



Management Report



Financial Statements



# Together with customers on the journey to zero



Eesti Energia

2021 ANNUAL REPORT

# CONTENTS

## MANAGEMENT REPORT

Chairman's letter	3
Group's key figures and ratios	5
Operating environment	6
Strategy	15
Our journey in partnership with the customer in 2021	19
Sustainably and responsibly into the future	32
Corporate governance report	44
Risk management	57

## Financial results 61

Revenue and EBITDA	62
Electricity	63
Distribution	65
Shale oil	67
Other products and services	69
Cash flows	71
Investment	74
Financing	77
Outlook for 2022	81

## CONSOLIDATED FINANCIAL STATEMENTS

<b>Consolidated financial statements</b>	<b>83</b>
Consolidated Income statement	85
Consolidated Statement of comprehensive income	86
Consolidated Statement of financial position	87
Consolidated Statement of cash flows	88
Consolidated Statement of changes in equity	89
<b>Notes to the consolidated financial statements</b>	<b>90</b>
Independent Auditor's Report	191
Profit Allocation proposal	198
Signatures of the Management Board to the Annual Report for Financial Year 2021	199
Investor Information	200
Glossary	201



**Eesti Energia**

**REVENUE**  
1.3 billion EUR

**NET PROFIT**  
111 million EUR

**INVESTMENTS**  
253 million EUR

**EBITDA**  
318 million EUR

**EMPLOYEES**  
4357

**SALES VOLUMES**

Electricity 9.4 TWh	Heat 0.9 TWh
Gas 2.4 TWh	Shale oil 420 th t

**PRODUCTION**

Electricity 5.2 TWh	Share of renewable energy from heat and electricity production 32%
Heat 1.3 TWh	
Shale oil 438 th t	

CO<sub>2</sub> emission 4.9 million t

2

# Dear reader

In 2021, the energy market gave the strongest signal ever that we urgently need new carbon-free energy production capacities. Otherwise, the electricity price level will remain prohibitive for customers and a threat to economic growth in Europe.

While previously the weather had a strong effect on electricity consumption, it now increasingly affects electricity production. The contribution of hydro, wind and solar in meeting energy demand varies greatly as does the need for controllable power generation that is used to balance the fluctuations in renewable energy supply.

During high demand, fossil fuel power plants are fired up and brought online but keeping them in operation has never been more expensive. Last year, the average price of natural gas grew fivefold and the average price of CO<sub>2</sub> emission allowances more than twofold compared with a year earlier. These are the two main reasons that drove the average electricity price on the Nord Pool power exchange to record heights.

Eesti Energia has a diverse portfolio of production assets, which enables us to respond flexibly to developments in the energy market. In December 2021, when the market was facing a crisis due to a dangerous supply shortage, we brought all our thermal power plants online – even those which had been put on hold for more than a year.



Every megawatt counts when it is necessary to keep the lights on and homes warm.

The electricity market is yearning for new production options that would help provide regional security of supply that is both affordable and environmentally sustainable. We have promised that by 2035 at the latest we will produce electricity from renewable sources only. To that end, we are building new wind and solar farms and switching our controllable power generation facilities gradually over to biofuels.

Because of its current volatility, the market price of electricity does not provide investors with sufficient assurance to invest in renewable energy development projects. Customers, on the other hand, seek a more predictable electricity price. Our competitive advantage in the Finnish, Baltic and Polish markets lies in our ability to offer solutions that meet both needs.

In 2021, we signed long-term fixed-price wind power purchase agreements with nearly 1,000 corporate customers on 9 TWh in total. Such producer-

consumer partnerships, which are aimed at delivering green transition, are instrumental in enabling us as well as other renewable energy developers in the Baltic Sea region to build new wind farms.

Eesti Energia's renewable energy growth plan, which sets the goal of more than doubling our renewable energy production capacity by 2025, is being implemented by the Group's subsidiary Enefit Green, which was listed on the Nasdaq Tallinn stock exchange in October 2021. In the initial public offering of the shares, more than 60,000 retail investors from Estonia, Latvia and Lithuania put their trust in us and gave us a strong mandate. It is also worth noting that every fourth employee of the Group subscribed for the shares.

In 2021, we made investment decisions on building two wind farms in Lithuania, one wind farm in Finland and one solar farm in Poland. All the facilities are scheduled to be completed by the end of 2023 at the latest. The new production capacities of nearly 200 MW in total account for one third of our growth plan for the next few years.

The availability of a sufficient amount of green energy unlocks opportunities for electrification. We see this as the fastest way to reduce the share of fossil fuels in energy consumption and to achieve the end-goal of carbon neutrality.

Consistent enhancement of our value proposition, which is underpinned by offering smarter, more convenient and more sustainable energy consumption options, has strengthened our competitive position as a provider of energy solutions. A broad spectrum of services enables us to advise our customers on their green journey and to provide flexible implementation solutions for their plans. For further information, see the chapter Our journey in partnership with the customer in 2021.

More than 4,000 new solar power producers with a total capacity of 172

MW were connected to the electricity distribution network operated by us in 2021. The total capacity of solar power plants connected to Elektrilevi's network has grown to 385 MW.

Although historically Eesti Energia has been an oil shale energy company, our carbon neutrality action plan foresees ceasing the use of oil shale for electricity production in this decade already. This does not mean, however, that we will stop adding value to oil shale because we are going to take our oil shale business to the next level by transforming it into a circular economy-based chemicals industry.

We will switch from producing marine fuels to processing consumer waste into raw material for the chemicals industry by applying our unique Enefit technology-based pyrolysis process, after-treatment, and carbon capture technology. All our production operations will thus become carbon neutral by 2045 at the latest.

The year 2021 was the first in the history of Eesti Energia where our combined energy sales in Finland, Latvia, Lithuania, and Poland exceeded our energy sales in Estonia. Supported by high energy prices, our revenue grew substantially, rising for the first time and significantly above the billion-euro threshold. The largest share of our net profit, which grew to 111 million euros, resulted from the production of renewable energy, which is also an area where we are making our largest investments.

I thank all my colleagues as well as our customers for their trust and for joining us on our journey towards a cleaner world.

**Hando Sutter**



Chairman of the Management Board

## GROUP'S KEY FIGURES AND RATIOS

	unit	2020	2021
Total electricity sales, of which	GWh	7,840	9,435
wholesale sales	GWh	864	802
retail sales	GWh	6,977	8,633
Electricity distributed	GWh	6,706	7,172
Shale oil sales	th t	453	420
Heat sales	GWh	765	911
Average number of employees	No.	4,555	4,357

Sales revenues	m€	833.7	1,313.0
EBITDA	m€	213.6	317.6
Operating profit	m€	52.2	145.5
Net profit	m€	19.3	111.5

Investments	m€	185.9	253.3
Cash flow from operating activities	m€	310.3	176.5
Non-current assets	m€	3,078.8	3,366.7
Equity	m€	2,008.3	2,465.6
Net debt	m€	847.5	758.6

Net debt / EBITDA	times	4.0	2.4
EBITDA/ interest cover	times	6.5	11.3
Leverage	%	29.7	23.5
ROIC	%	1.8	5.2
EBITDA margin	%	25.6	24.2
Operating profit margin	%	6.3	11.1



# Operating Environment

- Electricity prices on the Nord Pool power exchange surged to record heights
- Baltic electricity prices were driven up by exceptionally high natural gas and CO<sub>2</sub> emission allowance prices
- Demand for the output of controllable fossil fuel power plants grew
- World market prices of oil products have recovered from the slump of 2020

As an international energy company our business is mainly affected by oil, electricity and emission allowance prices, competition in the energy and customer markets, regulations governing the energy sector and the development of new technologies.

Our performance in 2021 was strongly influenced by the following trends in market prices (compared with a year earlier):

- Electricity prices spiked to record heights due to soaring natural gas and carbon allowance prices.
- Emission allowance prices surged, driven by the adoption of the European Union's more ambitious climate goals and record-high natural gas price, which raised electricity production from oil shale and coal.
- Global prices of oil products recovered from the plunge triggered by the COVID-19 pandemic in Q2 2020. Restrictions imposed by countries in 2021 were considerably shorter and less severe, supporting the rebound in the demand for liquid fuels.

.....

**According to the International Monetary Fund, the global economy grew by 5.9% and Estonia's economy expanded by 8.5% in 2021. The primary growth driver was recovery from the COVID-19 pandemic which hit the world at the beginning of Q2 2020.**

.....

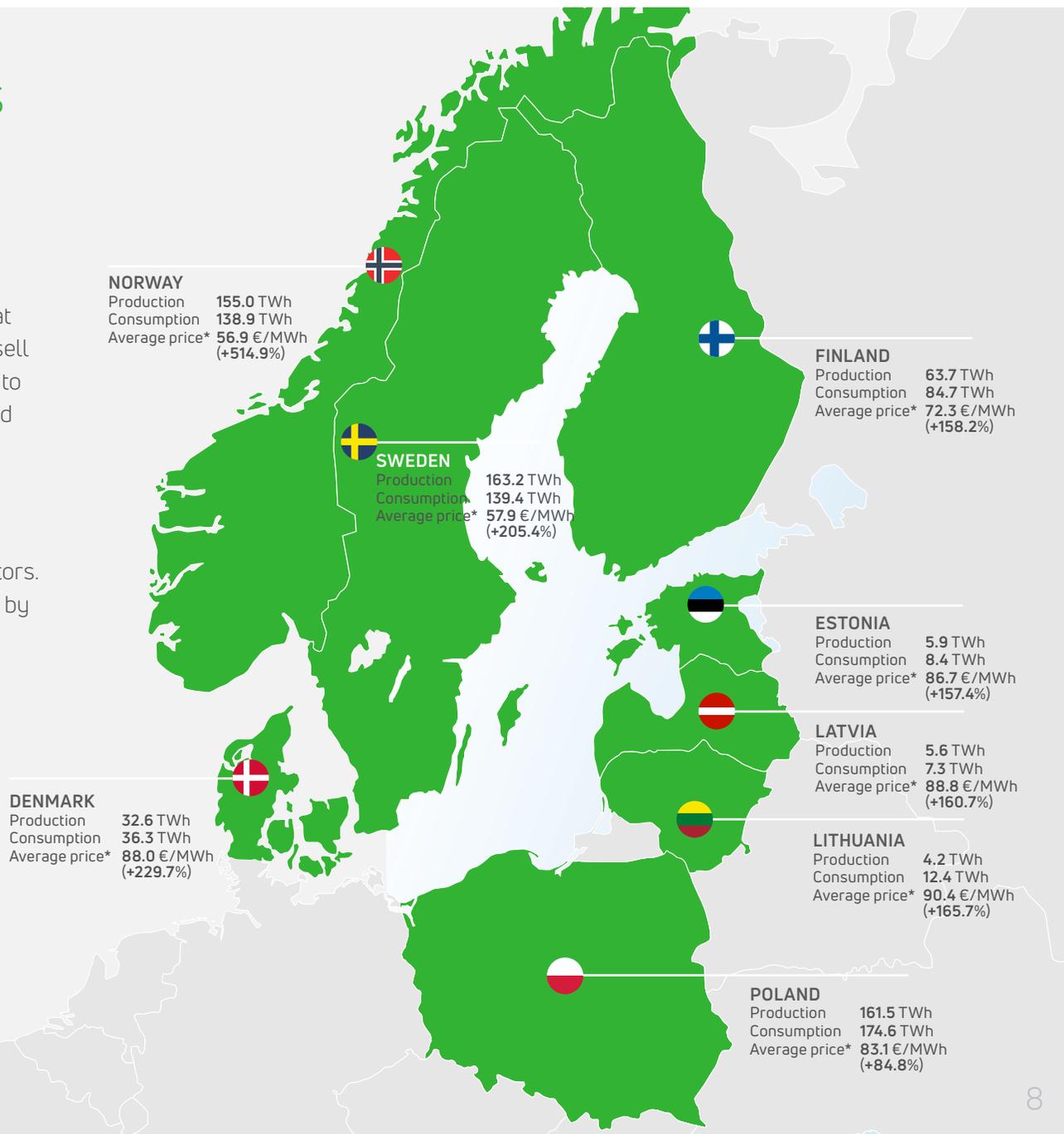


Maintenance operations  
at the Aulepa wind farm

## AVERAGE ELECTRICITY PRICES IN OUR MARKETS SURGED TO RECORD HEIGHTS

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 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. Electricity production and prices are thus also affected by various factors outside the markets where we operate, such as the levels of Norwegian hydro reservoirs and wind conditions in the region.



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

## BALTIC ELECTRICITY PRICES WERE DRIVEN UP BY RECORD-HIGH NATURAL GAS PRICES

The Nordic and Baltic market area produced 430 TWh and consumed 427 TWh of electricity in 2021. Compared with a year earlier, electricity production in the area decreased by 20 TWh while consumption grew by 22 TWh. Norway and Sweden produced more electricity than they consumed in 2021. In Estonia, Latvia, Lithuania, Finland and Denmark, consumption exceeded production and the countries had to import electricity.

**Electricity prices in Estonia and neighbouring countries were influenced by the recovery of consumption from the downturn caused by the Covid-19 pandemic and a record spike in the market prices of natural gas.**

In 2021, the average price of natural gas on the Dutch gas trading platform TTF was 46.6 €/MWh (+37.1 €/MWh, +394% compared with 2020). The price soared from 36.4 €/MWh at the beginning of July to 182.3 €/MWh on 21 December, a record-high price for TTF natural gas. The rise in the price of natural gas is attributable to supply shortages, which emerged in the period when regularly inventories are stocked up for the winter. In the summer, natural gas is injected into storage facilities based on relevant procurement plans. In the winter, the stored gas is withdrawn and consumed. Due to supply problems, gas storage facilities remained half empty and the deficit has caused the gas price to skyrocket.

### TTF NATURAL GAS PRICE

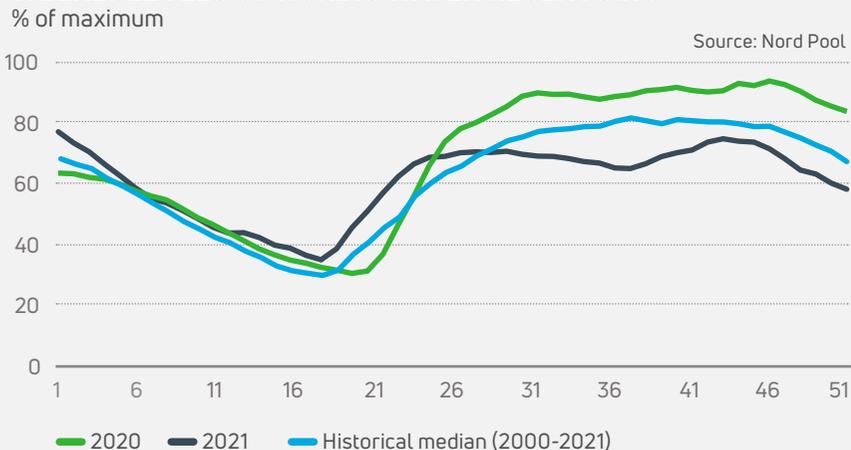
€/MWh



During peak hours, the electricity price in the region is typically determined by gas-fired power plants. A high price of natural gas has created a situation in Europe where the cost price of electricity produced from gas is higher than that of electricity produced from oil shale or coal. Growing use of coal-fired power plants as an alternative to gas-fired power plants has brought about a sharp increase in the price of coal. The carbon intensity of coal is half higher than that of natural gas. More extensive use of coal has therefore increased demand for CO<sub>2</sub> emission allowances, which has driven up their prices.

Interconnectors supply the Baltic countries with Nordic hydropower, which is cheaper than other types of electricity. The average level of hydro reservoirs was 60.9% of the maximum in 2021, 7.5 percentage points lower than in 2020 and 1.2 percentage points below the historical median. Hydropower production in the Nordic countries decreased year on year, dropping to 230 TWh (-1%, -2 TWh).

### WEEKLY LEVELS OF NORDIC WATER RESERVOIRS



Wind power production grew year on year. Wind energy output in Nord Pool's Nordic and Baltic area was 50 TWh in 2021 (+7 TWh, +16.0%). Wind power production grew in Finland and Sweden and decreased in Estonia, Latvia, Lithuania and Denmark. Due to its lower cost price, electricity produced from wind is more competitive than electricity produced from fossil fuels.

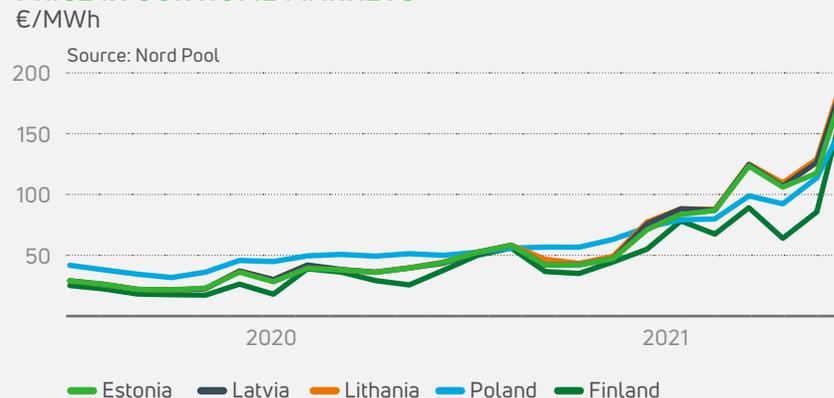
Although hydropower production remained strong and wind power production was larger than in 2020, the region's electricity prices on the Nord Pool power exchange were record-high in the second half of 2021. Growing consumption and record-high natural gas and carbon allowance prices caused electricity prices to rocket in 2021.

The average electricity price in our markets rose from 53.1 €/MWh in January to 196.6 €/MWh in December. The volatility of the electricity market is going to increase in the next few years

### NORD POOL AREA WIND PRODUCTION



### MONTHLY AVERAGE ELECTRICITY PRICE IN OUR HOME MARKETS



and it is likely that similar to 2021 there will be hours where the price is exceptionally high and hours where the price becomes negative.

## CARBON ALLOWANCE PRICES SURGED TO RECORD HEIGHTS

**The purpose of the EU Emissions Trading System 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 higher the price of CO<sub>2</sub> emission allowances, the higher the cost price of electricity we produce from oil shale. The price of carbon allowances has a strong impact on the cost of electricity produced by direct burning of oil shale, particularly at our older production facilities whose carbon intensity is higher. At the same time, a higher carbon emission allowance price increases the competitiveness of our renewable energy production units.

The price of CO<sub>2</sub> emission allowances moved from 33.7 €/t at the beginning of the year to 56.4 €/t at the end of the first half of 2021. The main reason for the price increase was the fact that the prior year's emissions could not be redeemed with allowances allocated in 2021. Companies that had not purchased allowances in advance had to do it by the end of April. Additionally, the European Union set more ambitious climate goals, which favour the production of electricity from less carbon intensive renewable sources.

Emission allowance prices continued rising in the second half of 2021. The main reason was a record-high natural gas price, which raised

### PRICES OF CO<sub>2</sub> EMISSION ALLOWANCES



the price of electricity produced from natural gas above the price of electricity produced from oil shale and coal, pushing carbon emission prices to new heights.

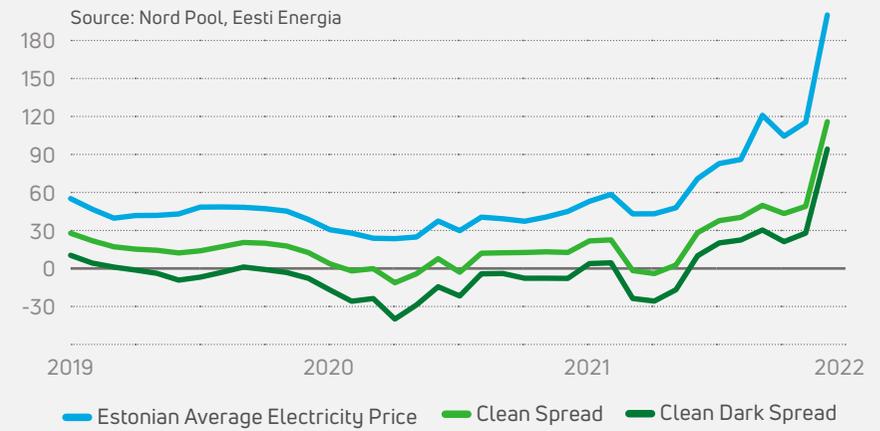
The average CO<sub>2</sub> emission allowance price in 2021 was 53.7 €/t, 116.3% (+28.9 €/t) up on 2020.

**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<sub>2</sub> emission allowance costs from the average market price of electricity. The clean spread is the sales margin that remains after the deduction of CO<sub>2</sub> emission allowance costs from the average market price of electricity.**

Eesti Energia's clean spread was 33.7 €/MWh in 2021 (+28.0 €/MWh compared with 2020). The rise in the clean spread is mainly attributable to growth in the electricity price in Estonia (+53.0 €/MWh compared with 2020). CO<sub>2</sub> emission allowance costs grew by 25.0 €/MWh year on year.

Eesti Energia's CDS was 13.4 €/MWh (+28.3 €/MWh compared with 2020). The oil shale cost component in CDS decreased by 0.3 €/MWh year on year. The combined effect of the change in the CO<sub>2</sub> emission allowance and oil shale cost components was -24.7 €/MWh.

**EESTI ENERGIAS' CARBON FREE SPREADS' AND CLEAN DARK SPREADS' RELATION TO ESTONIAN ELECTRICITY PRICE**  
€/MWh



## GLOBAL OIL PRODUCT PRICES HAVE RECOVERED FROM THE SLUMP IN 2020

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 2021, the average price of Brent crude oil was 65.2 USD/bbl, 55% (+23.0 USD/bbl) higher than in the first half of 2020. The price rose from 55.3 USD/bbl in January to 74.3 USD/bbl in June. In contrast to 2020 when prices plummeted due to the oil price war between Saudi Arabia and Russia and the economic impacts of the COVID-19 pandemic, in 2021 the prices of oil products rebounded to their pre-decline levels, mainly due to the production

### LIQUID FUELS PRICES

Source: Platts



restrictions agreed by OPEC+. European countries' success in bringing the pandemic under control supported economic recovery and boosted demand for oil products.

In the second half of 2021, the average price of Brent crude was 76.4 USD/bbl, 72% (+32.1 USD/bbl) higher than a year earlier. In the second half of 2020, the pandemic weakened demand, which kept liquid fuel prices at a relatively low level. By the second half of 2021 liquid fuel prices had bounced back because demand for liquid fuels grew and exceeded supply. Growth in demand was held back by wider outbreaks of new variants of the coronavirus (Delta and Omicron). On the other hand, market prices reflect that the outbreak of every next variant of the virus has an increasingly lower effect on the demand for liquid fuels. Containment measures implemented by countries have been significantly less restrictive than they were at the beginning of the COVID-19 pandemic. OPEC+ members decided to

## LIQUID FUELS PRICES

Average price	2021	2020	2019
Brent crude (USD/bbl)	70.9	43.2	64.1
Fuel oil 1% (€/t)	376.6	234.9	347.7
Euro exchange rate (EUR/USD)	1.18	1.14	1.12

start increasing production in the second half of 2021, but rapidly rising demand may drive up the market price if OPEC+ countries cannot increase output sufficiently quickly.

The average price of Brent crude in 2021 was 70.9 USD/bbl, which is +27.7 USD/bbl (+64.1%) higher than a year earlier. The market price of fuel oil with 1% sulphur content followed the trend of Brent crude oil. The average price of fuel oil with 1% sulphur content was 376.6 €/t in 2021, which is 60.3% (+141.7 €/t) higher than in 2020.



# Strategy

- Sufficient amount of affordable electricity produced with a minimal environmental footprint
- Customers' expectations and owner's expectations
- Three pillars of Eesti Energia's green transition

Society expects a sufficient supply of affordable energy, produced with a minimal environmental footprint. Eesti Energia's role is to be a reliable partner for the customer in the development and implementation of new, smarter and cleaner energy solutions.

As energy professionals, we help the customer find a personal and flexible way to plan and navigate the green journey.

We offer a broad range of solutions to those inspired by and seeking green transition: green energy plans, solar solutions complete with storage, smart and sustainable energy consumption management, electromobility, and energy-efficient lighting, heating and cooling services.

Electrification, that is wider implementation of renewable energy, assumes adequate availability of green electricity. Thus, in electricity production we focus on building new wind and solar farms.

Eesti Energia implements green transition in partnership with its customers. In the process, we provide them with added value and reduce the environmental impact of their energy consumption. For us, as energy producers, green transition means gradual changeover to the production of renewable electricity only and implementation of the concept of a circular economy-based chemicals industry. Our business strength lies in diversity and involvement in the entire energy value chain.

### CUSTOMER EXPECTATIONS

Customers want all their energy needs to be met with a simple end-to-end solution offered by a professional and reliable service provider.

Customers expect convenient and smart solutions that enable them to manage their energy consumption beneficially or to produce energy.

Customer expectations regarding corporate social responsibility have never been higher – customers prefer companies that produce energy from renewable sources and help customers produce renewable energy or consume energy more sustainably.

### OWNER EXPECTATIONS

Eesti Energia's sole owner, the Republic of Estonia, expects us to operate profitably and to generate stable dividend income. The annual dividend distribution is limited to the profit for the financial year.

At the same time, we must also gradually increase the share of electricity produced from renewable sources at our controllable electricity production facilities which help ensure the security of supply.

The owner expects us to continue adding value to oil shale consistent with the climate policy and to provide employment opportunities in the north-eastern part of Estonia.

In electricity distribution, the owner expects us to gradually increase the reliability of the network in a manner that is not overly costly for the consumer.

### EESTI ENERGIA'S GREEN TRANSITION IS BASED ON THREE PILLARS:



Offering customers useful and environmentally sustainable end-to-end solutions



Building solar and on- and offshore wind farms and developing energy storage systems

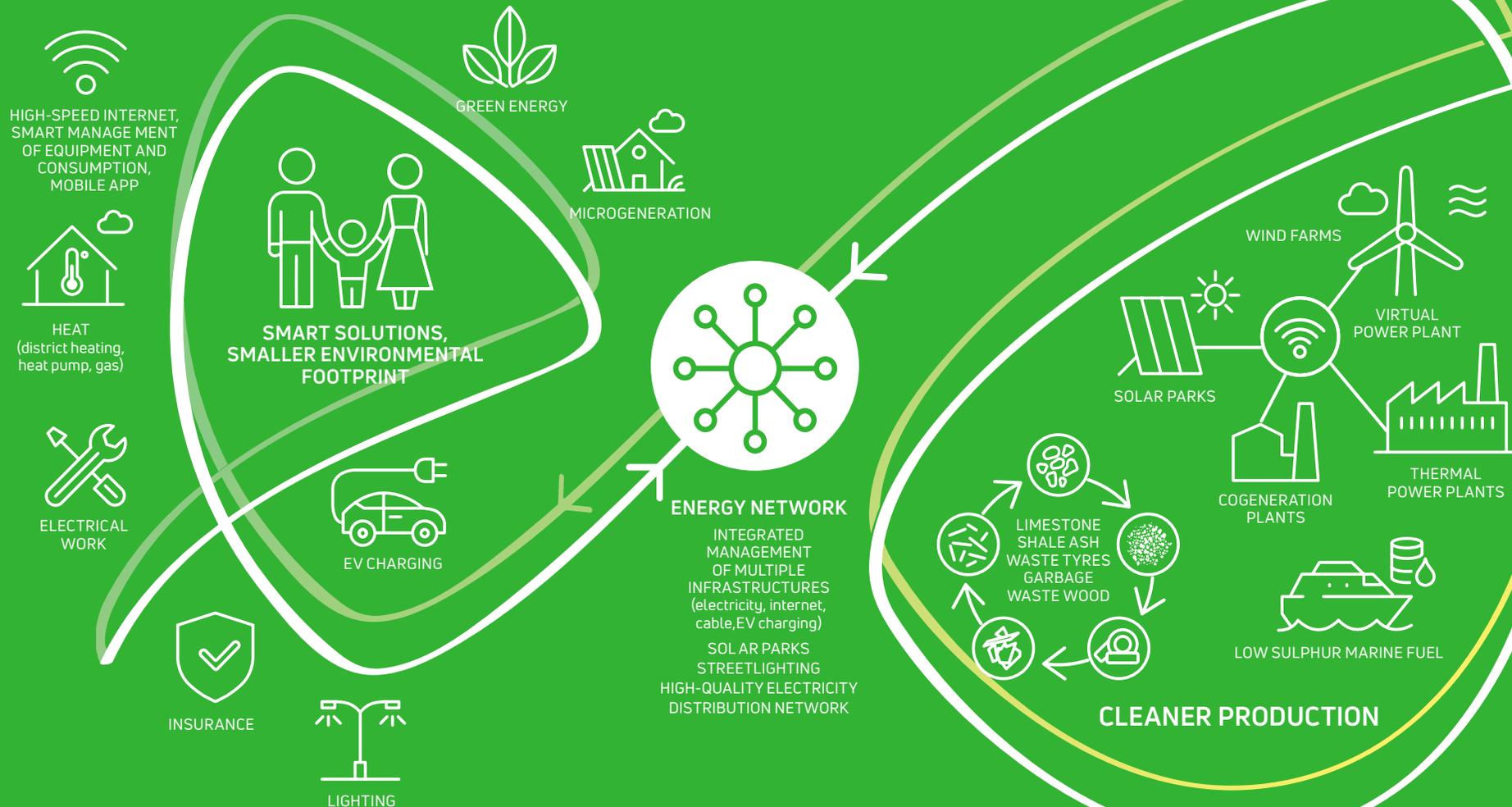


Discontinuing the use of oil shale for electricity generation and transforming liquid fuels (shale oil) production into a circular economy-based chemicals industry

**We have set ourselves the goals that in 2035 at the latest we will produce electricity from renewable sources only and in 2045 at the latest all our production operations will be carbon neutral.**

# The New Energy World

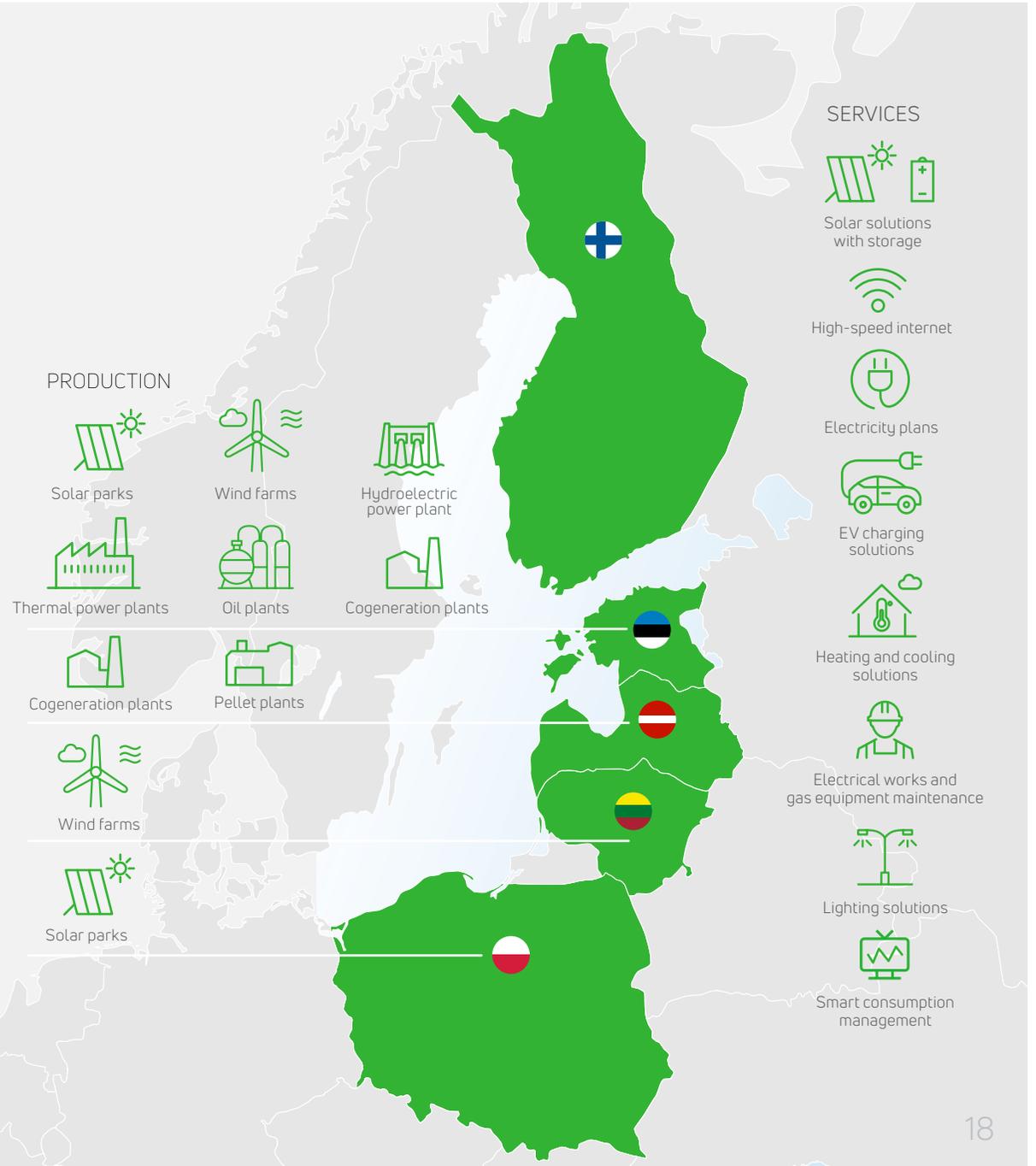
As an enabler of the energy transition and with the support of an excellent customer experience, **we will reach one million satisfied customers in the Baltic Sea region.**



## WE OFFER ENERGY SOLUTIONS IN THE BALTIC SEA REGION

We operate in the Baltic, Finnish and Polish electricity and gas sales markets as well as in the international market for liquid fuels.

We create energy solutions from the production of electricity, heat and fuels to new additional services related to sales, customer service and energy.



# Our journey in partnership with the customer in 2021

- We make sure that there is enough renewable energy
- We help customers plan and navigate their green journeys
- Smarter energy consumption saves money and the environment
- Network solutions help achieve green transition

Eesti Energia believes that the quickest, cheapest and most environmentally sustainable way to achieve a carbon neutral way of life is electrification by which renewable electricity replaces other, conventional sources of energy.

At present, electricity still accounts for less than a quarter of final energy consumption in Europe but there is potential for growth to at least 50% by the year 2050. Carbon-free electricity can replace fossil fuels in the decarbonisation of transport, housing and industrial processes.

.....

**Change does not happen overnight. We therefore see our role in informing, advising and implementing solutions. We can create a cleaner future only in partnership with our customers – this is a joint journey to zero, to carbon neutrality.**

.....

Electrification-based energy solutions are one side of the coin. At the same time, it is crucial to make sure that electricity produced from renewable sources is available in sufficient amounts. Eesti Energia, as one of the leading and most diverse producers of renewable energy on the eastern coast of the Baltic Sea, has set itself the goal to quickly build new wind and solar farms in the markets where it operates, which extend from Finland to Poland. We wish to increase our renewable energy production capacities 2.3 times to 1,100 MW by the year 2025.



We offered everyone an opportunity to contribute to and benefit from our growth plan through the initial public offering (IPO) of the shares in our renewable energy entity Enefit Green. To make capital investments of around 600 million euros, we considered it optimal to raise around 100 million euros from investors. Due to strong investor interest, the final amount of gross proceeds raised through the IPO was 175 million euros.

The number of retail investors from Estonia, Latvia and Lithuania exceeded 60,000, which is the best-ever IPO result in the Baltics. Driven by the goal to make the company a truly public one, we divided the shares equally between institutional and retail investors. Since listing in October 2021 to the year-end, the market value of Enefit Green grew by nearly 40%.

We reached an investment decision on three new onshore wind farms in 2021: 190 MW of new wind power capacities will increase our annual renewable electricity output by around 670 GWh. The 72 MW wind farms to be built in Tolpanvaara, Finland, and Akmenė, Lithuania, are scheduled to be completed by the end of 2023. A 43 MW wind farm to be built in Šilalė, Lithuania, is expected to supply its first electricity already at the beginning of 2023. After the completion of a wind farm in Finland, we will have renewable energy production capacities in all our home markets.

Although wind power is currently the most competitive source of renewable electricity, recent years' market prices of electricity have been highly volatile, which has hindered making major long-term investments dependent on the exchange price. We have thus started to build new wind and solar farms together with customers because we wish and can carry out mutually beneficial projects.

For companies operating in our home markets, Eesti Energia is a partner that offers up to 12-year fixed-price power purchase agreements (PPAs), which enable customers to gain long-term control of their fixed costs. The solution has proven particularly topical in the energy crisis that broke out in 2021: electricity prices in the second half of the year surged to record highs, driving up interest in long-term PPAs.

---

**For companies, wind power consumption is a simple and effective way to reduce their environmental footprint. For us as the developer, it provides assurance to make investments because reduction of price volatility helps secure more stable cash flow.**

---



A strong customer base in numerous countries also enables us to contribute to the region’s renewable energy development through buying and trading in green electricity in order to offer our customers increasingly more clean energy.

In 2021, we signed a power purchase agreement with the Danish renewable energy developer European Energy from whom we are going to buy within ten years (starting from 2023) a total of 3.8 TWh of green energy produced in Lithuania. This is the largest transaction of its kind signed in the Baltics to date. We are also going to buy for ten years the output of a wind farm built by E energia in Telšiai, Lithuania, which will become operational in 2022.

Customers’ interest in long-term renewable power purchase agreements has exceeded expectations. By the end of 2021 we had signed such agreements on 9 TWh with nearly 1000 business customers in total. An effective business model creates a strong foundation for carrying out our further renewable energy plans.

In the development of the first offshore wind farm in the Baltics, we reached the environmental impact assessment phase and set up a strategic partnership with the world’s leading offshore wind power developer Ørsted. The memorandum of understanding signed in 2021 describes the market leaders’ vision to build an offshore wind farm in the Gulf of Riga before 2030 (the Liivi offshore wind farm).

The partnership relates to the existing project of building an offshore wind farm in the Estonian part of the Gulf of Riga. In addition, Ørsted has filed an application in Latvia in order to assess the opportunity of building an offshore wind farm in a development area in Latvian waters, next to the future Liivi offshore wind farm in order to develop a cross-border hybrid solution together with Eesti Energia. When complete, the renewable electricity produced by the offshore wind farm should cover half of Estonia’s and Latvia’s annual electricity consumption.

### DEVELOPMENT STAGES OF LIIVI OFFSHORE WIND FARM



liivimeretuulepark.ee

## SMARTER ENERGY CONSUMPTION HELPS TO SAVE MONEY AND THE ENVIRONMENT

We have positioned ourselves as providers of complete energy solutions – we help consumers to easily and conveniently save energy costs, reduce their carbon footprint and build a cleaner world in partnership with Eesti Energia.

On customer premises our electrification-based energy solutions can be gradually, conveniently and beneficially transformed into the customer's individual green transition. This is the core strength of our value proposition in all our chosen markets in the Baltic Sea region.

The desire to minimise the environmental footprint of energy consumption is not limited to corporate customers. We see a clear trend that household consumers are also choosing renewable energy, which is the first and easiest step on the green journey. When signing a contract with Eesti Energia, already every third household customer chooses a renewable energy-based plan.

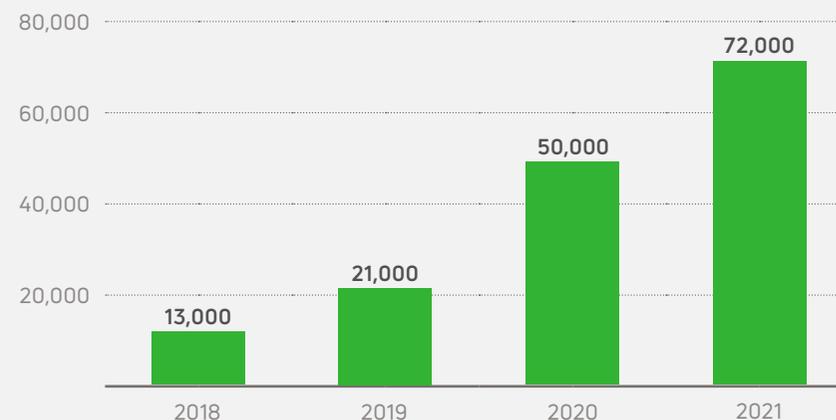
.....

**By the end of 2021, the number of customers in all our markets that had chosen 100% renewable energy had grown to 72,000. The share of consumers with a green electricity plan is currently the largest in Lithuania where we offer households only locally produced wind energy.**

.....

Solar solutions are the most accessible way for the customer to start self-producing renewable electricity. Technology prices have been

## NUMBER OF GREEN ENERGY CUSTOMERS



dropping rapidly and contrary to widespread doubts, the Baltic countries are an excellent place to produce solar power.

Homeowners and companies took bold steps in 2021 – Eesti Energia alone built nearly 360 solar power plants for customers in all its markets. The timeframe from an idea to delivery is just a few months. The total capacity of solar solutions created for customers has grown to 17 MW. We have also started offering a solar power storage solution, which allows maximising the use of self-generated green energy, benefiting from additional savings on network charges and protecting oneself against supply interruptions.

When a customer produces excess renewable energy, we purchase and resell it to the market. Already over 2,500 customers sell their green energy to Eesti Energia. Many of them have been able to use the money earned from the production of solar power during the summer to offset the electricity costs incurred during the winter.

The cleanest electricity is electricity not consumed. We have noted that many customers heat their homes with inefficient heating systems which increase electricity bills. To help customers reduce their electricity consumption, we have started offering heat pump-based heating and cooling solutions. More than 400 customers have chosen this option as their main or supporting heating and cooling system.

We offer air-to-air, air-to-water and geothermal heat pumps suitable for the Nordic climate. Convenient heating solutions help save energy, lower costs and reduce the environmental impact.

The transportation sector is one of the main sources of carbon emissions in Europe. Electric vehicles and smart storage technologies are going to transform our understanding of the energy and transport sectors during this decade already. Electric vehicles will become integral parts of the electricity network and potential sources of income for many.

Eesti Energia provides e-mobility services under the Enefit Volt brand. Besides offering solutions to household and business customers, Enefit Volt operates Estonia's largest public charging network with nearly 190 chargers.

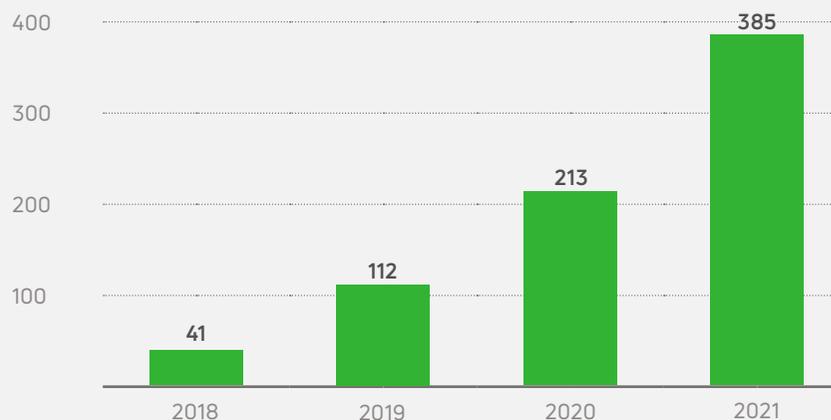
In Latvia and Lithuania, we currently provide solutions that extend from a charger to installation, but we continuously broaden our offering with new products, such as end-to-end charger lease, charging for apartment buildings and a smart app. The goal is to start offering the same post-installation services as we do in Estonia: technical support and charger management, monitoring and maintenance. Our charging service has 1,700 active users across our markets.

In 2021, we rolled out smart charging, which enables the user to choose the time of charging. This will soon be supplemented with an option that the app will select the charging time with the lowest price based on the amount of energy requested.

We started offering end-to-end solutions for apartment buildings and signed agreements with the first property developers under which we are going to install the systems required for charger readiness in new apartment buildings already in the construction phase.

Electric vehicle batteries are going to become major storage devices in our electricity system and daily life, which we wish to implement as flexible components of the same system. When the wind is blowing and the sun is shining, electricity is cheaper and charging the battery reasonable. When the network has less renewable energy and the electricity price is higher, electric vehicle batteries can supply the energy stored in them back to the network and earn money for the owner.

### SOLAR PRODUCTION CAPACITY IN ELEKTRILEVI'S GRID MW



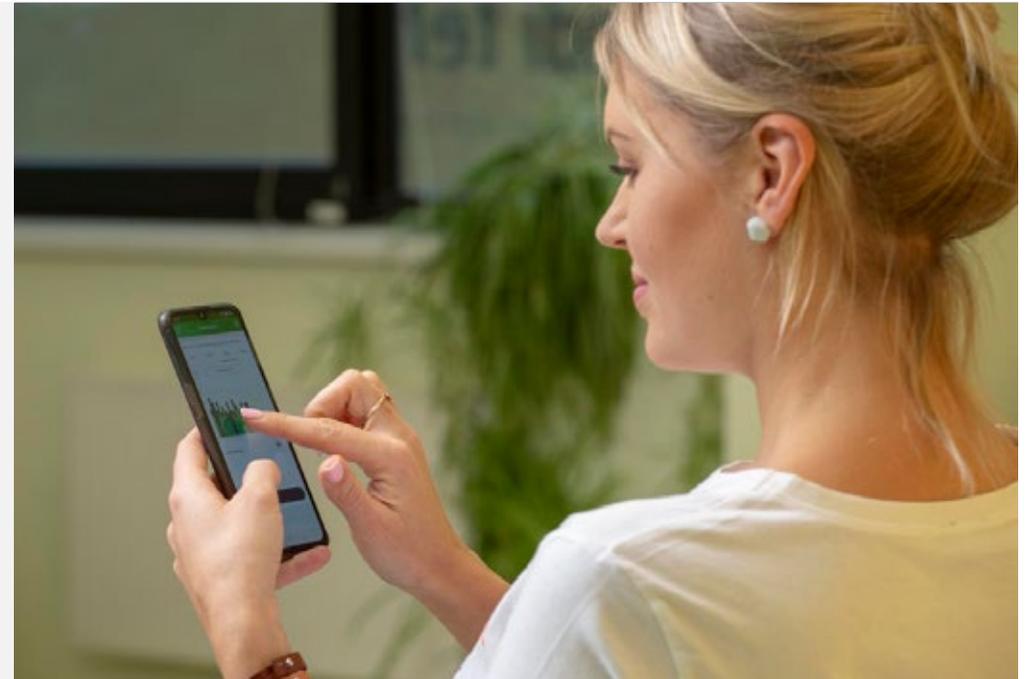
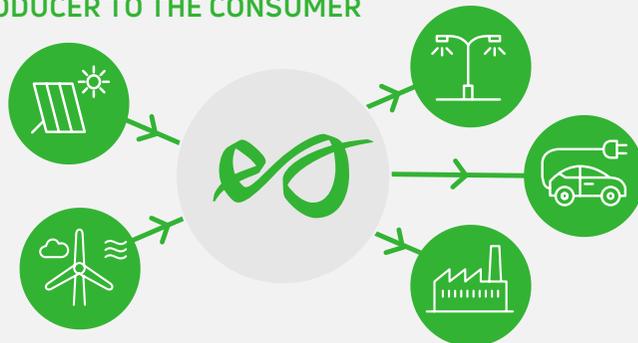
## WE OFFER SMART ENERGY MANAGEMENT

The steadier electricity consumption, the lower the system's need for production capacities to cover the peak load. 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 income through smart and flexible energy management.

Flexible energy management has the strongest effect at industrial enterprises. We continued to interface customers' equipment with our virtual power plant platform. Participating customers earn income and help balance the electricity system. We offer the service in Estonia, Finland, Latvia and Lithuania.

Although flexible energy management would also benefit commercial and office buildings and we have developed a business concept for them, we need to continue running pilot projects to find the best technical solution. We have started connecting to the system the first household customers' solar power plants that have storage systems.

### ENERGY MANAGEMENT FROM THE PRODUCER TO THE CONSUMER



.....

**Our goal is to achieve that by 2025 customers across our markets will have entrusted our smart systems to manage up to 200 MW of their controllable electrical capacity.**

.....

We have been using Eesti Energia's production assets to offer manual frequency restoration reserves in the Baltic countries' common balance area but now we also offer the Finnish transmission system operator an automatic frequency restoration reserve that can be activated quickly. We are currently using the Auvere power plant for that purpose, however, we are planning to provide the service with other flexible power plants including wind farms. In the Baltic countries, the market for the service will emerge before the inter-connection with the Continental Europe Synchronous Area in 2025.

## NETWORK SOLUTIONS SUPPORT GREEN TRANSITION

Our network services business in Estonia has been divided into two. Regulated electricity distribution service is provided by Elektrilevi and open market services are provided by Enefit Connect.

We see the electricity distribution network and related services as the backbone of our customers' green transition. An important element of this is ensuring quick and convenient connection opportunities for thousands of new small producers.

New connections, particularly those of producers, have been record-high in recent years. The number of electricity producers connected to the distribution network has surged from less than 2,000 in 2018 to over 10,000 at the end of 2021, reflecting a five-fold rise within three years.



Solar power production is becoming increasingly popular. Already 10,000 customers can conveniently sell their solar power to our network.

By the end of 2021, the total capacity of renewable energy production facilities connected to the distribution network operated by Elektrilevi was already 480 MW of which solar accounted for 385 MW.

**We expect the uptrend in the number of producer connections to continue in the coming years. To improve the customer journey, we created an online map of free capacities, which allows everyone to see where in Estonia it would be reasonable to build new renewable energy production capacities, for instance solar power plants.**

In 2021, Enefit Connect upgraded street lighting on the islands of Ruhnu and Kihnu and in Kose rural municipality in Harju county. The new lighting solution comprises remotely controlled LED-street lights which are installed directly on power lines and thus require a smaller capital investment.





Internet speed can only be increased with new technologies that need a fibre-optic cable-based network.

Altogether, we currently provide around 40% of all street lighting in Estonia and are also responsible for the provision of end-to-end street lighting service in the Tauragė and Kalvarija districts in Lithuania. We manage lighting using a central control system by which we remove faults and restore supply and conduct regular maintenance, repairs and engineering works.

**We offer business customers an opportunity to upgrade and manage their indoor and outdoor lighting and thus to significantly reduce their costs. As a rule, the payback period is less than five years.**

We continue to build the next-generation internet network. The goal is to help people by making internet and TV services that require a high-speed connection available to households living in those parts of Estonia that still lack a modern network. By the end of 2021 we had built connection points at around 33,000 addresses of which every fourth has already connected to our network. The target for 2022 is to at least double the number of connections.

We offer high-quality, fibre-optic cable based permanent connection that is less dependent on the weather, signal strength and other factors affecting service quality. Every connecting customer can choose the telecom service provider they like best.

An important milestone in 2021 was the signature of a full-service operation agreement with Greenergy Data Centers, the largest data centre in the Baltics. The service entails consulting, operation of

high-, medium- and low-voltage systems, and 24/7 readiness of the control centre and maintenance team.

The greatest challenge for a classical distribution service provider is keeping the balance between the operational reliability of the network and a reasonable price of the distribution service. The security of supply improved in 2021 through the upgrade of substations and their remote control systems as well as power lines for a total of 69 thousand companies and households.

By the end of 2021, 72% of Elektrilevi's distribution network was weatherproof. For 83% of unplanned supply interruptions, we can restore supply within two hours. A few years ago, the corresponding figure was 68%.

### SHARE OF WEATHER-PROOF DISTRIBUTION NETWORK

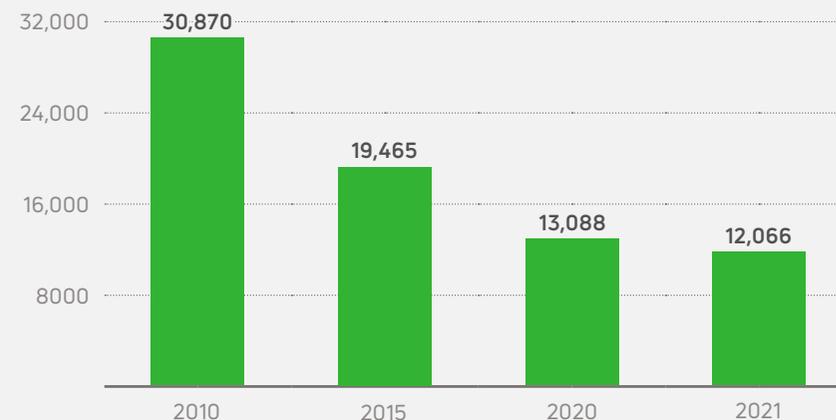


In 2021 we launched MARU, an innovative app that enables customers and the network operator to quickly exchange information about service quality and supply interruptions, which is particularly important in severe weather conditions such as storms.

Following the acquisition of Imatra Elekter, which used to provide distribution service in western Estonia and Viimsi rural municipality in Harju county, Elektrilevi's share of Estonia's distribution network grew to 95%. We operate a total of 63,000 kilometres of power lines and 25,300 substations and has over 533,000 customers.

We announced at the end of the year that from March 2022 we can offer our customers new and more flexible network plans, which allow reducing the electricity bill by shifting consumption to periods where the price is lower.

### NUMBER OF SUPPLY INTERRUPTIONS IN THE DISTRIBUTION NETWORK BY YEARS



## CUSTOMERS' INTEREST IN SMARTER ELECTRICITY CONSUMPTION IS GROWING

Eesti Energia has grown into much more than an energy seller. We offer a wide range of products and services that solve critical issues for the customer.

At the end of 2021, our services were used by over 502,000 unique customers and over 40,000 of them had chosen at least one additional energy service. In 2021, 15,000 customers chose a new energy solution from Eesti Energia.

High electricity prices have put many companies and households in a very difficult economic situation. This means that our customers expect clear answers and solutions as well as understanding in listening to their concerns.



### EESTI ENERGIA AT THE CENTRE OF GREEN TRANSITION



The sudden upswing in electricity prices doubled the number of enquiries to our customer service staff who helped consumers select a suitable electricity plan and explained the reason for the price increase.

Our ability and desire to discuss complicated electricity topics so that the customer understands, to conduct contract-related procedures in a manner that is convenient for the customer, and to be compassionate and supportive in all matters help us maintain high customer satisfaction.

At the end of the year, we exceptionally extended the business hours of our service centre to help as many customers as possible get the answers they needed. The combined weighted average net promoter score (NPS) for all our markets was +31.

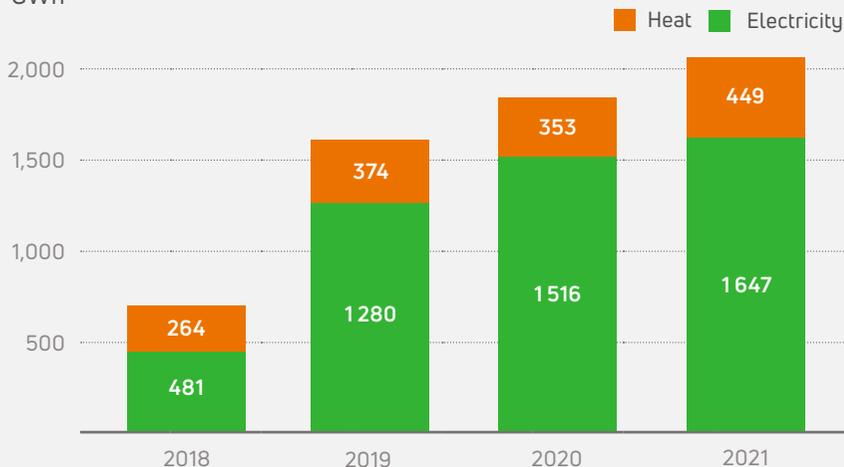
## RENEWABLE ENERGY OUTPUT CONTINUED TO GROW

Eesti Energia has the most diverse production capabilities among Baltic energy companies. We produce electricity, liquid fuels and heat using wind, solar, water, biomass, waste, oil shale and retort gas energy.

In 2021, our renewable energy output exceeded for the first time 2 TWh, consisting of 1.6 TWh of renewable electricity and 0.4 TWh of renewable heat.

Weather conditions in 2021 were less favourable for wind and solar power production than a year earlier. Despite that our total renewable electricity output grew in 2021 by 9% because we increased the share of waste wood in the fuel mix of our controllable power plants.

### GROWTH OF RENEWABLE ENERGY



### ELECTRICITY OUTPUT AND PRODUCTION METHODS

GWh

	2019	2020	2021
Electricity output	5,549	3,808	5,217
Oil shale	3,677	1,825	3,048
Oil shale gas	456	374	409
Biofuel	298	351	639
incl biogas	14	0	0
Wind	1,023	1,139	983
Waste	64	77	84
Solar energy	9	26	25
Other energy sources	22	17	30

**The amount of hydro and wind energy sold on the Nord Pool power exchange decreased last year, which increased demand for the output of our controllable thermal power plants. This increased our total annual electricity production by 37% to 5.2 TWh.**

Soaring electricity prices at the year-end once again confirmed that we still need controllable power plants in the Baltic Sea region. We met the owner's expectation according to which we must maintain the security of electricity supply in Estonia by keeping available at least 1,000 MW of controllable production capacities. During peak demand, we operated at a capacity of 1,200 MW. This capacity is sufficient to cover Estonia's average electricity consumption.

**We are one of the few energy companies in the European Union that can produce and export liquid fuels and thus reduce Europe's reliance on the import of those products. Demand for low-sulphur marine fuels has been consistently growing since the global economy began to recover.**

Our liquid fuel (shale oil) output was 438 tonnes in 2021, which is at the same level as in 2020.



Our unique Enefit technology enables us to use over 80% of the energy contained in oil shale.

Our Enefit shale oil production technology is considered to be the most efficient and environmentally sustainable way of deriving energy from oil shale. In 2021, we began to build a new Enefit 280 oil plant which is expected to start operating at full capacity in 2024, increasing our annual shale oil output to 700,000 tonnes.



Laying of a foundation stone for the Enefit 280 plant and the concept of a chemicals industry.



# Sustainably and responsibly into the future

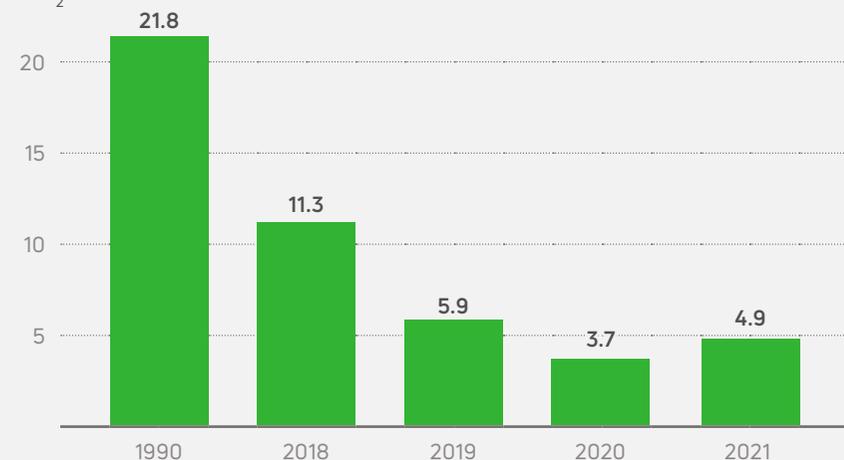
- Renewable energy growth plan reduces carbon intensity
- The role of alternative fuels at controllable power plants is increasing
- We are preparing for becoming a chemicals industry
- We will achieve carbon neutrality by 2045

Eesti Energia’s ambition is to offer its customers useful and convenient energy solutions and to produce energy ever more sustainably and thus to contribute to making the world a cleaner place.

We have the competence to increase people’s awareness and the ability to offer solutions for creating a cleaner living environment at every level.

Eesti Energia has historically had a large carbon footprint because in previous decades we produced electricity mostly from oil shale and more than was required in the domestic market. Nowadays oil shale is mainly used to produce liquid fuels.

### CO<sub>2</sub> EMISSIONS OF OUR TAXED PRODUCTION OPERATIONS



Eesti Energia’s action plan for reaching carbon neutrality foresees ending the use of oil shale for electricity production by 2030. In 2035 at the latest we will produce electricity from renewable sources only. All our operations will be carbon neutral by 2045.

**Transition means that we have to build new renewable power production capacities, close down our older thermal power plants that are fired by fossil fuels and increase the share of alternative fuels at our newer hybrid power plants that use the circulating fluidised bed technology.**

Since its upgrade in 2021, the Auvere power plant can operate on a fuel mix where the share of oil shale is only 15-20% and the rest is

### CHANGE IN THE USE OF OIL SHALE



made up of waste wood and retort gas (a by-product of shale oil production). The Balti power plant can operate on a fuel mix where waste wood accounts for 50%.

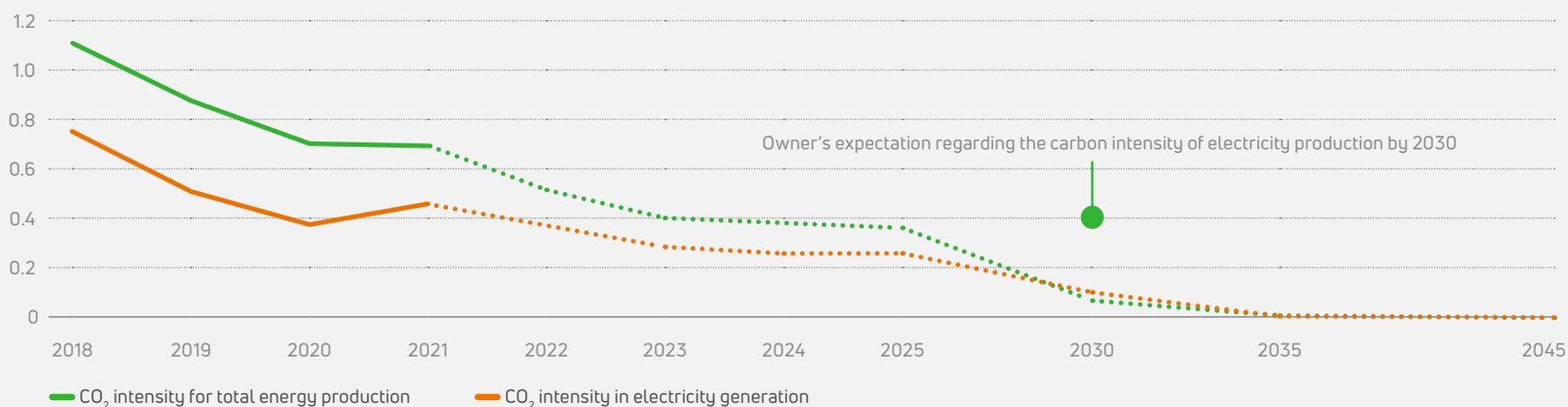
The carbon intensity of our operations in 2021 was 0.74 t/MWh for electricity production and 0.43 t/MWh for total energy production (including heat and shale oil production).

**The carbon intensity of our energy production operations will continue to decrease in the coming years. Eesti Energia expects to increase its renewable electricity production capacity 2.3 times to 1,100 MW by 2025. Relevant capital expenditures will exceed 600 million euros.**



### CARBON INTENSITY OF ENERGY PRODUCTION

t CO<sub>2</sub>/MWh



## KEY ENVIRONMENTAL FIGURES

		2017	2018	2019	2020	2021
<b>PRODUCTION</b>	<b>unit</b>					
Electricity	GWh	9,736	9,132	5,549	3,808	5 217
incl. renewable electricity	GWh	404	481	1,280	1,516	1 647
Heat	GWh	1,186	1,199	1,150	1,087	1 272
incl. produced using biofuels and waste	GWh	424	403	534	541	713
Liquid fuels	thousand t	395	411	442	452	438
Retort gas	million m <sup>3</sup>	112	108	111	112	115

<b>RESOURCES USED</b>						
Oil shale	million t	16.6	15.6	9.2	6.4	7.9
Natural gas	million m <sup>3</sup>	37.2	39.9	27.1	43.6	16.3
Biofuels	million t	0.2	0.2	0.3	0.3	0.7
Municipal waste	thousand t	235.7	232.9	215.7	242.3	237.5
Cooling water	million m <sup>3</sup>	1486.7	1348.8	711.8	937.7	707.7
Pumped mining water	million m <sup>3</sup>	155.6	91.9	127.4	122.7	130.5
incl. water from open cast mines	million m <sup>3</sup>	76.3	43.9	61.9	64.5	63.2
incl. water from underground mines	million m <sup>3</sup>	79.2	48.0	65.5	58.2	67.3

		2017	2018	2019	2020	2021
<b>EMISSIONS</b>	<b>unit</b>					
SO <sub>2</sub>	thousand t	22.6	18.2	7.4	2.6	3.9
NO <sub>x</sub>	thousand t	6.7	5.9	3.2	2.6	3.3
Dust Emissions	thousand t	2.5	2.1	1.1	0.7	0.7
CO <sub>2</sub>	million t	12.3	11.4	6.0	3.8	5.1

<b>SOLID WASTE</b>						
Oil shale fly and bottom ash	million t	7.2	7.2	4.1	2.9	3.5
incl. recycled	million t	0.1	0.2	0.1	0.1	0.1
Waste rock	million t	4.2	4.2	3.7	1.7	1.9
incl. recycled	million t	1.4	1.2	1.3	2.2	2.9

<b>WATER POLLUTANTS</b>	<b>unit</b>					
Suspended matter	thousand t	0.9	0.7	0.5	0.5	2.6
Sulphates	thousand t	86.2	59.1	65.1	62.8	70.0

<b>ENVIRONMENTAL CHARGES</b>						
Resource charges	m€	15.3	25.0	20.8	9.1	20.5
Pollution charges	m€	28.7	27.4	14.7	6.4	13.7



To manage and improve its environmental activities, 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.

**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 by 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 that 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 support waste recovery 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 work 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.



## WE ARE PREPARING FOR TRANSITION TO A CHEMICALS INDUSTRY

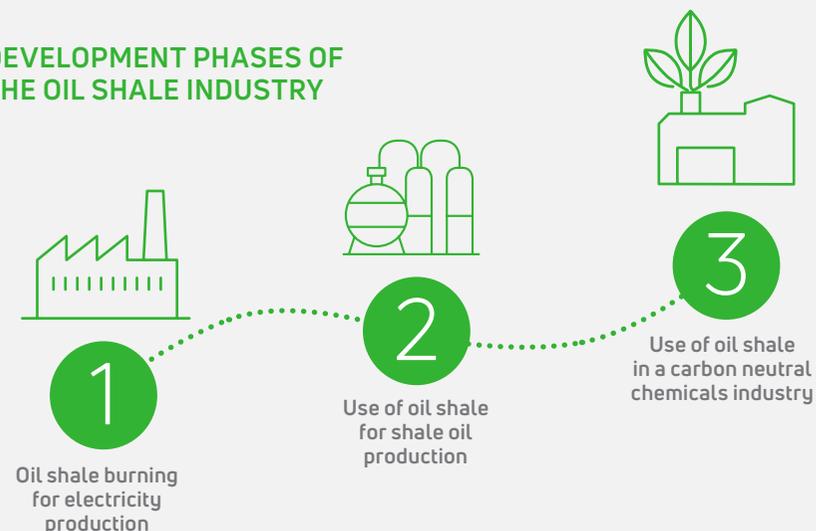
**Last year we unveiled our action plan for transforming our liquid fuel production operations into a circular economy-based carbon-neutral chemicals industry. The goal is to complete the transition to a carbon-neutral chemicals industry in stages by 2045 at the latest.**

This is the next stage of development of the oil shale industry where oil shale is used in combination with post-consumer waste: old tyres and plastic waste. Eesti Energia's engineers and Estonian scientists have the expertise and experience to harness the circular economy to transform shale oil production into an industry with higher value-added, which in the future will mainly provide raw material for the fashion and plastic industries. We have also started testing to find a way to make the entire production process carbon-free.

The research of Tallinn University of Technology (TalTech) into plastic waste is promising. We are planning to reach industrial-scale use of plastic waste for liquid fuel production by 2025. As regards old tyres, we are looking for a partner-supplier that could shred tyres to a suitable fraction and quality so that the plant would have a constant supply of quality tyre chips. We tested the use of tyre chips on an industrial scale in 2021 and are planning to launch production in 2023.

The next step is post-processing of liquid fuels so that the end-products would not be the marine fuels we produce today but raw materials for the chemicals industry. The chemicals market is

### DEVELOPMENT PHASES OF THE OIL SHALE INDUSTRY



stronger in the long-term perspective and more profitable than the liquid fuels market. We believe that there is strong potential for resolving the environmental issue of plastic waste not only by mechanical recycling but also by chemical recycling.

The first stages of a research project launched by Eesti Energia and TalTech at the beginning of 2021 confirmed that the necessary carbon capture technology exists. In the last stage of the project, we will carry out tests together with international technology providers to study on testing equipment how the carbon capture technologies would function at the Enefit 280 oil plant. The objective is to transform CO<sub>2</sub> into a valuable resource that can be used to produce methanol and calcium carbonate.

Since 2021, Eesti Energia has been a member of the 2% Club set up by the Estonian Employers' Confederation which unites companies that spend at least 2% of their turnover on research and

development. Due to the research intensity of our activities, we believe that we will remain members of the club. To realise our ambition of achieving carbon neutrality, we must find partners and researchers with the right know-how who will help us navigate the journey to zero.

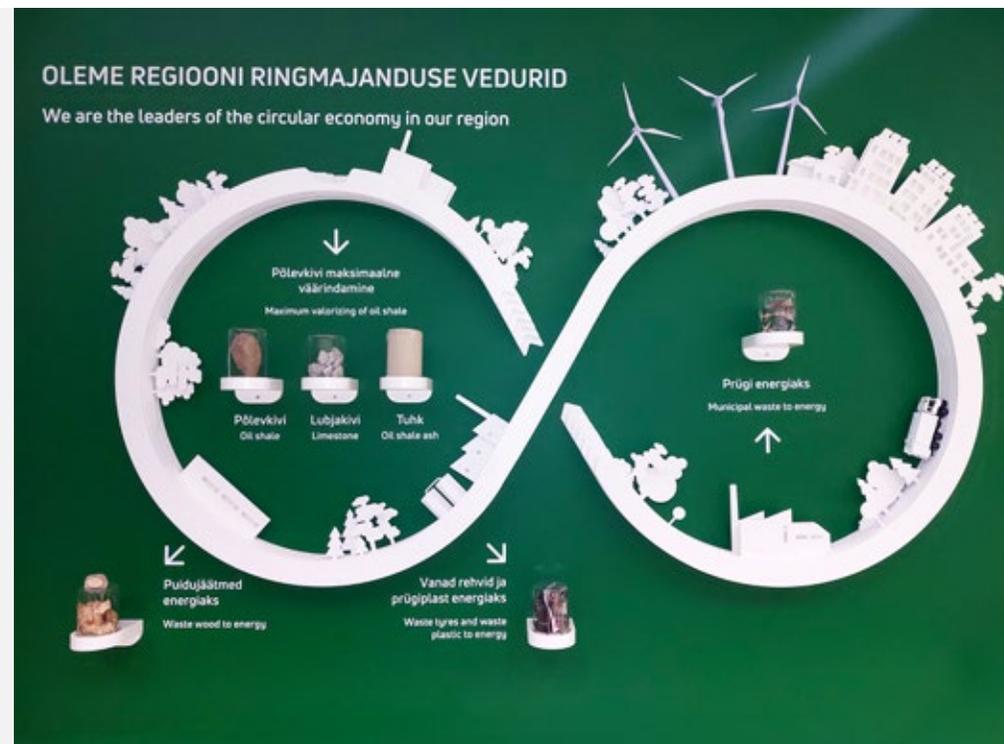
## THROUGH CIRCULAR ECONOMY WE PROTECT ENVIRONMENT

**Eesti Energia's goal is to use circular economy to reach waste-free energy production, where the by-products of the process of adding value to oil shale become useful raw materials in other areas.**

Our oil shale mining operations resulted in 1.9 million tonnes of waste rock in 2021, most of which was used to build base structures for two solar farms that are going to supply our mines with green electricity. The rest of the limestone was used in road and railway construction.

We are also planning to supply waste rock for the construction of the international rail network Rail Baltic. This will reduce the environmental and social impacts of new quarries that need to be built near the rail network.

We recycled in 2021 around 100,000 tonnes of oil shale ash, which is used as a material in road construction and a natural fertilizer in agriculture.



**Our controllable power plants can offer an alternative to the storage of waste wood by using it for energy production. Renewable energy produced from waste wood exceeded 530 GWh in 2021.**

Our Iru power plant accepts and uses municipal waste, including biowaste, to produce electricity and heat. We sell heat to the operator of the district heating network of Tallinn at the most favourable price in the market.



## LEADING BY EXAMPLE

We continuously reduce the environmental impacts of our offices. Every year we redesign at least one office so that it meets the Green Office certification requirements. In 2021, the Green Office Certificate was awarded to a new office that houses our network service staff.

The number of electric cars in our vehicle fleet has grown from 18 at the end of 2020 to 30 at the end of 2021, which is 7% of the entire fleet. The target is to increase the share to 20% by the end of 2024.

International and domestic business travel has decreased seven and six times, respectively, compared with the pre-COVID-19 period in 2019. Online meetings have become the norm.

## VALUE IS CREATED BY OUR ENERGYHEROES

Eesti Energia's value proposition is to inspire and support all employees on their personal development journey. Our organisation gives our people every opportunity to learn and grow.

According to our updated strategy, it is essential that all our people understand their role in creating energy solutions and delivering green transition. Training, development and transparent information sharing are vital for daily goal-oriented work.

**Eesti Energia was named the most valuable company in Estonia for the second year in a row. Success was underpinned by our focus on renewable energy and customer experience. However, we believe that employee experience is equally important because value is created and increased by exceptional people.**

## RECOGNITION OF EESTI ENERGIA IN 2021



Student Friendly  
Employer of the  
Year 2021



Attractive  
IT Employer  
2021



Attractive  
Employer 2021  
1st place

We also won the title of a student-friendly employer. We believe that lifelong learning increases the value of both the employee and the organisation. A new world of energy needs people with new skills and expertise, which improves the attractiveness of an employer that supports learning.

Furthermore, Eesti Energia ranked first in the most attractive employers survey conducted by the market research company Kantar Emor in 2021 as we have done eight times in the past ten years. According to a survey carried out by the CV Keskus, Eesti Energia is the most attractive employer of the decade.

People's skills and knowledge can be developed which is why it is important to invest in the existing workforce. Lifelong learning must be embedded in each employee's DNA. Prospective employees' ability to learn and future potential are assessed already in the recruitment stage.

Eesti Energia's employees value development and career opportunities, a competitive salary and work that can change the society, which is offered by the transforming business model of an international company that is involved in creating a cleaner future. The Group's employee engagement has grown year by year, exceeding the respective average indicators for both the global and the Estonian energy sector.

Eesti Energia is a provider of essential services. Therefore, we have paid particular attention to employee vaccination in order to cope with the waves of the COVID-19 pandemic. By the end of 2021, immunization coverage in the Group reached 90%. This along with other preventive measures enabled us to ensure uninterrupted supply of our services.



Leaders' Summer Academy raises management quality

## WE SUPPORT ACTIVITIES THAT MAKE A POSITIVE IMPACT

Our strategy is to support activities and initiatives that help achieve that our customers will make more sustainable choices, our people will be healthier and energetic longer, and there will always be future talent interested in joining the company.

Our journey to zero and creating future energy solutions for customers is not only in the hands of our current employees. Meeting the goals set for 2045 also depends on future customers, specialists, engineers, data researchers, developers, managers and leaders. In connection with digital and green transition, the energy sector needs increasingly more engineering talent from ideas to execution.

Accordingly, our updated support activities strategy is focused on education from middle school to university and the concept of knowledge-based society. In supporting education, we prioritise the promotion of sciences. As the first step, we are going to offer middle school students an innovative physics study experience. The target for 2022 is to make it available in at least 150 schools.

This is a challenge that cannot be resolved by Eesti Energia alone. We can set an example and lead the way, but we need to involve other companies that have the same mission and are committed to green transition. We implement our support activities strategy in partnership with leading professional organisations and other corporations that share our world view.



**Eesti Energia's mission is to give all its energy for the benefit of the people. We use our energy to promote a healthy lifestyle and mindset. We value people's wellbeing: in cooperation with Swedbank and construction group Merko we develop Estonia's walking trails by bringing light to previously dark or unlit trails.**

The updated vision for walking trails is aimed at increasing the number of Estonian people's healthy life years to the same level as in the Nordic countries. We support regular activity by providing environmentally friendly energy solutions. We will supply the trails with smart and energy-saving lighting solutions, we will help improve their energy efficiency and we will transfer the trails to green energy.

## OUR TAX FOOTPRINT EXTENDED TO 213 MILLION EUROS

**Our tax footprint reflects how we contribute to society through the taxes we pay. In our activities, we observe a tax risk management policy according to which we:**

- fulfil all our obligations under tax laws and regulations;
- conduct all transactions at market prices and document them in accordance with relevant requirements;
- submit to the tax authority Country-by-Country Reporting (CbCR);
- assess the tax consequences of new projects on the Group's tax liabilities;
- maintain open and trust-based relations with the tax authorities; and
- involve external advisers in projects where we lack in-house tax-technical competencies.

**In calculating the tax footprint, we distinguish between taxes borne and taxes collected:**

- taxes borne are taxes directly borne by Eesti Energia;
- taxes collected are taxes for which Eesti Energia acts as an intermediary, i.e. we collect the taxes from consumers and employees and transmit them to the tax authority.

Our tax footprint includes the taxes borne and collected in all our markets.

---

**Taxes borne and collected by us in 2021 totalled 63.9 million euros and 149.5 million euros, respectively. Consequently, the Group's tax footprint was 213.4 million euros. With 59.4 million euros, Eesti Energia Group is one of the largest payers of payroll taxes in Estonia.**

---



## TAX PAYMENTS BY EESTI ENERGIA GROUP\*

(in million EUR)

	Estonia 2021	Estonia 2020	Latvia 2021	Latvia 2020	Lithuania 2021	Lithuania 2020	Poland 2021	Poland 2020	Finland 2021	Finland 2020	Sweden 2021	Sweden 2020	Total 2021	Total 2020
<b>TAXES BORNE</b>														
Payroll taxes borne by the employer	35.0	36.3	0.5	0.5	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.2	35.8	37.1
Environmental charges	25.6	21.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	25.6	21.4
Corporate income tax	0.1	0.2	0.2	0.2	1.1	0.3	0.1	0.0	0.0	0.0	0.0	0.0	1.5	0.7
Customs VAT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Land and Real Estate Tax	0.3	0.3	0.0	0.0	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.9
<b>Total taxes borne</b>	<b>61.0</b>	<b>58.2</b>	<b>0.7</b>	<b>0.7</b>	<b>1.7</b>	<b>0.9</b>	<b>0.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>0.2</b>	<b>63.9</b>	<b>60.1</b>
<b>TAXES COLLECTED</b>														
Excise taxes	9.2	17.8	1.7	0.0	0.3	0.2	0.7	0.0	0.0	0.0	0.0	0.0	11.9	18.0
Employee's payroll taxes	22.0	22.6	0.2	0.6	0.8	0.2	0.1	0.0	0.0	0.1	0.0	0.2	23.6	23.7
VAT (balance i.e. Sales VAT minus VAT on purchases)	59.4	33.9	20.8	11.8	35.0	18.7	-1.2	0.1	0.0	0.2	0.0	0.4	114.0	65.0
<b>Total taxes collected</b>	<b>90.5</b>	<b>74.3</b>	<b>23.2</b>	<b>12.4</b>	<b>36.1</b>	<b>19.1</b>	<b>-0.4</b>	<b>0.1</b>	<b>0.0</b>	<b>0.3</b>	<b>0.0</b>	<b>0.5</b>	<b>149.5</b>	<b>106.7</b>
<b>Total taxes</b>	<b>151.6</b>	<b>132.5</b>	<b>23.9</b>	<b>13.1</b>	<b>37.9</b>	<b>20.0</b>	<b>-0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.4</b>	<b>0.0</b>	<b>0.7</b>	<b>213.4</b>	<b>166.8</b>

\* Reported on a cash basis



# Corporate Governance Report

- Management Principles
- Group structure

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

## MANAGEMENT PRINCIPLES

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 a 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, 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 targets and continuously assess the effectiveness of work done.

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 high work ethic. We pay our employees a competitive salary and notice and recognise them.

The Group's management and supervisory boards are accountable to the owner for the achievement of the owner's expectations and the goals set. The Group strives to be transparent in its economic activities, disclosure of information and relations with the owner, customers, partners 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 the 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. Our staff passed an online ethics course in 2021.

Eesti Energia has considered that it is not necessary to apply additional diversity policy in addition to the relevant provisions of the Code of Ethics. When selecting our employees and managers we always do that with the best interests of Eesti Energia in our mind. Our personnel selection process is gender-neutral and non-discriminatory and is focused on person's education, skills and previous experience and, where applicable, compliance with legal requirements.

## ORGANISATIONAL STRUCTURE AND GOVERNING BODIES

For effective management, it is critical that the Group's structure is clear and logical, that we are aligned with the organisation's goals and needs and that we take into account 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 stakeholder's 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 the Group's strategy and supervising the implementation of the 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 that have been appointed by the resolution of the minister of finance who represents the owner, taking into account the proposals made by the nomination committee of 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 chairman of the supervisory board of Eesti Energia is Väino Kaldoja and members of the supervisory board are Ants Pauls, Andres Liinat, Ivo Palu, Einari Kisel, Raigo Uukkivi and Meelis Einstein. The terms of office of all members of the supervisory board last until 11 May 2022.

The remuneration of the members of Eesti Energia's supervisory board is regulated by the State Assets Act according to which the amount of the remuneration and its payment procedure are at the discretion of the owner. Taking into consideration the proposal made by the nomination committee of the supervisory board members of companies in which the state is a shareholder, the remuneration of the chairman of the supervisory board and a member of the supervisory board is 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, except during the summer months. In 2021, the supervisory board held 16 meetings.

In addition to participating in 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 other stakeholder groups where this is important for Eesti Energia.

In 2021, 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 TOTAL REMUNERATION PAID

	Meeting attendance 2021	Total remuneration 2021 (€)	Total remuneration 2020 (€)
Väino Kaldoja	16	24,000	24,000
Ants Pauls	16	12,000	12,000
Andres Liinat	16	12,000	12,000
Ivo Palu	16	12,000	12,000
Einari Kisel	16	12,000	12,000
Raigo Uukkivi	16	12,000	7,700
Meelis Einstein	16	12,000	7,700

### SUPERVISORY BOARDS OF SUBSIDIARIES AND ASSOCIATES

The powers and responsibilities of the members of the supervisory boards of Eesti Energia's subsidiaries and associates are set out in their articles of association. Their supervisory boards consist of members of Eesti Energia's management board and strategic management team. Regarding our renewable energy company Enefit Green, 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. 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 2021



**VÄINO KALDOJA**

Chairman

Beginning of term of office:  
9.09.2015  
Chairman since:  
18.05.2017  
End of term of office:  
11.05.2022



**ANTS PAULS**

Member

Beginning of term of office:  
6.10.2015  
End of term of office:  
11.05.2022



**IVO PALU**

Member

Beginning of term of office:  
12.05.2017  
End of term of office:  
11.05.2022



**EINARI KISEL**

Member

Beginning of term of office:  
12.05.2017  
End of term of office:  
11.05.2022



**ANDRES LIINAT**

Member

Beginning of term of office:  
12.05.2017  
End of term of office:  
11.05.2022



**RAIGO UUKKIVI**

Member

Beginning of term of office:  
12.05.2020  
End of term of office:  
11.05.2022



**MEELIS EINSTEIN**

Member

Beginning of term of office:  
12.05.2020  
End of term of office:  
11.05.2022

## 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 proposals made by the chairman of the management board.

.....

**The composition of the management board did not change in 2021 and at the year-end, the management board of Eesti Energia comprised the chairman of the management board Hando Sutter and 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. Members of the management board are remunerated for fulfilling their responsibilities as members of the management board. Their remuneration is set out in the contracts signed with them and it can be altered subject to mutual agreement. A member of the

## MANAGEMENT BOARD MEMBERS' PARTICIPATION IN MEETINGS AND TOTAL REMUNERATION PAID

	Meeting attendance 2021	Total remuneration 2021 (€)	Total remuneration 2020 (€)
<b>Hando Sutter</b>	52	243,950	246,500
<b>Raine Pajo</b>	56	167,700	167,400
<b>Margus Vals</b>	50	155,700	156,600
<b>Andri Avila</b>	56	155,700	156,600
<b>Agnes Roos</b>	51	155,332	127,332

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 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 2021, the management board held 58 meetings, 5 of them electronically.

## MANAGEMENT BOARD

as at 31 December 2021



**HANDO SUTTER**  
Chairman

Beginning of term of office:  
1.12.2014  
End of term of office:  
31.03.2023

### 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:  
1.03.2015  
End of term of office:  
31.03.2023

### 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:  
1.12.2014  
End of term of office:  
31.03.2023

### 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:  
1.12.2006  
End of term of office:  
31.03.2023

### PREVIOUS CAREER

- Eesti Energia: Technical Director, environment, electricity and heat production, mining, energy trading, 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 Engineer



**AGNES ROOS**  
Member

Beginning of term of office:  
1.12.2019  
End of term of office:  
31.03.2023

### 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

## STRATEGIC MANAGEMENT TEAM

The purpose of the strategic management team is to enable the leadership of the Group to discuss strategic matters, review implementation of the strategy and analyse related topics.

In 2021, the strategic management team consisted of 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 THE DISTRIBUTION NETWORK OPERATOR ELEKTRILEVI OÜ

Under the Electricity Market Act, Elektrilevi as the distribution network operator has 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, which ensure the network operator's 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 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 strategy 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.



## REPORTING PRINCIPLES

Timely and reliable information is the key to quality management decisions. We have implemented reporting processes for monitoring our key performance indicators and other important metrics on a weekly, monthly, quarterly and annual basis. We compare our results to the budget and the latest forecast once a month. We review our action plan for the rest of the year once a quarter and, where necessary, adjust our business operations so that they are appropriate in the current market situation. We update the Group's five-year strategic action plan once a year.

We have approved principles for the Group's key performance indicators to make sure that the activities of all levels of management are aligned with the Group's main goals. We continuously share information to implement more effective performance indicators.

The Group's management accounting tool is reporting and analytics software Tableau. Contemporary management information dashboards enable us to obtain feedback on our results quickly, conveniently and in an interactive manner and to make higher-quality and faster management decisions.

In addition to tens of reports submitted to the Statistical Office, we release thorough quarterly reports three times a year and an annual report once a year. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards. The annual report is audited, after which it is approved by the supervisory board. The annual report together with the report of the supervisory board is submitted for final approval to the general meeting. Quarterly and annual results are presented at a press

conference and in a conference call for investors. A detailed summary of results is also communicated to employees.

We release information about the company's operations that may affect the price of the Eurobond in accordance with the rules of the London Stock Exchange and, in the first place, via the information system of the London Stock Exchange. We release other information which is not expected to affect the price of the Eurobond via media channels. In both cases, we disseminate information in line with the Group's rules for handling inside information, which are designed to protect the interests of bondholders and ensure fair and orderly trade of the bonds. All relevant information about Eesti Energia and its subsidiaries must be available to all bondholders and potential investors in a timely, consistent and equitable manner (to the same extent, at the same time and in the same manner).

## SUPERVISION OF THE GROUP

The Group has implemented a multi-level process to ensure effective supervision of the operation of the internal control system. Supervision is carried out by the Group's supervisory board and management board, the audit committee, the supervisory boards and management boards of Group entities, the risk management and internal audit department as well as other departments and units entrusted with supervision such as the procurement and environmental services units.

Ultimate responsibility for the implementation and proper functioning of the Group's risk management policies and internal control system rests with the management board. To fulfil the obligation, the management board, among other things:

- approves risk management principles and policies for individual risk areas;
- develops a strategy and organises the preparation of a budget;
- manages the Group's activities in a manner which ensures that the Group implements the approved strategy and meets the budget;
- organises the development and approval of operational agreements and requirements necessary for management;
- applies management measures to develop a risk-conscious management culture; and
- monitors the current and expected levels of the Group's risks to make sure that they meet the Group's risk appetite and risk tolerance.

The management board of a subsidiary is supervised by the subsidiary's supervisory board. As a rule, a subsidiary's supervisory board consists of members of the Group's strategic management team. There are two exceptions: Enefit Green and Elektrilevi. In line with the owner's expectations, their supervisory boards consist of members of the Group's strategic management team and at least one independent member.

A subsidiary's chairman of the management board and members of the management board inform the supervisory board regularly, timely and fully about the subsidiary's performance, prospects and significant risks and transactions in accordance with the procedure in place.

Documents regulating the Group's activities generally also apply to its subsidiaries and are, where necessary, officially adopted by the subsidiaries. Any changes made to documents regulating the Group's activities also apply to the subsidiaries.

A member of a subsidiary's management board has to participate in the development of documents regulating the Group's activities to ensure that the documents take into account the subsidiary's interests. A subsidiary's management board must immediately inform the subsidiary's supervisory board if, and why, the subsidiary does not comply with a document regulating the Group's activities.

## 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. In 2021, the committee had 11 ordinary meetings. The audit committee submits its report to the supervisory board once a year, before the supervisory board approves the Group's annual report.

Our subsidiary Enefit Green has a separate audit committee, a body set up by the supervisory board which 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 committee

reviews and assesses the organisation of all functions that provide assurance to shareholders and all assurance-providing activities implemented by the management board to make sure that they function in the best possible manner and consider the company's needs and the interests of the controlling shareholder do not receive preferential treatment in the decisions made by the supervisory board and the management board. Among other things, the audit committee monitors that the transactions with related parties would be conducted on market terms.

Eesti Energia's consolidated financial statements are audited in accordance with International Standards on Auditing. Under Eesti Energia's articles of association, the appointment of the auditor is the responsibility of the general meeting. The general meeting has appointed audit firm PricewaterhouseCoopers (PwC) as the auditor of the consolidated financial statements for financial year 2021. 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 Lauri Past. 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.

The audit committee evaluates the independence of the external auditor and carries out supervisory activities to prevent conflicts of interest.

In addition to auditing the consolidated financial statements, in 2021 PwC provided the Group with tax and some other advisory services permitted by the Estonian Auditors Activities Act.

### AUDIT COMMITTEE MEMBERS' PARTICIPATION IN MEETINGS AND TOTAL REMUNERATION PAID

	Meeting attendance 2021	Total remuneration 2021 (€)	Total remuneration 2020 (€)
<b>Kaie Karniol</b>	11	5,500	5,000
<b>Ants Pauls</b>	11	2,750	2,750
<b>Andres Liinat</b>	11	2,750	1,750
<b>Mait Palts</b>	11	5,500	5,500

### INTERNAL AUDIT

The work of the internal audit function is organised in accordance with the Auditors Activities Act and related regulations as well as the International Standards for the Professional Practice of Internal Auditing. The role of internal auditors is to contribute to improving the internal control environment, risk management and business management culture. The work of the internal audit function covers the activities of the whole Group. Ensuring effective operation of the internal audit function is the responsibility of the internal audit department. The department is accountable to the audit committee and the supervisory board. The action plan of the internal audit department is approved and evaluated by the audit committee. The internal auditors' report on 2021 was submitted to the audit committee in February 2022.

## AUDIT COMMITTEE

as at 31 December 2021



**KAIE KARNIOL**

Chairwoman

Beginning of term of office:  
16.06.2016



**ANTS PAULS**

Member

Beginning of term of office:  
23.02.2017



**ANDRES LIINAT**

Member

Beginning of term of office:  
20.05.2020



**MAIT PALTS**

Member

Beginning of term of office:  
15.06.2017

# Risk Management

- Risk management framework and organisation
- Risk profile
- Principal risks and their mitigation
- Risk reporting

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.

**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.

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, limits and 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.

## RISK MANAGEMENT FRAMEWORK AND ORGANISATION

Our risk management framework consists of 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.

## 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, 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.

Through 2021 a key priority was improving our customer offering in connection with the long-term purchase of green energy from external producers and in the second half of the year we also needed to focus on better management of market and credit risks related to soaring electricity and natural gas prices.

### LEGAL RISK

The Group's operation is strongly influenced by treaties, conventions and regulations adopted in our markets, the European Union and inter-

nationally. Legal risk arises from political decisions, regulators' activities in the interpretation of regulations, and similar sources and influences our day-to-day business activities. We manage legal risk by monitoring 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 goals agreed.

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 the requirements of environmental permits.

### 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 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 control, management or security systems will cause interruption of services or production operations, an accident or emergency 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 risk management maturity assessment.

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's revenue increased by 57% in 2021 while EBITDA and net profit grew by 49% and 478%, respectively.**

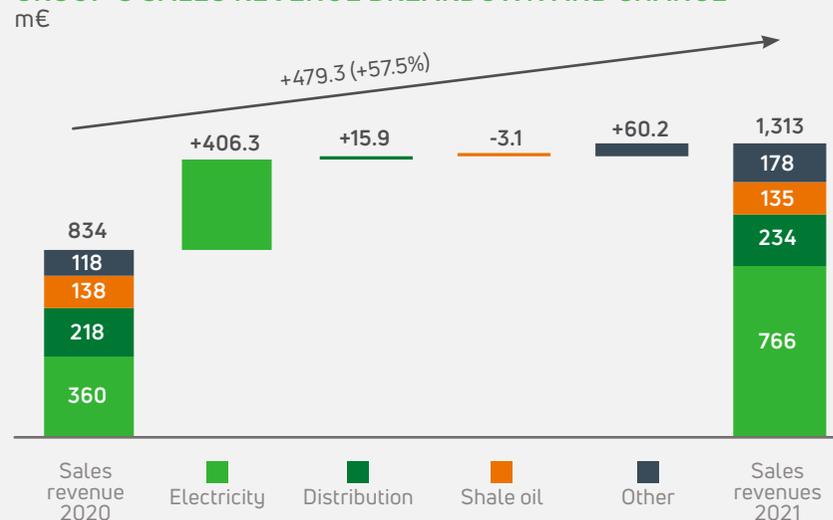
The Group's revenue for 2021 was 1,313 million euros, 57% (+479.3 million euros) up on 2020. Revenue growth was mainly driven by higher electricity revenue (+406.3 million euros): both the sales volume and the average sales price of electricity grew year on year. Electricity distribution revenue grew as well, underpinned by a larger sales volume. Shale oil revenue decreased, mostly due to a lower sales volume. Revenue from other products and services grew, supported by higher revenue from the sale of natural gas.

EBITDA grew by 49%, rising to 317.6 million euros (+104.0 million euros).

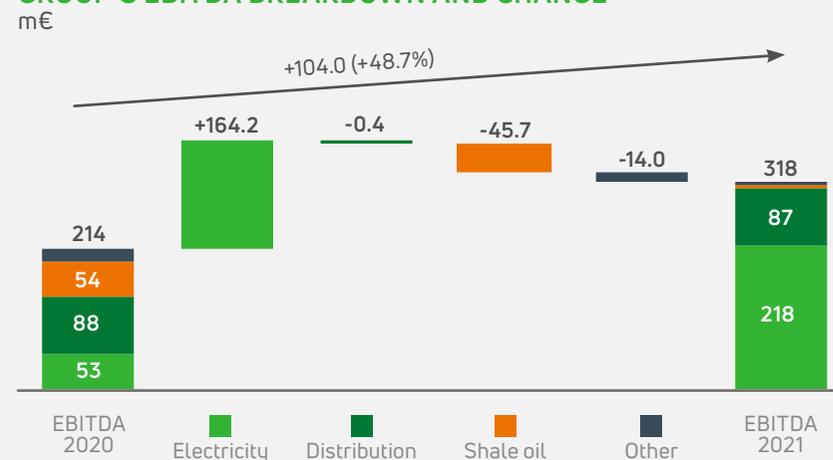
Net profit increased by 478% to 111.5 million euros (+92.2 million euros).

The Group's EBITDA growth was driven by electricity EBITDA, which grew substantially. The rise was mainly attributable to derivative transactions: both realised and unrealised electricity derivatives yielded considerably higher gains than the year before. Strong growth in electricity sales volume also contributed. Shale oil EBITDA decreased, the key factor being the outcome of derivative transactions. Electricity distribution EBITDA remained stable and EBITDA on other products and services declined.

### GROUP'S SALES REVENUE BREAKDOWN AND CHANGE



### GROUP'S EBITDA BREAKDOWN AND CHANGE



## ELECTRICITY

Electricity has been the main source of Eesti Energia’s revenue and profit throughout the years. We earned the largest share of our revenue from the sale of electricity in 2021 as well.

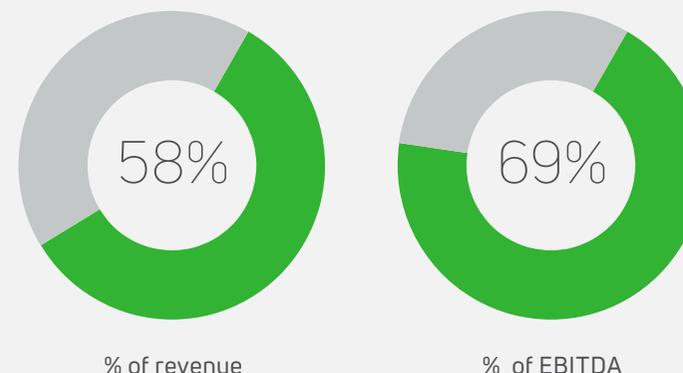
### ELECTRICITY REVENUE

Electricity revenue grew by 113% compared with 2020, mainly due to higher electricity sales prices. The growth was supported by gain on derivative transactions (+30.9 million euros in 2021). Electricity revenue for 2021 was 766.4 million euros (+113%, +406.3 million euros).

### AVERAGE SALES PRICE OF ELECTRICITY

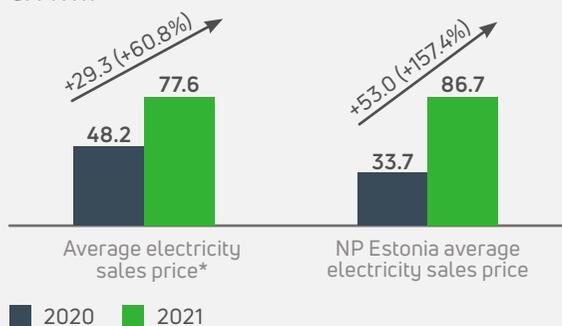
Eesti Energia’s average sales price of electricity was 77.6 €/MWh, which is 60.8% (+29.3 €/MWh) higher than in 2020. The average sales price excludes the impact of derivative transactions. Taking into account the effect of derivatives, the average sales price for 2021 would have been 80.8 €/MWh, which is 78.6% (+35.6 €/MWh) higher than a year earlier.

### SHARE OF ELECTRICITY PRODUCT IN GROUP’S SALES REVENUE AND EBITDA

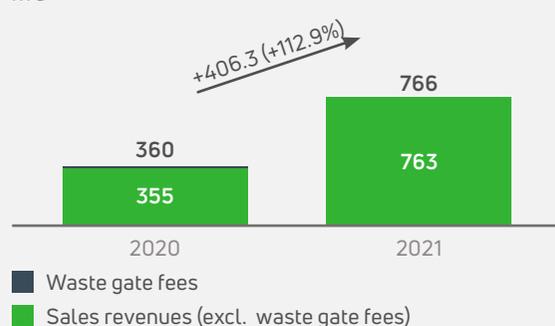


Derivative transactions yielded a gain of 30.9 million euros (+54.2 million euros).

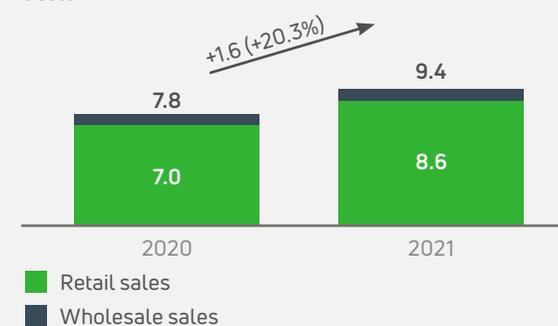
### AVERAGE SALES PRICE €/MWh



### ELECTRICITY SALES REVENUE m€



### ELECTRICITY SALES VOLUME TWh



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



### ELECTRICITY SALES VOLUME AND EESTI ENERGIA'S MARKET SHARE

We sold 20.3% more electricity in 2021 than we did in 2020. Wholesale sales decreased by 62.0 GWh (-7.2%) to 802 GWh. Retail sales grew by 1,657 GWh (+23.7%), rising to 8,633 GWh. Retail sales broke down between markets as follows: Estonia 4,176 GWh (+249 GWh), Latvia 1,253 GWh (+272 GWh), Lithuania 1,960 GWh (+534 GWh), Poland 1,207 GWh (+626 GWh) and Finland 37 GWh (+6 GWh).

In terms of customers' electricity consumption volumes, Eesti Energia's market share in Estonia was 57.2%, which is 1.3 percentage points smaller than in 2020 (58.5%). Customers trust Eesti Energia: at the year-end when contracts generally expire, 99.56% of our customers in Estonia decided to extend their electricity contract.

Eesti Energia's market shares in Latvia and Lithuania were 17.3% and 16.5%. Compared with 2020, we increased our market share in Latvia by 1.2 percentage points (2020: 16%) and in Lithuania by 2.3 percentage points (2020: 14.2%).

### KEY FIGURES OF THE ELECTRICITY PRODUCT

	2021	2020
Return on fixed assets (%)	11.0	-1.2
Electricity EBITDA (€/MWh)	23.1	6.8

### ELECTRICITY PRODUCTION VOLUME

We produced 5,217 GWh of electricity in 2021, 37.0% more than in 2020 (+1,409 GWh). The rise in production volume was supported by a higher electricity price, which was attributable to record-high natural gas prices. At the same time, volume growth was held back by the price of CO<sub>2</sub> emission allowances, which was twice higher than in 2020. Renewable energy production hit a new record, reaching 1,647 GWh (+9%), of which 983 GWh was generated by wind farms. Renewable electricity production decreased by 12%, mainly due to less favourable wind conditions and wind farms' slightly lower availability. Wind power production decreased by 156 GWh (-14%) year on year. Electricity output from other renewable sources, mostly biomass, was 664 GWh.

### ELECTRICITY EBITDA

Electricity EBITDA grew by 307.4% to 217.6 million euros (+164.2 million euros).

The effect of a higher margin was +23.3 million euros. Average electricity revenue per megawatt hour grew by 29.3 euros. Revenue from municipal waste gate fees and renewable energy support decreased year on year and, thus, total income per megawatt hour was 27.3 euros higher on average (impact: +257.7 million euros). Average variable costs grew by 24.8 €/MWh (impact: -234.4 million

euros) mostly because the costs incurred on the purchase of electricity and CO<sub>2</sub> emission allowances grew.

**Electricity sales volume grew by 20.3%, improving EBITDA by 31.3 million euros.**

The impact of a change in fixed costs was -5.1 million euros. Fixed costs grew mainly in the retail sale units in connection with rapid growth in sales volumes.

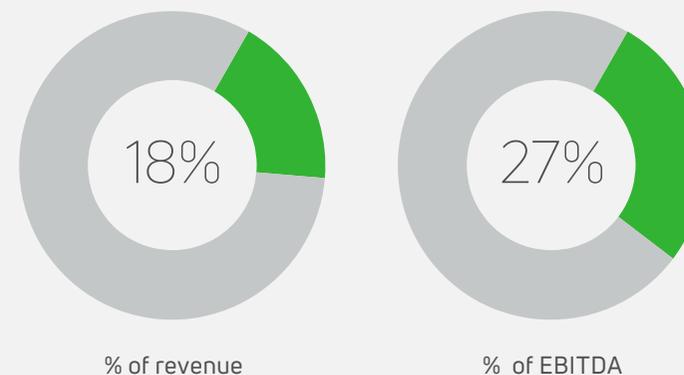
Growth in gain on realised derivative transactions increased EBITDA by 54.2 million euros.

Other impacts of +60.5 million euros mostly resulted from changes in the value of unrealised derivative financial instruments.

### ELECTRICITY EBITDA DEVELOPMENT



### SHARE OF DISTRIBUTION PRODUCT IN GROUP'S SALES REVENUE AND EBITDA



## DISTRIBUTION

Electricity distribution service is another major revenue source for Eesti Energia.

### DISTRIBUTION REVENUE, SALES VOLUME AND PRICE

Electricity distribution revenue grew by 7.3%, rising to 233.6 million euros (+15.9 million euros) and sales volume increased by 7.0%, rising to 7,172 GWh (+467 GWh) in 2021. The key factors were a colder winter and a hotter summer, which boosted consumption, and the addition of the sales volume of Imatra (+115 GWh).

**The average price of the distribution service was 32.6 €/MWh (+0.1 €/MWh, +0.3%).**

## DISTRIBUTION LOSSES

Electricity distribution losses totalled 307.1 GWh, accounting for 4.0% of electricity entering the network (2020: 284.1 GWh; 4.0%).

Compared with 2020, the amount of distribution losses grew by 8.1% due to a rise in distribution volume. The share of distribution losses, however, decreased because of smart metering, which enables us to continuously measure and monitor electricity quantities.

## SUPPLY INTERRUPTIONS

The average duration of unplanned interruptions in 2021 was 167.8 minutes per customer (2020: 173.0 minutes). The average duration of planned interruptions was 57.7 minutes per customer (2020: 67.9 minutes). The duration of planned supply interruptions depends on the volume of scheduled network maintenance and renewal as well as the complexity of the work and the location of the sites.

The main factor that influences the number of unplanned supply interruptions is the weather, which in 2021 was more favourable for the distribution network than the year before. As a result, the number

## KEY FIGURES OF THE DISTRIBUTION PRODUCT

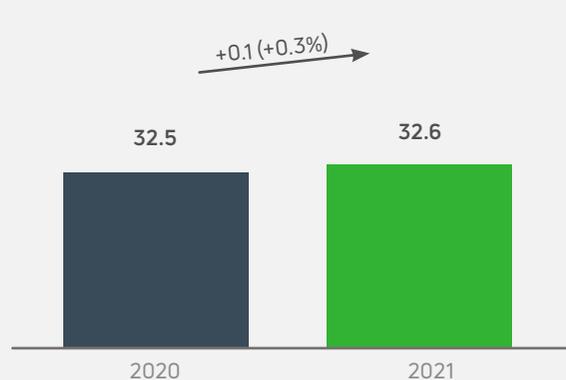
	2021	2020
Return on fixed assets (%)	3.3	3.8
Distribution losses (GWh)	307.1	284.1
SAIFI (index)	1.9	1.8
SAIDI (unplanned) (index)	167.8	173.0
SAIDI (planned) (index)	57.7	67.9
Adjusted RAB (m€)	856.1	829.7

of unplanned interruptions decreased by 8% (2020: 13,098 unplanned interruptions). Power outages can be reduced by carrying out regular maintenance and replacing bare conductors with weatherproof cables.

At the end of 2021, 93.3% of Elektrilevi's low-voltage distribution network and 42.0% of its medium-voltage distribution network was weatherproof (2020: 91.7% and 40.5%). Out of the entire low- and medium-voltage network, 72% was weatherproof (2020: 70%).

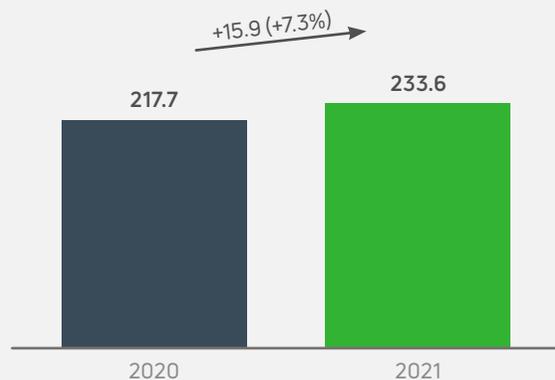
## AVERAGE SALES PRICE

€/MWh



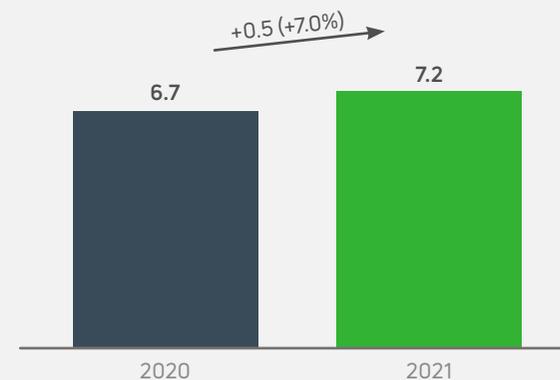
## DISTRIBUTION SALES REVENUE

m€



## DISTRIBUTION VOLUME

TWh



### DISTRIBUTION EBITDA

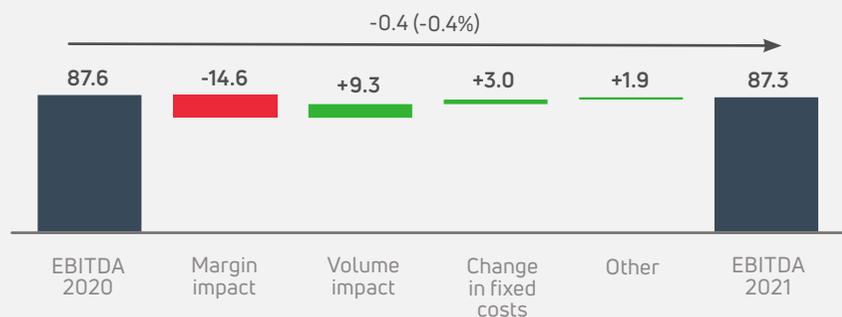
Distribution EBITDA remained stable in 2021, decreasing by 0.4% to 87.3 million euros (-0.4 million euros) compared with 2020.

The effect of a negative margin change on EBITDA development was -14.6 million euros, the figure including the impacts of a higher sales price of +0.7 million euros and higher variable costs of -15.3 million euros. The rise in variable costs is attributable significant growth in the cost of electricity purchased to cover distribution losses. The effect of a lower average margin was partly offset by the impact of a 7.0% higher sales volume, which was +9.3 million euros.

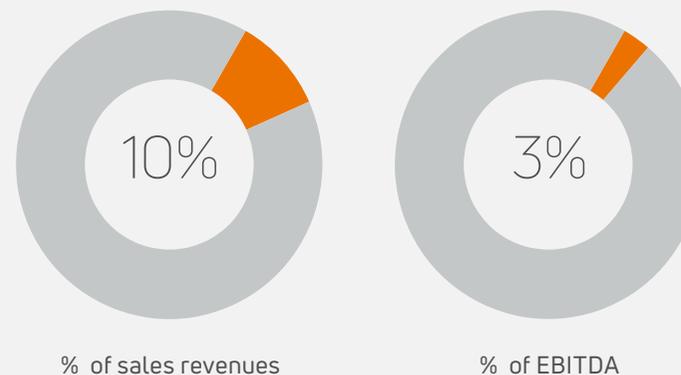
Fixed costs of the distribution service decreased by 3.0 million euros, the figure reflecting a 2.0 million euro decrease in repair and maintenance costs. Other impacts of +1.9 million euros include gain on the acquisition of a subsidiary.

### DISTRIBUTION EBITDA DEVELOPMENT

m€



### SHARE OF SHALE OIL PRODUCT IN GROUP'S SALES REVENUE AND EBITDA



## SHALE OIL

Shale oil production is a business line that has great potential, because Eesti Energia has the best known technology for processing oil shale into shale oil.

### SHALE OIL REVENUE AND SALES VOLUME

We sold 420 thousand tonnes of shale oil in 2021, which generated revenue of 135.0 million euros. Shale oil revenue decreased by 2.2% (-3.1 million euros) and sales volume declined by 7.4% (-33.6 thousand tonnes) year on year. The decline in sales volume is attributable 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 50.9% year on year, rising to 389.9 €/t (+131.5 €/t). The rise was driven by higher prices in the global liquid fuels market.



### KEY FIGURES OF THE SHALE OIL PRODUCT

	2021	2020
Return on fixed assets (%)	-4.3	12.0
Shale oil EBITDA (€/t)	19.2	118.7

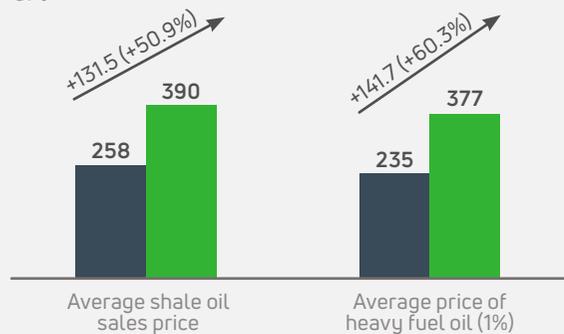
Derivative transactions of the period resulted in a loss of 68.3 €/t. In 2020, derivative transactions produced a gain of 46.2 €/t. The average sales price of shale oil including the impact of derivative transactions would have been 321.6 €/t (+5.6%, +17.0 €/t). The world market price fuel oil with 1% sulphur content, which is the benchmark product for shale oil, grew by 60.3% year on year.

### SHALE OIL PRODUCTION VOLUME

We produced 438 thousand tonnes of shale oil in 2021, which is 3.1% (-13.9 thousand tonnes) less than in 2020. The decline in output resulted from large-scale repair and reconstruction works, which interrupted production.

#### AVERAGE SHALE OIL SALES PRICE

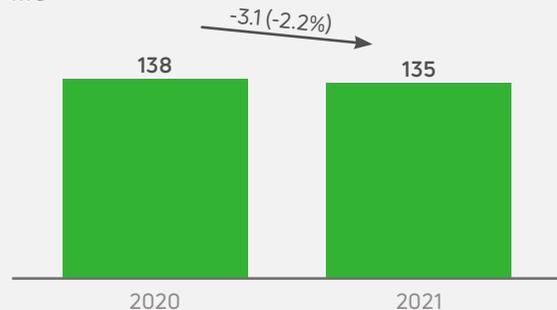
€/t



■ 2020 ■ 2021

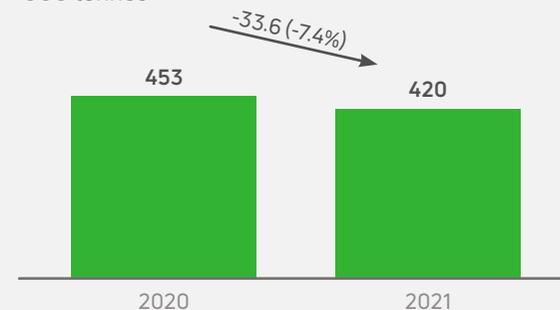
#### SHALE OIL SALES REVENUE

m€



#### SHALE OIL SALES VOLUME

'000 tonnes



### SHALE OIL EBITDA

Shale oil EBITDA decreased by 85.0% (-45.7 million euros) to 8.1 million euros in 2021.

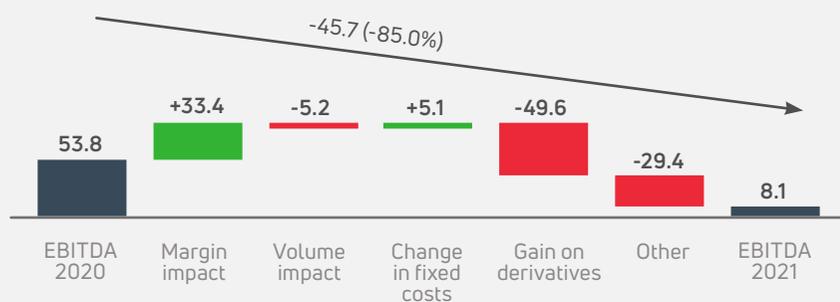
The impact of a higher margin was +33.4 million euros (+79.7 €/t). The figure reflects the impacts of a higher average sales price of +55.2 million euros and higher average variable costs of -21.8 million euros. Variable costs grew because expenses on CO<sub>2</sub> emission allowance costs and environmental charges increased. The impact of a decrease in sales volume was -5.2 million euros.

The change in the outcome of derivative transactions lowered shale oil EBITDA by 49.6 million euros. Realised middle oil derivative transactions resulted in a loss of 28.7 million euros, compared with a gain of 21.0 million euros in 2020.

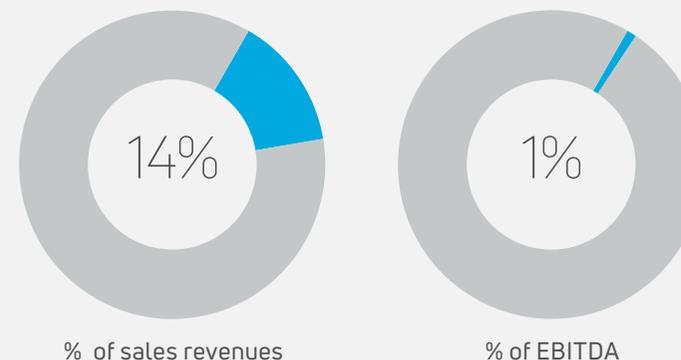
The effect of a change in fixed costs was +5.1 million euros. Other impacts on shale oil EBITDA (-29.4 million euros) mainly resulted from changes in the value of unrealised derivative financial instruments.

### SHALE OIL EBITDA DEVELOPMENT

m€



### SHARE OF OTHER PRODUCTS AND SERVICES IN GROUP'S SALES REVENUE AND EBITDA



## OTHER PRODUCTS AND SERVICES

The segment of other products and services comprises the sale of heat, natural gas and industrial equipment. The effects of one-off transactions are also reported in this segment.

### REVENUE FROM THE SALE OF OTHER PRODUCTS AND SERVICES

Revenue from the sale of other products and services in 2021 totalled 178.0 million euros, growing by 51.0% (+60.2 million euros) year on year.

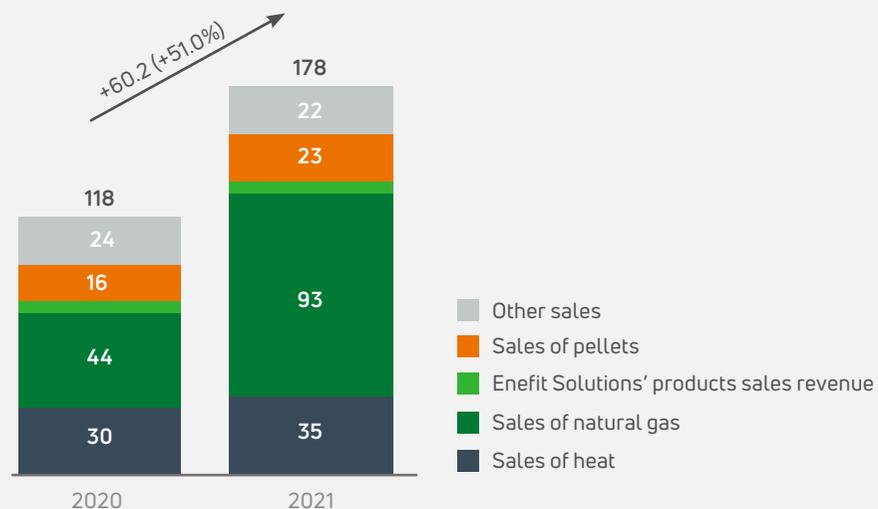
Revenue from the sale of heat increased by 5.1 million euros due to a larger sales volume. External heat sales grew by 146 GWh (+19.1%).

Revenue from the sale of natural gas grew by 49.4 million euros. Our retail sales of natural gas were 618 GWh in Estonia, 719 GWh in Latvia, 316 GWh in Lithuania and 697 GWh in Poland (2020: 421 GWh in Estonia, 637 GWh in Latvia, 160 GWh Lithuania and 820 GWh in Poland).

Pellet sale revenue grew by 6.2 million euros.

## SALES REVENUE FROM OTHER PRODUCTS AND SERVICES

m€



## EBITDA ON OTHER PRODUCTS AND SERVICES

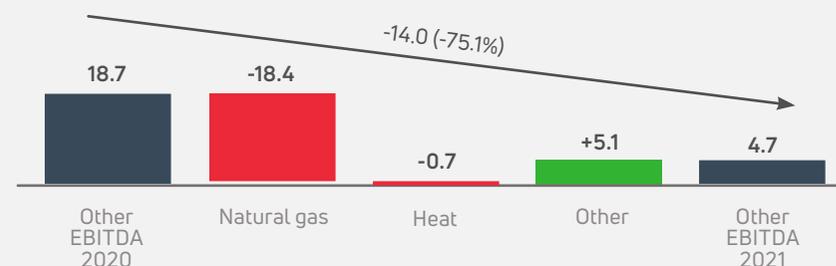
EBITDA on other products and services decreased by 14.0 million euros to 4.7 million euros in 2021.

Natural gas EBITDA decreased by 18.4 million euros due to a loss on derivative transactions in 2021. Heat EBITDA decreased by 0.7 million euros.

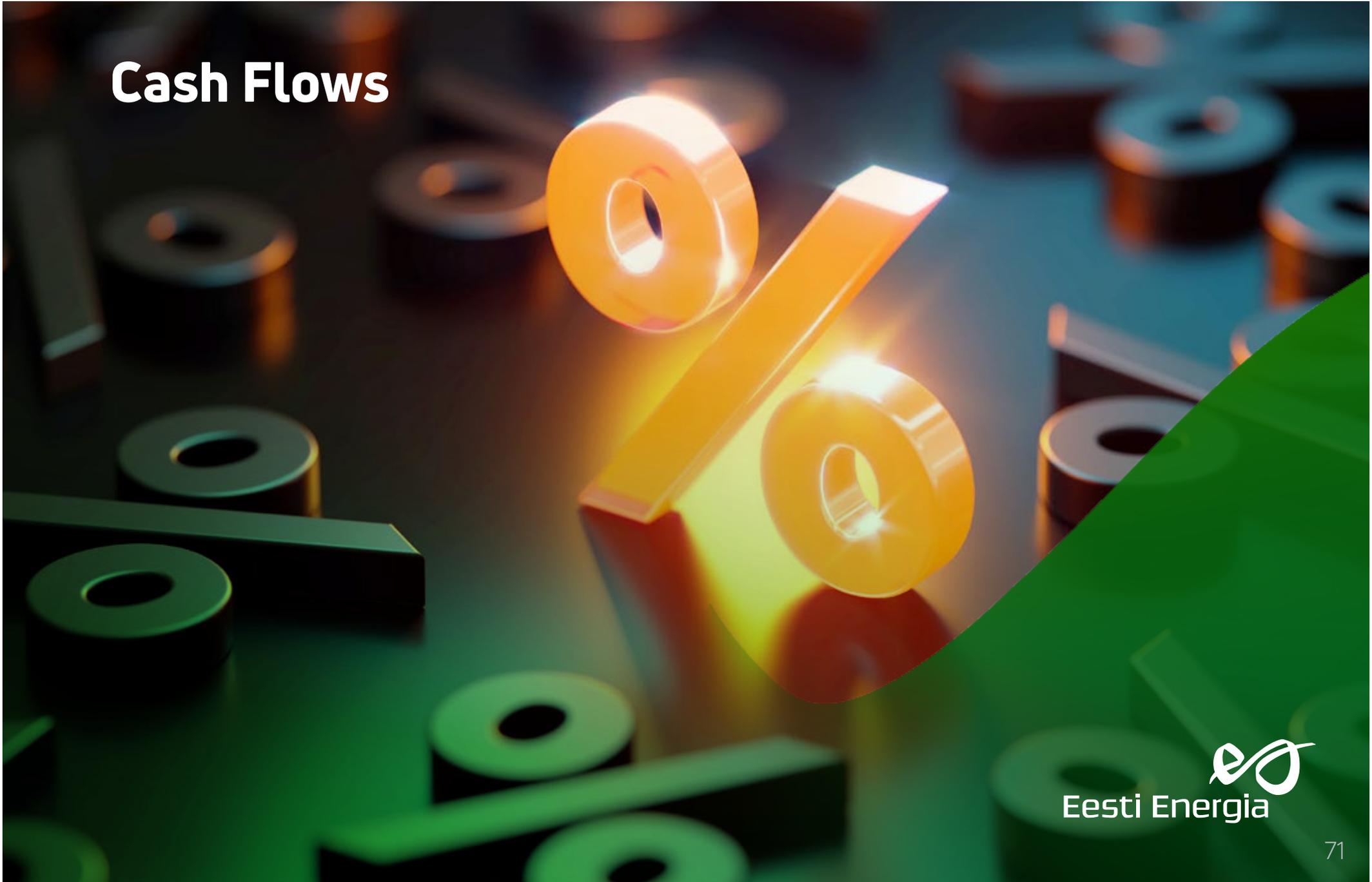
Other impacts improved EBITDA by 5.1 million euros in total. The item also includes the effects of various one-off transactions and events, the most material of which were the amounts received under the liquidated damages agreement related to the Auvere power plant (impact: +28.0 million euros) and income from the sale of CO<sub>2</sub> emission allowances in 2020 (impact: -13.7 million euros) and the costs of a legal dispute with VKG (impact: -7.4 million euros).

## OTHER PRODUCTS AND SERVICES EBITDA DEVELOPMENT

m€



# Cash Flows



Net operating cash flow for 2021 was 176.5 million euros, 141.1 million euros (-44.4%) lower than EBITDA, which amounted to 317.6 million euros.

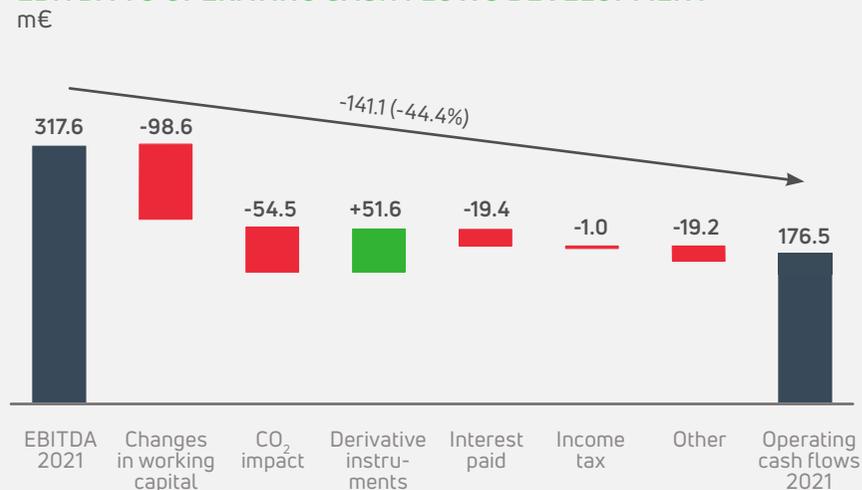
Changes in working capital lowered net operating cash flow by 98.6 million euros compared with EBITDA. Working capital was influenced by an increase in current liabilities of 116.8 million euros, a decrease in inventories of 3.5 million euros and an increase in current receivables of 250.9 million euros.

Settlements related to CO<sub>2</sub> emission allowances reduced operating cash flow by 54.5 million euros relative to EBITDA.

The impact of derivative financial instruments (excluding CO<sub>2</sub> instruments) was +51.6 million euros. The figure includes, among other items, the impacts of electricity derivatives of +11.8 million euros and shale oil derivatives of +45.2 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 19.4 million euros.

### EBITDA TO OPERATING CASH FLOWS DEVELOPMENT



Income tax paid in 2021 was 1.0 million euros.

Other impacts totalled -19.2 million euros, including the impacts of the amortisation of connection fees of -10.8 million euros and non-current asset sales of -3.4 million euros.

### Net operating cash flow decreased by 133.8 million euros (-43.1%) compared with 2020.

Changes in working capital had an impact of -124.3 million euros compared with 2020. The figure includes the impacts of a change in current receivables of -232.7 million euros, a change in inventories of +9.8 million euros and a change in current liabilities of -35.3 million euros.

Settlements related to CO<sub>2</sub> emission allowances had an impact of -163.3 million euros.

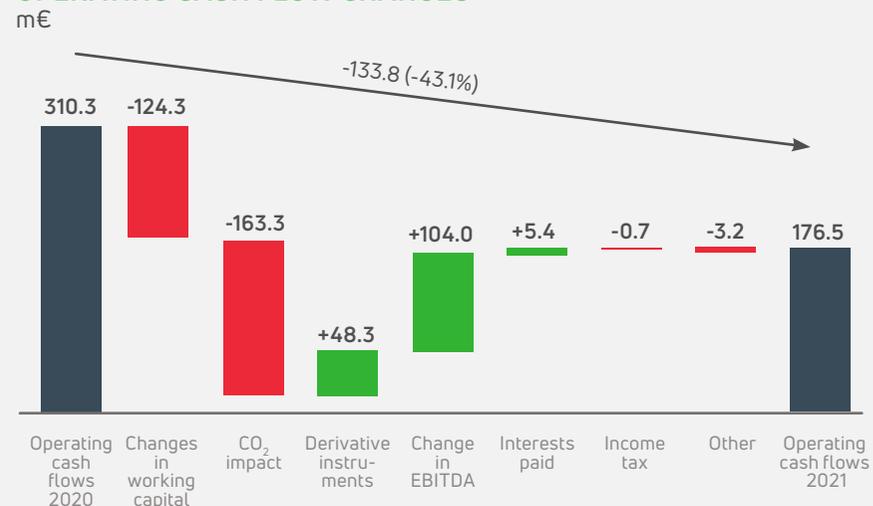
The impact of derivative financial instruments (excluding CO<sub>2</sub> instruments) was +48.3 million euros. The figure includes the impacts of electricity derivatives of +29.2 million euros and shale oil derivatives of +27.2 million euros.

**Income tax paid in 2021 was 0.7 million euros higher than in 2020.**

Interest paid on borrowings in 2021 was 5.4 million euros lower than a year earlier.

Other impacts totalled -3.2 million euros, including the impacts on non-current asset sales of -2.0 million euros and the amortisation of connection and other service charges of -1.2 million euros.

### OPERATING CASH FLOW CHANGES





# Investment

We invested 253.3 million euros in 2021 (+36.2%, +67.4 million euros). Expenditures on the distribution network amounted to 101.2 million euros (+6.1%, +5.8 million euros) and expenditures on the improvement of existing assets (excluding the distribution network) totalled 27.5 million euros (+53.0%, +9.5 million euros).

## LARGE-SCALE ENERGY PRODUCTION

We invested 50.1 million euros in the construction of another Enefit 280 shale oil plant. The plant, which is scheduled to be completed in 2024, 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 11 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 oil and electricity production.

We spent 1.2 million euros on the acquisition of two additional pieces of Komatsu mining equipment. The new equipment has minimal emissions and around 10% higher productivity.



## RENEWABLE ENERGY

To increase our renewable energy production capacity, we invested 19.3 million euros in the development of the Šilalė II wind farm and 8.3 million euros in the development of the Akmene wind farm, both in Lithuania. We also invested 6.5 million euros in the development of the Tolpanvaara wind farm in Finland on which an investment decision was made at the end of 2021 and 7.1 million euros in the construction of the Purtse wind farm in Estonia.

.....

**Investments in the development of solar farms totalled 1.0 million euros.**

.....

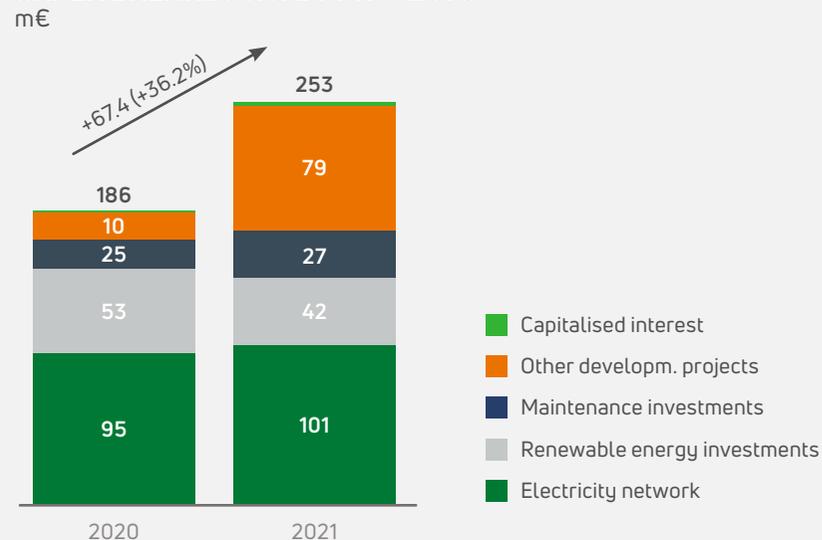
## NETWORK SERVICES

Investments made to maintain and continuously improve the quality of the electricity distribution service totalled 101.2 million euros (2020: 88.4 million euros).

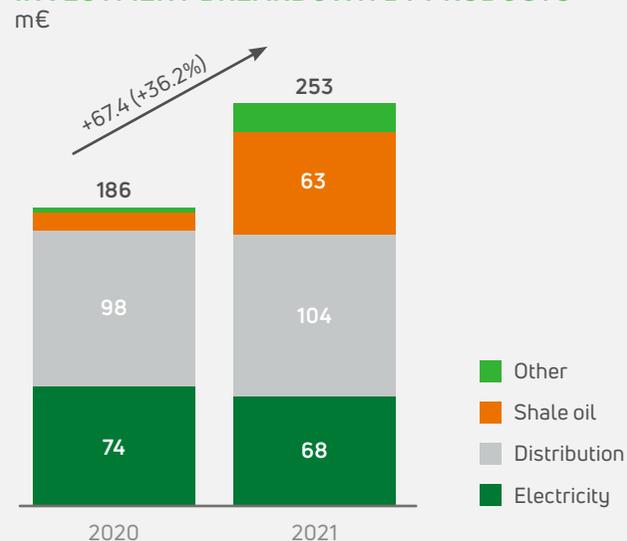
Elektrilevi built 372 new substations and 1,136 km of network (2020: 198 substations and 903 km of network). At the end of 2021, 93.3% of Elektrilevi's low-voltage distribution network was weatherproof (at the end of 2020: 91.7%). During the year, the weatherproof low-voltage network grew by 1,180 km and the bare conductor network decreased by 816 km. At the end of 2021, 72% of the total low- and medium-voltage distribution network was weatherproof.

Imatra Elekter built 12 new substations and 32 km of network. By the end of 2021, 92% of its low-voltage distribution network was weatherproof (by the end of 2020: 90.8%). Within a year, the weatherproof low-voltage network grew by 24 km and the bare conductor network decreased by 18 km. At the year-end, 64.8% of the total low- and medium-voltage distribution network operated by Imatra Elekter was weatherproof.

### 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 make significant expansions. To carry out major development projects, we therefore raise debt capital from the market.

In adopting financing decisions, we observe Group'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, in the long-term perspective Eesti Energia should keep its net debt to EBITDA ratio below 3.5 (the ceiling may be exceeded for a short term when major investments or acquisitions are made).

We have raised debt from the international bond market and, in the form of loans, from the European Investment Bank (EIB) and commercial banks. In 2020, we included the European Bank for Reconstruction and Development (EBRD) among our financing providers. Besides long-term loans, we use revolving credit facilities with flexible repayment options.

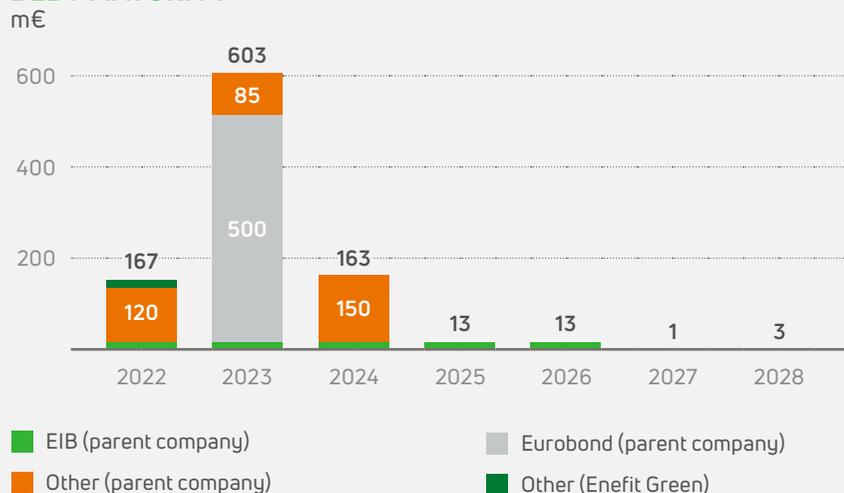
In 2021, a 22.8% minority interest in Eesti Energia's renewable energy subsidiary Enefit Green was listed on the Nasdaq Tallinn stock exchange by which the Eesti Energia Group raised additional funds of 175 million euros. The amount was divided between Enefit Green (100 million euros) and the parent Eesti Energia (75 million euros).

## BORROWINGS AND CREDIT RATINGS

The Group's borrowings at the end of 2021 totalled 963.5 million euros at nominal value and 956.5 million euros at amortised cost (at the end of 2020: 1,040.4 million euros at nominal value and 1,014.4 million euros at amortised cost). Long-term borrowings as at the reporting date consisted of Eurobonds listed on the London Stock Exchange of 500 million euros, loans from EIB of 72.9 million euros, a loan from EBRD of 7.5 million euros (35 million Polish zloty), loans from commercial banks of 383.1 million euros (including revolving credit facilities of 120.0 million euros, all nominal amounts). The Group's loans from commercial banks included loans of 113.1 million euros taken by Enefit Green. The parent's loans from commercial banks amounted to 270 million euros, consisting of revolving credit facilities with flexible repayment options provided by Swedbank and SEB (120 million euros) and a loan of 150 million euros provided by Swedbank that will mature in June 2024.

At the end of 2021, the Group had undrawn loans of 535 million euros, which consisted of revolving credit facilities of 200 million euros and long-term loans of 335 million euros. Revolving credit facilities raised by the Group totalled 320 million euros, of which 120 million euros had been drawn down. The maturities of revolving credit facilities are as follows: facilities of 150 million euros will mature in September 2025 (OP Corporate Bank), facilities of 120 million euros will mature in September 2023 (50 million euros from SEB and 70 million euros from Swedbank) and facilities of 10 million euros will mature in May 2025 (provided by SEB to Enefit Green). Long-term loan agreements include Eesti Energia's two loan agreements with EIB of 175 million euros and 75 million euros,

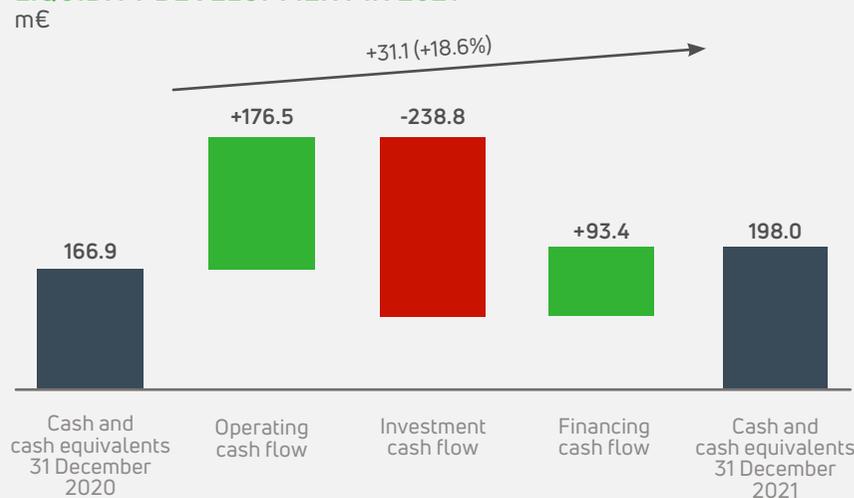
### DEBT MATURITY



which at the date of release of this report have not been drawn down. After the reporting date, in January 2022, Eesti Energia’s subsidiary Enefit Green signed a loan agreement of 80 million euros with the Nordic Investment Bank (NIB) to support Enefit Green’s wind farm development projects in the Baltics.

During the year, the parent of the Group made regular loan repayments of 47.9 million euros to EIB. Enefit Green made regular loan repayments of 33.7 million euros and an early repayment of 40.0 million euros (partial early repayment of a loan received from SEB, which reduced the amount repayable in 2023). In the first half of 2021, the Group extended the settlement term of the 150 million euro loan received from Swedbank by three years to June 2024.

### LIQUIDITY DEVELOPMENT IN 2021



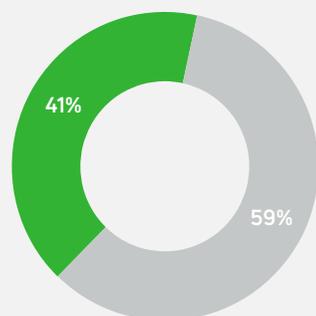
### The year-end weighted average interest rate of Eesti Energia’s borrowings was 1.69% (at the end of 2020: 1.71%).

At the end of 2021, borrowings of 573 million euros had fixed base rates and borrowings of 391 million euros had floating base rates. At the end of 2020, borrowings of 621 million euros had fixed base rates and borrowings of 414 million euros had floating base rates. 99% of the Group’s borrowings are denominated in euros. Enefit Green’s loan agreement with EBRD is denominated in Polish zloty. The year-end balance of the loan was 7.5 million euros.

Eesti Energia’s year-end credit ratings from international rating agencies did not change compared with the end of 2020: the rating

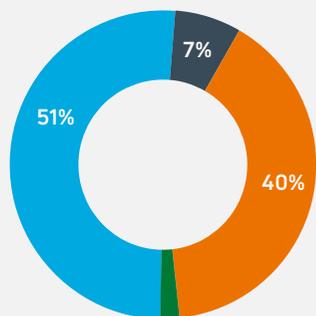
### LOAN BREAKDOWN BY INTEREST RATES AND BORROWERS

Loans by interest rates



■ Fixed  
■ Variable

Debt capital provider



■ Eurobond ■ Other bank loans  
■ EIB ■ Other liabilities

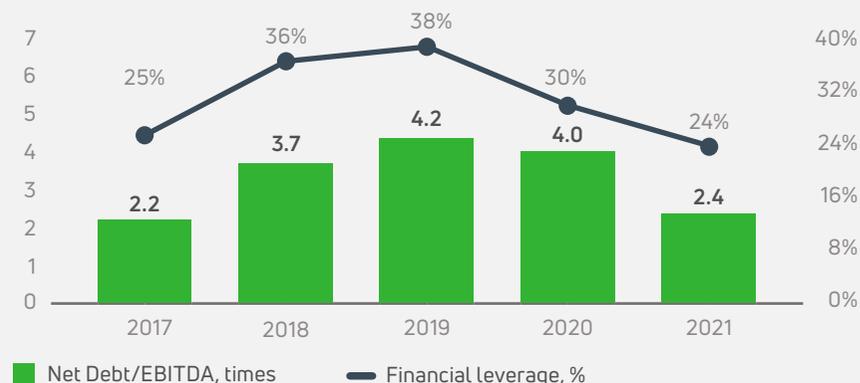
from Standard & Poor's was BBB-, outlook negative, and the rating from Moody's was Baa3, outlook stable. Standard and Poor's updated Eesti Energia's credit analysis in October 2021 and Moody's did the same in January 2022 but the ratings remained the same. Eesti Energia's financing policy is aimed at maintaining an investment grade credit rating from international rating agencies.

### EQUITY AND FINANCIAL RATIOS

The Group's equity stood at 2,466 million euros at the end of 2021. Eesti Energia's sole owner is the Republic of Estonia. The Group did not pay the owner a dividend in 2021. In October 2021, a 22.8% minority interest in Eesti Energia's renewable energy subsidiary Enefit Green was listed in the main list of the Nasdaq Tallinn stock exchange by which the Group raised additional funds of 175 million euros. The amount was divided between Enefit Green (100 million euros) and the parent Eesti Energia (75 million euros).

The Group's net debt amounted to 758.6 million euros at the end of 2021 (at the end of 2020: 847.5 million euros). At the reporting date, the net debt to EBITDA ratio was 2.4 (at the end of 2020: 4.0). 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



# Outlook for 2022



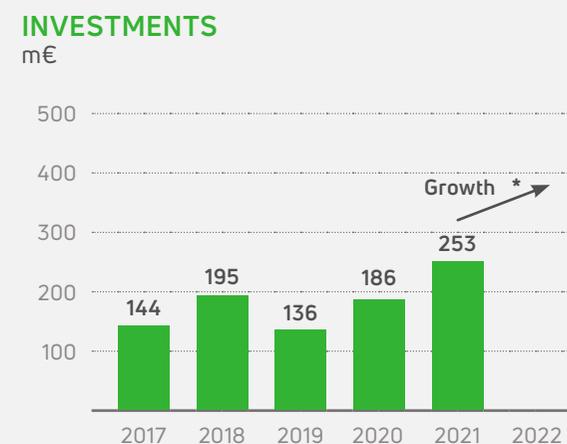
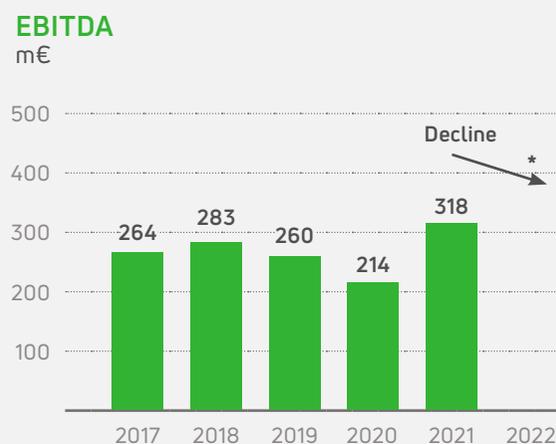
We anticipate growth in both revenue and capital investments for 2022. We expect EBITDA to decline somewhat compared with 2021 because, on the one hand, it is likely that rising market prices will affect costs and, on the other hand, the figure for 2021 was influenced by a number of one-off items.

Electricity revenue will be supported by anticipated growth in sales volume. The positive impact of electricity prices is expected to be counterbalanced by the prices of CO<sub>2</sub> emission allowances, which are expected to continue rising due to the EU climate goals for 2030. We also anticipate growth in shale oil revenue. The average sales price of

shale oil is expected to rise, driven by the uptrend in market prices and growing demand for our products, which should improve both shale oil revenue and profitability. Electricity distribution revenue and profitability are expected to remain stable compared with 2021. We expect overall revenue growth to be supported by our additional energy services, which include charging, lighting, solar, flexibility, and heating and cooling equipment.

We intend to increase capital investments compared with 2021. The largest development expenditures in 2022 have been earmarked for the development of our renewable energy portfolio and the construction of a chemicals plant.

We are planning to pay the owner a dividend of 46.7 million euros for 2021. The final decision on the distribution of the dividend is at the discretion of the owner.



\* Slight growth/slight decline until 5%, growth/decline >5%



# Consolidated Financial Statements

# CONTENTS

<b>CONSOLIDATED INCOME STATEMENT</b>	<b>85</b>
<b>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME</b>	<b>86</b>
<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>	<b>87</b>
<b>CONSOLIDATED STATEMENT OF CASH FLOWS</b>	<b>88</b>
<b>CONSOLIDATED STATEMENT OF CHANGES IN EQUITY</b>	<b>89</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

<b>NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>90</b>		
1. General information	90	16. Credit quality of financial assets	159
2. Significant accounting policies	92	17. Greenhouse gas allowances and certificates of origin	161
3. Financial risk management	119	18. Cash and cash equivalents	162
4. Critical accounting estimates and assumptions	131	19. Share capital, statutory reserve capital and retained earnings	162
5. Segment reporting	133	20. Dividends per share	163
6. Property, plant and equipment	137	21. Other reserves	164
7. Related party transactions	141	22. Borrowings	165
8. Intangible assets	143	23. Trade and other payables	168
9. Right-of-use assets	145	24. Contract liabilities and government grants	169
10. Investments in associates	146	25. Provisions	170
11. Principal subsidiaries	149	26. Revenue	173
12. Inventories	153	27. Other operating income	174
13. Financial instruments by category	154	28. Raw materials and consumables used	174
14. Trade and other receivables	156	29. Payroll expenses	175
15. Derivative financial instruments	158	30. Other operating expenses	176
		31. Net finance costs	177
		32. Corporate income tax	178
		33. Cash generated from operations	179
		34. Off-balance sheet assets, contingent liabilities and commitments	180
		35. Earnings per share	183
		36. Acquisition of a subsidiary	184
		37. Events after the reporting date	185
		38. Financial information on the parent company	186

## CONSOLIDATED INCOME STATEMENT

in million EUR

	1 JANUARY - 31 DECEMBER		Note
	2021	2020	
Revenue	1,313.0	833.7	5,26
Other operating income	162.3	73.6	27
Change in inventories of finished goods and work-in-progress	(11.0)	4.7	12
Raw materials and consumables used	(888.9)	(513.0)	28
Payroll expenses	(135.9)	(136.6)	29
Depreciation, amortisation and impairment	(172.1)	(161.4)	5,6,8,9,33
Other operating expenses	(121.9)	(48.8)	30
<b>OPERATING PROFIT</b>	<b>145.5</b>	<b>52.2</b>	
Finance income	0.6	0.4	31
Finance costs	(26.2)	(34.4)	31
<b>Net finance costs</b>	<b>(25.6)</b>	<b>(34.0)</b>	<b>5, 31</b>
Profit from associates under the equity method	2.0	1.7	5,10,33
<b>PROFIT BEFORE TAX</b>	<b>121.9</b>	<b>19.9</b>	<b>5</b>
Corporate income tax expense	(10.4)	(0.6)	32
<b>PROFIT FOR THE YEAR</b>	<b>111.5</b>	<b>19.3</b>	
<b>PROFIT FOR THE YEAR ATTRIBUTABLE TO:</b>			
Equity holder of the Parent Company	104.4	19.4	
Non-controlling interest	7.1	(0.1)	11
Basic earnings per share (euros)	0,14	0,03	35
Diluted earnings per share (euros)	0,14	0,03	35

The notes on pages 90 - 190 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in million EUR

	1 JANUARY - 31 DECEMBER		Note
	2021	2020	
<b>PROFIT FOR THE YEAR</b>	<b>111.5</b>	<b>19.3</b>	
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Revaluation of hedging instruments net of reclassifications to profit or loss	177.4	66.7	21
Impact of comprehensive income of associates	(0.8)	-	10
Exchange differences on the translation of foreign operations	3.0	(4.3)	21
<b>Other comprehensive income for the year</b>	<b>179.6</b>	<b>62.4</b>	
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:</b>	<b>291.1</b>	<b>81.7</b>	
Equity holder of the Parent Company	284.0	81.8	
Non-controlling interest	7.1	(0.1)	

The notes on pages 90 - 190 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in million EUR

	31 DECEMBER		Note
	2021	2020	
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2,979.5	2,919.6	6
Right-of-use assets	9.5	2.2	9
Intangible assets	86.3	80.8	8
Prepayments for non-current assets	45.9	3.1	6
Deferred tax assets	1.9	1.2	
Derivative financial instruments	187.6	23.7	13,15,16
Investments in associates	54.9	46.8	10
Non-current receivables	1.1	1.3	14
<b>Total non-current assets</b>	<b>3,366.7</b>	<b>3,078.7</b>	
<b>Current assets</b>			
Inventories	114.1	117.4	12
Greenhouse gas allowances and certificates of origin	208.6	85.3	17
Trade and other receivables	336.6	206.1	14
Derivative financial instruments	160.2	31.7	13,15,16
Cash and cash equivalents	198.0	166.9	13,16,18
<b>Total current assets</b>	<b>1,017.5</b>	<b>607.4</b>	
<b>Total assets</b>	<b>4,384.2</b>	<b>3,686.1</b>	

	31 DECEMBER		Note
	2021	2020	
<b>EQUITY</b>			
<b>Total equity and reserves attributable to equity holder of the Parent Company</b>			
Share capital	746.6	746.6	19
Share premium	259.8	259.8	
Statutory reserve capital	75.0	62.1	19
Other reserves	219.8	40.2	21
Retained earnings	1,017.6	898.4	19
<b>Total equity and reserves attributable to equity holder of the Parent Company</b>	<b>2,318.8</b>	<b>2,007.1</b>	
Non-controlling interest	146.8	1.2	11
<b>Total equity</b>	<b>2,465.6</b>	<b>2,008.3</b>	
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	788.3	708.7	22
Deferred tax liabilities	21.8	12.6	32
Other payables	3.0	0.3	23
Derivative financial instruments	37.8	4.4	13,15
Contract liabilities and government grants	300.9	260.3	24
Provisions	27.5	28.1	25
<b>Total non-current liabilities</b>	<b>1,179.3</b>	<b>1,014.4</b>	
<b>Current liabilities</b>			
Borrowings	168.2	305.7	22
Trade and other payables	255.5	235.9	23
Derivative financial instruments	116.1	10.3	13,15
Contract liabilities and government grants	0.7	1.0	24
Provisions	198.8	110.5	25
<b>Total current liabilities</b>	<b>739.3</b>	<b>663.4</b>	
<b>Total liabilities</b>	<b>1,918.6</b>	<b>1,677.8</b>	
<b>Total liabilities and equity</b>	<b>4,384.2</b>	<b>3,686.1</b>	

The notes on pages 90 - 190 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

in million EUR

	1 JANUARY - 31 DECEMBER		Note
	2021	2020	
<b>Cash flows from operating activities</b>			
Cash generated from operations	196.8	335.2	33
Interest and loan fees paid	(19.3)	(24.7)	31
Corporate income tax paid	(1.0)	(0.3)	
<b>Net cash generated from operating activities</b>	<b>176.5</b>	<b>310.2</b>	
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets	(217.5)	(173.6)	6,8,23
Proceeds from grants of property, plant and equipment	2.5	4.0	
Proceeds from sale of property, plant and equipment	7.2	1.9	6,27
Dividends received from associates	2.3	2.8	7,10
Contribution to the share capital of associates	(9.2)	(4.3)	7,10
Acquisition of subsidiaries, net of cash acquired	(24.1)	-	36
Loans granted	-	(0.1)	7
Proceeds from sale of shares of business	-	0.7	27
<b>Net cash used in investing activities</b>	<b>(238.8)</b>	<b>(168.6)</b>	

	1 JANUARY - 31 DECEMBER		Note
	2021	2020	
<b>Cash flows from financing activities</b>			
Loans received	130.0	229.0	22
Redemption of bonds	-	(106.3)	22
Repayments of bank loans	(201.6)	(255.4)	22
Repayments of other loans	-	(1.2)	
Principal elements of lease payments	(1.2)	(0.3)	22
Proceeds from the issue of shares in a subsidiary	91.2	-	11
Shareholder contribution	-	125.0	19
Proceeds from sale of shares in subsidiary	75.0	-	11
<b>Net cash used in / generated from financing activities</b>	<b>93.4</b>	<b>(9.3)</b>	
<b>Net cash flows</b>	<b>31.1</b>	<b>132.3</b>	
Cash and cash equivalents at the beginning of the period	166.9	34.6	13,16,18
Cash and cash equivalents at the end of the period	198.0	166.9	13,16,18
<b>Net change in cash and cash equivalents</b>	<b>31.1</b>	<b>132.3</b>	

The notes on pages 90 - 190 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
<b>Equity as at 31 December 2019</b>	<b>621.6</b>	<b>259.8</b>	<b>62.1</b>	<b>(22.2)</b>	<b>879.1</b>	<b>1,800.4</b>	<b>1.2</b>	<b>1,801.6</b>	
Profit for the year	-	-	-	-	19.4	19.4	(0.1)	19.3	
Other comprehensive income for the year	-	-	-	62.4	-	62.4	-	62.4	21
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>62.4</b>	<b>19.4</b>	<b>81.8</b>	<b>(0.1)</b>	<b>81.7</b>	
Shareholder contribution	125.0	-	-	-	-	125.0	-	125.0	
<b>Total contributions by and distributions to owners of the Group, recognised directly in equity</b>	<b>125.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>125.0</b>	<b>-</b>	<b>125.0</b>	
<b>Equity as at 31 December 2020</b>	<b>746.6</b>	<b>259.8</b>	<b>62.1</b>	<b>40.2</b>	<b>898.5</b>	<b>2,007.1</b>	<b>1.2</b>	<b>2,008.3</b>	
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
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>179.6</b>	<b>104.4</b>	<b>284.0</b>	<b>7.1</b>	<b>291.1</b>	
Increase of statutory reserve capital	-	-	12.9	-	(12.9)	-	-	-	
Partial disposal of shares of subsidiary	-	-	-	-	27.7	27.7	138.5	166.2	11
<b>Total contributions by and distributions to owners of the Group, recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>12.9</b>	<b>-</b>	<b>14.8</b>	<b>27.7</b>	<b>138.5</b>	<b>166.2</b>	
<b>Equity as at 31 December 2021</b>	<b>746.6</b>	<b>259.8</b>	<b>75.0</b>	<b>219.8</b>	<b>1,017.6</b>	<b>2,318.8</b>	<b>146.8</b>	<b>2,465.6</b>	

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 2021 include the financial information concerning Eesti Energia AS (parent company, legal form: public limited company) and its subsidiaries (the Group) and the Group's participation in associated entities.

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, production of electricity, heat and oil, development of oil shale refining know-how and technologies as well as provision of services and products to customers. The Group's objective is to enhance Estonia's primary natural resource in the most efficient manner possible and to reduce the ecological footprint of the oil shale-based energy sector. Besides oil shale, electricity is also generated from sun, wind, water, mixed household 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 29 March 2022. 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 2021

#### Key changes in market inputs

Electricity prices spiked to record heights due to soaring natural gas and carbon allowance prices. The average price of natural gas on the Dutch gas trading platform TTF was 46.6 €/MWh (+371 €/MWh, +394% compared with 2020). The price soared from 36.4 €/MWh at the beginning of July to 182.3 €/MWh on 21 December, which is the past 10 years' highest level. The rise in the price of natural gas is attributable to supply shortages, which emerged in the period when inventories are stocked up for the winter. In the summer, natural gas is injected into storage facilities based on relevant procurement plans.

In the winter, the stored gas is withdrawn and consumed. The average electricity price in our markets rose from 53.1 €/MWh in January to 196.6 €/MWh in December. This resulted in a significant increase in the Group's revenues from sale of electricity and in the results of the electrical energy segment in general (see also Notes 5 and 26) and also had an increasing impact to the Group's revenues from sale of gas energy (see Note 26). However, the Group's raw material and consumables expenses were also impacted as the changes in the market prices impacted the electricity expense and the gas bought for resale expense (see Note 28).

Emission allowance prices surged, driven by the adoption of the European Union's more ambitious climate goals and insufficient supply of electricity produced from renewable sources. The average CO<sub>2</sub> emission allowance price in 2021 was 53.7 €/t, 116.3% (+28.9 €/t) up on 2020. This resulted in a significant increase in the Group's greenhouse gases emissions expense and the respective provision recognised in the statement of financial position (see also Notes 25 and 28).

### **Key changes in the organisational structure**

A subsidiary of the Group, Enefit Green AS, issued new shares by a public offering in October 2021 during which Eesti Energia AS also sold shares previously belonging to the Group. These events resulted in Eesti Energia AS having a 77.17% ownership of the subsidiary as of 20 October 2021 and therefore a significant increase in non-controlling interests. See details regarding the transaction from Note 11.

Elektrilevi AS, a subsidiary of the Group, acquired in 2021 in a business combination, a network company Imatra Elekter AS with a purchase

price of EUR 29.8 million. See details regarding this transaction from Note 36.

### **Key developments regarding investments in the infrastructure**

In 2021, the construction of another Enefit 280 shale oil plant has commenced. During the year, the Group made investments in the amount of EUR 50.1 million regarding this project. The plant is scheduled to be completed in 2024.

Investments during 2021 also increased in the Enefit Green AS Group, a subgroup of Eesti Energia, which initiated the development phase for several new wind farm projects in Estonia, Lithuania and Finland. In 2021 EUR 40.6 million were invested into the development of wind farms under construction or planned to reach the construction phase in 2022.

See additional information regarding these investments in Note 6.

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with the 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

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

#### (b) New standards and interpretations not yet adopted

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1 January 2022, 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.

##### **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; not yet adopted by the EU*) - The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE 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 may have an impact on the recognition of Group's future investments recognised as constructions in progress.

**Classification of liabilities as current or non-current – Amendments to IAS 1** (*effective for annual periods beginning on or after 1 January 2022; not yet adopted by the 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. The Group assesses that there is no material impact of application of the amendments to its consolidated 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 amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Group assesses that there is no material impact of application of the amendments to its consolidated 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; not yet adopted by the EU*) - IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment 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 this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The Group is currently assessing the possible impact of the application to the disclosures of the consolidated financial statements.

**Amendments to IAS 8: Definition of Accounting Estimates** (*effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU*) - The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. The Group has assessed that there should not be any material impact of the application of the amendment to its consolidated financial statements.

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

## 2.3 EMISSION ALLOWANCES

Since 2005, a trading system applies in the European Union ("EU") (the Emission Trading Scheme – ETS) with the purpose of reducing emissions of the greenhouse gas carbon dioxide. Within the framework of this system, some concerned plants have received, without payment or for prices below fair value, so-called emission allowances (European Union Allowances – EUAs) from the authorities in each country. Sales and purchases of emission allowances are conducted on designated exchanges, where plants that have a greater need for emission allowances than their free-of-charge or subsidised allocation are required to purchase allowances to cover their remaining need and thereby settle their obligations.

During the first trading period, 2005–2007, trading was conducted only in 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's Emission Trading Scheme was opened up to international trading in Certified Emission Reductions (CERs) and Emission Reduction Units (ERUs).

Starting with the third trading period (2013–2020) there is no free-of-charge 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 refinery sector (including production of shale oil), to production of measurable heat (including district heating) and for burning waste gases for electricity. The given activities are also performed by the installations belonging to the Group. See details from Note 34 regarding the estimated amount of free allowances allocated to the Group in 2022 and from Note 17

regarding the amount of free allowances allocated to the Group in 2020 and 2021.

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 purchase cost or based on the revaluation method, if the Group has acquired the greenhouse gas emission allowances more than presumably needed and the Group 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 cases where the emission allowances that were received free of charge do not cover this obligation. The provision for greenhouse gas emissions is set up in 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.

## 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 adjacent to "Share of other profit/loss of the 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, 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 2021: EUR/PLN 4.5969 and EUR/USD 1.1326; 31 December 2020: EUR/PLN 4.5597 and EUR/USD 1.2271.

Income and expenses were translated as follows: 2021: EUR/PLN 4.57 and EUR/USD 1.18; 2020: EUR/PLN 4.44 and EUR/USD 1.12.

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:

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

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 its 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

#### 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.

#### 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.

#### 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.

#### 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.

#### 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.

### Equity instruments

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

### 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.

### 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 hedge**

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 at fair value through profit or loss**

Derivatives which are not designated as hedging instruments 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 clients. 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 clients.

The Group has signed long-term financially settled power purchase agreements with energy producers. At the settlement date the derivative 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) Derivatives at 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 on the balance sheet; 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 under item "Interest and loan fees paid".

## 2.22 TAXATION

### (a) Corporate income tax 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 tax liability to the extent of the planned dividend payments.

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

### (b) Other taxes in Estonia

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

TAX	TAX RATE
<b>Social security tax</b>	33% of the payment made and fringe benefits provided to employees
<b>Unemployment insurance contributions</b>	0.8% of payments to employees
<b>Income tax on fringe benefits</b>	20%, calculated as 20/80 of fringe benefits provided to employees
<b>Pollution charges</b>	Paid for pollutant releases to air, water, groundwater and 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 tax rate per tonne upon emission of pollutants into the ambient air is 2-1278 (except mercaptans 31 785 euros), emission of pollutants into water bodies or groundwater 7.09-24 326 euros, emission of waste disposal 0.63-29.84 euros per tonne.
<b>Fee for extraction right for oil shale</b>	0.275-2.21 euros per tonne of oil shale extracted
<b>Water utilisation charges</b>	1.69-178.75 euros per 1000 m <sup>3</sup> of pond or ground water used (in 2020 1.63-176.99 euros per 1000 m <sup>3</sup> of pond or ground water used).
<b>Land tax</b>	0.1–2.5% of the taxable value of land per year
<b>Heavy goods vehicle tax</b>	3.50 – 232.60 euros per truck per quarter
<b>Excise duty on electricity</b>	0.5-4.47 (until 30.04.2020) euros per MWh of electricity; 0.5-1.0 (since 01.05.2020 and until 30.04.2022) euros per MWh of electricity
<b>Excise duty on natural gas</b>	40-79.14 euros per 1000 m <sup>3</sup> of natural gas
<b>Excise duty on shale</b>	57.0 euros per 1000 kg of shale oil
<b>Excise duty on oil shale</b>	0.93 euros per giga-joule
<b>Corporate income tax on non-business-related expenses</b>	20%, calculated as 20/80 of non-business expenses

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

<b>Latvia</b>	Income earned by resident legal persons is taxed at distribution at the rate of 20%, calculated as 20/80 of the amount of the net distribution
<b>Lithuania</b>	Income earned by resident legal persons is taxed at the rate of 15%
<b>Germany</b>	Income earned by resident legal persons is taxed at the rate of 30-33% (corporate tax, trade tax and solidarity surcharge combined)
<b>the USA</b>	Income earned by resident legal persons is taxed at the rate of 21%
<b>Jordan</b>	Income earned by resident legal persons is taxed at the rate of 24%. Jordan Oil Shale Energy is fully exempted from income tax according to the contracts concluded with the Hashemite Kingdom of Jordan.
<b>the Netherlands</b>	Income earned by resident legal persons is taxed at the rate of 25%
<b>Poland</b>	Income earned by resident legal persons is taxed at the rate of 19%
<b>Finland</b>	Income earned by resident legal persons is taxed at the 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.

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 consolidated 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 clients 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. There are no specific costs that the grant is intended to compensate, the grant is a result of a government measure to support and increase the transition to renewable energy in Estonia. The grant is recognised as other operating income under line "Other income" using the gross method.

## 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.

### **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:

- fixed payments, less any lease incentives receivable;
- 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;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

### 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:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- 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:

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

- 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.
- 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:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- 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 clients at the retail market. Part of the clients have agreements with fixed rates. To hedge the risk of electricity price volatility, 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 items are 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). The long-term financial power purchase contract hedges the exposure of the Nord Pool Lithuanian price area risk. 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	
	2021	2020
<b>Maturity date</b>	2022 - 2033	2021 - 2025
<b>Hedged volume Nord Pool system price component</b>	3.2 TWh	5.2 TWh
<b>Hedged volume Finnish area price component</b>	2.7 TWh	4.1 TWh
<b>Hedged volume TGE Polish base price risk component</b>	1.2 TWh	1.32 TWh
<b>Hedged volume TGE Polish peak load price risk component</b>	0.01 TWh	0.02 TWh
<b>Hedged volume Nord Pool Lithuanian price area (long-term PPA)</b>	3.8 TWh	0 TWh
<b>Weighted average underlying price Nord Pool system price component</b>	31.78 EUR/MWh	29.53 EUR/MWh
<b>Weighted average underlying price Finnish area price component</b>	5.32 EUR/MWh	6.85 EUR/MWh
<b>Weighted average underlying price TGE Polish base price risk component</b>	84.80 EUR/MWh	52.27 EUR/MWh
<b>Weighted average underlying price TGE Polish peak load price risk component</b>	138.38 EUR/MWh	62.53 EUR/MWh

Long-term power purchase contracts 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 the long-term power purchase contract 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 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 items are the risk components of highly probable forecast electricity sale transactions: 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	
	2021	2020
<b>Maturity date</b>	2022 - 2024	2021-2022
<b>Hedged volume Nord Pool system price component</b>	0.5 TWh	0.15 TWh
<b>Hedged volume Estonian area price component</b>	0.5 TWh	0.14 TWh
<b>Weighted average underlying price Nord Pool system price component</b>	42.21 EUR/MWh	22.47 EUR/MWh
<b>Weighted average underlying price Estonian area price component</b>	42.72 EUR/MWh	26.42 EUR/MWh

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

The Group sells gas to its clients at the retail market. Part of the clients have agreements with fixed rates. The Group uses derivatives (futures and forwards) to hedge the risk of natural gas price volatility on the Polish market. The derivative contracts are entered into for the purchase of a specific amount of gas on a monthly basis. Transactions designed to hedge the risk of variability in gas prices are designated as hedging instruments in cash flow hedges. The underlying hedged items are the risk components of highly probable forecast gas purchase transactions: the Polish Power Exchange market purchase price for natural gas. 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 contracts depends on the natural gas sales volumes forecast based on contracts signed for future periods. The hedge ratio of the hedging relationships is one to one.

	31 DECEMBER	
	2021	2020
<b>Maturity date</b>	2022 - 2023	2021 - 2023
<b>Hedged volume</b>	0.63 TWh	0.66 TWh
<b>Weighted average underlying price</b>	48.53 EUR/MWh	15.94 EUR/MWh

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

The Group has shale oil production facilities in Estonia and sells the produced shale oil on the global energy markets. The Group uses derivatives (futures and swaps) to hedge the risk of variability in shale oil prices. 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 in subsequent 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. The volume of derivative transactions entered into to hedge the price risk of shale oil sales 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 30% 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 balance sheet 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.

	31 DECEMBER	
	2021	2020
<b>Maturity date</b>	2022 - 2024	2021 - 2023
<b>Hedged volume heavy fuel oil 1% sulphur content</b>	740 thousand Mt	746 thousand Mt
<b>Weighted average underlying price</b>	303 EUR/Mt	282 EUR/Mt

### Effective and ineffective parts of hedge instruments

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 or as expenses, 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.

Changes in the fair value 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 and sale of Brent (associated with shale gasoline) as the Group does not apply the principles of hedge accounting to these products and markets (except for Polish natural gas as described above), and long term PPA contracts which the Group has not designated as cash flow hedges. Liquidity swaps, which are designed to transfer changes in the value of past transactions to counterparties that do not require covering negative positions with collateral on a daily basis, are also classified as derivatives held for trading. 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 balance sheet date that are not designated as hedge 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 electricity market prices would have been 10% higher/lower it would have the following impact on the Group's financial result post-tax: EUR 19.8 million and EUR (19.8) million (2020: EUR 8.4 million and EUR (8.4) million).
- If the underlying oil product market prices would have been 10% higher/lower it would have the following impact on the Group's financial result post-tax: EUR (6.2) million and EUR 6.2 million (2020: EUR (2.1) million and EUR 2.1 million).
- If the underlying natural gas product market prices would have been 10% higher/lower it would have the following impact on the Group's financial result post-tax: EUR 0.8 million and EUR (0.8) million (2020: EUR (0.36) million and EUR 0.36 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 to the Group from floating interest rate borrowings and lies in the danger that finance costs increase when interest rates increase.

Sensitivity analysis is used to assess the interest rate risk. For managing the Group's interest rate risks, the principle that the share of fixed interest rate borrowings in the portfolio should be over 50% is followed. The Group has predominantly locked the risk resulting from fluctuations in the base interest rate. For 59.5% of the Group's borrowings the base interest rate was locked until maturity and respectively 40.5% of the borrowings had a floating interest rate (31 December 2020: for 59.9% of the Group's borrowings the base interest rate was locked until maturity and respectively 40.1% of the borrowings had a floating interest rate) (Note 22). Had the base interest rate of the borrowings with a floating interest rate at 31 December 2021 been 50 basis points (31 December 2020: 50 basis points) higher with other factors remaining constant, the Group's net profit for the financial year would have been EUR 0.0 million lower (2020: EUR 0.4 million lower). The lower impact of the 50 basis points interest rate rise in 2021 compared to 2020 is due to refinancing Swedbank's EUR 150.0 million loan on updated terms. Had the base interest rate of the borrowings with a floating interest rate at 31 December 2021 been 100 basis points (31 December 2020: 100 basis points) higher with other factors remaining constant, the Group's net profit for the financial year would have been EUR 1.8 million lower (2020: EUR 1.9 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).

### 3.1.2 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 clients 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 clients 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:

	31 DECEMBER	
in million EUR	2021	2020
<b>Trade and other receivables (Notes 13 and 14)*</b>	322.2	194.9
<b>Cash and cash equivalents (Note 13, 16 and 18)</b>	198.0	166.9
<b>Derivatives with positive value (Notes 3.3, 13, 15 and 16)</b>	347.8	55.4
<b>Total amount exposed to credit risk</b>	<b>670.0</b>	<b>417.2</b>

\* Total trade and other receivables less prepayments

Trade receivables are shown net of impairment losses. Although the collection of receivables can be impacted by economic factors, management believes that there is no significant risk of loss beyond the provisions already recorded. The types of 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 2021, the Group had spare monetary balances of EUR 198.0 million (31 December 2020: EUR 166.9 million). Additionally, as at the end of the financial year, the Group had undrawn loan facilities of EUR 535.0 million (31 December 2020: EUR 520.0 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.

#### DIVISION OF 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
<b>Total</b>	<b>433.4</b>	<b>858.6</b>	<b>3.7</b>	<b>1,295.7</b>	<b>1,251.0</b>

\* Interest expenses have been estimated on the basis of the interest rates prevailing as at 31 December 2021.

#### DIVISION OF LIABILITIES BY MATURITY DATE AS AT 31 DECEMBER 2020:

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)*	319.2	749.6	18.9	1,087.7	1,014.4
Derivatives (Notes 3.3, 13 and 15)	10.3	4.4	-	14.7	14.7
Trade and other payables (Notes 13 and 23)	188.8	0.3	-	189.1	189.1
<b>Total</b>	<b>518.3</b>	<b>754.3</b>	<b>18.9</b>	<b>1,291.5</b>	<b>1,218.2</b>

\* Interest expenses have been estimated on the basis of the interest rates prevailing as at 31 December 2020.

### 3.2 MANAGEMENT OF CAPITAL

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 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 net debt in long term should not exceed EBITDA more than 3.5 times (in 2020 : 3.5 times) and equity should be at least 50% (31 December 2020: 50%) of the total assets. As at 31 December 2021 the net debt to EBITDA target was met and as at 31 December 2020 the net debt to EBITDA ratio was above the ceiling of 3.5 set out in the financing policy. Eesti Energia's strategy outlines measures for meeting the target set out in the financing policy. As at 31 December 2021 and 31 December 2020, the net debt to EBITDA ratio and the equity to assets ratio were as follows:

in million EUR	31 DECEMBER	
	2021	2020
<b>Debt (Notes 3.1, 13 and 22)</b>	956.5	1,014.4
<b>Less: cash and cash equivalents (Notes 3.1, 13 and 18)</b>	(198.0)	(166.9)
<b>Net debt</b>	758.5	847.5
<b>Total equity</b>	2,465.6	2,008.3
<b>EBITDA*</b>	317.6	213.5
<b>Assets</b>	4,384.2	3,686.1
<b>Net debt/EBITDA</b>	2.4	4.0
<b>Equity/assets</b>	56%	54%
<b>Total capital (net debt + equity)</b>	3,224.1	2,855.8
<b>Debt to equity ratio</b>	24%	30%

\* EBITDA: profit before finance income and costs, profit 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 additional useful information in regard to the performance of the business and how it is managed and are used by the management for performance analysis and reporting. These APMs should be viewed as supplemental to, but not as a substitute for, 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 2021 and 31 December 2020 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 2021 and 31 December 2020:

in million EUR	31 DECEMBER			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Trading derivatives (Notes 13, 15, 16)	-	56.1	83.7	139.8
Cash flow hedges (Notes 13, 15, 16)	-	112.5	95.5	208.0
<b>Total financial assets (Notes 3.1, 13, 15, 16)</b>	<b>-</b>	<b>168.6</b>	<b>179.2</b>	<b>347.8</b>
<b>Liabilities</b>				
Trading derivatives (Notes 13, 15, 16)	-	75.2	-	75.2
Cash flow hedges (Notes 13, 15, 16)	-	78.7	-	78.7
<b>Total financial liabilities (Notes 3.1, 13, 15)</b>	<b>-</b>	<b>153.9</b>	<b>-</b>	<b>153.9</b>

in million EUR	31 DECEMBER			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Trading derivatives (Notes 13, 15, 16)	0.6	8.8	10.9	20.3
Cash flow hedges (Notes 13, 15, 16)	3.3	31.8	-	35.1
<b>Total financial assets (Notes 3.1, 13, 15, 16)</b>	<b>3.9</b>	<b>40.6</b>	<b>10.9</b>	<b>55.4</b>
<b>Liabilities</b>				
Trading derivatives (Notes 13, 15, 16)	-	12.9	-	12.9
Cash flow hedges (Notes 13, 15, 16)	-	1.8	-	1.8
<b>Total financial liabilities (Notes 3.1, 13, 15)</b>	<b>-</b>	<b>14.7</b>	<b>-</b>	<b>14.7</b>

### (a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet 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 electricity derivatives that are traded in Nasdaq OMX are classified as Level 1 instruments.

### (b) Financial instruments in 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 value of trading derivatives and cash flow hedges are found using notations of Nasdaq OMX, ICE, Platts European Marketscan and Nymex.

The fair value of forward, swap and future contracts is determined using forward prices at the balance sheet date, with the resulting value discounted back to present value.

### (c) Financial instruments in 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 power purchase agreements ("PPA") 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.

In 2020, the fair value of level 3 derivatives was calculated based on the mathematical model that forecasted future period electricity prices. The model combined market based inputs for the Nord Pool system price and Helsinki EPAD, as quoted on Nasdaq OMX at the balance sheet date, with unobservable variable inputs such as actual production and consumption data of market participants, market prices of fuel inputs (CO<sub>2</sub>, gas, coal), data of plant and/or cable outages, knowledge of future developments.

Starting from 2021, the valuation technique has changed. Fair value of level 3 derivatives is calculated based on the actual long-term (over 5 years) electricity sales agreements that the Group has concluded with its clients. The fair value calculation is performed on a monthly basis, therefore the calculation utilizes a weighted average price of long-term electricity sales agreements that have been signed during the month preceding the balance sheet date,

which is then converted into baseload electricity price for the valuation of PPA agreements.

The technique has been changed due to the fact that there is limited market data available for longer period than 7 years. The new technique gives more accurate inputs to calculate market value for long-term derivatives.

If the estimated prices change by +/- 10% the impact to the Group's net profit would be +/- EUR 19.9 million (2020: +/- EUR 8.5 million) and the impact to the Group's other comprehensive income would be +/- EUR 20.8 million (2020: no impact as no level 3 derivatives were designated as hedge instruments).

in million EUR	Trading derivatives
<b>Opening balance 1 January 2020</b>	-
Gains recognised in other operating income	10.9
<b>Closing balance 31 December 2020</b>	<b>10.9</b>
Gains recognised in other comprehensive income	95.5
Gains recognised in other operating income	72.8
<b>Closing balance 31 December 2021</b>	<b>179.2</b>

Gains recognised in other comprehensive income are accounted for on the line "revaluation of hedging instruments net of reclassifications to profit or loss". Gains recognised in other income are accounted for on the line "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 2021 was 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:

		31 DECEMBER 2021				
in million EUR		Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position (Notes 3.1, 3.3, 13, 15, 16)	Related amounts not set off in the statement of financial position	Net amount
<b>Derivative financial instruments</b>		410.2	(62.4)	347.8	(6.2)	<b>341.6</b>

		31 DECEMBER 2020				
in million EUR		Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position (Notes 3.1, 3.3, 13, 15, 16)	Related amounts not set off in the statement of financial position	Net amount
<b>Derivative financial instruments</b>		63.6	(8.2)	55.4	(0.8)	<b>54.6</b>

#### (b) Financial liabilities

The following financial liabilities are subject to offsetting:

		31 DECEMBER 2021				
in million EUR		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
<b>Derivative financial instruments</b>		216.3	(62.4)	153.9	(6.2)	<b>147.7</b>

		31 DECEMBER 2020				
in million EUR		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
<b>Derivative financial instruments</b>		22.9	(8.2)	14.7	(0.8)	<b>13.9</b>

Agreements between the Group and the counterparties allow offsetting within specific individual transactions when mutual claims

are nominated in the same currency. For 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 off-balance sheet assets and contingent liabilities in the notes to the financial statements. Although these estimates are based on management's best knowledge of current events and actions, 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 disclosed in the consolidated 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 2021, the net book amount of property, plant and equipment of the Group totalled EUR 2,979.5 million (31 December 2020: EUR 2,919.6 million), and the depreciation charge for the reporting period was EUR 166.8 million (2020: EUR 158.5 million) (Note 6). The average residual useful life of property, plant and equipment is 18.6 years (31 December 2020: 17.7 years). If the average residual useful life would increase / decrease by 1 year,

the depreciation expense would decrease by EUR 8.7 million (2020: EUR 8.8 million) / increase by EUR 9.7 million (2020: EUR 9.9 million).

#### (b) Evaluation of the recoverable amount of property, plant and equipment and intangible assets

As needed, the Group performs impairment tests to determine the recoverable amount of items of property, plant and equipment and intangible assets. When carrying out impairment tests, management uses various estimates for the cash flows arising from the use of the assets, sales, maintenance, and repairs of assets, as well as estimates for inflation and growth rates and likelihood of getting grants. The estimates are based on forecasts of the general economic environment, consumption and the sales price of electricity, for estimating the fair value also the expert evaluations are used. If the situation changes in the future, either additional impairment could be recognised, or previously recognised impairment could be partially or wholly reversed. The recoverable amounts of fixed assets used for network services are impacted by the Competition Board which determines the reasonable rate of return to be earned on these assets. If the income, expenses and investments related to the sale of network services remain within the expected limits, the revenue derived from the sale of goods and services guarantees a reasonable rate of return for these assets. Information about any impairment losses incurred in the current and comparative period are disclosed in Notes 6 and 8.

#### (c) Recognition and remeasurement of provisions

As at 31 December 2021, the Group had set up provisions for environmental protection, termination of mining operations,

dismantling of assets, employees and contracts related totalling EUR 33.1 million (31 December 2020: EUR 34.3 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 norms, technology available in the future to restore environmental damages, and expenditure covered by third parties.

#### **(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) Deferred tax recognition of undistributed earnings of Group's Estonian and Latvian subsidiaries**

As at 31 December 2021 and at 31 December 2020 the Group has not accounted for 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 988.6 million (31 December 2020: EUR 886.4 million). The Group has implemented 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 Group's Estonian and Latvian subsidiaries

in the foreseeable future. The Group is able to control the timing and the amount of dividend distributions of its subsidiaries to implement the dividend policy.

#### **(f) Input's used for calculating fair value of long-term power purchase agreements ("PPA") (Level 3 fair value instruments)**

Fair value of PPA derivative instruments is calculated by using prices based on the mathematical models that use market prices and actual client contract weighted average prices converted to baseload electricity prices. See further details from Note 3.3.

## 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 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 three main products and services, which are presented as separately reportable segments, and a number of minor products and services that are presented together as "Other segments":

- 1)** electricity (production and sale of electricity generated from renewable and non-renewable sources, and electricity trading);
- 2)** distribution (sale of electricity distribution network services on regulated market and sale of additional regulated services by Elektrilevi);
- 3)** shale oil (production and sale of liquid fuels);
- 4)** other products and services (including production and sale of heat, construction of power engineering equipment and services, sale of scrap metal, sale of mining products, sale of natural gas, sale of other products and services).

Other segments include by-products and services which 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 sellable 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 created by several Group entities in a vertically integrated chain, then the related expenses include the production cost of each entity involved in preparation 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.

The sales prices of network charges need to be approved by the Estonian Competition Authority as stipulated by the Electricity Market Act of Estonia. 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	
	2021	2020
<b>Revenue from external customers</b>		
Electrical Energy	766.4	360.1
Network Services	233.6	217.7
Liquid Fuels	135.0	138.1
<b>Total reportable segments</b>	<b>1,135.0</b>	<b>715.8</b>
Other	178.0	117.9
<b>Total (Note 26)</b>	<b>1,313.0</b>	<b>833.7</b>

## EBITDA

in million EUR	31 DECEMBER	
	2021	2020
<b>EBITDA</b>		
Electrical Energy	217.6	53.4
Network Services	87.3	87.6
Liquid Fuels	8.0	53.8
<b>Total reportable segments</b>	<b>312.9</b>	<b>194.9</b>
Other	4.7	18.7
<b>Total</b>	<b>317.6</b>	<b>213.6</b>
Depreciation, amortisation and impairment (Notes 6, 8 and 9)	(172.1)	(161.4)
Net finance costs	(25.6)	(34.0)
Profit from associates under the equity method (Note 10)	2.0	1.7
<b>Profit before tax</b>	<b>121.9</b>	<b>19.9</b>

\*EBITDA: profit before finance income and costs, profit from associates under the equity method, tax-, depreciation-, amortisation and impairment losses.

## OTHER PROFIT AND LOSS DISCLOSURES

Interest income and expenses, corporate income tax expense and profit 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 the impairment, depreciation and amortisation is disclosed in Notes 6 and 8 and recognition and change of provisions in Note 25.

in million EUR	1 JANUARY – 31 DECEMBER 2021		1 JANUARY – 31 DECEMBER 2020	
	Depreciation and amortisation	Recognition (+) and reversal (-) of provisions	Depreciation and amortisation	Recognition (+) and reversal (-) of provisions
Electrical Energy	(76.7)	131.6	(70.0)	84.0
Network Services	(51.3)	-	(49.3)	-
Liquid Fuels	(20.6)	29.8	(21.6)	16.7
<b>Total reportable segments</b>	<b>(148.5)</b>	<b>161.4</b>	<b>(140.9)</b>	<b>100.7</b>
Other	(23.6)	8.8	(20.5)	3.8
<b>Total (Notes 5, 6, 8, 9, 25)</b>	<b>(172.1)</b>	<b>170.2</b>	<b>(161.4)</b>	<b>104.4</b>

## 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 2021			1 JANUARY – 31 DECEMBER 2020		
	Total assets	Investments in associates (Note 10)	Capital expenditures (Notes 6 and 8)	Total assets	Investments in associates (Note 10)	Capital expenditures (Notes 6 and 8)
Electrical Energy	2,134.0	2.4	68.1	1,704.2	2.7	76.5
Network Services	1,212.2	-	101.8	1,162.6	-	97.6
Liquid Fuels	450.0	1.6	63.3	379.4	1.2	10.8
<b>Total reportable segments</b>	<b>3,796.2</b>	<b>4.0</b>	<b>233.2</b>	<b>3,246.2</b>	<b>3.9</b>	<b>184.9</b>
Other	588.0	50.9	20.1	439.9	42.9	3.1
<b>Total (Notes 6,8 and 10)</b>	<b>4,384.2</b>	<b>54.9</b>	<b>253.3</b>	<b>3,686.1</b>	<b>46.8</b>	<b>188.0</b>

## ENTITY-WIDE INFORMATION

### External revenue by location of clients

in million EUR	1 JANUARY – 31 DECEMBER	
	2021	2020
Estonia	771.6	489.0
Lithuania	240.9	101.3
Latvia	143.3	62.6
Poland	106.9	65.8
United Arab Emirates	22.7	12.2
Denmark	17.4	7.1
Nordic countries*	6.1	4.0
Other countries	4.1	1.1
Singapore	-	90.6
<b>Total external revenue (Note 26)</b>	<b>1,313.0</b>	<b>833.7</b>

\* Nordic countries - Finland and Sweden

### Non-current assets by location\*

in million EUR	31 DECEMBER	
	2021	2020
Estonia	2,782.2	2,686.4
Lithuania	249.1	231.4
Latvia	33.1	36.3
USA	26.3	24.3
Finland	14.6	8.0
Poland	15.0	15.6
Other countries	0.9	1.5
<b>Total (Notes 6, 8 and 9)</b>	<b>3,121.2</b>	<b>3,003.5</b>

\* other than financial assets, deferred tax assets and investments in associates

In 2021 the Group had no clients, whose revenue from liquid fuels was 10% or more of the Group's revenues (in 2020 the sales to one such customer totalled EUR 90.6 million).

In 2021 the Group had a client, whose revenue from electrical energy was 10% or more of the Group's revenues. Sales to this customer in 2021 totalled EUR 532.8 million (in 2020 the sales to this customer totalled EUR 129.3 million).

## 6. PROPERTY, PLANT AND EQUIPMENT

in million EUR	Land	Buildings	Facilities	Machinery & equipment	Other	Construction in progress	Prepayments	Total
<b>Property, plant and equipment as at 31 December 2019</b>								
Cost	44.4	330.0	1,196.8	3,140.9	6.1	68.7	5.9	4,792.8
Accumulated depreciation	-	(118.1)	(486.9)	(1,269.1)	(5.3)	-	-	(1,879.4)
<b>Carrying amount at 31 December 2019 (Note 4)</b>	<b>44.4</b>	<b>211.9</b>	<b>709.9</b>	<b>1,871.8</b>	<b>0.8</b>	<b>68.7</b>	<b>5.9</b>	<b>2,913.4</b>
<b>Changes occurred in 2020</b>								
Additions (Note 5)	43.0	0.3	0.3	4.8	0.1	121.3	1.9	171.7
Depreciation charge and write-downs (Notes 4, 5 and 33)	-	(6.3)	(37.8)	(110.6)	(0.3)	(3.5)	-	(158.5)
Disposals (at carrying amount)	(0.2)	(0.2)	-	(0.1)	-	-	-	(0.5)
Effects on movements in foreign exchange rates	(0.2)	-	-	(0.8)	-	-	-	(1.0)
Transfers	0.7	0.7	54.0	63.0	(0.3)	(115.7)	(4.7)	(2.3)
<b>Total changes occurred in 2020</b>	<b>43.3</b>	<b>(5.5)</b>	<b>16.5</b>	<b>(43.7)</b>	<b>(0.5)</b>	<b>2.1</b>	<b>(2.8)</b>	<b>9.4</b>
<b>Property, plant and equipment as at 31 December 2020</b>								
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)
<b>Carrying amount at 31 December 2020 (Note 4)</b>	<b>87.7</b>	<b>206.4</b>	<b>726.4</b>	<b>1,828.1</b>	<b>0.3</b>	<b>70.8</b>	<b>3.1</b>	<b>2,922.7</b>
<b>Changes occurred in 2021</b>								
Additions (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)
Acquisition of business (Note 36)	0.1	0.4	13.6	11.4	-	1.0	0.3	26.8
Effects on 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)	-
<b>Total changes occurred in 2021</b>	<b>0.1</b>	<b>(7.0)</b>	<b>37.6</b>	<b>(38.6)</b>	<b>1.4</b>	<b>66.3</b>	<b>42.8</b>	<b>102.6</b>
<b>Property, plant and equipment as at 31 December 2021</b>								
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)
<b>Carrying amount at 31 December 2021 (Note 4)</b>	<b>87.8</b>	<b>199.4</b>	<b>764.0</b>	<b>1,789.5</b>	<b>1.7</b>	<b>137.1</b>	<b>45.9</b>	<b>3,025.4</b>

During 2020, the Group has invested EUR 43 million in the acquisition of the land plot of the depleted Tootsi Suursoo peat bog in order to move on with the development of the Tootsi Windpark OÜ wind farm and thus increase the Group's renewable energy production capacities.

During 2021, the Group has invested EUR 95.1 million in connections to the electricity grid to increase the grids reliability; EUR 50.1 million in the construction of a new Enefit 280-2 oil plant; EUR 9.3 million in the development of Šilale II wind farm; EUR 8.3 million in the wind turbines of the Akmene wind farm; EUR 6.6 million in the development of Purtse wind farm and EUR 7.1 million in the development of Tolpanvaara wind farm.

Assets are tested for impairment when there is a reason to assume that they are at risk of impairment or due to a material goodwill balance associated with a specific cash generating unit. Based on an assessment made in 2021 the Group concluded that assets requiring impairment testing included Eesti Energia's hybrid generating units, wind farms and the assets of Enefit American Oil (2020: Auvere power plant, hybrid generating units, oil shale-fired generating units, wind farms and assets of Enefit American Oil).

The main indications of possible impairment were the high volatility of electricity and emission allowance prices, as the value of power plant assets is sensitive to both. Wind farms have been tested for impairment due to goodwill balances associated with the given cash generating units.

The volatility of the electricity price and its sharp rise in the second half of 2021 was attributable to record-high natural gas and CO<sub>2</sub>

emission allowance prices as well as the lower than average level of the Nordic hydro reservoirs. Emission allowance prices followed a continuously rising trend in 2021. The main factor that triggered the surge in prices at the end of the year was a sharp rise in the price of natural gas. Emission allowance prices are closely linked to the European Union's climate policy, there are different visions of the possible development of the emissions trading market and, therefore, analysts' forecasts of the price of emission allowances differ 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 2021 impairment indicators have been identified only for the assets related to the power plants' hybrid generating units.

At 31 December 2021, the carrying amount of the assets of the hybrid generating units was EUR 123.0 million (31 December 2020: EUR 131.7 million). The recoverable amount of the assets was estimated based

on their value in use. 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 7.5% (2020: 7.5%). A 1 percentage point increase in the discount rate would have an impact of EUR 8 million on the assets' recoverable amount, in which case the assets' value in use would still exceed their carrying amount (2020: the impact of a 1 percentage point increase in the discount rate was up to EUR 35 million, the carrying amount of the assets would have exceeded their value in use by up to EUR 33 million).

The recoverable amount of the assets of the hybrid generating units is sensitive to changes in electricity and emission allowance prices (2020: changes in electricity, emission allowance prices, changes in oil shale price and changes in expected subsidy for the use of biofuels). The market price of electricity was forecast by relying on both a third party expert's estimates and the projections made based on relevant forward prices. From 2023, an electricity price forecast in the range of 69 EUR/MWh to 87 EUR/MWh has been used (2020: electricity price forecast in the range of 48 EUR/MWh to 68 EUR/MWh was used). In 2020, it was additionally assumed that from 2023 the price levels in the Estonian and the neighbouring electricity markets would gradually equalise.

If the forecast electricity prices decrease by 20% compared to the levels estimated in the impairment test (2020: If the assumption regarding equalisation did not apply and the market price of electricity was forecast relying on forward prices) then the recoverable amount of the assets of the hybrid generating units would be EUR 237 million lower (2020: EUR 539 million lower) and the assets' carrying amount would exceed their value in use by EUR

123 million (2020: EUR 131.7 million). For electricity price sensitivity, an electricity price forecast in the range of 55 EUR/MWh to 70 EUR/MWh has been used (2020: electricity price forecast in the range of 40 EUR/MWh to 68 EUR/MWh was used). Due to the Group's sales strategy according to which it strives to sell more electricity during peak hours, the average quarterly sales price achieved by the Group in 2021 was 5%-18% (2020: 8-38%) higher than the Nord Pool Spot price in the Estonia price area. The Group plans to pursue the same strategy in subsequent years. The test was performed taking into account the expected impacts of the following years' hedging transactions.

The market price of emission allowances was forecast by relying on both a third party expert's estimates and the projections made based on relevant forward prices (2020: The market price of emission allowances was forecast for the near term based on relevant forward prices and thereafter assuming that from 2026 the price would increase at the rate of 2.0% per year). From 2023, an emission allowances price forecast in the range of 63 EUR/tonnes to 81 EUR/tonnes has been used (2020: emission allowances price forecast in the range of 28 EUR/tonnes to 34 EUR/tonnes was used). If the forecast prices for emission allowances increase by 20% compared to the levels estimated in the impairment test (2020: If the assumption about the emission allowance price did not apply and the price of emission allowances was forecast assuming similar price increase as during 2020) then the recoverable amount of the assets would be up to EUR 141 million lower (2020: EUR 140 million lower) and the carrying amount of the assets would exceed their value in use by EUR 31 million (2020: exceed by EUR 131.7 million). For an emission allowances price sensitivity, an emission allowances price

forecast in the range of 79 EUR/tonnes to 97 EUR/tonnes has been used (2020: emission allowances price forecast in the range of 34 EUR/tonnes to 41 EUR/tonnes was used).

As at 31 December 2021 no indicators of impairment were identified for the Auvere power plant (in 2020 impairment indicators had been identified). In 2020, the recoverable amount of the assets was estimated based on their value in use, the test indicated a need for reversing the previously recognised impairment loss to the extent of EUR 36.1 million. In 2020, the expected future cash flows were discounted using a discount rate of 7.5%. A 1 percentage point increase in the discount rate would have an impact of EUR 97 million on the assets' value in use, in which case the assets' value in use would still exceed their carrying amount.

The results of the impairment test performed on the assets of the oil shale-fired generating units in 2020 indicated a need for recognising an impairment loss. The assets were written down by EUR 23.0 million and their carrying amount at the end of 2020 was zero. In 2021, no need for reversing the impairment loss was identified.

#### **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 (2020: did not indicate a need for recognising an impairment loss). The expected future cash flows were discounted using a discount rate of 5.7% for wind farms in Lithuania and 4.7% for wind farms in Estonia (2020: the same). 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 (disclosed in the section of hybrid generating units of the Eesti and Balti power plants). The assets of wind farms are most sensitive to changes in the electricity price. If the forecast electricity prices decrease by 20% compared to the levels estimated in the impairment test (2020: If the assumption regarding equalisation did not apply and the market price of electricity was forecast relying on forward prices) then the recoverable amount of the assets of wind farms in Estonia and Lithuania would be EUR 62 million and 53 million lower, respectively, in which case the assets' value in use would still exceed their carrying amount (2020: the impairment loss would have been EUR 21 million for wind farms in Estonia and EUR 29 million for wind farms in Lithuania). The recoverable amounts of wind farms were estimated taking into account the goodwill allocated to them.

#### **Impairment tests performed on the assets of the Tootsi and Sopi wind farm development projects**

By the end of 2021, no impairment indicators were identified for the Tootsi and Sopi wind farm development project (in 2020 impairment indicators had been identified). In 2020, the recoverable amounts of the Tootsi wind farm development project was estimated based on its value in use. 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 5.5%. The impairment test was performed using the same price assumptions as in the above tests. If the assumption regarding equalisation did not apply in 2020 and the market price of electricity was forecast relying on forward prices then the effect on the recoverable amount of the assets would have been EUR 138 million lower but the value in use of the assets would still exceed their carrying amount.

### Impairment test performed on the assets of Enefit American Oil

In 2021, 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 (2020: the test did not indicate a need for recognising an impairment loss or reversing a previously recognised impairment loss). The recoverable amount of the assets of Enefit American Oil was estimated using the same methodology as in 2020 when the assets were remeasured to the value of the land. For that purpose, the average price of similar size plots of land which were for sale in Utah state in the vicinity (20 miles) of Vernal area was found (level 3 input). The valuation is based on an analysis prepared by Hard Rock Consulting LLC in 2015 with up to date prices of land plots for 2021 and 2020.

### Buildings and facilities leased out under operating lease terms

in million EUR	31 DECEMBER	
	2021	2020
Cost	6.3	6.3
Accumulated depreciation at the beginning of the financial year	(4.6)	(4.5)
Depreciation charge	(0.1)	(0.1)
<b>Net book amount</b>	<b>1.6</b>	<b>1.7</b>

Assets which have been leased out are used partly in operating activities and partly for earning 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. In preparing the Group's consolidated financial statements, the 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 parties that are related to the entity because the state has control, joint control or significant influence over a such party.

### Transactions with associates

in million EUR	1 JANUARY – 31 DECEMBER	
	2021	2020
Purchase of goods	10.2	8.2
Purchase of services	2.1	1.7
Proceeds from sale of services	0.3	0.5
Purchase of property, plant and equipment	-	0.3
Loans granted	-	0.1
Dividends received	2.3	2.8
Capital contributions made	9.2	4.3

### Transactions with entities over which the members of Supervisory and Management Board have significant influence

in million EUR	1 JANUARY – 31 DECEMBER	
	2021	2020
Purchases of goods and services	0.6	0.6

The sales of electricity, network services and heat to the entities over which the state has control or significant influence have taken place under normal business activity. 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	
	2021	2020
Purchase of services	78.0	75.3
Purchase of goods	23.5	14.2
Purchase of property, plant and equipment and prepayments	2.1	1.4
Sale of goods and services	19.0	2.4
Renewable energy grant (Note 27)	29.4	33.3

Transactions with Elering AS result from regular business activities (e.g. the purchase and sale of electricity and associated network grid services) that take place on market conditions and are not secured.

### Receivables from Elering AS and payables to Elering AS

in million EUR	31 DECEMBER	
	2021	2020
Receivables (Note 14)	4.6	1.9
Payables (Note 23)	9.1	21.4

The group receives free of charge gas emission allowances from the Republic of Estonia Environmental Board who acts as the national administrator on the basis of a decision of the European Commission. The quantities of free allowances received together with the fair value of these emissions, taking into account the market price of the emissions on 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. Expected credit loss from receivables from associates was recognised in the current period of EUR 0.1 million (2020: no expected credit loss recognised). See details regarding the underlying loan from Note 14.

Upon premature termination of the service contract with a member of the Management Board, the service contracts stipulate the payment of 3 months' remuneration as a termination benefit.

In purchasing and selling network services, 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
<b>Intangible assets as at 31 December 2019</b>							
Cost	26.2	43.9	9.8	2.7	2.1	22.6	107.3
Accumulated amortisation	-	(36.4)	-	(1.0)	-	(0.7)	(38.1)
<b>Carrying amount at 31 December 2019</b>	<b>26.2</b>	<b>7.5</b>	<b>9.8</b>	<b>1.7</b>	<b>2.1</b>	<b>21.9</b>	<b>69.2</b>
<b>Changes occurred in 2020</b>							
Additions (Note 5)	-	0.9	2.9	-	0.2	8.0	12.0
Internally developed intangible assets (Note 5)	-	-	4.3	-	-	-	4.3
Amortisation charge and write-downs (Notes 5 and 33)	-	(2.2)	(0.5)	-	-	(0.2)	(2.9)
Effects on movements in foreign exchange rates	-	-	-	-	(0.1)	(1.8)	(1.9)
Transfers	-	1.1	(1.1)	-	-	-	-
<b>Total changes occurred in 2020</b>	<b>-</b>	<b>(0.1)</b>	<b>5.6</b>	<b>-</b>	<b>0.1</b>	<b>6.0</b>	<b>11.6</b>
<b>Intangible assets as at 31 December 2020</b>							
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)
<b>Carrying amount at 31 December 2020</b>	<b>26.2</b>	<b>7.4</b>	<b>15.4</b>	<b>1.7</b>	<b>2.2</b>	<b>27.9</b>	<b>80.8</b>
<b>Changes occurred in 2021</b>							
Additions (Note 5)	-	0.9	5.8	-	-	-	6.7
Internally developed intangible assets	-	-	-	-	-	-	-
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
Acquisition of business (Note 36)	-	0.1	-	-	-	0.9	1.0
Transfers	-	11.9	(11.9)	-	-	-	-
<b>Total changes occurred in 2021</b>	<b>-</b>	<b>9.1</b>	<b>(6.1)</b>	<b>(0.3)</b>	<b>0.1</b>	<b>2.6</b>	<b>5.4</b>
<b>Intangible assets as at 31 December 2021</b>							
Cost	26.2	57.0	9.3	2.6	2.3	30.5	127.9
Accumulated amortisation	-	(40.5)	-	(1.2)	-	-	(41.7)
<b>Carrying amount at 31 December 2021</b>	<b>26.2</b>	<b>16.5</b>	<b>9.3</b>	<b>1.4</b>	<b>2.3</b>	<b>30.5</b>	<b>86.3</b>

During 2020, the Group had finalised the acquisition of the Tolpanvaara Wind Farm OY development project, which is ready for construction.

## GOODWILL

### Allocation of goodwill to cash generating units

in million EUR	31 DECEMBER	
	2021	2020
Goodwill acquired on acquisition of Nelja Energia	19.9	19.9
Goodwill acquired on acquisition of Solar Parks in Poland	2.8	2.8
Others	3.5	3.5
<b>Total goodwill</b>	<b>26.2</b>	<b>26.2</b>

Goodwill was tested for impairment as at the reporting date by estimating the recoverable amount of goodwill acquired in business combinations based on the discounted future period cash flows for each cash generating unit. The Group did not identify a need for recognising an impairment loss. The recoverable amounts of the cash generating units were estimated based on value in use. Cash flows for all the tested units have been projected until the end of the useful life of a respective cash generating unit. The longer period is justified as all cash-generating units receive renewable energy subsidies for a certain period of time arising from the respective local laws. Incorporating these subsidies into the terminal year cash flows of each cash-generating unit would therefore not give an objective result.

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 4.7% for Estonian wind parks and 5.7% for Lithuanian wind parks (2020: 4.7% for Estonian wind parks and 5.7% for Lithuanian wind parks). Other cash generating units to which goodwill was allocated were discounted using a discount rate of 5.9% (2020: 5.9%-7.0%).

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 heading "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 rights acquired in the state of Utah required for the initiation of mining activities, such as surface land rights, subsurface mineral rights, waters rights etc, 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 park on the designated land area. The expected useful life of the wind farm is 30 years and currently the asset is not yet amortised. The expected completion date of the wind farm is 2024.

## 9. RIGHT-OF-USE ASSETS

in million EUR	Land	Office space	Total
<b>Cost at 31 December 2019</b>	2.9	-	2.9
Accumulated depreciation	(0.2)	-	(0.2)
<b>Carrying amount at 31 December 2019</b>	<b>2.7</b>	<b>-</b>	<b>2.7</b>
<b>Changes occurred in 2020</b>			
Termination of lease contracts	(0.4)	-	(0.4)
Depreciation charge	(0.1)	-	(0.1)
Cost at 31 December 2020	2.5	-	2.5
Accumulated depreciation	(0.3)	-	(0.3)
<b>Carrying amount at 31 December 2020</b>	<b>2.2</b>	<b>-</b>	<b>2.2</b>
<b>Changes occurred in 2021</b>			
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)
<b>Carrying amount at 31 December 2021</b>	<b>2.7</b>	<b>6.8</b>	<b>9.5</b>

The consolidated income statement includes the following amounts relating to lease contracts:

in million EUR	2021	2020
Interest expense	0.3	0.1
Rental expense (Note 30)	4.7	5.0

## 10. INVESTMENTS IN ASSOCIATES

Set out below are the associates of the Group as at 31 December 2021 and 31 December 2020 which, in the opinion of the 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	
		2021	2020			2021	2020
Orica Eesti OÜ*	Estonia	35.0%	35.0%	Note 1	Equity	3.5	3.5
Enefit Jordan B.V. Group	Jordan, Estonia	65.0%	65.0%	Note 2	Equity	-	-
Attarat Mining Co BV**	the Netherlands, Jordan	10.0%	10.0%	Note 3	Equity	1.2	4.1
Attarat Power Holding Co BV Group**	the Netherlands, Jordan	10.0%	10.0%	Note 3	Equity	48.0	37.8
Attarat Operation & Maintenance Co BV**	the Netherlands, Jordan	10.0%	10.0%	Note 3	Equity	1.6	0.8
Other investments into associates						0.6	0.6
<b>Total investments in associates</b>						<b>54.9</b>	<b>46.8</b>

\* 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 with 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 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 has negative net assets as at 31 December 2021 and 31 December 2020. Loans to Enefit Jordan B.V have been written off (Note 14).

**Note 3:** Attarat Mining Co. BV was established to provide mining services in Jordan. Attarat Operation & Maintenance Co. BV is engaged with 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 gave the Group 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.

## Reconciliation of 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	
	31 DECEMBER		31 DECEMBER		31 DECEMBER		31 DECEMBER		31 DECEMBER	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
in million EUR										
<b>Summarised statement of financial position:</b>										
Cash	0.0	0.1	7.8	7.2	5.7	7.6	4.8	3.9	4.9	12.1
Other current assets	0.3	0.3	3.9	2.4	43.9	45.7	16.4	9.2	21.1	5.7
Fixed assets	-	-	2.0	2.9	2.0	2.1	1,927.9	1,613.2	0.6	0.4
Short-term liabilities	2.2	1.7	3.7	2.4	33.8	18.6	99.5	47.0	19.6	12.9
Long-term liabilities	48.1	38.4	-	-	-	-	1,366.0	1,252.3	-	-
<b>Net assets</b>	<b>(50.0)</b>	<b>(39.7)</b>	<b>10.1</b>	<b>10.1</b>	<b>17.8</b>	<b>36.8</b>	<b>483.6</b>	<b>327.0</b>	<b>7.0</b>	<b>5.2</b>
<b>Summarised statement of comprehensive income:</b>										
Revenue	-	-	19.4	17.0	4.2	47.2	-	-	27.1	32.9
Profit(loss) from continuing operations	(6.6)	(5.5)	4.3	4.1	(23.0)	(3.9)	(7.3)	(7.2)	8.6	14.6
Profit(loss) from discontinued operations	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	35.4	(48.5)	-	-
<b>Movements in equity:</b>										
Summarised net assets of associates at the beginning of the period	(39.7)	(40.3)	10.1	11.1	36.8	44.7	327.0	375.8	5.2	(0.2)
The profit and loss of the subsidiary during the period	(6.6)	(5.5)	4.3	4.1	(23.0)	(3.9)	(7.3)	(7.2)	8.6	14.6
Other comprehensive income	-	-	-	-	-	-	35.4	(48.5)	-	-
Contribution to the share capital	-	-	-	-	-	-	92.1	43.4	-	-
Dividends declared	-	-	(4.3)	(5.1)	-	-	-	-	(7.5)	(9.2)
Exchange rate impact	(3.7)	6.1	-	-	4.0	(4.0)	36.4	(36.5)	0.7	0.0
<b>Summarised net assets of associates at the end of the period</b>	<b>(49.7)</b>	<b>(39.7)</b>	<b>10.1</b>	<b>10.1</b>	<b>17.8</b>	<b>36.8</b>	<b>483.6</b>	<b>327.0</b>	<b>7.0</b>	<b>5.2</b>

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	
	31 DECEMBER		31 DECEMBER		31 DECEMBER		31 DECEMBER		31 DECEMBER	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
in million EUR										
<b>Reconciliation to carrying amounts:</b>										
Interest in associates (calculated based on Group's share in respective associates)	(32.5)	(25.8)	3.5	3.5	1.8	3.7	48.4	32.7	0.7	0.5
Other adjustments	-	-	-	-	(0.6)	0.4	(0.4)	3.7	0.9	0.3
Notional goodwill	12.3	12.3	-	-	-	-	-	-	-	-
Group's share in negative net assets not recognised by the Group using the equity method	20.2	13.5	-	-	-	-	-	1.4	-	-
<b>Carrying amount at the end of the period</b>	-	-	3.5	3.5	1.2	4.1	48.0	37.8	1.6	0.8

### 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	
	2021	2020
<b>Aggregate carrying amount of individually immaterial associates</b>	0.6	0.6
<b>Aggregate amounts of the Group's share of:</b>		
Profit from continuing operations	0.2	0.1
Profit from discontinued operations	-	-
Other comprehensive income	-	-

## 11. PRINCIPAL SUBSIDIARIES

The Group had the following subsidiaries as at 31 December 2021 and 31 December 2020.

Name	Country of incorporation	Nature of business	Proportion of ordinary shares held by the Group (%)		Proportion of ordinary shares held by non-controlling interests (%)	
			31 DECEMBER		31 DECEMBER	
			2021	2020	2021	2020
Elektrilevi OÜ	Estonia	Network operator	100.0	100.0	-	-
Imatra Elekter AS	Estonia	Network operator	100.0	-	-	-
Enefit Power AS	Estonia	Production of electrical energy, 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, energy industry machinery and other industrial equipment	100.0	100.0	-	-
Enefit Green AS	Estonia	Establishment and operation of wind farms	77.2	100.0	22.8	-
Attarat Holding OÜ	Estonia	Holding	100.0	100.0	-	-
Enefit Outotec Technology OÜ	Estonia and Germany	Developing and licensing 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	100.0	22.8	-
Tootsi Tuulepark OÜ	Estonia	Development of wind farms	77.2	100.0	22.8	-
Enefit Wind OÜ	Estonia	Production of electrical energy	77.2	100.0	22.8	-
Enefit Wind Purtse AS	Estonia	Development of wind farms	77.2	-	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	100.0	100.0	-	-
Enefit SIA	Latvia	Selling electricity to end consumers	100.0	100.0	-	-
Enefit Power & Heat Valka SIA	Latvia	Production and sale of heat and electrical energy	77.2	100.0	22.8	-
Enercom SIA	Latvia	Development of wind farms	77.2	100.0	22.8	-
Technological Solutions SIA	Latvia	Cogeneration plant	77.2	100.0	22.8	-
Enefit Green SIA (until 08.02.2021 Pellet 4Energia SIA)	Latvia	Production of pellets	77.2	100.0	22.8	-
4ENERGIA SIA	Latvia	Management services	77.2	100.0	22.8	-

Name	Country of incorporation	Nature of business	Proportion of ordinary shares held by the Group (%)		Proportion of ordinary shares held by non-controlling interests (%)	
			31 DECEMBER		31 DECEMBER	
			2021	2020	2021	2020
Enefit UAB	Lithuania	Selling electricity to end consumers	100.0	100.0	-	-
Enefit Wind UAB	Lithuania	Production of electrical energy	77.2	100.0	22.8	-
Enefit Green UAB	Lithuania	Establishment and operation of wind farms	77.2	100.0	22.8	-
Šilalės vėjas UAB	Lithuania	Development of wind farms	77.2	100.0	22.8	-
Šilutės vėjo parkas 2 UAB	Lithuania	Development of wind farms	77.2	100.0	22.8	-
Šilutės vėjo parkas 3 UAB	Lithuania	Development of wind farms	77.2	100.0	22.8	-
Energijos Žara	Lithuania	Development of wind farms	77.2	100.0	22.8	-
Vėjo Parkai UAB	Lithuania	Development of wind farms	77.2	100.0	22.8	-
Vejoteka UAB	Lithuania	Development of wind farms	77.2	-	22.8	-
Kelmes vejo energija UAB	Lithuania	Development of wind farms	77.2	-	22.8	-
4Energia UAB	Lithuania	Management services	-	100.0	-	-
Baltic Energy Group UAB	Lithuania	Research related to the development of the offshore wind farm	77.2	100.0	22.8	-
Enefit U.S., LLC	USA	Holding	100.0	100.0	-	-
Enefit American Oil Co.	USA	Developing of liquid fuels production	100.0	100.0	-	-
Enefit Sp. z o.o.	Poland	Selling electricity to end consumers	100.0	100.0	-	-
Enefit Green sp z.o.o	Poland	Production of electrical energy from sun	77.2	100.0	22.8	-
Cirrus sp z.o.o	Poland	Production of electrical energy from sun	77.2	100.0	22.8	-
Velum sp z.o.o	Poland	Production of electrical energy from sun	77.2	100.0	22.8	-
Incus sp z.o.o	Poland	Production of electrical energy from sun	77.2	100.0	22.8	-
Humilis sp z.o.o	Poland	Production of electrical energy from sun	77.2	100.0	22.8	-
Energy Solar 15 sp z.o.o	Poland	Production of electrical energy from sun	77.2	100.0	22.8	-
PV Sielec Sp. z o.o.	Poland	Production of electrical energy from sun	77.2	100.0	22.8	-
PV Plant Zambrow Sp. z o.o.	Poland	Development of solar parks	77.2	100.0	22.8	-
PV Plant Debnik Sp. z o.o.	Poland	Development of solar parks	77.2	100.0	22.8	-
Enefit AB	Sweden	Management services	100.0	100.0	-	-
Enefit OY	Finland	Selling electricity to end consumers	100.0	100.0	-	-
Tolpanvaara Wind Farm Oy	Finland	Development of wind farms	77.2	100.0	22.8	-

In October 2021, the initial public offering (“IPO”) of the shares of the subsidiary Enefit Green AS was carried out, as a result of which the subsidiary issued 34,482,759 new shares and Eesti Energia AS reduced its ownership by selling additional 25,862,068 shares. The selling price of the shares during the IPO was 2.9 euros per share. As a result of the transaction, Eesti Energia AS received EUR 75.0 million and the subsidiary itself received EUR 100.0 million for the newly issued shares (excluding the costs associated with the issue). The total amount of costs associated with the issue were EUR 8.8 million, which has been recognised as a reduction on the line of “Retained earnings”. Issue costs (incl. financial advisory costs, legal audit and advisory costs, etc.) have been assessed by the Group as capitalisable, as the realisation of these costs was an unavoidable precondition for the issue to take place.

In total, the Group received EUR 175.0 million from the partial disposal of the shares in its subsidiary. The Group accounted non-controlling interest in the amount of EUR 138.5 million taking into account the proportion of shares owned by the non-controlling interest and the net assets of the subsidiary on the transaction date. The difference between the amount by which the non-controlling interests were adjusted and the fair value of the consideration received (EUR 36.5 million) was recognised directly in equity, on the line “Retained earnings”. This amount has been adjusted with the total amount of costs associated with the issue (EUR 8.8 million).

As a result of the public offering, the number of shares issued by the subsidiary ended up at 264,276,232 and the ownership of Eesti Energia AS is 77.17%. As of 21 October 2021, the shares of Enefit Green AS were listed on the main list of Nasdaq OMX Baltic.

On 10 March 2021 Eesti Energia AS's fully owned subsidiary Elektrilevi OÜ as the buyer, and Imatra FNW OY and the minority shareholders as the sellers, entered into a Share Purchase Agreement regarding all the shares in Imatra Elekter AS, an electricity sales and distribution company in Estonia. The approval for this transaction from the Estonian Competition Authority was received on 29 June 2021. The consideration payable for the 100% of the shares of Imatra Elekter AS amounts to EUR 29.8 million. The acquisition was finalized on 23 July 2021. See additional information from Note 36.

On 26 November 2020, Eesti Energia AS fully owned subsidiary Enefit Green AS as the buyer and Tipu Grupp OÜ as the seller entered into a Share Purchase Agreement regarding all the share in Raunistal AS (renamed on 3 March 2021 as Enefit Wind Purtse AS), a wind farms development company in Estonia. The consideration payable for the 100% of the shares of Raunistal AS amounts to EUR 6.5 million. This transaction was accounted as an acquisition of assets as the definition of a business combination was not met. The Agreement signed on the 26 November 2020 obligated the Seller (Tipu Grupp) to fulfil certain condition precedents (suspensive conditions) before the share purchase of Raunistal would be effectuated. The Seller fulfilled its condition precedents in February 2021, after which the share purchase of Raunistal shares was completed and Enefit Green AS became the sole owner of Raunistal AS on 1 March 2021.

On 16 September 2021 Enefit Green AS' fully owned subsidiary Enefit Green UAB as the buyer and New Energy Group UAB as the seller entered into a Share Purchase Agreement regarding all the shares in Vējoteka UAB and Kelmēs vējo energija UAB, wind farm development

companies in Lithuania. The consideration payable for the 100% of the shares of Vējoteka UAB and Kelmės vējo enerģija UAB amounted in total to EUR 0.2 million. This transaction was accounted as an acquisition of assets as the definition of a business combination was not met.

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held. The parent company does not have any shareholdings in the preference shares of subsidiary undertakings included in the Group.

### Significant restrictions

Until the investments of the network operator (Elektrilevi OÜ) do not exceed the limits of the approved financing plan, according to the Electricity Market Act of Estonia, 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 SIGNIFICANT SUBSIDIARY WITH A NON-CONROLLING 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
<b>Summarised statement of financial position</b>	<b>31.12.2021</b>
Cash	80.5
Trade and other receivables	22.4
Inventories	9.5
<b>Total current assets</b>	<b>112.4</b>
<b>Total non-current assets</b>	<b>705.3</b>
<b>Total current liabilities</b>	<b>43.9</b>
<b>Total non-current liabilities</b>	<b>140.1</b>
<b>Total liabilities</b>	<b>184.0</b>
Equity	633.6
Non-controlling interest %	22,83%
Non-controlling interest	144.7
<b>Summarised statement of comprehensive income</b>	<b>01.01-31.12.2021</b>
Revaluation of hedging instruments net of reclassifications to profit or loss	(12.4)
Exchange differences on the translation of foreign operations	(0.1)
Net profit for the period	79.7
Comprehensive income for the period	67.1
<b>Summarised cash flow statement</b>	<b>01.01-31.12.2021</b>
Total cash flow from operating activities	117.2
Total cash flows from investing activities	(74.7)
Total cash flows from financing activities	27.2
Change in cash and cash equivalents	69.7

The profit allocated to non-controlling interests of the subsidiary during the reporting period (starting from 21 October 2021) is EUR 6.9 million. The accumulated non-controlling interests of the subsidiary as at 31 December 2021 is EUR 145.4 million.

## 12. INVENTORIES

in million EUR	31 DECEMBER	
	2021	2020
<b>Raw materials and materials at warehouses</b>	61.8	54.1
<b>Work-in-progress</b>		
Stored oil shale	40.7	51.7
Stripping works in quarries	1.6	1.6
Other work-in-progress	0.2	-
<b>Total work-in-progress</b>	<b>42.5</b>	<b>53.3</b>
<b>Finished goods</b>		
Shale oil	6.5	3.0
Pellets	2.8	6.5
Other finished goods	0.4	0.5
<b>Total finished goods</b>	<b>9.7</b>	<b>10.0</b>
<b>Prepayments to suppliers</b>	<b>0.1</b>	<b>-</b>
<b>Total inventories (Notes 33)</b>	<b>114.1</b>	<b>117.4</b>

There were no inventory write-downs in the reporting period (in 2020: EUR 0.3 million).

Inventories recognised as an expense during the year ended 31 December 2021 amounted to EUR 144.7 million (2020: EUR 96.6 million).

## 13. FINANCIAL INSTRUMENTS BY CATEGORY

in million EUR	Assets measured at amortised cost	Financial assets at fair value through profit or loss	Derivatives for which hedge accounting is applied	Total
<b>As at 31 December 2021</b>				
<b>Financial asset items in the statement of financial position</b>				
Trade and other receivables excluding prepayments (Notes 3.1, 14 and 16)	322.2	-	-	322.2
Derivative financial instruments (Notes 3.1, 3.3, 15 and 16)	-	139.8	208.0	347.8
Cash and cash equivalents (Notes 3.1, 3.2, 16 and 18)	198.0	-	-	198.0
<b>Total financial asset items in the statement of financial position</b>	<b>520.2</b>	<b>139.8</b>	<b>208.0</b>	<b>868.0</b>
<b>As at 31 December 2020</b>				
<b>Financial asset items in the statement of financial position</b>				
Trade and other receivables excluding prepayments (Notes 3.1, 14 and 16)	194.9	-	-	194.9
Derivative financial instruments (Notes 3.1, 3.3, 15 and 16)	-	20.3	35.1	55.4
Cash and cash equivalents (Notes 3.1, 3.2, 16 and 18)	166.9	-	-	166.9
<b>Total financial asset items in the statement of financial position</b>	<b>361.8</b>	<b>20.3</b>	<b>35.1</b>	<b>417.2</b>

in million EUR	Liabilities measured at amortised cost	Liabilities at fair value through profit or loss	Derivatives for which hedge accounting is applied	Total
<b>As at 31 December 2021</b>				
<b>Financial liability items in the statement of financial position</b>				
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
<b>Total financial liability items in the statement of financial position</b>	<b>1,097.1</b>	<b>75.2</b>	<b>78.7</b>	<b>1,251.0</b>
<b>As at 31 December 2020</b>				
<b>Financial liability items in the statement of financial position</b>				
Borrowings (Notes 3.1, 3.2 and 22)	1,014.4	-	-	1,014.4
Trade and other payables (Notes 3.1 and 23)	189.1	-	-	189.1
Derivative financial instruments (Notes 3.1, 3.3 and 15)	-	12.9	1.8	14.7
<b>Total financial liability items in the statement of financial position</b>	<b>1,203.5</b>	<b>12.9</b>	<b>1.8</b>	<b>1,218.2</b>

## 14. TRADE AND OTHER RECEIVABLES

in million EUR	31 DECEMBER	
	2021	2020
<b>Current trade and other receivables</b>		
<b>Trade receivables</b>		
Accounts receivable	290.0	137.6
Allowance for expected credit loss	(1.8)	(1.6)
<b>Total trade receivables</b>	<b>288.2</b>	<b>136.0</b>
<b>Accrued income</b>		
Other accrued income	2.7	2.4
<b>Total accrued income</b>	<b>2.7</b>	<b>2.4</b>
Prepayments	15.5	12.5
Cash restricted from being used	29.8	55.1
Other receivables	0.4	0.2
<b>Total current trade and other receivables</b>	<b>336.6</b>	<b>206.1</b>
<b>Non-current receivables</b>		
Loan receivables from associates (Note 7)	11.7	10.8
Allowance for expected credit loss on loan receivables (Note 7)	(11.7)	(10.7)
Other non-current receivables	1.1	1.2
<b>Total non-current receivables</b>	<b>1.1</b>	<b>1.3</b>
<b>Total trade and other receivables (Note 3.1)</b>	<b>337.7</b>	<b>207.4</b>

The loan provided to the associate of Enefit Jordan B.V. Group is based on the 2011 agreement issued in US dollars; has an underlying interest rate of 15% a year and an indefinite repayment date. No interest income has been recognised by the Group, as its collectability is not probable. See also Note 10.

Financial resources that are held on accounts of different financial partners as a guarantee for the derivative transactions are presented as "cash restricted from being used".

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 in euros. Information about the credit quality of the receivables is disclosed in Note 16.

in million EUR	31 DECEMBER	
	2021	2020
<b>Accounts receivable not yet due (Note 16)</b>	<b>260.0</b>	<b>127.8</b>
<b>Accounts receivable due but not classified as doubtful</b>		
1-30 days past due	14.7	5.6
31-60 days past due	1.1	1.0
61-90 days past due	0.8	0.4
<b>Total accounts receivable due but not classified as doubtful</b>	<b>16.6</b>	<b>7.0</b>
<b>Accounts receivable written partially down</b>		
3-6 months past due	3.9	0.7
more than 6 months past due	9.5	2.1
<b>Total accounts receivable that are more than 3 months past due</b>	<b>13.4</b>	<b>2.8</b>
<b>Total accounts receivable</b>	<b>290.0</b>	<b>137.6</b>

Total accounts receivable that are more than 3 months past due as at 31 December 2021 have been received in the amount EUR 9.1 million as at 10 March 2022.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of

sales over a period of 36 month before 31 December 2021 or 31 December 2020 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The credit quality of the receivables has been assessed as high by the management and in line with the historical trends (2021: EUR 0.9 million; 2020: EUR 1.5 million, 2019: EUR 0.5 million, 2018: EUR 0.2 million, 2017: EUR 0.4 million, 2016: EUR 0.6 million).

On that basis described above, the loss allowance as at 31 December 2021 and 31 December 2020 are determined as immaterial. The Group has identified the expected credit losses of the trade receivables not yet due and until 90 days past due and 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 2021 and as at 31 December 2020.

Under the accounting policies of the Group, receivables 90 days past due are usually written down in full. The total amount of allowance for receivables 90 days past due is adjusted using prior experience of how many of the receivables classified as doubtful are collected in a later period and how many of the receivables not more than 90 days past due are not collected in a later period. Also, other individual and

extraordinary impacts like the global economic recession are taken into account during 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	
	2021	2020
<b>Allowance for expected credit losses at the beginning of the period</b>	(1.6)	(2.5)
Items considered doubtful and doubtful items collected during the period	(1.1)	(0.6)
Items written off as uncollectible	0.9	1.5
<b>Allowance for expected credit losses at the end of the period</b>	<b>(1.8)</b>	<b>(1.6)</b>

The other receivables do not contain any impaired assets.

## 15. DERIVATIVE FINANCIAL INSTRUMENTS

in million EUR	31 DECEMBER 2021		31 DECEMBER 2020	
	Assets	Liabilities	Assets	Liabilities
Forward- and future contracts for buying and selling electricity as cash flow hedges	193.7	2.5	7.3	0.3
Forward- and future contracts for buying and selling electricity as trading derivatives	87.3	4.3	11.8	2.0
Swap and future contracts for buying and selling gas cash flow hedges	12.5	-	2.4	-
Swap and future contracts for buying and selling gas as trading derivatives	52.3	51.9	8.4	8.2
Swap and forward contracts for selling fuel oil as cash flow hedges	1.8	76.2	25.4	1.5
Swap and forward contracts for selling fuel oil as trading derivatives	-	18.8	0.1	2.2
Other derivatives	0.2	0.2	-	0.5
<b>Total derivative financial instruments (Notes 3.1, 3.3, 13, 16 and 21)</b>	<b>347.9</b>	<b>153.9</b>	<b>55.4</b>	<b>14.7</b>
<b>including non-current portion:</b>				
Forward- and future contracts for buying and selling electricity as cash flow hedges	105.9	0.2	1.0	0.1
Forward contracts for buying and selling electricity as trading derivatives	76.6	0.3	10.9	0.3
Swap and future contracts for buying and selling gas as cash flow hedges	3.2	-	0.1	0.1
Swap and future contracts for buying and selling gas as trading derivatives	0.2	-	2.5	2.6
Swap and forward contracts for selling fuel oil as cash flow hedges	1.7	29.4	9.1	0.8
Swap and forward contracts for selling fuel oil as trading derivatives	-	7.9	0.1	0.5
<b>Total non-current portion</b>	<b>187.6</b>	<b>37.8</b>	<b>23.7</b>	<b>4.4</b>
<b>Total current portion</b>	<b>160.2</b>	<b>116.1</b>	<b>31.7</b>	<b>10.3</b>

## 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 clients and other parties to the contract.

in million EUR	31 DECEMBER	
	2021	2020
<b>Trade receivables</b>		
Receivables from new clients (client relationship shorter than 6 months)	8.5	20.6
Receivables from existing clients (client relationship longer than 6 months), who in the last 6 months have not exceeded the due date	125.7	62.0
Receivables from existing clients (client relationship longer than 6 months), who in the last 6 months have exceeded the due date	155.8	55.0
<b>Total trade receivables (Note 14)</b>	<b>290.0</b>	<b>137.6</b>
<b>Bank accounts</b>		
At banks with Moody's credit rating of Aa3	189.8	97.0
At banks with Moody's credit rating of Aa2	0.7	63.2
At banks with Moody's credit rating of A2	2.1	5.5
At banks with Moody's credit rating of A3	5.4	1.2
<b>Total bank accounts (Notes 3.1, 3.2, 13 and 18)</b>	<b>198.0</b>	<b>166.9</b>

in million EUR	31 DECEMBER	
	2021	2020
<b>Other receivables and accrued income</b>		
Other receivables with Moody's credit rating of Aa3	27.2	-
Other receivables with Moody's credit rating of Aa2	-	13.0
Other receivables through Nasdaq OMX clearing house	-	42.8
Receivables without credit rating from an independent party	6.8	3.1
<b>Total other receivables (Note 14)</b>	<b>34.0</b>	<b>58.9</b>
<b>Derivative financial instruments</b>		
Derivatives with positive value with Moody's credit rating of Aa3	11.4	5.3
Derivatives with positive value with Moody's credit rating of A1	0.5	6.8
Derivatives with positive value with Moody's credit rating of Baa2	36.9	7.8
Derivatives with positive value with Moody's credit rating of Baa1	4.2	17.6
Derivatives with positive value with Moody's credit rating of Caa1	98.1	-
Derivatives with positive value without credit rating from an independent party	196.7	17.9
<b>Derivatives with positive value (Notes 3.1, 3.3, 13 and 15)</b>	<b>347.8</b>	<b>55.4</b>

The Group's cash and cash equivalent balance as at 31 December 2021 were deposited with SEB bank, Swedbank, Danske Bank, Luminor Bank, Nordea Bank, OP Corporate Bank, Svenska Handelsbanken AB, Citibank N.A. New York branch and Zachodni WBK S.A. Bank. As at 31 December 2021, the account balances held with SEB bank in Estonia comprised 47% and with Swedbank in Estonia 44% of the Group's total cash and cash equivalent balance (31 December 2020: the account balances with Swedbank in Estonia comprised 38%, SEB bank in Estonia 30% and Luminor Bank in Estonia 17% of the Group's total cash and cash equivalents balance).

Nasdaq OMX constitutes a clearing house that is subject to official financial regulation, in relation to whom various risk management measures are applied, the most important of which is the requirement for the clearing house members to issue warrants for their liabilities. Also, the requirements for minimum equity amounts are applied on clearing houses and based on that the credit risk is considered.

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 the management the 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 impairment loss.

Derivatives with positive value without a credit rating from an independent party total EUR 196.7 million (31 December 2020: EUR 17.9 million). The balance consists of two large PPA contracts. Group's internal procedures always include assessing the potential counterparty's credit worthiness before entering into a contract.

Even though these counterparties have no external credit risk ratings, they are considered equivalent to high credit rating counterparties, based on the internal assessment performed by the Group. Therefore no material credit risk has been identified in connection with said counterparties. In addition, the credit risk for this balance is partially covered via bank guarantees and other credit support instruments.

## 17. GREENHOUSE GAS ALLOWANCES AND CERTIFICATES OF ORIGIN

in million EUR	31 DECEMBER	
	2021	2020
Greenhouse gas allowances	193.3	75.5
Certificates of origin	15.3	9.8
<b>Total greenhouse gas allowances and certificates of origin</b>	<b>208.6</b>	<b>85.4</b>

### Movements of greenhouse gas allowances

in thousand tonnes, in million EUR	Quantities		31 DECEMBER	
	2021	2020	2021	2020
<b>Greenhouse gas allowances at the beginning of the period</b>	<b>4,625</b>	<b>8,389</b>	<b>75.5</b>	<b>71.9</b>
Acquired	3,992	3,991	194.9	97.0
Sold	(23)	(1,920)	(2.2)	(24.2)
Returned to state for the greenhouse gas emissions (Note 25)	(3,652)	(5,835)	(74.9)	(69.2)
<b>Greenhouse gas allowances at the end of the period</b>	<b>4,942</b>	<b>4,625</b>	<b>193.3</b>	<b>75.5</b>

Greenhouse gas 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 comparative period the following quantities of greenhouse gas emission allowances have been allocated to the Group free of charge:

- in 2020, 981,825 tonnes of free allowances with a fair value\* of EUR 23.8 million, were allocated to the Group;
- in 2021, 905,475 tonnes of free allowances with a fair value\* of EUR 50.3 million were allocated to the Group.

\* the fair value is based on the EUA market price as at the dates of receiving the free allowances.

### Movements of certificates of origin

in million EUR	31 DECEMBER	
	2021	2020
<b>Certificates of origin at the beginning of the period</b>	<b>9.8</b>	<b>4.1</b>
Acquired	12.0	8.2
Surrendered	(6.4)	(2.1)
Effects on movements in foreign exchange rates	(0.1)	(0.4)
<b>Certificates of origin at the end of the period</b>	<b>15.3</b>	<b>9.8</b>

Exchange rate differences of certificates of origin arise from the Group's Polish subsidiary.

## 18. CASH AND CASH EQUIVALENTS

in million EUR	31 DECEMBER	
	2021	2020
Bank accounts	198.0	166.9
<b>Total cash and cash equivalents (Notes 3.1, 3.2, 13 and 16)</b>	<b>198.0</b>	<b>166.9</b>

### Cash and cash equivalents by currencies

in million EUR	31 DECEMBER	
	2021	2020
Euro	186.5	149.6
Polish zloty	6.1	11.7
US dollar	4.1	4.2
Swedish krona	1.3	1.4
<b>Total cash and cash equivalents (Notes 3.1, 3.2, 13 and 16)</b>	<b>198.0</b>	<b>166.9</b>

## 19. SHARE CAPITAL, STATUTORY RESERVE CAPITAL AND RETAINED EARNINGS

As at 31 December 2021, Eesti Energia AS had 746,645,750 registered shares (31 December 2020: 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 the rights of shareholders 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 2021, the Group's statutory reserve capital totalled EUR 75.0 million (31 December 2020: EUR 62.1 million).

As at 31 December 2021 the Group's distributable equity was EUR 1,017.6 million (31 December 2020: EUR 898.4 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 of 14/86 of the net amount. The remaining dividends are subject to a tax rate of 20/80 of the net amount.

If all retained earnings were distributed as dividends, the corporate income tax would amount to EUR 202.2 million (31 December 2020: EUR 178.0 million). It is possible to pay out EUR 815.4 million (31 December 2020: EUR 720.4 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 dividend distributions of its subsidiaries to implement the dividend policy.

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	
	2021	2020
Retained earnings	1,017.6	898.4
Distributable shareholder's equity	1,017.6	898.4
Corporate income tax on dividends if distributed	202.2	178.0
Net dividends available for distribution	815.4	720.4

## 20. DIVIDENDS PER SHARE

In 2021 Eesti Energia AS did not pay dividends to the Republic of Estonia (in 2020 dividends were also not paid).

The Management Board proposed to the Annual Meeting to pay dividends of EUR 0.06 per share for the financial year ended 31 December 2021, totalling EUR 46.7 million. These consolidated financial statements do not reflect this dividend as a liability, as the dividend had not been approved as at 31 December 2021. Corporate income tax expense from the dividends is EUR 9.2 million. These consolidated financial statements reflect this amount as a deferred tax liability as at 31 December 2021. See details from Note 32.

## 21. OTHER RESERVES

in million EUR	31 DECEMBER	
	2021	2020
<b>Other reserves at the beginning of the period (Note 3.1)</b>	40.2	(22.2)
of which hedge reserve at the beginning of the period	34.2	(32.5)
of which currency translation reserve at the beginning of the period	6.0	10.3
Change in fair value of cash flow hedges	231.5	64.4
of which electricity cash flow hedges	317.3	33.0
of which shale oil cash flow hedges	(112.4)	29.0
of which gas cash flow hedges	26.6	2.4
Recognised as an increase/decrease of revenue	3.1	(2.3)
of which recognised as an increase/decrease of revenue of electricity	31.0	(23.3)
of which recognised as an increase/decrease of revenue of shale oil	(27.9)	21.0
Recognised as an increase/decrease of cost of goods sold	(51.1)	-
of which recognised as an increase/decrease of cost of electricity	(34.6)	-
of which recognised as an increase/decrease of cost of gas	(16.5)	-
Currency translation differences attributable to foreign subsidiaries	3.0	(4.3)
Change in associates other comprehensive income	(0.8)	-
<b>Other reserves at the end of the period (Note 3.1)</b>	219.7	40.2
of which hedge reserve at the end of the period	211.5	34.2
of which currency translation reserve at the end 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)	-

## 22. BORROWINGS

### Borrowings measured at amortised cost

in million EUR

	Short-term borrowings			Long-term borrowings				Total
	Bank loans	Bonds issued	Lease liabilities	Bank loans	Bonds issued	Lease liabilities	Other loans	
<b>Borrowings at amortised cost 31 December 2019 (Notes 3.1, 3.2 and 13)</b>	105.1	106.3	0.3	456.3	465.1	2.7	-	1,135.8
<b>Changes occurred in 2020</b>								
<b>Cash movements</b>								
Borrowings received	220.7	-	-	8.3	-	-	-	229.0
Repayments of borrowings	(255.4)	-	(0.3)	-	-	-	-	(255.7)
Redemption of bonds	-	(106.3)	-	-	-	-	-	(106.3)
<b>Non-cash movements</b>								
Transfers	235.1	-	0.2	(235.1)	-	(0.2)	-	-
Accrued interest	-	-	-	(0.1)	9.1	(0.5)	-	8.5
Other movements	-	-	-	-	-	-	3.0	3.0
<b>Total changes occurred in 2020</b>	200.4	(106.3)	(0.1)	(226.9)	9.1	(0.7)	3.0	(121.4)
<b>Borrowings as at 31 December 2020</b>								
<b>Borrowings at amortised cost 31 December 2020 (Notes 3.1, 3.2 and 13)</b>	305.5	-	0.2	229.4	474.2	2.0	3.0	1,014.4
<b>Changes occurred in 2021</b>								
<b>Cash movements</b>								
Borrowings received	130.0	-	-	-	-	-	-	130.0
Repayments of borrowings	(161.6)	-	(1.2)	(40.0)	-	-	-	(202.5)
<b>Non-cash movements</b>								
Initial recognition of lease liability	-	-	0.8	-	-	7.4	-	8.2
Transfers	(106.6)	-	1.0	106.6	-	(1.0)	-	-
Accrued interest	-	-	-	-	9.1	-	-	9.1
Other movements	(0.1)	-	0.2	-	-	0.5	(3.0)	(2.7)
<b>Total changes occurred in 2021</b>	(138.3)	-	0.8	66.6	9.1	6.9	(3.0)	(57.9)
<b>Borrowings as at 31 December 2021</b>								
<b>Borrowings at amortised cost 31 December 2021 (Notes 3.1, 3.2 and 13)</b>	167.2	-	1.0	296.0	483.4	8.9	-	956.5

The 3.0 million payable associated to the acquisition of the Tolpanvaara project according to the agreement between Metsähallitus and Enefit Green AS is payable in 2024 and is reclassified under Other payables, in 2020 reported under Other loans (Note 23).

During 2021, the Group used and paid back liquidity loans to manage corporate cash flows. In addition, during 2021 the Group made scheduled loan repayments of EUR 47.9 million to the European Investment Bank ("EIB"). In 2021, the subsidiary Enefit Green made scheduled loan repayments in the amount of EUR 33.6 million and made a voluntary repayment of a long-term borrowing in the amount of EUR 40.0 million. The repayment date of a loan from Swedbank in the amount of EUR 150.0 million was extended by 3 years to 2024.

During 2020, the Group used and paid back liquidity loans to manage corporate cash flows. In addition, during 2020 the Group made scheduled loan repayments of EUR 18 million to the EIB and redeemed a bond in the amount of EUR 106.3 million. In 2020, Enefit Green AS made scheduled loan repayments in the amount of EUR 37.5 million. As of 31 December 2020, the Group had taken out a liquidity loan of EUR 70.0 million provided by Swedbank, which is reported under current liabilities. In 2020, Enefit Green AS signed a long-term loan agreement with the European Bank for Reconstruction and Development ("EBRD") in the amount of PLN 40 million (EUR 9.0 million) which was also disbursed in full amount.

#### The fair value of bonds and bank loans:

in million EUR	31 DECEMBER	
	2021	2020
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)	518.3	528.3
<b>Nominal value of bank loans with fixed interest rate (Note 3.1)</b>		
	72.9	120.8
<b>Fair value of bank loans with fixed interest rate (Note 3.3)</b>	74.5	123.7
<b>Nominal value of bank loans with floating interest rate (Note 3.1)</b>		
	390.4	414.4
<b>Fair value of bank loans with floating interest rate (Note 3.3)</b>	390.4	414.4

The bonds are denominated in euros and listed on the London Stock Exchange. The fair value of the bonds is based on the input that is within level 1 of the fair value hierarchy.

Management estimates that the fair value of the loans with a floating interest rate at the end of the comparative period does not differ from their carrying amounts as the risk margins have not changed. The fair values of the bank loans with a fixed interest rate are based on discounted cash flows using discount rates between 0.569%-0.657% (2020: 0.369%-0.577%) 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.

### Non-current bank loans at nominal value by maturity

in million EUR	31 DECEMBER	
	2021	2020
< 1 year	167.3	305.5
1 - 5 years	292.3	212.6
> 5 years	3.7	16.8
<b>Total</b>	<b>463.3</b>	<b>534.9</b>

Loans are denominated in euros and Polish zloty (31 December 2020: in euros and Polish zloty). As at 31 December 2021 the interest rates of loans were between 0.4% and 3.1% (31 December 2020: 0.2%-3.1%).

As at 31 December 2021, the weighted average nominal interest rate on bonds and bank loans was 1.69% (31 December 2020: 1.71%).

As at 31 December 2021 the total volume of the Group's bonds were EUR 500.0 million in nominal value with the maturity date in 2023 (31 December 2020: EUR 500.0 million with a maturity date in 2023).

As at 31 December 2021 the Group had undrawn loan facilities of EUR 535.0 million (31 December 2020: EUR 520.0 million).

### Weighted average effective interest rates of borrowings

in million EUR	31 DECEMBER	
	2021	2020
Bank loans	0.9%	1.1%
Bonds	2.4%	2.4%
Lease liabilities	2.6%	5.0%

## 23. TRADE AND OTHER PAYABLES

in million EUR	31 DECEMBER	
	2021	2020
<b>Financial liabilities within trade and other payables</b>		
Trade payables	123.5	79.7
Accrued expenses	7.0	6.2
Payables to related party (Note 7)	1.8	0.8
Other payables	8.3	102.4
<b>Total financial liabilities within trade and other payables (Note 3.1 and 13)</b>	<b>140.6</b>	<b>189.1</b>
Payables to employees	21.7	19.0
Tax liabilities	49.3	26.4
Prepayments	46.9	1.7
<b>Total trade and other payables</b>	<b>258.5</b>	<b>236.2</b>
of which current trade and other payables	255.5	235.9
of which non-current other payables*	3.0	0.3

\* Reclassification from borrowings to non-current other payables in the amount of EUR 3.0 million (Note 22).

As at 31 December 2021 trade payables for property, plant and equipment of EUR 48.6 million are recognised under the line "Trade payables" (as at 31 December 2020: EUR 25.2 million).

The decrease of Other payables as at 31 December 2021 is due to one-off significant transaction that was recognised as a payable as at 31 December 2020. These were payables for CO<sub>2</sub> quotas to be settled in April 2021 in the amount of EUR 99.2 million.

Prepayments balance as at 31 December 2021 consist mainly of the prepayment for CO<sub>2</sub> quotas (EUR 43.3 million) that will be delivered to the Group by the end of December 2022. The amount of prepayment has increased due to the increase in quotas market price and in the amount of quotas that have been prepaid (31 December 2021: 2,981 thousand quotas prepaid; 31 December 2020: 551 thousand quotas prepaid).

## 24. CONTRACT LIABILITIES AND GOVERNMENT GRANTS

### Connection and other service fees

in million EUR	31 DECEMBER	
	2021	2020
<b>Deferred connection and other service fees at the beginning of the period</b>	248.1	223.6
Connection and other service fees received	37.6	27.6
The value of assets transferred for connection fees	10.2	6.5
Connection and other service fees recognised as income (Note 33)	(10.8)	(9.6)
<b>Deferred connection and other service fees at the end of the period</b>	<b>285.1</b>	<b>248.1</b>
Government grants	16.5	13.2
<b>Total contract liabilities and government grants</b>	<b>301.6</b>	<b>261.3</b>
of which current	0.7	1.0
of which non-current	300.9	260.3

The increase in connection and other service fees in 2021 is mainly due to a significant increase in the number of new consumers as well as the increase in the number of electricity producers connections to the grid. The increase of the connection fees was additionally affected by the increase in construction prices during the year.

Government grants balance includes grants for the following projects of the Group:

- Narva wind farm,
- Paide power plant,
- construction of a biomass cogeneration plant in Latvia,
- reconstruction project 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.

There are certain obligations that the Group has to fulfil to make sure that the grants are not recalled: safekeeping of project related documents, issuance of project related reporting upon demand, as well as for some project's certain technical aspects.

## 25. PROVISIONS

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	
					Current provision	Non-current 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 emissions (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 obligations arising from treaties	0.2	-	-	(0.1)	0.1	-
Provision for renewable energy certificates	1.8	6.9	-	(6.5)	2.2	-
Other provision	28.0	(28.0)	-	-	-	-
<b>Total provisions (Note 4 and 5)</b>	<b>138.6</b>	<b>170.2</b>	<b>0.9</b>	<b>(83.3)</b>	<b>198.8</b>	<b>27.5</b>

in million EUR	Opening balance 1 January 2020	Recognition and reversal of provisions (Note 5)	Interest charge (Note 30)	Use	Closing balance 31 December 2020	
					Current provision	Non-current provision
Environmental protection provisions (Note 28)	22.3	(1.6)	0.5	(0.9)	2.7	17.6
Provision for termination of mining operations (Note 28)	0.7	(0.7)	-	-	-	-
Employee related provisions (Note 29)	6.4	0.9	0.1	(1.2)	1.5	4.7
Provision for dismantling cost of assets	5.4	-	0.3	-	-	5.7
Provision for greenhouse gas emissions (Notes 17 and 28)	69.2	76.2	-	(69.2)	76.2	-
Provision for onerous contracts	0.2	-	-	(0.1)	0.1	-
Provision for obligations arising from treaties	0.1	0.1	-	-	0.2	-
Provision for renewable energy certificates	1.2	1.5	-	(0.9)	1.8	-
Other provision	-	28.0	-	-	28.0	-
<b>Total provisions (Note 4 and 5)</b>	<b>105.6</b>	<b>104.4</b>	<b>0.9</b>	<b>(72.3)</b>	<b>110.5</b>	<b>28.1</b>

Provision for greenhouse gas emissions has increased significantly due to the change in the emission prices. See details from Note 1.1.

The provisions are discounted at the rate of 0,40%–3,09% (2020: 0,24%–2,92%). The discount curve is used for discounting provisions that allows more accurate evaluation of the provisions in different time horizons.

Recognition and change in the provisions during financial year 2021 in the amount of EUR 0.6 million (2020: EUR 1.6 million) resulted from the change in the discount rate.

#### Other provision

In August 2020, Enefit Power AS presented GE with a claim for payment of liquidated damages in a sum of EUR 43.1 million. GE did not render payment. In October 2020, Enefit Power AS presented Societe Generale with a claim for the fulfilment of the warranty bond in the amount of EUR 28.0 million which was paid out in full. In October 2020, GE submitted an application to initiate arbitral proceedings towards Enefit Power AS. In November 2020, Enefit Power AS submitted its answer to the Arbitral Court wherein Enefit Power AS refuted GE's claims and declared its intention to present a counter-claim to obligate GE to render liquidated damages for non-achievement of the availability guarantee, to the extent that this claim has not been already satisfied via the warranty bond. As at 31 December 2020, other provision was related to the bank guarantee received in connection with the mentioned open litigation. This was recognised as a provision due to the uncertainty around the Arbitration Court's final decision. Parties agreed on a mutually acceptable compromise under which the arbitration proceedings in

the Arbitration Institute of the Stockholm Chamber of Commerce were concluded as of 10 September 2021. The other provision was closed and transferred to other operating income (Note 27).

#### 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 Enefit Power mines during the time period of 2022-2044 and at Enefit Power power plants during the time period of 2022-2058.

**Employee related provisions**

Employee related provisions have been set up for:

- payment of benefits laid down in collective agreements and other acts;
- compensation of work-related injuries;
- payment of termination benefits;
- payments 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, 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 the detailed plans for the closure of these mines and quarries is 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 renovated power blocks No. 8 and 11 and the industrial waste dump of the Narva power plants.

The present value of the dismantling costs of the assets was 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 emissions**

Accounting principles for recognition of greenhouse gas emissions provision can be found from Note 2.3 and additional information regarding the greenhouse gas allowances can be found from Note 17.

## 26. REVENUE

in million EUR	1 JANUARY – 31 DECEMBER	
	2021	2020
<b>By activity</b>		
<b>Sale of goods</b>		
Shale oil (in time)	135.0	138.1
Pellets (in time)	22.7	16.3
Shale (in time)	1.2	2.1
Other goods	6.8	6.1
<b>Total sale of goods</b>	<b>165.7</b>	<b>163.4</b>
<b>Sale of services</b>		
Electricity (over time)	762.3	356.9
Sales of services related to network (over time)	238.5	218.2
Gas energy (over time)	93.4	43.9
Heat (over time)	23.3	20.7
Waste treatment and resale (in time)	15.4	14.8
Rental and maintenance income (over time)	1.0	1.0
Other services	13.4	14.8
<b>Total sale of services</b>	<b>1,147.3</b>	<b>670.3</b>
<b>Total revenue (Note 5)</b>	<b>1,313.0</b>	<b>833.7</b>

See Note 1.1 commenting on the significant increase in electricity and gas energy sales in 2021 compared to 2020.

Sales transactions are generally not based on any material finance components. There are no significant discrepancies (with the exception of connection fees which are described below) between the time of revenue recognition and the time of receiving the

consideration for the goods sold or services provided as the average target payment period is between 14 and 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 into 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 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. Changes in the Group's contract liability balances are disclosed in Note 24. None of the other Group's revenue streams give rise to contract liabilities or contract assets.

## 27. OTHER OPERATING INCOME

in million EUR	1 JANUARY – 31 DECEMBER	
	2021	2020
Gain from revaluation of derivatives	93.8	18.6
Renewable energy grant	29.5	33.3
Release of unused provision	28.0	-
Gain on disposal of property, plant and equipment (Note 33)	3.4	1.4
Fines, penalties and compensations	3.0	4.1
Bargain purchase (Notes 11, 36)	1.9	-
Government grants (Note 33)	0.9	0.7
Foreign exchange gain	0.8	0.1
Gain on greenhouse gas emission allowances sold	0.5	14.4
Other operating income	0.5	0.3
Gain on disposal of business (Note 33)	-	0.7
<b>Total other operating income</b>	<b>162.3</b>	<b>73.6</b>

The bargain purchase of EUR 1.9 million is arising from the Imatra Elekter AS business combination. See details from Notes 11 and 36.

Row „Release of unused provision” in the amount of EUR 28.0 million arises from an unused provision of the same amount recognised as at 31 December 2020. 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. See additional details from Note 25.

## 28. RAW MATERIALS AND CONSUMABLES USED

in million EUR	1 JANUARY – 31 DECEMBER	
	2021	2020
Electricity	371.7	188.5
Greenhouse gases emissions expense (Note 25)	191.9	76.2
Gas bought for resale	77.5	33.9
Transmission services	76.5	73.7
Technological fuel	44.1	34.3
Maintenance and repairs	37.6	39.1
Materials and spare parts	32.4	28.5
Resources tax on mineral resources	20.5	9.1
Purchased works and services	15.6	16.8
Environmental pollution charges	13.7	6.4
Recognition and reversal of environmental and mining termination provisions (Note 25)	(0.9)	(2.6)
Other raw materials and consumables used	8.3	9.1
<b>Total raw materials and consumables used</b>	<b>888.9</b>	<b>513.0</b>

The reason for the increase in the costs of electricity, gas bought for sale, greenhouse gases emissions expenses is the rise of input prices, see also Note 1.1 for details. The increase in resource tax on mineral resources is due to the end of a COVID related measure by the government to temporarily (in 2020) lower the resource fees.

## 29. PAYROLL EXPENSES

in million EUR	1 JANUARY – 31 DECEMBER	
	2021	2020
<b>Number of employees</b>		
Number of employees at the beginning of the period	4,387	5,300
Number of employees at the end of the period	4,572	4,387
Average number of employees	4,357	4,555

in million EUR	1 JANUARY – 31 DECEMBER	
	2021	2020
<b>Payroll expenses</b>		
Wages, salaries, bonuses, and vacation pay	110.8	107.8
Average monthly pay (in euros)	2,119.2	1,972.2
Other payments and benefits to employees	2.8	3.9
Payroll taxes	36.7	36.7
Recognition/reversal of employee related provisions (Note 25)	(0.4)	1.0
<b>Total calculated payroll expenses</b>	<b>149.9</b>	<b>149.4</b>
Of which remuneration to management and supervisory boards		
Salaries, bonuses, additional remuneration	3.4	3.1
Fringe benefits	-	0.1
<b>Total paid to management and supervisory boards</b>	<b>3.4</b>	<b>3.2</b>
Capitalised in the cost of self-constructed assets	(14.0)	(12.8)
<b>Total payroll expenses</b>	<b>135.9</b>	<b>136.6</b>

Payroll taxes include social security tax in the amount of EUR 35.6 million (2020: EUR 35.8 million) and employer's unemployment insurance contribution in the amount of EUR 0.9 million (2020: EUR 0.9 million). The Group has no other legal or constructive obligation to make pension or similar payments.

The Management Board members are appointed by the Supervisory Board. The term of appointment is for 3 years.

## 30. OTHER OPERATING EXPENSES

in million EUR	1 JANUARY – 31 DECEMBER	
	2021	2020
Loss from revaluation of derivatives	72.5	8.9
Miscellaneous office expenses	13.2	11.9
Compensations	7.6	0.8
Rental expense (Note 9)	4.7	5.0
Insurance	4.7	4.5
Building and structure costs	4.1	4.0
Consultation	4.5	3.9
Taxes	3.6	3.4
Research and development costs	2.4	2.2
Other operating expenses	4.6	4.2
<b>Total other operating expenses</b>	<b>121.9</b>	<b>48.8</b>

The rental expenses disclosed in the table above can be divided as follows:

in million EUR	1 JANUARY – 31 DECEMBER	
	2021	2020
Variable lease payments not included in the measurement of the lease liabilities	0.7	0.8
Low value leases	2.4	2.4
Short-term leases	1.6	1.8
<b>Total</b>	<b>4.7</b>	<b>5.0</b>

Discounted future period payments over the lifetime of lease contracts with a variable lease payment are disclosed in Note 34.

Compensation expense has increased due to the finalisation of a dispute that was ongoing in 2020. Enefit Kaevandused AS (starting from 1 October 2020 Enefit Power AS) was involved in a closed-door legal action in which a claim of EUR 35.5 million had been filed against Enefit Power AS and Enefit Power AS had filed a counterclaim of EUR 38.5 million. The court case was related to an oil shale sales-purchase agreement between the parties. The county court made a ruling in June 2019, denying both claims. In January 2020, the circuit court overturned the ruling of the county court, making a new ruling by which it granted the claim in part and ordered Enefit Power AS to settle the principal liability in an amount of EUR 25.4 million and late payment interest in an amount of EUR 10.2 million. However, the ruling of the circuit court did not enter into force because Enefit Power AS filed an appeal in cassation to the supreme court, which in November 2020, annulled the decision of the circuit court and sent the matter to the same circuit court for reconsideration. The circuit court made their final decision in May 2021, which the Group did not oppose to. Following the court's decision, Enefit Power AS, a subsidiary of Eesti Energia AS, paid compensation to the opposing party, Viru Keemia Grupp OIL AS in the amount of EUR 7.3 million.

## 31. NET FINANCE COSTS

in million EUR	1 JANUARY – 31 DECEMBER	
	2021	2020
<b>FINANCE INCOME</b>		
Interest income	-	-
Foreign exchange gain	0.6	0.4
<b>Total finance income (Note 33)</b>	<b>0.6</b>	<b>0.4</b>
<b>FINANCE COSTS</b>		
<b>Interest expense on borrowings</b>		
Interest expense on bonds and loans	(28.4)	(32.7)
Amounts capitalised on qualifying assets (Note 6)	3.2	2.1
<b>Total interest expense on borrowings (Note 33)</b>	<b>(25.2)</b>	<b>(30.6)</b>
Interest expense on provisions (Note 25)	(0.8)	(0.9)
<b>Total interest expense</b>	<b>(26.0)</b>	<b>(31.5)</b>
Foreign exchange losses	-	(2.7)
Other finance costs	(0.2)	(0.2)
<b>Total finance costs</b>	<b>(26.2)</b>	<b>(34.4)</b>
<b>Net finance costs</b>	<b>(25.6)</b>	<b>(34.0)</b>

## 32. CORPORATE INCOME TAX

According to the Income Tax Act, the companies are taxed in Estonia upon distribution of dividends.

From 2019, dividend distributions may be eligible for a 14% tax rate calculated as 14/86 of the net distribution. 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 at 20% calculated as 20/80 of the net distribution. In calculating the three preceding years' average dividend distribution, 2018 is the first year that is taken into account. Dividends distributed by Estonian companies are exempt from income tax, if these are paid out of dividends received from other companies in which the Estonian company has at least 10% participation.

### AVERAGE EFFECTIVE TAX RATE

in million EUR	1 JANUARY – 31 DECEMBER	
	2021	2020
<b>ESTONIA</b>		
<b>Net dividends</b>	<b>55.7</b>	-
of which dividends subject to reduced income tax 14/86	8.6	-
dividends subject to income tax rate of 20/80	31.3	-
tax-exempt dividends	15.8	-
Theoretical income tax at applicable rates	9.2	-
<b>Effective income tax on dividends</b>	<b>9.2</b>	-
Average effective income tax rate	16.5%	-
Income tax expense arising from the subsidiaries	1.9	1.2
<b>Income tax expense</b>	<b>11.1</b>	<b>1.2</b>
<b>Deferred tax expense (-income)</b>	<b>(0.8)</b>	<b>(0.6)</b>
of which deferred tax income	(1.4)	(0.6)
deferred tax expense	0.6	-
<b>Total income tax expense</b>	<b>10.4</b>	<b>0.6</b>

\* Income tax from dividends is recognised on accrual basis, meaning that the income tax resulting from dividends paid in 2022 has been recognised as a deferred tax liability as at 31 December 2021 and respectively in the income statement of financial year 2021.

As at 31 December 2021, the Group has a deferred tax liability of EUR 21.8 million (31 December 2020: EUR 12.6 million) of which EUR 10.9 million (31 December 2020: EUR 11.6 million) is related to the difference between the fair values and the carrying amount of the Lithuanian wind farms identified in the purchasing analysis of the acquisition of Nelja Energia AS in 2018 and EUR 9.2 million is related to the income tax payable in 2022.

### 33. CASH GENERATED FROM OPERATIONS

in million EUR	1 JANUARY – 31 DECEMBER	
	2021	2020
<b>PROFIT BEFORE INCOME TAX</b>	<b>121.9</b>	<b>19.9</b>
<b>Adjustments</b>		
Depreciation and impairment of property, plant and equipment and right-of-use assets (Notes 5, 6 and 9)	167.9	158.5
Amortisation and impairment of intangible assets (Notes 5 and 8)	4.2	2.9
Connection and other service fees recognised as income (Note 24)	(10.8)	(9.6)
Gain on disposal of property, plant and equipment (Note 27)	(3.4)	(1.4)
Gain on disposal of business (Note 27)	-	(0.7)
Amortisation of government grant received to purchase non-current assets (Note 27)	(0.9)	(0.7)
Profit from associates under the equity method (Note 10)	(2.0)	(1.7)
Unpaid/unsettled loss on derivatives	24.1	10.1
Profit (loss) from other non-cash transactions	1.2	(0.2)
Interest expense on borrowings (Note 31)	25.2	30.6
<b>NET OPERATING CASH FLOW BEFORE CHANGES IN CURRENT ASSETS AND CURRENT LIABILITIES</b>	<b>327.4</b>	<b>207.6</b>
<b>Net change in current assets relating to operating activities</b>		
Change in receivables related to operating activities (Note 14)	(150.4)	(1.4)
Change in inventories (Note 12)	3.5	(6.3)
Net change in other current assets relating to operating activities	(100.5)	(16.8)
<b>TOTAL NET CHANGE IN CURRENT ASSETS RELATING TO OPERATING ACTIVITIES</b>	<b>(247.4)</b>	<b>(24.5)</b>
<b>Net change in current liabilities relating to operating activities</b>		
Change in provisions (Note 25)	87.7	32.9
Change in trade payables (Note 23)	19.5	(4.8)
Net change in liabilities relating to other operating activities	9.6	124.0
<b>TOTAL NET CHANGE IN LIABILITIES RELATING TO OPERATING ACTIVITIES</b>	<b>116.8</b>	<b>152.1</b>
<b>CASH GENERATED FROM OPERATIONS</b>	<b>196.8</b>	<b>335.2</b>

## 34. OFF-BALANCE SHEET ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

### (a) Off-balance sheet assets

#### 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 of evaluation of resources and reserves. The classification and determination of 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 social-economical restrictions have been adjusted and taken into account when recognising the resources.

in millions of tonnes	31 DECEMBER	
	2021	2020
<b>Estonia</b>		
Measured*	371	382
<b>Jordan (APCO***)</b>		
Measured*	924	924
Inferred**	295	295
<b>Jordan (JOSE)</b>		
Measured*	-	-
Inferred**	2,309	2,309
<b>USA**</b>		
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 rights**

In 2022, an estimated amount of 886,299 tonnes of free CO<sub>2</sub> emission rights will be allocated to installations belonging to the Group. Precise amount of free allowances to be allocated for 2022, will be fixed by April 2022 at the latest. Allocation of free allowances should continue within the periods of 2021-2025 and 2026-2030 based on annual production levels of installations and climate policy measures defined by the EU. See additional information regarding greenhouse gas emissions from Note 17.

### **(b) 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 the 19th December 2020 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. GoJ and NEPCO have presented their full claim and APCO has to present a reply in Q2 2022. APCO management have nominated Slaughter and May as well as Jordanian based Obeidat Law to represent them in the arbitration process. APCO management maintains its 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 arbitrations 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 will be resolved with

a negative outcome for the Group, the equity investment (as at 31 December 2021: EUR 48.0 million; as at 31 December 2020: EUR 37.8 million) accounted for in the statement of financial position may need to be impaired.

### **Contingent liabilities arising from potential tax audit**

#### **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. The Group's management considers that 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. The Group's management considers that 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 set certain covenants 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 2021, the Group had contractual obligations relating to the acquisition of non-current assets totalling EUR 434.2 million (31 December 2020: EUR 37.6 million).

**Variable lease payments**

Where the right to use land (the right of superficies) are 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 2021 discounted future period payments over the lifetime of these lease contracts amount to EUR 7.9 million (31 December 2020: EUR 7.9 million). Changes in underlying cadastral values, electricity prices or production volume will impact the actual payments the lease contracts.

**Grid infrastructure toleration fees**

Payments for tolerating utility networks are regulated by the Law of Property Act by which real estate owners have the right to request payment for accommodating utility networks on their property.

As at 31 December 2021 the Group had liabilities for utility network payments of EUR 0.2 million for the year 2022 (as at 31 December 2020: EUR 0.2 million for the year 2021). Total accrued expense for the toleration of grid infrastructure in 2021 amounted to EUR 0.3 million (2020: 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 gover-

nement (the last took place in 2001 and the next will take place in 2022) and the latter is set via the Law of Property Act which is subject to irregular adjustments. Consequently, the amounts paid by the Group may increase or decrease in future periods. Grid toleration fees are accounted for as variable lease payments for the purposes of 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.

On 1 April 2020, the Estonian government made a shareholder's contribution in the amount of EUR 125.0 million. This contribution increased the Company's share capital from EUR 621.6 million to EUR 746.6 million. The share price was 1 EUR per share as 125 million new shares were released. The Business register registered the transaction on 3 April 2020.

As at 31 December 2021 and 31 December 2020, Eesti Energia AS had 746 645 750 registered shares.

The nominal value of each share is 1 euro.

	1 JANUARY – 31 DECEMBER	
	2021	2020
Profit attributable to the equity holders of the company (million EUR)	104.4	19.4
Weighted average number of shares (million)	746.6	684.1
Basic earnings per share (EUR)	0.14	0.03
Diluted earnings per share (EUR)	0.14	0.03

## 36. ACQUISITION OF A SUBSIDIARY

On 10 March 2021, Eesti Energia AS's fully owned subsidiary Elektrilevi OÜ as the buyer, and Imatra FNW OY and minority shareholders as the sellers, entered into a Share Purchase Agreement regarding all the shares in Imatra Elekter AS, an electricity sales and distribution company in Estonia. The approval for this transaction from the Estonian Competition Authority was received on 29 June 2021. The consideration payable for the 100% of the shares of Imatra Elekter AS amounts to EUR 29.8 million. The acquisition was finalised on 23 July 2021.

Following the transaction, the Group prepared an analysis of the purchase price of the assets acquired by Imatra Elekter AS in order to assess the relationship between the market value of the assets and the transaction value. As a result of the analysis of this purchase price, bargain purchase arose in the amount of EUR 1.9 million, i.e. the market value of the acquired assets of Imatra Elekter AS exceeded the transaction value to the corresponding extent. The main reason for the bargain purchase was the fact that Imatran Seudun Sähkö Oy, the former owner of Imatra Elekter AS, wanted to exit the investment located in Estonia as a matter of urgency in order to finance its economic activities in Finland to ensure the sustainability of its business there. The following table summarizes the consideration paid for Imatra Elekter AS, the fair value of assets acquired, and liabilities assumed on acquisition date.

### RECOGNISED AMOUNTS OF IDENTIFIABLE ASSETS ACQUIRED, AND LIABILITIES ASSUMED

in million EUR	Fair value
<b>ASSETS</b>	
Property, plant and equipment	26.8
Intangible assets	1.0
Trade and other receivables	0.5
Cash and cash equivalents	5.7
<b>Total assets</b>	<b>34.0</b>
<b>LIABILITIES</b>	
Trade and other payables	2.3
<b>Total liabilities</b>	<b>2.3</b>
<b>Total identifiable net assets</b>	<b>31.7</b>
<b>Total cash consideration</b>	<b>29.8</b>
Bargain purchase (Note 27)	(1.9)
Cash flow from acquisition of subsidiary (net of cash obtained)	24.1

The revenue included in the consolidated statement of comprehensive income from 24 July 2021 to 31 December 2021 contributed by Imatra Elekter AS was EUR 7.0 million. Imatra Elekter AS also contributed loss of EUR (0.2) million over the same period.

## 37. EVENTS AFTER THE REPORTING DATE

In January 2022, Eesti Energia Group's subsidiary Enefit Green entered into a loan agreement with the Nordic Investment Bank ("NIB") in the amount of EUR 80.0 million to support the construction of Enefit Green's new wind farms in the Baltic countries.

On 24 February 2022, the President of Russia announced an invasion of Ukraine. The armed conflict between Russia and Ukraine may affect operations and performance of the Group. The significance and extent of the impacts will depend on the length and consequences of the conflict. The conflict has a significant impact on energy markets. From the beginning of 2022, the market prices of gas, liquid fuels, emission quotas and electricity have become even more volatile than before. Price changes in the energy markets affect both the Group's sales revenues and the costs of energy purchases and emission allowances. However, due to the Group's comprehensive hedging strategy we do not consider market risks arising from the armed conflict to be material to our operations and performance for the year 2022. Another probable risk to the Group's operations is related to procurement, as the procurement of certain specific spare parts and materials used in production has been related to Russia. We are analysing possible alternative sources for procurement and are considering some lengthening of procurement schedules. The extent of the risk can be evaluated after we have a better understanding of the economic relations between the countries after the end of the conflict between Russia and Ukraine. For the Group, the armed conflict between Russia and Ukraine is a non-adjusting event after the reporting period, which has no retrospective effects.

## 38. 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	
	2021	2020
<b>REVENUE</b>	<b>503.6</b>	<b>243.6</b>
Other operating income	298.9	20.7
Raw materials and consumables used	(530.5)	(207.9)
Payroll expenses	(39.5)	(37.9)
Depreciation and amortisation	(4.2)	(4.2)
Other operating expenses	(308.5)	(41.6)
<b>OPERATING LOSS</b>	<b>(80.2)</b>	<b>(27.4)</b>
Finance income	51.4	48.0
Finance costs	(27.5)	(38.7)
<b>Net finance income</b>	<b>23.9</b>	<b>9.3</b>
<b>LOSS BEFORE TAX</b>	<b>(56.3)</b>	<b>(18.1)</b>
<b>LOSS FOR THE YEAR</b>	<b>(56.3)</b>	<b>(18.1)</b>

### STATEMENT OF COMPREHENSIVE INCOME

in million EUR	1 JANUARY – 31 DECEMBER	
	2021	2020
<b>LOSS FOR THE YEAR</b>	<b>(56.3)</b>	<b>(18.1)</b>
<b>Other comprehensive income</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Revaluation of hedging instruments net of reclassifications to profit or loss	100.5	15.0
<b>Other comprehensive income for the year</b>	<b>100.5</b>	<b>15.0</b>
<b>TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE YEAR</b>	<b>44.2</b>	<b>(3.1)</b>

## STATEMENT OF FINANCIAL POSITION

in million EUR	1 JANUARY – 31 DECEMBER	
	2021	2020
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	21.5	20.7
Right-of-use assets	6.7	-
Intangible assets	13.8	12.2
Derivative financial instruments	333.7	15.5
Investments in subsidiaries	941.5	981.6
Loans and receivables from subsidiaries and other receivables	182.8	183.8
<b>Total non-current assets</b>	<b>1,500.0</b>	<b>1,213.8</b>
<b>Current assets</b>		
Inventories	13.4	7.8
Greenhouse gas allowances and certificates of origin	193.3	75.5
Trade and other receivables	841.2	865.1
Derivative financial instruments	102.7	13.7
Cash and cash equivalents	49.6	103.5
<b>Total current assets</b>	<b>1,200.3</b>	<b>1,065.6</b>
<b>TOTAL ASSETS</b>	<b>2,700.3</b>	<b>2,279.4</b>

in million EUR	1 JANUARY – 31 DECEMBER	
	2021	2020
<b>EQUITY</b>		
Share capital	746.6	746.6
Share premium	259.8	259.8
Statutory reserve capital	75.0	62.1
Hedge reserve	113.5	13.0
Retained earnings	129.7	199.0
<b>TOTAL EQUITY</b>	<b>1,324.6</b>	<b>1,280.5</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Borrowings	694.4	547.1
Derivative financial instruments	140.2	4.0
Provisions	0.5	0.4
<b>Total non-current liabilities</b>	<b>835.1</b>	<b>551.5</b>
<b>Current liabilities</b>		
Borrowings	138.7	267.9
Trade and other payables	123.8	157.7
Derivative financial instruments	277.8	21.6
Provisions	0.3	0.2
<b>Total current liabilities</b>	<b>540.6</b>	<b>447.4</b>
<b>TOTAL LIABILITIES</b>	<b>1,375.7</b>	<b>998.9</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2,700.3</b>	<b>2,279.4</b>

## CASH FLOW STATEMENT

in million EUR	1 JANUARY – 31 DECEMBER	
	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit before tax</b>	(56.3)	(18.1)
<b>Adjustments</b>		
Depreciation of property, plant and equipment and right-of-use assets	2.7	3.4
Amortisation of intangible assets	1.6	0.8
Profit from sale of property, plant and equipment	(0.2)	(0.6)
Expected credit loss from loan to subsidiary	2.2	-
Profit from partial disposal of subsidiary	(34.9)	-
Unpaid/unsettled on derivatives	85.7	3.6
Interest expense on borrowings	25.1	29.1
Interest income	(17.0)	(29.5)
Dividend income	(27.1)	(18.4)
Profit/loss from other non-cash transactions	(0.1)	-
<b>Net operating cash flow before changes in current assets and current liabilities</b>	<b>(18.3)</b>	<b>(29.7)</b>
<b>Net change in current assets relating to operating activities</b>		
Change in receivables relating to operating activities	(65.2)	(5.4)
Change in inventories	(5.6)	(3.0)
Net change in current assets relating to other operating activities	(109.0)	12.8
<b>Total net change in current assets relating to operating activities</b>	<b>(179.8)</b>	<b>4.4</b>
<b>Net change in liabilities relating to operating activities</b>		
Change in provisions	0.2	0.1
Change in trade payables	12.4	(0.4)
Net change in liabilities related to other operating activities	(46.3)	58.5
<b>Total net change in liabilities relating to operating activities</b>	<b>(33.7)</b>	<b>58.2</b>
Interest paid and borrowing costs	(16.0)	(21.1)
Interest received	21.9	23.8
<b>Net cash flows from operating activities</b>	<b>(225.9)</b>	<b>35.6</b>

in million EUR	1 JANUARY – 31 DECEMBER	
	2021	2020
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Dividends received from subsidiaries	27.1	18.4
Purchase of property, plant and equipment and intangible assets	(6.9)	(45.9)
Proceeds from sale of property, plant and equipment	1.1	0.7
Repayments of loans granted to subsidiaries	-	(0.1)
Change in overdraft granted to subsidiaries	74.4	63.9
<b>Net cash used in investing activities</b>	<b>95.7</b>	<b>37.0</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loans received	120.0	220.0
Redemption of bonds	-	(106.3)
Repayments of bank loans	(117.9)	(217.9)
Principal elements of lease payments	(0.8)	-
Shareholder contribution	-	125.0
Proceeds from the issue of shares in a subsidiary	75.0	-
<b>Net cash used in financing activities</b>	<b>76.3</b>	<b>20.8</b>
<b>NET CASH FLOWS</b>	<b>(53.9)</b>	<b>93.4</b>
Cash and cash equivalents at the beginning of the period	103.5	10.1
Cash and cash equivalents at the end of the period	49.6	103.5
<b>Net increase/(-)decrease in cash and cash equivalents</b>	<b>(53.9)</b>	<b>93.4</b>

## STATEMENT OF CHANGES IN EQUITY

in million EUR

	Share capital	Share premium	Statutory reserve capital	Hedge reserve	Retained earnings	Total
<b>Equity as at 31 December 2019</b>	621.6	259.8	62.1	(2.0)	216.0	1,157.4
Loss for the year	-	-	-	-	(18.1)	(18.1)
Other comprehensive income for the year	-	-	-	15.0	-	15.0
<b>Total comprehensive income/(loss) for the year</b>	-	-	-	15.0	(18.1)	(3.1)
Other changes	-	-	-	-	1.1	1.1
Shareholder contribution	125.0	-	-	-	-	125.0
<b>Total contributions by and distributions to owners of the company, recognised directly in equity</b>	125.0	-	-	-	1.1	126.1
<b>Equity as at 31 December 2020</b>	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
<b>Total comprehensive income/(loss) for the year</b>	-	-	-	100.5	(56.3)	44.2
Increase of statutory reserve capital	-	-	12.9	-	(12.9)	-
<b>Total contributions by and distributions to owners of the company, recognised directly in equity</b>	-	-	12.9	-	(12.9)	-
<b>Equity as at 31 December 2021</b>	746.6	259.8	75.0	113.5	129.8	1,324.6

Under the Accounting Act of Estonia, adjusted unconsolidated retained earnings are the amount from which a public limited company can make payments to its shareholders. See reconciliation of parent entity equity to the adjusted unconsolidated equity from the table below.

in million EUR	31 DECEMBER	
	2021	2020
Equity capital of the parent entity	1,324.6	1,280.5
Carrying amount of holdings under controlling and significant influence	(941.5)	(981.6)
Carrying amount of holdings under controlling and significant influence using equity method	1,935.7	1,708.2
<b>Adjusted unconsolidated equity (Note 19)</b>	<b>2,318.8</b>	<b>2,007.1</b>



## Independent auditor's report

To the Shareholder of Eesti Energia Aktsiaselts

### 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 Aktsiaselts (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2021, 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 ("IFRS").

Our opinion is consistent with our additional report to the Audit Committee dated 24 March 2022.

#### What we have audited

The Group's consolidated financial statements comprise:

- the consolidated income statement for the year ended 31 December 2021;
- the consolidated statement of comprehensive income for the year ended 31 December 2021;
- the consolidated statement of financial position as at 31 December 2021;
- 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 Company and 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.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its subsidiaries are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59<sup>1</sup> of the Auditors Activities Act of the Republic of Estonia.

The non-audit services that we have provided to the Company and its subsidiaries in the period from 1 January 2021 to 31 December 2021 are disclosed in the management report on page 55.

Translation note:

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

## Our audit approach

### Overview



Overall group audit materiality is EUR 7.4 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.

Property, plant and equipment impairment assessment

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 financial statements as a whole.

**Overall Group audit materiality** EUR 7.4 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.

#### Translation note:

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

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 significant exclusions were:

- the gain of EUR 28.0 million, arising from the compensation received by the Group for a settlement agreement reached regarding a litigation process previously pending. Details of this transaction can be found in Notes 25 and 27 of the consolidated financial statements;
- the loss of EUR 7.3 million arising from the compensation paid by the Group regarding a litigation process previously pending. Details of this transaction can be found in Note 30 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

##### *Property, plant and equipment impairment assessment*

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 2021 the Group had property, plant and equipment of EUR 2,979.5 million, the majority of which related to the oil shale mining, shale oil production and power

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

Translation note:

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



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 may be 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.

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 Aktsiaselts 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 specialists 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.

---

## 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 Aktsiaselts (the Group's parent entity);
- Enefit Green AS (electricity generation from renewable sources), and its subsidiaries (electricity generation from renewable sources).

Translation note:

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

In addition, specific audit procedures over significant balances and transactions were performed for:

- sales revenue, accounts receivable 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);
- accounting for the business combination of Imatra Elekter Aktsiaselts, a subsidiary acquired in 2021.

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 Profit Allocation proposal, the Glossary to the Annual Report and the Investor Information 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. 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.

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

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

In addition, in light of the knowledge and understanding of the 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.

Translation note:

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

---

## 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.
- 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.

Translation note:

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



- 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

A handwritten signature in blue ink, appearing to read 'Lauri Past', is written over a light blue circular stamp.

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

29 March 2022  
Tallinn, Estonia

Translation note:

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

## PROFIT ALLOCATION PROPOSAL

The retained earnings of Eesti Energia Group as at 31 December 2021 were EUR 1,017,552,197.47, of which the net profit for the year 2021 amounted to EUR 104,358,929.55.

The Management Board proposes under section 332 of the Commercial Code of Estonia to allocate the retained earnings of Eesti Energia Group as at 31 December 2021 as follows:

1. to pay EUR 46,653,884.00 as dividends to the shareholder
2. not to distribute the remaining retained earnings of EUR 970,898,313.47 due to the continuing financing needs of the Eesti Energia Group.

## SIGNATURES OF THE MANAGEMENT BOARD TO THE ANNUAL REPORT FOR FINANCIAL YEAR 2021

In the 2021 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 of 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 2021 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.

29 March 2022

Chairman of the Management Board

**Hando Sutter**



Members of the Management Board

**Andri Avila**



**Raine Pajo**



**Agnes Roos**



**Margus Vals**



## INVESTOR INFORMATION

The Group's results concerning the financial year 2022 are released as follows:

- Q1 interim report – 5 May 2022
- Q2 interim report – 4 August 2022
- Q3 interim report – 3 November 2022
- The audited results for the financial year 2022 – 28 February 2023

Eesti Energia's financial results and contacts for investor relations are available on the Group's web page:

**[www.energia.ee/en/ettevottest/investorile](http://www.energia.ee/en/ettevottest/investorile)**

## 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<sub>2</sub> costs (taking into account the price of CO<sub>2</sub> allowance futures maturing in December and the amount of CO<sub>2</sub> emitted in the generation of a MWh of electricity)

**CO<sub>2</sub> 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<sub>2</sub>). 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** – profit before finance income and costs, profit (loss) from associates under the equity method, tax-, depreciation-, amortisation, impairment losses

**EBITDA margin** – profit before finance income and costs, profit (loss) from associates under the equity method, tax-, depreciation-, amortisation and impairment losses 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 unused 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