any impaired assets.

15. Derivative financial instruments

in million EUR	31 DECEMBER 2022		31 DECEMBER 2021	
	Assets	Liabilities	Assets	Liabilities
Forward- and future contracts for buying and selling electricity – cash flow hedges	399.8	0.1	193.7	2.5
Forward- and future contracts for buying and selling electricity – trading derivatives	206.4	0.8	87.3	4.3
Swap and future contracts for buying and selling gas – cash flow hedges	6.0	-	12.5	-
Swap and future contracts for buying and selling gas – trading derivatives	63.0	60.3	52.3	51.9
Swap and forward contracts for selling fuel oil – cash flow hedges	3.5	89.8	1.8	76.2
Swap and forward contracts for selling fuel oil – trading derivatives	0.4	0.4	-	18.8
Interest rate swap	14.6	-	-	-
Universal service	-	37.1	-	-
Other derivatives	7.0	12.7	0.2	0.2
Total derivative financial instruments (Notes 3.1, 3.3, 13, 16 and 21)	**700.7**	**201.2**	**347.9**	**153.9**
including non-current portion:				
Forward- and future contracts for buying and selling electricity – cash flow hedges	330.4	-	105.9	0.2
Forward contracts for buying and selling electricity – trading derivatives	145.0	-	76.6	0.3
Swap and future contracts for buying and selling gas – cash flow hedges	0.6	-	3.2	-
Swap and future contracts for buying and selling gas – trading derivatives	1.2	-	0.2	-
Swap and forward contracts for selling fuel oil – cash flow hedges	2.2	19.0	1.7	29.4
Swap and forward contracts for selling fuel oil – trading derivatives	-	-	-	7.9
Interest rate swap	11.3	-	-	-
Universal service	-	5.1	-	-
Other derivatives	5.8	8.0	-	-
Total non-current portion	**496.5**	**32.1**	**187.6**	**37.8**
Total current portion	**204.2**	**169.1**	**160.2**	**116.1**

16. Credit quality of financial assets

The basis for estimating the credit quality of financial assets not due yet and not written down is the credit ratings assigned by rating agencies or, in their absence, the earlier credit behaviour of customers and counterparties.

in million EUR	31 DECEMBER	
	2022	2021
Trade receivables		
Receivables from new customers (customer relationship shorter than 6 months)	16.4	8.5
Receivables from existing customers (customer relationship longer than 6 months) that have not exceeded the due date in the last 6 months	192.3	125.7
Receivables from existing customers (customer relationship longer than 6 months) that have exceeded the due date in the last 6 months	140.7	155.8
Total trade receivables (Note 14)	**349.4**	**290.0**
Current accounts		
At banks with Moody's credit rating of Aa3	260.1	189.8
At banks with Moody's credit rating of Aa2	-	0.7
At banks with Moody's credit rating of A2	8.0	2.1
At banks with Moody's credit rating of A3	11.3	5.4
At banks with Moody's credit rating of Baa2	1.1	-
Total current accounts (Notes 3.1, 3.2, 13 and 18)	**280.5**	**198.0**

in million EUR	31 DECEMBER	
	2022	2021
Other receivables and accrued income		
Other receivables with Moody's credit rating of Aa3	32.3	27.2
Receivables without credit rating from an independent party	26.3	6.8
Total other receivables (Note 14)	**58.6**	**34.0**
Derivative financial instruments		
Derivatives with positive value with Moody's credit rating of Aa3	17.0	11.4
Derivatives with positive value with Moody's credit rating of A1	1.1	0.5
Derivatives with positive value with Moody's credit rating of Baa3	0.2	-
Derivatives with positive value with Moody's credit rating of Baa2	60.4	36.9
Derivatives with positive value with Moody's credit rating of Baa1	1.2	4.2
Derivatives with positive value with Moody's credit rating of Caa1	-	98.1
Derivatives with positive value without credit rating from an independent party	620.8	196.7
Total derivatives with positive value (Notes 3.1, 3.3, 13 and 15)	**700.7**	**347.8**

The Group's cash and cash equivalent balances as at 31 December 2022 were deposited with SEB bank, Swedbank, Danske Bank, Luminor Bank, Nordea Bank, OP Corporate Bank, Citadele Bank, Citibank N.A. New York branch and Zachodni WBK S.A. Bank. As at 31 December 2022, the account balances with SEB bank in Estonia and with Swedbank in Estonia each exceeded 10% of the Group's total cash and cash equivalents (31 December 2021: the account balances with Swedbank in Estonia and SEB bank in Estonia each exceeded 10% of the Group's cash and cash equivalents).

As at 31 December 2022, financial assets with counterparties European Energy Trading A/S and UAB L-Vejas each accounted for more than 10% of total financial assets (31 December 2021: financial assets with counterparties European Energy Trading A/S, UAB L-Vejas, Noble Securities S.A. and Latvenergo AS all accounted for more than 10% of total financial assets).

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

According to the estimate of management, other receivables and accrued income without a credit rating from an independent party do not involve material credit risk, as there is no evidence of circumstances that would indicate an impairment loss. In 2022, the Group had restricted cash of EUR 10.2 million with counterparties with no credit rating. Other receivables include a government grant receivable from the Ministry of Economic Affairs and Communications in the amount of EUR 8.0 million. According to management's assessment, the grant does not involve any credit risk.

Derivatives with a positive value without a credit rating from an independent party total EUR 620.8 million (31 December 2021: EUR 196.7 million). The amount consists of three large PPAs. The Group's internal procedures always include assessing the potential counterparty's creditworthiness before entering into a contract. Even though these counterparties have no external credit ratings, they are considered equivalent to high credit rating counterparties, based on the Group's internal assessment. Therefore, no material credit risk has been identified in connection with the said counterparties. In addition, the credit risk of the items is partially mitigated with bank guarantees and other credit support instruments.

17. Greenhouse gas allowances and guarantees of origin

in million EUR	31 DECEMBER	
	2022	2021
Greenhouse gas allowances	428.0	193.3
Guarantees of origin	16.1	15.3
Total greenhouse gas allowances and guarantees of origin	**444.1**	**208.6**

Movements in greenhouse gas emission allowances

in thousand tonnes, in million EUR	Quantities		31 DECEMBER	
	2022	2021	2022	2021
Greenhouse gas emission allowances at the beginning of the period	**4,942**	**4,625**	**193.3**	**75.5**
Acquired	6,725	3,992	431.0	194.9
Sold	(36.0)	(23.0)	(3.1)	(2.2)
Greenhouse gas emission allowances returned to the state (Note 25)	(4,931.0)	(3,652.0)	(193.2)	(74.9)
Greenhouse gas emission allowances at the end of the period	**6,700**	**4,942**	**428.0**	**193.3**

Greenhouse gas emission allowances are sold when there is a significant surplus caused by a decrease in production volumes as a result of changes in the market prices of electricity and shale oil.

In the reporting and the comparative period, the following quantities of greenhouse gas emission allowances were allocated to the Group free of charge:

- in 2021, 905,475 tonnes of free allowances with a fair value* of EUR 50.3 million;
- in 2022, 886,299 tonnes of free allowances with a fair value* of EUR 73.2 million.

* Fair value is based on the market price of the EU emission allowances as at the dates of receipt of the free allowances.

Movements in guarantees of origin

in million EUR	31 DECEMBER	
	2022	2021
Guarantees of origin at the beginning of the period	**15.3**	**9.8**
Acquired	12.6	12.0
Surrendered	(11.4)	(6.4)
Effects on movements in foreign exchange rates	(0.4)	(0.1)
Guarantees of origin at the end of the period	**16.1**	**15.3**

Exchange rate differences for guarantees of origin arise from the Group's Polish subsidiary.

18. Cash and cash equivalents

in million EUR	31 DECEMBER	
	2022	2021
Bank accounts	280.5	198.0
Total cash and cash equivalents (Notes 3.1, 3.2, 13 and 16)	**280.5**	**198.0**

Cash and cash equivalents by currency

in million EUR	31 DECEMBER	
	2022	2021
Euro	247.1	186.5
Polish zloty	18.4	6.1
US dollar	13.8	4.1
Swedish krona	1.2	1.3
Total cash and cash equivalents (Notes 3.1, 3.2, 13 and 16)	**280.5**	**198.0**

19. Share capital, statutory reserve capital and retained earnings

As at 31 December 2022, Eesti Energia AS had 746,645,750 registered shares (31 December 2021: 746,645,750 registered shares). The nominal value of each share is 1 euro. The sole shareholder is the Republic of Estonia.

The administrator of the shares and the exerciser of shareholder rights is the Estonian Ministry of Finance, represented by the Minister of Finance at the General Meeting of Shareholders. According to the articles of association of Eesti Energia AS, the minimum share capital is EUR 250.0 million and the maximum share capital is EUR 1,000.0 million.

As at 31 December 2022, the Group's statutory reserve capital totalled EUR 75.0 million (31 December 2021: EUR 75.0 million).

As at 31 December 2022 the Group's distributable equity was EUR 1,160.7 million (31 December 2021: EUR 1,017.6 million). On distribution of profits to the shareholder, dividends that amount up to the three preceding years' average dividend distribution are subject to income tax at the rate of 14% (14/86 of the net distribution). The remaining dividends are subject to tax at the rate of 20% (20/80 of the net distribution).

If all retained earnings were distributed as dividends, the corporate income tax would amount to EUR 227.9 million (31 December 2021: EUR 202.2 million). It is possible to pay out EUR 932.8 million (31 December 2021: EUR 815.4 million) as net dividends.

Based on the implemented dividend policy the annual dividend payments to the shareholder are limited to the profit for the financial year. Taking this into account, the Group has assessed that no dividends will be distributed from the retained earnings of the Group's Estonian and Latvian subsidiaries in

the foreseeable future. The Group is able to control the timing and the amount of the dividend distributions of its subsidiaries.

The following table presents the basis for calculating the distributable shareholders' equity, potential dividends and the accompanying corporate income tax:

in million EUR	31 DECEMBER	
	2022	2021
Retained earnings	1,160.7	1,017.6
Distributable shareholder's equity	1,160.7	1,017.6
Corporate income tax on the distribution of the entire distributable equity	(227.9)	(202.2)
Maximum amount of net dividends available for distribution	**932.8**	**815.4**

20. Dividends per share

In 2022, Eesti Energia AS paid the Republic of Estonia dividends of EUR 46.7 million, i.e. EUR 0.06 per share (2021: no dividends were paid). The payment was made on 3 May 2022.

The Management Board has proposed to the Annual General Meeting to pay dividends of EUR 0.07 per share and EUR 52.2 million in total for the financial year ended 31 December 2022. The dividend distribution has not been recognised as a liability in these financial statements, because the dividend had not been approved as at 31 December 2022. Corporate income tax expense on the dividends amounts to EUR 9.6 million. The amount has been recognised as a deferred tax liability as at 31 December 2022. See details from Note 32.

21. Other reserves

in million EUR	31 DECEMBER	
	2022	2021
Other reserves at the beginning of the period	**219.7**	**40.2**
of which hedge reserve at the beginning of the period	211.5	34.2
of which currency translation reserve at the beginning of the period	9.0	6.0
of which reserve related to other comprehensive income of associates at the end of the period	(0.8)	-
Change in fair value of cash flow hedges	670.3	231.5
of which electricity cash flow hedges	706.0	317.3
of which shale oil cash flow hedges	(76.7)	(112.4)
of which gas cash flow hedges	26.5	26.6
of which interest rate swap cash flow hedges	14.5	-
Recognised as an increase or decrease of revenue	(155.0)	3.1
of which recognised as an increase (decrease) of electricity revenue	(58.9)	31.0
of which recognised as a decrease of shale oil revenue	(96.1)	(27.9)
Recognised as an increase or decrease of raw materials and consumables used	(335.1)	(51.1)
of which recognised as a decrease of cost of electricity	(304.4)	(34.6)
of which recognised as a decrease of cost of gas	(30.7)	(16.5)
Recognized as an increase of interest expenses	0.1	-
Currency translation differences attributable to foreign subsidiaries	(3.3)	3.0
Non-controlling interest of hedging instruments (Note 11)	(3.3)	-
Change in associates' other comprehensive income	7.6	(0.8)
Other reserves at the end of the period	**711.0**	**219.7**
of which hedge reserve at the end of the period	698.5	211.5
of which currency translation reserve at the end of the period	5.7	9.0
of which reserve related to other comprehensive income of associates at the end of the period	6.8	(0.8)

22. Borrowings

in million EUR	Short-term borrowings			Long-term borrowings				Total
	Bank loans	Bonds issued	Lease liabilities	Bank loans	Bonds issued	Lease liabilities	Other loans	
Borrowings at amortised cost at 31 December 2020 (Notes 3.1, 3.2 and 13)	**305.5**	**-**	**0.2**	**229.4**	**474.2**	**2.0**	**3.0**	**1,014.4**
Changes in 2021								
Monetary movements								
Borrowings received	130.0	-	-	-	-	-	-	130.0
Repayments of borrowings	(161.6)	-	(1.2)	(40.0)	-	-	-	(202.5)
Non-monetary movements								
Initial recognition of lease liabilities	-	-	0.8	-	-	7.4	-	8.2
Transfers	(106.6)	-	1.0	106.6	-	(1.0)	-	-
Amortisation of borrowing costs	-	-	-	-	9.1	-	-	9.1
Other movements	(0.1)	-	0.2	-	-	0.5	(3.0)	(2.7)
Total changes in 2021	**(138.3)**	**-**	**0.8**	**66.6**	**9.1**	**6.9**	**(3.0)**	**(57.9)**
Borrowings at amortised cost at 31 December 2021 (Notes 3.1, 3.2 and 13)	**167.2**	**-**	**1.0**	**296.0**	**483.3**	**8.9**	**-**	**956.5**
Changes in 2022								
Monetary movements								
Borrowings received	70.0	-	-	270.0	-		-	340.0
Repayments of borrowings	(253.2)	-	(1.2)	-	-	-	-	(254.4)
Non-monetary movements								
Initial recognition of new lease liabilities	-	-	0.1	-	-	2.7	-	2.8
Transfers	127.3	483.3	1.4	(127.3)	(483.3)	(1.4)	-	(0.0)
Amortisation of borrowing costs	-	9.5	-	-	-	-	-	9.5
Other movements	-	-	0.1	-	-	0.2	-	0.3
Total changes in 2022	**(55.9)**	**492.8**	**0.4**	**142.7**	**(483.3)**	**1.5**	**-**	**98.1**
Borrowings at amortised cost at 31 December 2022 (Notes 3.1, 3.2 and 13)	**111.3**	**492.8**	**1.4**	**438.7**	**0.0**	**10.4**	**-**	**1,054.6**

In 2022, bonds issued were reclassified from long-term to short-term borrowings, because the bonds will be redeemed in autumn 2023.

During 2022, the Group used and paid back liquidity loans to manage cash flows. As at 31 December 2022, the Group had taken out a liquidity loan of EUR 70.0 million provided by Swedbank, which is reported as a current liability. Last year, Enefit Green signed long-term loan agreements, of which EUR 270.0 million was paid out in full. In addition, the Group made the European Investment Bank (EIB) scheduled loan repayments of EUR 17.9 million (2021: EUR 47.9 million) and liquidity loan repayments of EUR 120.0 million (2021: EUR 70.0 million). Enefit Green AS made scheduled loan repayments in the amount of EUR 21.0 million (2021: EUR 33.6 million) and a voluntary repayment of a long-term borrowing in the amount of EUR 94.3 million (2021: EUR 40.0 million).

Fair value of bonds and bank loans

in million EUR	31 DECEMBER	
	2022	2021
Nominal value of bonds (Note 3.1)	500.0	500.0
Market value of bonds on the basis of quoted sales price (Note 3.3)	493.8	518.3
Nominal value of bank loans with fixed interest rate (Note 3.1)	55.0	72.9
Fair value of bank loans with fixed interest rate (Note 3.3)	52.2	74.5
Nominal value of bank loans with fixed interest swap rate (Note 3.1.1.4)	168.3	-
Fair value of bank loans with fixed interest swap rate (Note 3.1.1.4)	168.3	-
Nominal value of bank loans with floating interest rate (Note 3.1)	326.7	390.4
Fair value of bank loans with floating interest rate (Note 3.3)	326.7	390.4

The bonds are denominated in euros and listed on the London Stock Exchange. The fair value of the bonds is based on inputs that are within level 1 of the fair value hierarchy.

Management estimates that the fair values of the loans with floating interest rates do not differ from their carrying amounts as at the end of the period as the risk margins have not changed. The fair values of the bank loans with a fixed interest rate were determined based on discounted cash flows using discount rates between 4.414%–6.347% (2021: 0.569%–0.657%), that are within level 2 of the fair value hierarchy. The discount rates are calculated based on the interpolated interest rate swaps taking into account the average length of years to the payment date(s). The interest rate swap information is based on EUR Midswap Rates disclosed by SEB.

Bank loans at nominal value by maturity

in million EUR	31 DECEMBER	
	2022	2021
< 1 year	111.3	167.3
1 - 5 years	369.0	292.3
> 5 years	69.7	3.7
Total	**550.0**	**463.3**

Loans are denominated in euros and Polish zloty (31 December 2021: in euros and Polish zloty). As at 31 December 2022 the interest rates of loans were between 1.1% and 7.7% (31 December 2021: 0.4–3.1%).

As at 31 December 2022, the weighted average nominal interest rate on bonds and bank loans was 2.47% (31 December 2021: 1.69%).

As at 31 December 2022 the total volume of the Group's bonds was EUR 500.0 million at nominal value with the maturity date in 2023 (31 December 2021: EUR 500.0 million with a maturity date in 2023).

As at 31 December 2021 the Group had undrawn loan facilities of EUR 495.0 million (31 December 2020: EUR 535.0 million).

Weighted average effective interest rates of borrowings including

in million EUR	31 DECEMBER	
	2022	2021
Bank loans	2.6%	0.9%
Bonds	2.4%	2.4%
Lease liabilities	2.9%	2.6%

23. Trade and other payables

in million EUR	31 DECEMBER	
	2022	2021
Financial liabilities within trade and other payables		
Trade payables	182.3	123.5
Accrued expenses	7.4	7.0
Payables to related parties (Note 7)	2.7	1.8
Other payables	14.7	8.3
Total financial liabilities within trade and other payables (Note 3.1 and 13)	**207.1**	**140.6**
Payables to employees	29.2	21.7
Tax liabilities	51.8	49.3
Prepayments	9.9	46.9
Total trade and other payables	**298.0**	**258.5**
of which current trade and other payables	*293.2*	*255.5*
of which non-current trade and other payables	*4.8*	*3.0*

Trade payables as at 31 December 2022 include payables for property, plant and equipment of EUR 29.3 million (31 December 2021: EUR 48.6 million).

Prepayments as at 31 December 2022 consist mainly of prepayments from customers of EUR 7.2 million (31 December 2021: mainly of the prepayments for CO_2 emission allowances of EUR 43.3 million).

24. Contract liabilities and government grants

Connection and other service fees

in million EUR	31 DECEMBER	
	2022	2021
Deferred connection and other service fees at the beginning of the period	**285.1**	**248.1**
Connection and other service fees received	46.8	37.6
Value of assets transferred for connection fees	3.6	10.2
Connection and other service fees recognised as income (Note 33)	(12.1)	(10.8)
Deferred connection and other service fees at the end of the period	**323.4**	**285.1**
Government grants	28.2	16.5
Total contract liabilities and government grants	**351.6**	**301.6**
of which current	*0.5*	*0.7*
of which non-current	*351.1*	*300.9*

The increase in connection and other service fees in 2022 is mainly due to a significant increase in the number of new consumer and new electricity producer connections to the grid. The increase in connection fees was additionally affected by growth in construction prices during the year.

Government grants include grants for the following projects of the Group:

- Narva wind farm,
- Paide power plant,
- construction of a biomass cogeneration plant in Latvia,
- reconstruction of the city of Narva district heating piping system,
- Advanced Remote Engineering Platform,
- TSO-DSO-Consumer interface to provide innovative grid services for an efficient power system,
- user centric urban and long-range charging solutions,
- outsourcing air quality monitoring service outside the Eesti Energia oil production plant premises,
- network investment to increase micro-production capacities.

An unprecedented interest in micro-production created the need for additional network investments. The Estonian state allocated a grant of EUR 8.0 million to Elektrilevi for that purpose. The condition for the payment of the grant is Elektrilevi's audited report to be submitted by 31 May 2023 at the latest, which verifies the investments made during the period from 1 January 2022 to 31 December 2022, as a result of which the renewable electricity generation installation connection capacity in the electricity distribution network has increased by at least 66 MW depending on the voltage level and the substation of the location of the connection point.

There are certain obligations that the Group has to fulfil to make sure that the grants are not recovered: retention of project documents, presentation of project reporting upon demand, and, in the case of some projects, meeting certain technical requirements.

25. Provisions

in million EUR	Opening balance 1 January 2022	Recognition and reversal of provisions (Note 5)	Interest charge (Note 30)	Use	Closing balance 31 December 2022	
					Short-term provisions	Long-term provisions
Environmental protection provisions (Note 28)	19.4	(2.6)	0.5	(1.0)	2.6	13.6
Employee related provisions (Note 29)	5.3	(1.4)	-	(0.5)	0.7	2.7
Provision for dismantling cost of assets	6.0	-	0.3	-	-	6.4
Provision for greenhouse gas emission allowances (Notes 17 and 28)	193.2	428.7	-	(193.2)	428.7	-
Provision for onerous contracts	0.1	0.2	-	(0.1)	0.3	-
Provision for contract liabilities	0.1	-	-	(0.1)	-	-
Provision for renewable energy certificates	2.2	12.0	-	(10.3)	3.7	-
Total provisions (Notes 4 and 5)	**226.3**	**436.8**	**0.8**	**(205.2)**	**436.0**	**22.7**

in million EUR	Opening balance 1 January 2021	Recognition and reversal of provisions (Note 5)	Interest charge (Note 30)	Use	Closing balance 31 December 2021	
					Short-term provision	Long-term provision
Environmental protection provisions (Note 28)	20.3	(0.3)	0.5	(1.1)	2.1	17.3
Employee related provisions (Note 29)	6.2	(0.4)	0.1	(0.6)	1.1	4.2
Provision for dismantling cost of assets	5.7	-	0.3	-	-	6.0
Provision for greenhouse gas emission allowances (Notes 17 and 28)	76.2	191.9	-	(74.9)	193.2	-
Provision for onerous contracts	0.1	0.1	-	(0.1)	0.1	-
Provision for contract liabilities	0.2	-	-	(0.1)	0.1	-
Provision for renewable energy certificates	1.8	6.9	-	(6.5)	2.2	-
Other provisions	28.0	(28.0)	-	-	-	-
Total provisions (Notes 4 and 5)	**138.6**	**170.2**	**0.9**	**-83.3**	**198.8**	**27.5**

The provision for greenhouse gas emissions has increased significantly due to the change in emission allowance prices. See details from Note 1.1.

Provisions have been discounted at the rate of 5.8%–6.07% (2021: 0.40%–3.09%). Provisions are discounted using the discount curve that allows more accurate evaluation of the provisions in different time horizons. Out of expenses on the recognition and reassessment of provisions in 2022, EUR (10.5) million (2021: EUR 0.6 million) resulted from the change in the discount rates and EUR 1.7 million (2021: EUR 0.4 million) resulted from the change in inflation rates.

Environmental protection provisions

Environmental protection provisions and provisions for the termination of mining operations have been set up for:
- restoring land damaged by mining;
- cleaning contaminated land surfaces;
- restoring water supplies contaminated as a result of the mining activities;
- ascertainment and compensation of damages caused by blasting work;
- closing landfills and neutralising excess water;
- maintenance of closed ash fields;
- closing of industrial waste dump;
- eliminating asbestos in power plants;
- for payment of mining rights fee.

Non-current environmental protection provisions will be settled at the mines of Enefit Power AS during the time period of 2023–2044 and at the power plants of Enefit Power AS during the time period of 2023–2058.

Employee related provisions

Employee related provisions have been set up for:
- payment of benefits laid down in collective and other agreements;
- compensation of work-related injuries;
- payment of termination benefits;
- payment of scholarships.

Non-current employee related provisions will be settled during the periods specified in the contracts or during the remaining life expectancy of the employees, the period of which is determined using data from Statistics Estonia on life expectancies by age groups. The provisions for payments of termination benefits in mines and quarries will be set up when detailed plans for the closure of these mines and quarries are announced.

Provision for dismantling cost of assets

The provision for the dismantling costs of assets has been set up to cover the future dismantling costs of the generating units 8 and 11 and the industrial waste dump of the Narva power plants. The present value of the dismantling costs of the assets has been included in the cost of property, plant and equipment. The provision for the dismantling costs is expected to be settled in 2034–2035.

Provision for greenhouse gas emission allowances

Accounting policies for the recognition of provisions for greenhouse gas emission allowances are described in Note 2.3 and additional information regarding greenhouse gas emission allowances can be found from Note 17.

26. Revenue

in million EUR	1 JANUARY – 31 DECEMBER	
	2022	2021
By activity		
Sale of goods		
Shale oil	133.2	135.0
Pellets	30.3	22.7
Shale rock	7.2	1.2
Other goods	4.6	6.8
Total sale of goods	**175.3**	**165.7**
Sale of services		
Electricity	1,479.1	762.3
Gas	243.9	93.4
Distribution network services	242.3	238.5
Heat	22.0	23.3
Waste reception and resale	14.2	15.4
Lease and maintenance income	1.0	1.0
Other services	40.4	13.4
Total sale of services	**2,042.9**	**1,147.3**
Total revenue (Note 5)	**2,218.2**	**1,313.0**

For information about the significant increase in electricity and gas revenues in 2022 compared to 2021, see Note 1.1.

The growth in the sale of other services is due to an increase in the sale of the regulation service by EUR 13.2 million, an increase in the construction of solar farms by EUR 6.2 million, the sale of electricity network services of EUR 1.4 million and the sale of other services of EUR 6.2 million.

Sales transactions generally do not contain significant financing components. There are no significant discrepancies between the time of revenue recognition and the time of receiving the consideration for the goods sold or services provided (with the exception of connection fees which are described below) as the average payment period is 14–30 days.

Contract liabilities recognised by the Group relate to advance consideration received from customers in relation to constructing the connections for new places of consumption in the power network. The Group has concluded that the connection fees do not constitute a separate performance obligation from the sale of electricity or the ongoing provision of distribution service, and therefore the revenue from connection fees is deferred and recognised as revenue over the estimated average useful life of the assets required to provide the service, which is 32 years. Changes in the Group's contract liability balances are disclosed in Note 24. The Group's other revenue streams do not give rise to contract liabilities or contract assets.

27. Other operating income

in million EUR	1 JANUARY – 31 DECEMBER	
	2022	2021
Gain from revaluation of derivatives	426.1	93.8
Renewable energy grants	22.8	29.5
Fines, penalties and compensation	4.9	3.0
Gain on disposal of property, plant and equipment (Note 33)	1.6	3.4
Foreign exchange gain	1.3	0.8
Government grants (Note 33)	1.0	0.9
Other operating income	1.0	0.5
Release of unused provisions	-	28.0
Gain on a bargain purchase	-	1.9
Gain on sale of greenhouse gas emission allowances	-	0.5
Total other operating income	**458.7**	**162.3**

The release of unused provisions of EUR 28.0 million resulted from the release of a provision of the same amount recognised as at 31 December 2020 which remained used. The dispute with GE (GE Power Estonia AS, GE Power Sp z.o.o. and GE Steam Systems S.A.S) was resolved during 2021.

28. Raw materials and consumables used

in million EUR	1 JANUARY – 31 DECEMBER	
	2022	2021
Electricity	677.9	371.7
Greenhouse gas emission expense (Note 25)	428.7	191.9
Gas bought for resale	211.7	77.5
Transmission services	77.5	76.5
Technological fuel	73.7	44.1
Materials and spare parts	65.2	32.4
Resource tax on mineral resources	55.9	20.5
Maintenance and repairs	45.6	37.6
Purchased works and services	23.2	15.6
Environmental pollution charges	17.3	13.7
Recognition of environmental and mining termination provisions (Note 25)	(2.8)	(0.9)
Other raw materials and consumables used	13.9	8.3
Total raw materials and consumables used	**1,687.8**	**888.9**

The reason for the increase in the costs of electricity, gas bought for sale, greenhouse gas emission expenses is the rise in input prices. The reason for the increase in the costs of technological fuel, materials and spare parts, and resource tax on mineral resources is the growth in production volume (see Note 1.1 for further information).

29. Payroll expenses

	1 JANUARY – 31 DECEMBER	
	2022	2021
Number of employees		
Number of employees at the beginning of the period	4,572	4,387
Number of employees at the end of the period	5,258	4,572
Average number of employees	4,833	4,357

in million EUR	1 JANUARY – 31 DECEMBER	
	2022	2021
Payroll expenses		
Wages, salaries, bonuses and vacation pay	139.7	110.8
Average monthly pay (EUR)	*2,408.8*	*2,119.2*
Other payments and benefits to employees	2.5	2.8
Payroll taxes	46.1	36.7
Recognition and (reversal) of employee related provisions (Note 24)	(0.6)	(0.4)
Total payroll expenses	**187.7**	**149.9**
Of which remuneration of management and supervisory boards		
Salaries, bonuses, additional remuneration	3.9	3.4
Total remuneration of management and supervisory boards	3.9	3.4
Capitalised in the cost of self-constructed assets	(20.1)	(14.0)
Total payroll expenses	**167.6**	**135.9**

Payroll taxes include social security tax in the amount of EUR 44.5 million (2021: EUR 35.6 million) and employer's unemployment insurance contribution in the amount of EUR 1 million (2021: EUR 0.9 million). The Group has no other legal or constructive obligations to make pension or similar payments.

The members of the Management Board are appointed by the Supervisory Board for a term of 3 years.

30. Other operating expenses

in million EUR	1 JANUARY – 31 DECEMBER	
	2022	2021
Loss from revaluation of derivatives	349.8	72.5
Miscellaneous office expenses	15.7	13.2
Taxes	6.0	3.6
Consultation expenses	5.6	4.5
Insurance	5.4	4.7
Lease expenses (Note 9)	4.9	4.7
Expenses on buildings and facilities	4.8	4.1
Research and development costs	2.7	2.4
Fines, penalties and compensation	0.4	7.6
Other operating expenses	11.1	4.6
Total other operating expenses	**406.4**	**121.9**

Breakdown of lease expenses disclosed in the table above

in million EUR	1 JANUARY – 31 DECEMBER	
	2022	2021
Variable lease payments not included in the measurement of lease liabilities	0.9	0.7
Low value leases	2.1	2.4
Short-term leases	1.9	1.6
Total	**4.9**	**4.7**

Discounted future payments to be made over the terms of leases with variable lease payments are disclosed in Note 34.

31. Net finance costs

in million EUR	1 JANUARY – 31 DECEMBER	
	2022	2021
Finance income		
Interest income	0.8	-
Foreign exchange gain	2.2	0.6
Total finance income (Note 33)	**3.0**	**0.6**
Financial expenses		
Interest expenses on borrowings		
Interest expenses on bonds and loans	(29.0)	(28.4)
of which realised interest rate swap agreement	(0.1)	-
Capitalised borrowing costs (Note 6)	7.0	3.2
Total interest expenses on borrowings (Note 33)	**(22.0)**	**(25.2)**
Interest expenses on provisions (Note 25)	(0.8)	(0.8)
Total interest expenses	**(22.8)**	**(26.0)**
Other finance costs	(0.2)	(0.2)
Total finance costs	**(23.0)**	**(26.2)**
Net finance costs	**(20.0)**	**(25.6)**

32. Income tax expense

According to the Income Tax Act, the companies are taxed in Estonia upon the distribution of dividends.

From 2019, dividend distributions may be eligible for a 14% tax rate (the amount of tax payable is calculated as 14/86 of the net distribution). Thus, the dividends distributed by a resident company can be taxed at a more favourable 14% or the regular 20% rate (with the amount of tax payable calculated as 14/86 or 20/80 of the net distribution, respectively). The more favourable tax rate can be applied to a dividend distribution that amounts to up to three preceding years' average dividend distribution that has been taxed. In calculating the three preceding years' average dividend distribution, 2018 is the first year that is taken into account. Dividends distributed are exempt from income tax, if these are paid out from dividends received from other companies in which the recipient of the dividends had at least a 10% ownership interest at the time the dividend was paid.

Average effective tax rate

in million EUR	1 JANUARY – 31 DECEMBER	
	2022	2021
Estonia		
Net dividends	**64.8**	**55.7**
of which dividends subject to reduced income tax rate 14/86	*6.7*	*8.6*
dividends subject to income tax rate 20/80	*34.1*	*31.3*
tax-exempt dividends	*24.0*	*15.8*
Theoretical income tax at applicable rates	9.6	11.9
Effective income tax on dividends	9.6	9.3
Average effective income tax rate	14.8%	16.7%
Income tax expense arising from the subsidiaries	3.2	1.9
Income tax expense	**12.8**	**11.2**
Deferred tax expense (income)	**(2.8)**	**(0.8)**
of which deferred tax income	*(3.2)*	*(1.4)*
deferred tax expense	*0.4*	*0.6*
Total income tax expense	**10.0**	**10.4**

* Income tax from dividends is recognised on an accrual basis, meaning that the income tax resulting from dividends paid in 2023 has been recognised as a deferred tax liability as at 31 December 2022 and in the income statement for 2022.

As at 31 December 2022, the Group had a deferred tax liability of EUR 22.1 million (31 December 2021: EUR 21.8 million), of which EUR 10.3 million (31 December 2021: EUR 10.9 million) is related to the difference between the fair values and the carrying amounts of the Lithuanian wind farms identified in the purchase price allocation on the acquisition of Nelja Energia AS in 2018 and EUR 9.2 million is related to the income tax payable in 2023.

33. Cash generated from operations

in million EUR	1 JANUARY – 31 DECEMBER	
	2022	2021
Profit before income tax	**225.7**	**121.9**
Adjustments		
Depreciation and impairment of property, plant and equipment and right of use assets (Notes 5, 6 and 9)	171.1	167.9
Amortisation and impairment of intangible assets (Notes 5 and 8)	6.1	4.2
Connection and other service fees recognised as income (Note 24)	(12.1)	(10.8)
Gain on disposal of property, plant and equipment (Note 27)	(1.6)	(3.4)
Gain on disposal of an associate (Note 10)	(0.6)	-
Amortisation of government grants related to assets (Note 27)	(1.0)	(0.9)
Profit from associates under the equity method (Note 10)	(1.9)	(2.0)
Unpaid/unsettled loss on derivatives	184.7	24.1
Profits and losses from other non-cash transactions	0.1	1.2
Interest expense on borrowings (Note 31)	22.0	25.2
Interest and other finance income (Note 31)	(0.8)	-
Net operating cash flow before changes in current assets and liabilities	**591.7**	**327.4**
Net change in current assets relating to operating activities		
Change in receivables related to operating activities (Note 14)	(58.8)	(150.4)
Change in inventories (Note 12)	(62.8)	3.5
Net change in other current assets relating to operating activities	(278.4)	(100.5)
Total net change in current assets relating to operating activities	**(400.0)**	**(247.4)**
Net change in current liabilities relating to operating activities		
Change in provisions (Note 25)	232.4	87.7
Change in trade payables (Note 23)	78.0	19.5
Net change in other current liabilities relating to operating activities	36.5	9.6
Total net change in current liabilities relating to operating activities	**346.9**	**116.8**
Cash generated from operations	**538.6**	**196.8**

34. Off-statement of financial position assets, contingent liabilities and commitments

(a) Assets accounted for off the statement of financial position

Oil shale resources

The overview of the resources of oil shale in the possession of the Group and its associates is presented in the table below. The resources of oil shale of Estonian Republic represent the resources of oil shale in the official balance of natural resources. The resources of oil shale of international development projects are recognised based on the disclosure requirements of international standards for evaluation of resources and reserves. The classification and determination of the reliability of the resources have been carried out by authorised experts at both the level of exploration and economical perspective. Depending on the development phase the known technical, environmental and socio-economic restrictions have been adjusted and taken into account when recognising the resources.

in millions of tonnes	31 DECEMBER	
	2022	2021
Estonia		
Measured*	362	371
Jordan (APCO*)**		
Measured*	924	924
Inferred**	295	295
Jordan (JOSE)		
Measured*	-	-
Inferred**	2,309	2,309
USA**		
Measured **	3,500	3,500
Indicated**	2,300	2,300
Inferred**	230	230

* Resource is part of an explored geological stock that has been determined taking into account known technical, environmental and socio-economic constraints.

** Resource is the amount of oil shale with high economic potential in the earth's crust determined as a result of a geological survey, for which possible restrictions limiting the use have not been taken into account.

*** Eesti Energia AS has 10% ownership of the company.

The difference between 'indicated' and 'inferred' is the level of research conducted. Indicated is more researched, and in addition to the size of the stock, it is known to be economically viable.

Emission allowances

In 2023 an estimated amount of 891,776 tonnes of free CO_2 emission allowances will be allocated to installations belonging to the Group.

The precise amount of free allowances to be allocated for 2023, will be determined by April 2023 at the latest. Allocation of free allowances should continue during the periods of 2023–2025 and 2026–2030 based on the annual production levels of the installations and the climate policy measures defined by the EU. See additional information regarding greenhouse gas emission allowances from Note 17.

(a) Contingent liabilities

Litigation in progress

Eesti Energia AS through its subsidiary Attarat Holding OÜ owns a 10% shareholding in Attarat Power Company (APCO) in Jordan. On 19 December 2020 the Government of Jordan (GoJ) and National Electric Power Company (NEPCO) issued their respective requests for arbitration to the ICC arbitral tribunal. Both GoJ and NEPCO are claiming a deduction on the agreed electricity tariff under the signed power purchase agreement. APCO management have nominated Slaughter and May as well as Jordanian based Obeidat Law to represent them in the arbitration process. APCO management maintains the position that both claims are fully without merit and will deny them. At the date this report is authorised for issue, it is not possible to estimate with reasonable certainty the impact of the arbitration process. The dispute is expected to be resolved in 2023. Therefore, no provision has been recognised for the legal action and the claim is disclosed as a contingent liability. If the arbitration process is resolved with a negative outcome for the Group, the equity investment (as at 31 December 2022: EUR 68.8 million; as at 31 December 2021: EUR 48.0 million) recognised in the statement of financial position may need to be written down.

In 2021, Soscor Energy PTE Ltd (Soscor), a company registered in Singapore, participated in the call for tenders for the sale of shale oil gasoline organised by Eesti Energia AS on behalf of its subsidiary Enefit Power AS (the seller). Soscor submitted a bid, which was initially declared successful. Subsequent follow-up on the background check revealed that Soscor did not meet the requirements for transaction partners. Soscor was therefore excluded from the competition and it was decided not to sign a sales contract with Soscor. Soscor did not accept the exclusion from the competition and held that the contract had already been entered into. In 2022, Soscor lodged an arbitration claim against Enefit Power AS. The amount of the claim is between USD 5.6 million and USD 11.9 million.

Eesti Energia AS's subsidiary Enefit sp. z o.o. has initiated legal proceedings against two debtors: Technika Odlewnicza sp. z o.o., claim of EUR 0.3 million (PLN 1.2 million), commencement of legal proceedings on 20 January 2023, the dispute is expected to be resolved in 2023; and Nova Ceramica sp. z o.o., claim of EUR 1.7 million (PLN 8.0 million), commencement of legal proceedings on 22 February 2023, the dispute is expected to be resolved in 2024. The Eesti Energia Group expects the claims to be satisfied in full. As at 31 December 2022, the Group had written down the associated receivables in full.

At the reporting date, Eesti Energia AS's subsidiary Enefit Power AS was engaged in regulatory approval proceedings conducted by the Estonian Competition Authority as part of the process of establishing the price the producer may charge for the production of electricity for universal service as well as the maximum price for district heating.

The Competition Authority set the provisional price for the production for electricity for the universal service at 154.08 €/MWh in 2022. According to submitted applications, however, the justified price would be 172.59 €/MWh for the production of electricity by means of the circulating fluidised bed technology and 188.43 €/MWh for the production of electricity by means of the pulverised fuel firing technology. Since Enefit Power AS is forced to guarantee the price for electricity suppliers at a level which does not enable Enefit Power AS to recover its justified costs, the Group included in the results for 2022 a loss of EUR 37.1 million (Enefit Power AS: a loss of EUR 85.9 million) that will realise for relevant derivative instruments in subsequent periods. On 17 March 2023, the Competition Authority announced that it had decided to reject the application.

The Competition Authority has not approved the application for the approval of the maximum price for district heating for more than a year. Based on the latest application, the justified price of heat would be 65.01 €/MWh, whereas the current sales price of heat is 31.23 €/MWh. On 10 March 2023, the Competition Authority announced that it had decided to reject the application.

Contingent liabilities arising from potential tax audits

ESTONIA

Tax authorities have neither started nor performed any tax audits or single case audits at any Group company. Tax authorities have the right to review the company's tax records within 5 years after the reported tax year and if they find any errors they may impose additional taxes, interest and fines. According to management's assessment, there are not any circumstances which may give rise to a potential material liability in this respect.

FOREIGN COUNTRIES

The tax authorities have neither started nor performed any tax audits or single case audits at any foreign Group entity. In other countries where the Group's subsidiaries are operating, the tax authorities have the right to review the company's tax records up to 6 years after the reported tax year. According to management's assessment, there are not any circumstances which may give rise to a potential material liability in this respect.

(c) Financial covenants

The loan agreements concluded by the Group include certain covenants that impose limits on the Group's consolidated financial indicators. The covenants have been adhered to (Note 22).

(d) Commitments

Capital commitments arising from construction contracts

As at 31 December 2022, the Group had contractual obligations relating to the acquisition of non-current assets totalling EUR 340.7 million (31 December 2021: EUR 434.2 million).

Variable lease payments

Where the right to use land (the right of superficies) is based on variable lease payments which do not depend on an index or a rate (e.g. the payments are based on a percentage of the sale of the assets located on the land or the value of the cadastral unit), the lease is not accounted for by recognising a right-of-use asset and a lease liability in accordance with the requirements of IFRS 16 but it is accounted for by recognising the payments as operating expenses. The Group estimates that as at 31 December 2022 discounted future payments over the terms of the lease contracts totalled EUR 7.7 million (31 December 2021: EUR 7.9 million). Changes in underlying cadastral values, electricity prices or production volumes will affect the actual lease payments.

Grid infrastructure toleration fees

Payments for tolerating utility networks are regulated by the Law of Property Act according to which real estate owners have the right to request payment for accommodating utility networks on their property. As at 31 December 2022 the Group had liabilities for utility network payments of EUR 0.2 million for the

year 2023 (31 December 2021: EUR 0.2 million for the year 2022). Total accrued expense for the toleration of grid infrastructure in 2022 amounted to EUR 0.3 million (2021: EUR 0.3 million). The amount of the fees depends on the taxable value of land and the applied fee percentage. The former is determined based on irregular surveys prepared by the government (the last took place in 2001 and the next will take place in 2023) and the latter is set by the Law of Property Act and is subject to adjustment at irregular intervals. Consequently, the amounts paid by the Group may increase or decrease in future periods. Grid toleration fees are accounted for as variable lease payments as defined in IFRS 16 (Note 30).

35. Earnings per share

Basic earnings per share are calculated by dividing profit attributable to the equity holders of the company by the weighted average number of ordinary shares outstanding. As there are no potential ordinary shares, diluted earnings per share equal basic earnings per share in all the periods.

	1 JANUARY – 31 DECEMBER	
	2022	2021
Profit attributable to the equity holders of the company (million EUR)	189.8	104.4
Weighted average number of shares (million)	746.6	746.6
Basic earnings per share (EUR)	0.25	0.14
Diluted earnings per share (EUR)	0.25	0.14

As at 31 December 2022 and 31 December 2021, Eesti Energia AS had 746,645,750 registered shares.

The nominal value of each share is EUR 1.

36. Events after the reporting period

After the end of reporting period, in January 2023, the Eesti Energia Group's subsidiary Enefit Green AS signed a loan agreement with the Nordic Investment Bank (NIB) for EUR 100 million and with SEB for EUR 225 million to support the construction of Enefit Green's new wind and solar farms in the Baltic countries. In the same month, Eesti Energia AS also took out liquidity loans of EUR 50 million from OP Corporate Bank. In February 2023, the parent of the Eesti Energia Group signed a sustainability linked loan agreement in the amount of EUR 600 million with a maturity of five years and a floating interest rate to finance the repurchase of bonds maturing in September 2023 and investments in the Group's carbon neutrality strategy.

On 15 February 2023, the Estonian parliament adopted amendments to the Electricity Market Act, which are designed, among other things, to motivate market participants to surrender their surplus network connection rights if they fail to use the connection for electricity production. In the light of the new regulation, Enefit Power is also considering surrendering the connection capacity which is underutilised due to the closure of old production facilities. As Estonia has set itself the goal that by 2030 all electricity consumed in the country should be supplied from renewable sources, the amendments to the Act contain a number of aspects that support and accelerate the development of renewable electricity projects. These include speeding up the planning of wind farms, specifying the conditions for renewable electricity reverse auctions, making proposals for organising a reverse auction for the deployment of offshore wind energy, etc. In addition to the traditional support measures, the amended law gives network operators the right to use public procurement to purchase up to 50% of the electricity required to cover network losses under long-term power purchase agreements. These changes provide additional opportunities for Group entities to achieve the Group's long-term objectives. The amendments have no retrospective adjusting effects on the Group's financial results for 2022.

37. Financial information on the parent company

Financial information disclosed on the parent company includes the primary separate financial statements of the parent company, the disclosure of which is required by the Accounting Act of Estonia. The primary financial statements of the parent company have been prepared using the same accounting policies that have been used in the preparation of the consolidated financial statements. Investments in subsidiaries and associates are reported at cost in the separate financial statements of the parent company.

Income statement

in million EUR	1 JANUARY – 31 DECEMBER	
	2022	2021
Revenue	**1,302.6**	**503.6**
Other operating income	339.0	298.9
Raw materials and consumables used	(902.2)	(530.5)
Payroll expenses	(47.7)	(39.5)
Depreciation, amortisation and impairment	(4.2)	(4.2)
Other expenses	(350.1)	(308.5)
OPERATING PROFIT (LOSS)	**337.4**	**(80.2)**
Finance income	66.7	51.4
Finance costs	(25.6)	(27.5)
Net finance income	**41.1**	**23.9**
PROFIT (LOSS) BEFORE TAX	**378.5**	**(56.3)**
PROFIT (LOSS) FOR THE YEAR	**378.5**	**(56.3)**

Statement of comprehensive income

in million EUR	1 JANUARY – 31 DECEMBER	
	2022	2021
PROFIT FOR THE YEAR	**378.5**	**(56.3)**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Revaluation of hedging instruments net of reclassifications to profit or loss	238.4	100.5
Other comprehensive income for the year	**238.4**	**100.5**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**616.9**	**44.2**

Statement of financial position

in million EUR	31 DECEMBER	
	2022	2021
ASSETS		
Non-current assets		
Property, plant and equipment	22.8	21.5
Right-of-use assets	6.0	6.7
Intangible assets	9.8	13.8
Derivative financial instruments	879.5	333.7
Investments in subsidiaries	889.2	941.5
Receivables from subsidiaries and other receivables	183.8	182.8
Total non-current assets	**1,991.1**	**1,500.0**
Current assets		
Inventories	41.4	13.4
Greenhouse gas emission allowances and guarantees of origin	429.3	193.3
Trade and other receivables	791.8	841.3
Derivative financial instruments	349.8	102.7
Cash and cash equivalents	126.8	49.6
Total current assets	**1,739.1**	**1,200.3**
Total assets	**3,730.2**	**2,700.3**

in million EUR	31 DECEMBER	
	2022	2021
EQUITY		
Share capital	746.6	746.6
Share premium	259.8	259.8
Statutory reserve capital	75.0	75.0
Hedge reserve	352.0	113.5
Retained earnings	461.5	129.7
Total equity	**1,894.9**	**1,324.6**
LIABILITIES		
Non-current liabilities		
Borrowings	192.5	694.4
Non-current prepayments	1.8	-
Derivative financial instruments	544.9	140.2
Provisions	0.4	0.5
Total non-current liabilities	**739.6**	**835.1**
Current liabilities		
Borrowings	581.5	138.7
Trade and other payables	166.2	123.8
Derivative financial instruments	347.7	277.8
Provisions	0.3	0.3
Total current liabilities	**1,095.7**	**540.6**
Total liabilities	**1,835.3**	**1,375.7**
Total liabilities and equity	**3,730.2**	**2,700.3**

Statement of cash flows

in million EUR	1 JANUARY – 31 DECEMBER	
	2022	2021
Cash flows from operating activities		
Profit before tax	**378.5**	**(56.3)**
Adjustments		
Depreciation of property, plant and equipment and right-of-use assets	3.0	2.7
Amortisation of intangible assets	1.2	1.6
Gain on sale of property, plant and equipment	(1.3)	(0.2)
Gain on sale of subsidiary	(4.3)	-
Expected credit loss from loan to subsidiary	1.0	2.2
Gain on partial disposal of subsidiary	-	(34.9)
Unpaid/unsettled loss on derivatives	(79.9)	85.7
Interest expense on borrowings	25.4	25.1
Interest income	(18.9)	(17.0)
Dividend income	(46.7)	(27.1)
Net operating cash flow before changes in current assets and liabilities	**258.1**	**(18.3)**
Net change in current assets relating to operating activities		
Change in receivables relating to operating activities	(15.0)	(65.2)
Change in inventories	(28.0)	(5.6)
Net change in other current assets relating to operating activities	(311.2)	(109.0)
Total net change in current assets relating to operating activities	**(354.2)**	**(179.8)**
Net change in liabilities relating to operating activities		
Change in provisions	(0.1)	0.2
Change in trade payables	(5.9)	12.4
Net change in liabilities relating to other operating activities	23.2	(46.3)
Total net change in liabilities relating to operating activities	**17.2**	**(33.7)**

in million EUR	1 JANUARY – 31 DECEMBER	
	2022	2021
Interest paid and borrowing costs	(15.3)	(16.0)
Interest received	12.7	21.9
Net cash generated from operating activities	**(81.5)**	**(225.9)**
Cash flows from investing activities		
Dividends received from subsidiaries	46.7	27.1
Purchase of property, plant and equipment and intangible assets	(3.9)	(6.9)
Proceeds from sale of property, plant and equipment and intangible assets	5.3	1.1
Received from sale of subsidiaries	56.6	-
Change in overdraft granted to subsidiaries	169.4	74.4
Net cash generated from investing activities	**274.1**	**95.7**
Cash flows from financing activities		
Loans received	70.0	120.0
Repayments of bank loans	(137.9)	(117.9)
Payments of lease principal	(0.8)	(0.8)
Dividends paid		-
Proceeds from the issue of shares in a subsidiary	-	75.0
Net cash (used in) generated from financing activities	**(115.4)**	**76.3**
Net cash flow	**77.2**	**(53.9)**
Cash and cash equivalents at the beginning of the period	49.6	103.5
Cash and cash equivalents at the end of the period	126.8	49.6
Net increase (decrease) in cash and cash equivalents	**77.2**	**(53.9)**

Statement of changes in equity

in million EUR	Share capital	Share premium	Statutory reserve capital	Hedge reserve	Retained earnings	Total
Equity as at 31 December 2020	**746.6**	**259.8**	**62.1**	**13.0**	**199.0**	**1,280.5**
Loss for the year	-	-	-	-	(56.3)	(56.3)
Other comprehensive income for the year	-	-	-	100.5	-	100.5
Total comprehensive income for the year	**-**	**-**	**-**	**100.5**	**(56.3)**	**44.2**
Increase of statutory reserve capital	-	-	12.9	-	(12.9)	-
Total contributions by and distributions to owners of the company, recognised directly in equity	**-**	**-**	**12.9**	**-**	**(12.9)**	**-**
Equity as at 31 December 2021	**746.6**	**259.8**	**75.0**	**113.5**	**129.8**	**1,324.7**
Profit for the year	-	-	-	-	378.5	378.5
Other comprehensive income for the year	-	-	-	238.4	-	238.4
Total comprehensive income for the year	**-**	**-**	**-**	**238.4**	**378.5**	**616.9**
Dividends paid	-	-	-	-	(46.7)	(46.7)
Total contributions by and distributions to owners of the company, recognised directly in equity	**-**	**-**	**-**	**-**	**(46.7)**	**(46.7)**
Equity as at 31 December 2022	**746.6**	**259.8**	**75.0**	**351.9**	**461.6**	**1,894.9**

Under the Accounting Act of Estonia, adjusted unconsolidated retained earnings are the amount from which a limited company can make payments to its shareholders. See reconciliation of the parent entity's equity to the adjusted unconsolidated equity from the table below.

in million EUR	31 DECEMBER	
	2022	2021
Equity of the parent entity	1,894.9	1,324.6
Carrying amount of interests under control and significant influence	(889,2)	(941,5)
Carrying amount of interests under control and significant influence under the equity method	1,947.4	1,935.7
Adjusted unconsolidated equity (Note 19)	**2,953.1**	**2,318.8**

Independent auditor's report

To the Shareholder of Eesti Energia AS

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Eesti Energia AS (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2022, and the Group´s consolidated financial performance and consolidated 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 Group's consolidated financial statements comprise:

- the consolidated income statement for the year ended 31 December 2022;
- the consolidated statement of comprehensive income for the year ended 31 December 2022;
- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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Translation note:

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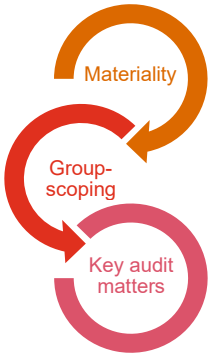
Our audit approach

Overview



- Overall Group audit materiality is EUR 9 million, which represents approximately 2,5% of underlying earnings before interest, tax, depreciation, amortisation and impairment, foreign exchange gains or losses and share of results of associates ("EBITDA"), adjusted by us for non-recurring items.
- We tailored our audit scope based on the risk and size of entities within the Group and performed either a full scope audit or specific audit procedures over material income statement or balance sheet line items. At the Group level we tested the consolidation process and performed separate analytical procedures over the components not covered by the above procedures to confirm our conclusion that no material misstatements exist that may affect the consolidated financial statements.
- Assessment of potential property, plant and equipment impairment.
- Accounting for the universal service.

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

Materiality

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

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

Overall Group audit materiality	EUR 9 million
How we determined it	We used our professional judgement to determine overall Group materiality. As a basis for our judgment we used 2.5% of EBITDA, adjusted for non-recurring items. EBITDA is defined by the Group as earnings before interest, tax, depreciation, amortisation and impairment, foreign exchange gains or losses and share of results of associates. EBITDA is a non-IFRS performance measure as disclosed in Note 5 of the consolidated financial statements. Management is responsible for defining and establishing this measure, and the method of its calculation may vary from other entities' calculation of similar measures or the Group's use of the terms that comprise this measure may vary from similarly titled terms used by others.
Rationale for the materiality benchmark applied	We have applied EBITDA as the benchmark because, as described in Note 5 of the consolidated financial statements, it is one of the key measures the management uses to assess the Group's performance. One-off items excluded by us from EBITDA for the materiality calculation purposes were items that had significantly impacted the Group's performance on a non-recurring basis. The described significant exclusions were: • the loss of EUR 37.1 million, arising from the unrealised fair value of the derivative related to the Universal service. Details of the given derivative can be found in Notes 3, 4 and 15 of the consolidated financial statements; • the gain of EUR 86.6 million arising from the realised and unrealised gain from long-term power purchase agreements not designed as hedge instruments. Details of the respective transactions can be found in Note 5 of the consolidated financial statements.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Assessment of potential property, plant and equipment impairment (the significant assumptions used by management and their impact on the recoverable amount of property, plant and equipment are described in Notes 4 and 6 of the consolidated financial statements). As at 31 December 2022 the Group had property, plant and equipment of EUR 3,253.6 million, the majority of which related to the oil shale mining, shale oil production and power generation assets in Estonia. Volatile market prices of electricity and CO2 emission quotas and uncertainty regarding their future development were considered as an indication that the recoverable amount of the power generating units that use shale oil as well as other fuels (hybrid generating units) may be below their carrying amounts. The recoverable amount of the Group's hybrid generating units is determined as their value in use which is based on discounted future cash flows. Impairment assessment of these hybrid generating units is subjective and requires significant judgment due to an inherent uncertainty involved in the forecasting and discounting of the estimated future cash flows. The key underlying assumptions, such as forecasted electricity and CO2 emission quota prices, are impacted by the global and country-specific political and economic factors. Consequently, there is a relatively high risk that due to the judgemental factors, potential impairment may be unidentified, or an impairment loss be miscalculated. Due to the above reasons we considered this area to be a key audit matter.	We began our procedures by assessing whether impairment indicators exist for assets not identified by management. We used our knowledge of the Group and its business activities as well as our accumulated knowledge related to the industries where the Group operates. In addition, we performed inquiries with management and key employees and inspected internal documents of the Group. We evaluated management's key assumptions and estimates used in the calculation of the recoverable amount of the assets identified as potentially impaired, including the assumptions related to operational performance, such as operating cost forecasts, electricity production volumes and operational reliability of the production assets. We challenged management's assumptions by corroborating the information with the information received from operational level management and by referencing them to the actual performance of the Group and to internal documents of the Group such as budget forecasts and minutes of meetings of Eesti Energia AS and Enefit Power AS Management and Supervisory Boards. Where management had used market and market derived inputs, such as electricity and CO2 emission quota prices, we reconciled them to available third-party information sources. We involved PwC valuation experts to help us with assessing the reasonableness of the discount rates used by management. We benchmarked these to external data and challenged the assumptions based on our knowledge of the Group and the industries where the Group operates. We also assessed the adequacy of the disclosures related to the property, plant and equipment impairment testing in the consolidated financial statements.
Accounting for the universal service The amendments to the Energy Market Act and the Competition Act introduced on the 15th of September 2022 obliged the Group's subsidiary	We obtained Group's management analysis on the accounting treatment of the legislative change, which treated the obligation arising from the

(Enefit Power AS) to guarantee, on the basis of its production capacity, the volume of electricity required for the provision of the universal service to the specific Estonian consumers stipulated in the law on the basis of a fixed price agreed with the Competition Authority starting from the 1st of October 2022.

To fulfil the obligation stipulated by law the Group does not sell electricity directly to electricity distributors operating in the market or to their end consumers, but settles the difference between the fixed and the market price directly with the electricity distributors. From an accounting perspective it is thus a price difference derivative transaction which the Group measures at fair value through profit and loss.

The key underlying assumptions used by the Group's management to determine the fair value of the derivative transaction and their impact are described in Notes 3, 4 and 15 of the consolidated financial statements.

As at 31 December 2022 the fair value of the universal service derivative is calculated at minus EUR 37.1 million.

The main inputs to and concurrently also sources of uncertainty in the calculation of the derivative's fair value are the forecast electricity market price, the price forecast of the universal service established by the Competition Authority and the annual estimates of the electricity volumes sold under the universal service by third party distributors. Based on the given inputs the management has assessed the potential behaviour of the end consumers in their choice of an electricity package and thus derived the monthly forecasted electricity consumption volumes within the universal service framework.

Changes to market inputs (electricity market price) or in legislation (universal service price or its legislative basis) have a significant impact on the fair value of the derivative.

As the forecast electricity market prices, the price forecast of the universal service and the annual estimates of electricity volumes sold under the universal service are inherently uncertain then the assessment of the fair value of the derivative is subjective and requires significant judgment. The noted inputs are significantly impacted by global and domestic political, economic and legislative factors. Consequently, there is a high risk that due to the judgemental factors the fair value of the derivative may be calculated incorrectly. Due to the above reasons we considered this area to be a key audit matter.

law as meeting the definition of a derivative instrument. To verify the correctness of the management's conclusions we involved PwC's internal accounting specialists to help us critically assess the assumptions and interpretation of IFRS used in the analysis, while also taking into account the Group's general business model and the operational details of the electricity market.

We specifically focused on the valuation of the derivative contract at the balance sheet date evaluating the main inputs underlying its fair value.

To establish that the electricity market prices used in the fair value calculation are correct we compared them with quoted electricity market price forwards as of the balance sheet date and with third party long-term electricity market price forecasts.

In order to gain certainty over possible future changes in the fixed price of the universal service we evaluated the information used by the management in making the forecast, including interpretations of the requirements of the Energy Market Act, communication with the Competition Authority, calculations of the cost of electricity production and future planned production volumes, and comparing it with the information received from operational level management, the Group's actual performance and internal documents such as budget forecasts and minutes of meetings of Eesti Energia AS and Enefit Power AS Management and Supervisory Boards.

In order to validate the electricity volumes underlying the universal service we compared their quantities with the data provided by third party distributors. To achieve certainty over the general forecast demand for the universal service and the underlying possible behaviour of the third party electricity distributors' end consumers in their choice of electricity price packages we evaluated the Group's internal historical information on consumer behaviour presented by the management, comparing it with the information received from operational level management and the principles of the operation of the electricity market.

We also assessed the adequacy of the disclosures related to universal service in the consolidated financial statements.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. Accordingly, based on the size and risk characteristics, we performed a full scope audit of the financial information for the following subsidiaries within the Group:

- Enefit Power AS (electricity generation, shale oil production and oil shale mining);
- Elektrilevi OÜ (transmission grid);
- Enefit SIA (electricity and gas energy sales in Latvia);
- Enefit UAB (electricity and gas energy sales in Lithuania);
- Eesti Energia AS (the Group's parent entity);
- Enefit Green AS (electricity generation from renewable sources), and its subsidiaries (electricity generation from renewable sources).

In addition, specific audit procedures over significant balances and transactions were performed for:

- sales revenue, accounts receivable balance, derivative balance, cash restricted from being used balance and greenhouse certificates balance of Enefit Sp. z.o.o. (electricity and gas sales in Poland);
- assessment of a potential impairment of assets of Enefit American Oil (oil shale mining development rights in USA), Enefit Solutions AS (manufacturing of metal structures) and Enefit Outotec Technology OÜ (Enefit technology testing facility);
- investments into associates of Attarat Holding OÜ (holding entity for equity investments in Jordan).

At the Group level we tested the consolidation process and performed separate analytical procedures over the components not covered by the above procedures to confirm our conclusion that no material misstatements exist that may affect the consolidated financial statements. Information describing the structure of the Group is included in Note 11 of the consolidated financial statements.

Reporting on other information including the Management report

The Management Board is responsible for the other information. The other information comprises the Management report, the Sustainability report and its Notes, the Profit Allocation proposal, the Investor Information report and the Glossary to the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon).

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

In connection with our audit of the consolidated 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 consolidated 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 of the Republic of Estonia. Those procedures include considering whether the Management report is consistent, in all material respects, with the consolidated financial statements and is prepared in accordance with the requirements of the Accounting Act of the Republic of Estonia.

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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 consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements; and
- the Management report has been prepared in accordance with the requirements of the Accounting Act of the Republic of Estonia.

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

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

The Management Board is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.

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- 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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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.

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

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

AS PricewaterhouseCoopers

Jüri Koltsov
Certified auditor in charge, auditor's certificate no.623

Toomas-Hendrik Parts
Auditor's certificate no. 689

24 March 2023
Tallinn, Estonia

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Profit Allocation Proposal

The retained earnings of the Eesti Energia Group as at 31 December 2022 were EUR 1,160,725,415.58, of which the net profit for the year 2022 amounted to EUR 189,827,110.10.

The Management Board proposes under section 332 of the Commercial Code of Estonia to allocate the retained earnings of the Eesti Energia Group as at 31 December 2022 as follows:

1. to pay EUR 52,200,000 as dividends to the shareholder;
2. to retain the remaining net profit for 2022 of EUR 137,627,110.10 due to the continuing financing needs of the Eesti Energia Group.

Signatures of the Management Board to the Annual Report for Financial Year 2022

In the 2022 financial year, the Eesti Energia Management Board complied as required with the duties of members of the Management Board, and led the Eesti Energia Group to achieve its targets. The Management Board has regularly reported to the Supervisory Board, has acted within its powers and has submitted all the information necessary for decision-making to the Supervisory Board. The Management Board is aware of and hereby confirms its responsibility for the preparation of the annual report and for the data therein.

The annual report of the Eesti Energia Group for the financial year ended on 31 December 2022 consists of the management report, the consolidated financial statements, the auditor's report and the profit allocation proposal. The Management Board has prepared the management report, the consolidated financial statements and the profit allocation proposal.

24 March 2023

Chairman of the Management Board

Hando Sutter

Members of the Management Board

Andri Avila

Raine Pajo

Agnes Roos

Margus Vals

Sustainability Report Appendices

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ANNEX 2. Certificates, guidelines and procedures applicable in the Group

Policy document	Aim	Link
Principles of organisation of the management of the Eesti Energia Group	The principles provide a framework for the governance and operation of the Group, and regulate the conduct of managers and employees. Together with internal procedures, the principles provide guidance and clarity on how the Group is managed (the governance principles). The governance principles describe the Group's governing bodies and management culture, the principal internal procedures and guidelines, principles of behaviour, and values.	https://enefitgreen.ee/.resources/green/webresources/assets/pdf/juhtimise-korraldamise-pohimotted-ENG.pdf
Code of ethics	The purpose of the Group's code of ethics is to provide a uniform understanding of ethical behaviour. We expect all employees as well as the members of the management board, audit committee and supervisory board to observe the code of ethics. We believe that compliance with the requirements described in the code of ethics helps us increase the value of the Group and prevent damage to the Group's assets and reputation. The code of ethics is based on our values.	https://www.energia.ee/-/doc/8644186/ettevottest/pdf/Code-of-Ethics.pdf
Eesti Energia Group's code of ethics for partners	Compliance with the requirements is a prerequisite for cooperation and non-compliance may serve as a basis for termination of cooperation.	https://www.energia.ee/-/doc/8644186/hanke-dokumendid/Eetikanouded_EE_lepingupartneritele_alates_21112022_ENG.pdf
Eesti Energia's principles of occupational health and safety	One of the core values of Eesti Energia is 'safety first'. The main purpose of occupational health and safety principles is to ensure work without accidents and occupational diseases. Our target is to have zero accidents at work and we are gradually progressing towards it. Improving the safety culture and creating and maintaining a safe work environment is our priority, but in order to meet the target, our employees and contract partners must work and behave in a safe manner. Safety depends on everyone. To achieve those ambitious targets, safety must be an integral part of our work culture and everyday behaviour. We have formulated the core safety principles that must be observed by all people working for or on behalf of Eesti Energia.	https://enefitgreen.ee/.resources/green/webresources/assets/pdf/Principles%20of%20occupational%20health%20and%20safety_02.11.2020.pdf
Eesti Energia's occupational health and safety requirements for contract partners	The document sets out the requirements related to occupational health and safety that the entities that are in a contractual relationship with Group companies must be guided by.	https://www.energia.ee/-/doc/8644186/hanke-dokumendid/TTO_nouded_EE_lepingupartneritele_eng.pdf

Policy document	Aim	Link
Principles for providing notice, registration and investigation of hazardous situations and near misses	The document sets out the minimum requirements for the reporting, registration and investigation of hazardous situations and near misses that have occurred in the field of occupational health and safety in the companies, business units and departments of the Group.	https://www.energia.ee/-/doc/8644186/hanke-dokumendid/Ohuolukordadest_ja_peaaegu_juhtunud_onnetustest_teavitamise_pohimotted_ENG.pdf
Procurement procedure of Eesti Energia AS and companies of the Group	The document establishes uniform requirements and rules for the organisation of procurements, including central public procurements and joint procurements. The procurement procedure regulates the planning, preparation and conduct of public procurements and tenders, the conclusion and management of procurement contracts and general principles of supervision.	https://www.energia.ee/-/doc/8644186/hanke-dokumendid/EE_Hankekord_alates_01.07.2022_ENG.pdf
Sustainable procurement	One of the principles of Eesti Energia's environmental policy is that we use, where possible, environmentally friendly public procurement to procure services, products and raw materials.	https://www.energia.ee/en/ettevottest/vastutustundlik-energia/keskkond/koostoo
Eesti Energia Group's environment policy	To coordinate and enhance its environmental efforts, the Eesti Energia Group applies certified environmental management systems that conform with the international standard ISO 14001 and the EU standard EMAS (Eco-Management and Audit Scheme). We constantly monitor and update our environmental management systems.	https://www.energia.ee/en/ettevottest/vastutustundlik-energia/keskkond/keskkonnapoliitika?modal=modal_environmental_policy
The Group's environmental impact assessment reports / strategic environmental impact assessment reports	Eesti Energia assesses environmental impacts when planning its activities and takes into account the environmental conditions in its production areas.	https://www.energia.ee/en/ettevottest/vastutustundlik-energia/keskkond/keskkonnapoliitika
Group companies' occupational health and safety management system certificates	ISO certificates have been granted to the following Group companies: · Enefit Power, ISO certificates are valid until 13 January 2026 · Enefit Solutions, ISO certificates are valid until 30 September 2025 · Enefit Connect, ISO certificates are valid until 12 October 2023 · Enefit Green, ISO certificates are valid until 9 September 2024	https://www.energia.ee/en/ettevottest/tehnoloogia/elektri-ja-sooja-tootmine?tabgroup_1=auvere https://www.energia.ee/en/ettevottest/tehnoloogia/enefit-solutions https://www.energia.ee/en/enefit-connect https://enefitgreen.ee/en/ettevottest/juhtimine
Group companies' environmental management system certificates	ISO certificates have been granted to the following Group companies: · Enefit Power, ISO certificates are valid until 13 January 2026 · Enefit Solutions, ISO certificates are valid until 30 September 2025 · Enefit Connect, ISO certificates are valid until 12 October 2023 · Enefit Green, ISO certificates are valid until 9 September 2024	https://www.energia.ee/en/ettevottest/tehnoloogia/elektri-ja-sooja-tootmine?tabgroup_1=auvere https://www.energia.ee/en/ettevottest/tehnoloogia/enefit-solutions https://www.energia.ee/en/enefit-connect https://enefitgreen.ee/en/ettevottest/juhtimine

Policy document	Aim	Link
Green Office certificates	The Green Office principles are applied in the following offices: · Eesti Energia head office (Lelle 22), the certificate is valid until 11 December 2023 · Enefit Power oil industry administrative building, the certificate is valid until 30 December 2024 · Enefit Power logistics centre office at Hobuseraua 19, the certificate is valid until 9 November 2025 · Enefit Connect and Elektrilevi Veskiposti office, the certificate is valid until 26 November 2024 · Eesti Energia Pärnu office (Energia 4), the certificate is valid until 15 December 2025	
Environmental permits of Eesti Energia's subsidiaries	Eesti Energia's environmental activities are regulated by requirements arising from the European Union (EU) as well as national and local legislation. Eesti Energia needs environmental permits to carry out its daily operations. The requirements set by the permits must ensure the protection of water, air and soil and the handling of waste in a manner that prevents the transfer of contamination from one environmental element such as water, air or soil to another. The permits set emission limit values, monitoring requirements etc. An integrated environmental permit also requires the use of the best available techniques. All permits of Eesti Energia are public and can be accessed in the Environmental Board's information system for environmental decisions (KOTKAS).	https://www.energia.ee/et/ettevottest/vastutustundlik-energia/keskkond/keskkonnapoliitika https://kotkas.envir.ee/permits/public_index
Iru power plant's EMAS certificate	Both the international environmental management standard ISO 14001 and the Eco-Management and Audit Scheme (EMAS) are designed to help organisations continuously improve the effectiveness of their environmental efforts. While EMAS and ISO 14001 set the same requirements to the application of the environmental management system, the EMAS regulation establishes some significant additional requirements, such as a public environmental report. Enefit Green's Iru power plant was granted an EMAS registration in 2006. Each year Iru power plant publishes its environmental report, which is available on the website of Enefit Green. Iru power plant's EMAS certificate is valid until 18 November 2024.	https://www.energia.ee/en/ettevottest/vastutustundlik-energia/keskkond/keskkonnapoliitika https://enefitgreen.ee/en/vastutustundlikkus/keskkond
Principles of customer data processing	The principles determine how Eesti Energia may use customer data in communicating with customers and provide information on important matters related to the use of data.	https://www.energia.ee/-/doc/8644186/ettevottest/pdf/kliendiandmete_tootlemise_pohimotted_eng.pdf

ANNEX 3. Participation of the Eesti Energia Group and its subsidiaries in organisations and associations

ASOCIACIJA INFOBALT	BALTIC INSTITUTE OF CORPORATE GOVERNANCE
CIGRE	ECOBA
EES-RINGLUS	ESTONIAN ASSOCIATION OF ELECTRICAL ENTERPRISES
FEDERATION OF THE ESTONIAN ELECTRICITY INDUSTRY	ESTONIAN SOCIETY FOR ELECTRICAL POWER ENGINEERING
ESTONIAN GEOLOGICAL SOCIETY	ESTONIAN ASSOCIATION OF INFORMATION TECHNOLOGY AND TELECOMMUNICATION
ESTONIAN POWER PLANTS AND DISTRICT HEATING ASSOCIATION	ESTONIAN CHAMBER OF COMMERCE AND INDUSTRY
ESTONIAN CHEMICAL INDUSTRY ASSOCIATION	ESTONIAN ASSOCIATION FOR ENVIRONMENTAL MANAGEMENT
ESTONIAN REAL ESTATE MAINTENANCE UNION	ESTONIAN TAXPAYERS ASSOCIATION
FEDERATION OF ESTONIAN ENGINEERING INDUSTRY	ESTONIAN FOREST AND WOOD INDUSTRIES ASSOCIATION
ESTONIAN MINING SOCIETY	ESTONIAN HUMAN RESOURCE MANAGEMENT ASSOCIATION PARE
ESTONIAN PLASTICS ASSOCIATION	ESTONIAN CIRCULAR ECONOMY INDUSTRIES ASSOCIATION
INSTITUTE OF INTERNAL AUDITORS ESTONIA	ESTONIAN WIND POWER ASSOCIATION
ESTONIAN EMPLOYERS' CONFEDERATION	EUROPEAN NETWORK FOR CYBER SECURITY
EU DSO ENTITY AISBL	EUROPEAN ENERGY INFORMATION SHARING AND ANALYSIS CENTRE
ESTONIAN HYDROGEN ASSOCIATION	INDUSTRIE-UND HANDELSKAMMER FRANKFURT AM MAIN
ISCOWA	LATVIJAS BIOENERGIJAS ASOCIACIJA
LATVIJAS SILTUMUZNEMUMU ASOCIACIJA	LATVIJAS TIRDZNIECĪBAS UN RŪPNIECĪBAS KAMERA
LIETUVOS ATSINAUJINANCIU ISTEKLIU ENERGETIKOS KONFEDERACIJA	LIETUVOS MARKETINGO ASOCIACIJA
LIETUVOS VEJO ELEKTRINIU ASOCIACIJA	WORLD ENERGY COUNCIL ESTONIAN MEMBER COMMITTEE
MERCELL LITHUANIA UAB	NORDIC ASSOCIATION OF EL FLUX B.V.ECTRICITY TRADERS
PALDISKI ASSOCIATION OF ENTREPRENEURS	CORPORATE SOCIAL RESPONSIBILITY FORUM
ESTONIAN MARKETING ASSOCIATION	

ANNEX 4. GHG footprint assessment

The greenhouse gas (GHG) footprint of the Eesti Energia Group has been calculated in accordance with the internationally recognised and the most widely used GHG reporting standards The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition, 2004) and The Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).

Categories of GHG emissions and emissions sources included in the assessment		
Scope 1	1.	F-gases (including SF6, partially halogenated hydrofluorocarbons, hydrochlorofluorocarbons, and hydrofluorocarbons)
	2.	Use of petrol in transportation
	3.	Use of diesel fuel in transportation and manufacturing
	4.	Combustion of oil shale in the production of electricity and heat
	5.	Combustion of oil shale gas in the production of electricity and heat
	6.	Combustion of shale oil in firing up generating units/in boiler plants
	7.	Combustion of natural gas in heat production and manufacturing
	8.	Fossil fraction of biomass combustion
	9.	Shale oil production
	10.	Incineration of waste
Scope 2	1.	Electricity purchased from the network in locations owned by Eesti Energia
	2.	Heat purchased from the network in locations owned by Eesti Energia
	3.	Electricity distribution losses
Scope 3	1.	Purchased goods and services
		Blasting work in mines
	4.	Upstream transportation and distribution
		Transportation of raw materials and fuels to production facilities
	5.	Waste generated in operations
		Waste disposal
	6.	Business travel
		Business travel by plane
	7.	Employee commuting
		Outsourced transportation service
	8.	Upstream leased assets
		Use of petrol and diesel fuel in vehicles leased for transport
		Electricity purchased from the network on leased premises
	9.	Downstream transportation and distribution
		Transportation of raw materials and fuels to the consumer
	11.	Use of sold products
		Combustion of shale oil and pellets by the consumer
	15.	Investments in associates
		Emissions from investments

Glossary

Circulating fluidised bed (CFB) technology – Circulating fluidised bed combustion technology whereby larger (unburnt) particles are returned to the furnace

Clean Dark Spread (CDS) – Eesti Energia's margin between the price of electricity (in NP Estonia) and oil shale costs and CO_2 costs (taking into account the price of CO_2 allowance futures maturing in December and the amount of CO_2 mitted in the generation of a MWh of electricity)

CO_2 emission allowance – According to the European Union Emissions Trading System (ETS), one emission allowance gives the holder the right to emit one tonne of carbon dioxide (CO_2). The limit on the total number of emission allowances available gives them a monetary value

Controllable production assets – Production assets which operate on energy sources such as oil shale, oil shale gas, wood chips, peat and tyre chips

EBITDA – Earnings before interest, taxes, depreciation and amortisation

EBITDA margin – Earnings before interest, taxes, depreciation and amortisation divided by revenue

FFO – Funds from operations. Cash flow from operations, excluding changes in working capital

Financial leverage – Net debt divided by the sum of net debt and equity

Future – A contract between counterparties which obligates to buy or sell an underlying asset (e.g. a commodity) at a pre-agreed price

Green paper on industrial policy – A document prepared by the state and employers' associations which outlines the bottlenecks of industrial development and suggests solutions for their elimination and improving industrial development

Level of water reservoirs – The level of water in the reservoirs of hydro power plants as a percentage of the maximum possible level. Most of the Nordic countries' electricity production is based on hydro power whose output depends on the level of water reservoirs

Liquidity – Amount of liquid assets. Sum of cash and cash equivalents, short-term financial investments and deposits with a maturity of more than 3 months

Maintenance and repair expenditures – Expenditures incurred to maintain the existing production capacities

MWh – megawatt hour. 1 MWh is the unit of energy generated (or consumed) in one hour by a device operating at a constant power of 1 MW (megawatt) 1,000,000 MWh = 1,000 GWh = 1 TWh

Net debt – Debt obligations (amortised) less cash and cash equivalents (incl. bank deposits with maturities exceeding 3 months), units in money market funds and investments in fixed income bonds

Network losses – The amount of electricity delivered to customers is somewhat smaller than the amount supplied from power plants to the network because during transfer a part of electricity in the power lines and transformers converts into heat. To a lesser extent, network losses are caused by power theft and incorrect measuring. The network

operator has to compensate energy losses and for this a corresponding amount of electricity has to be purchased every hour

NP system price – The price on the Nord Pool power exchange that is calculated on the basis of all purchase and sale bids without taking into account transmission capacity

Limitations OHSAS, ISO 14001 – International standards which deal with risk management in the area of occupational health and safety, the environment management system, and accident prevention

Oil shale resource charge – A charge to be paid to the state for the use of 1 tonne of oil shale located in the mineral deposit

Position hedged with forward transactions – The quantity of electricity and shale oil to be sold and emission allowances to be purchased in future periods whose average price is previously fixed

RAB – Regulated Asset Base, which represents the value of assets used to provide regulated services

Return on Fixed Assets (ROFA) – Operating profit (rolling 12 months) divided by average fixed assets excluding assets under construction (allocated to specific products)

ROIC – Return on Invested Capital, calculated by dividing operating profit by average invested capital

SAIDI – System Average Interruption Duration Index. The sum of all customer interruption durations in minutes divided by the total number of customers served

SAIFI – System Average Interruption Frequency Index. The total number of customer interruptions divided by the total number of customers served

Tax footprint – An indicator which reflects the contribution made to society through taxes

Variable profit – Profit after deducting variable costs from sales revenue

Investor Information

The Group's results for the financial year 2023 are released as follows:

- Q1 interim report – **4 May 2023**
- Q2 interim report – **3 August 2023**
- Q3 interim report – **2 November 2023**
- Unaudited results for financial year 2023 – **28 February 2024**

Eesti Energia's financial results and investor relations contacts are available on the Group's website at:
https://www.energia.ee/en/ettevottest/investorile