

→ Management Report

→ Financial Statements

An aerial night photograph of a city, likely Tallinn, Estonia. The image shows a large body of water in the foreground with a modern bridge. The city lights are visible in the background, and a large green diagonal shape covers the bottom right portion of the image.

Smart energy solutions –  
cleaner living environment



**Eesti Energia**

Annual report 2020

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# Eesti Energia 2020

<b>REVENUE</b>	<b>EBITDA</b>
<b>834</b> million euros	<b>214</b> million euros
<b>NET PROFIT</b>	<b>INVESTMENTS</b>
<b>19.3</b> million euros	<b>188.0</b> million euros
	<b>EMPLOYEES</b>
	<b>4555</b>
<b>SALES VOLUMES</b>	
Electricity <b>7.8</b> TWh	Heat <b>0.9</b> TWh
Gas <b>2</b> TWh	Shale oil <b>461 000</b> t
<b>PRODUCTION</b>	
Electricity <b>3.8</b> TWh	Share of renewable energy from heat and electricity production <b>38%</b>
Heat <b>1.1</b> TWh	
Shale oil <b>452,000</b> t	
<b>TOTAL CO<sub>2</sub> EMISSION</b>	<b>3.8</b> million t

## Dear reader

In the waves of the pandemic that ravaged the world in 2020, we proved that our customers can rely on us even in the most challenging times. Energy supply is often taken for granted but uninterrupted continuity of essential services in a crisis is the ultimate test of the commitment of Eesti Energia's people.



**Hando Sutter**  
Chairman of  
the Management Board

Our frontline people kept everyone's lights on and homes warm. Having implemented new work arrangements overnight, we continued to enhance our new services from home offices, making them convenient and useful for the customer. Since then, we can proudly call each other energy heroes in the best sense of the word.

The year was exceptional in many respects. The pandemic containment measures implemented during the public health crisis triggered an unprecedented fall in the demand for energy. Another factor which had a strong impact was the weather: 2020 was the year with the highest average temperature ever recorded in Estonia, Europe and the world as a whole.

The influx of hydro and wind energy to the Nordic electricity market grew compared to previous years. Market prices fluctuated steeply and, due

to lower demand, dropped compared to the prior year in all the markets where we operate.

The European Union decided that in order to reach carbon neutrality the EU climate policy should have a more ambitious intermediate goal for 2030. A clear signal that additional pressure will be put on the use of fossil fuels in energy production increased the CO<sub>2</sub> emission allowance price to historic heights.

Energy transition and transition to a sustainable low-carbon economy will take several decades but in the case of Eesti Energia change has been rapid. In 2020, our carbon emission decreased by more than a third compared to 2019, that is from 5.9 million tonnes to 3.8 million tonnes.

Within three years, Eesti Energia's road to carbon neutrality has shortened more than threefold. We have achieved this by redesigning our energy portfolio. This means increasing the output of renewable energy in both electricity and heat production and focusing on adding value to Estonia's main mineral resource, oil shale, by processing it into shale oil. The carbon footprint of shale oil production is several times smaller than that of burning oil shale for electricity production.

In cooperation with scientists and partners we have set ourselves the goal of developing our unique Enefit liquid fuel production technology. Our vision is to incorporate liquid fuel production into a chemicals industry that would have a carbon capture technology and the capacity to use old tyres and plastic waste as its main or alternative fuel. We hope that this along with our other circular economy initiatives will help solve specific environmental issues in the Baltic Sea area.

The share of renewable energy in our electricity and heat output grew to around 40% in 2020. The lion's share of our green energy continued to be produced at our wind farms in Estonia and Lithuania. Other contributors were controllable thermal power plants where we increased the use of waste wood, solar farms, cogeneration plants and a waste-to-energy unit.

Renewable energy production has become our most profitable business line by far. Due to low electricity prices, electricity produced from oil shale was not competitive in 2020: it could be sold in limited quantities and its production generated a loss.

Our owner, the Republic of Estonia, has asked us to maintain Estonia's security of supply by keeping available at least 1,000 MW of our controllable electricity production capacities until the end of 2023. So far, the electricity market has needed the backup capacities on numerous occasions.

We can make the world of energy completely sustainable only in collaboration with our customers and other stakeholders. Customers' interest

in environmentally friendly, convenient and energy saving solutions has been growing year by year.

As industry professionals, we offer the full spectrum of energy solutions starting from transition to a green electricity plan to independent production of renewable energy and smart management of energy consumption. Our strong value proposition is helping us win new customers.

Electrification, which is the fastest way to becoming carbon neutral, provides us with an opportunity to help other sectors implement energy transition. We have made developing electromobility our priority: we offer a public electric vehicle charging network and smart chargers for homes and businesses.

Because of electric cars, we are going to have, both in our daily life and electricity system, large energy storage devices which we are planning to use as flexible components of the same system.

The energy sector may be complex but, in order to provide an excellent customer experience, customer solutions need to be simple. We work every day to make the life of our customers more carefree.

Despite the highly volatile operating environment and the general economic downturn, we succeeded in ending the year 2020 with a profit. I thank all my colleagues for their self-sacrificing efforts and all our customers for their trust and their contribution to making the world a cleaner place.



**Hando Sutter**  
Chairman of the Management Board

## Key figures and ratios

		2019	2020
Total electricity sales*, of which	GWh	8,644	<b>7,840</b>
wholesale sales*	GWh	1,130	<b>864</b>
retail sales	GWh	7,514	<b>6,977</b>
Electricity distributed	GWh	6,878	<b>6,706</b>
Shale oil sales	'000 tonnes	436	<b>461</b>
Heat sales	GWh	819	<b>892</b>
Average number of employees	No.	5,300	<b>4,555</b>
Revenue	m€	925.8	<b>833.7</b>
EBITDA	m€	259.8	<b>213.6</b>
Operating profit	m€	71.9	<b>52.2</b>
Net profit	m€	35.4	<b>19.3</b>
Investments	m€	136.0	<b>188.0</b>
Cash flow from operating activities	m€	147.6	<b>310.3</b>
FFO	m€	223.3	<b>182.6</b>
Non-current assets	m€	3,036.7	<b>3,078.7</b>
Equity	m€	1,801.6	<b>2,008.3</b>
Net debt	m€	1,101.2	<b>847.5</b>
Net debt / EBITDA	times	4.2	<b>4.0</b>
FFO / net debt	times	0.2	<b>0.2</b>
FFO / interest cover	times	6.5	<b>5.6</b>
EBITDA / interest cover	times	7.6	<b>6.5</b>
Leverage	%	37.9	<b>29.7</b>
ROIC	%	2.5	<b>1.8</b>
EBITDA margin	%	28.1	<b>25.6</b>
Operating profit margin	%	7.8	<b>6.3</b>

# Operating environment

- Electricity prices on the Nord Pool power exchange decreased
- Electricity prices in the Baltics were affected by imports of Nordic hydropower and COVID-19
- CO<sub>2</sub> emission allowance prices rose due to a change in the emission reduction rate in the EU climate goals
- Global prices of oil products plummeted to the past three years' lowest level

Eesti Energia operates in the Baltic, Finnish and Polish electricity markets and in the international liquid fuels market. Our business is mainly influenced by oil, electricity and emission allowance prices, competition in the energy and customer markets, regulations that govern the energy sector and the development of new technologies.

## The following market developments affected our performance in 2020

- Electricity prices were highly volatile, mostly because hydro reservoir levels were record-high and electricity consumption dropped due to the COVID-19 pandemic.
- Emission allowance prices decreased in the first half of the year due to subdued demand caused by the COVID-19 pandemic and increased in the second half of the year in response to the revision of the emission reduction rate in the European Union's long-term climate goals.
- The world market prices of oil products tumbled in the second quarter when Saudi Arabia increased its crude oil exports to a record level while demand was weak due to the COVID-19 pandemic and began to recover in the second half of the year when OPEC+ reached an agreement on production restrictions.

According to the projections of the International Monetary Fund, in 2020 global growth slowed by 4.4% and Estonia's economy contracted by 5.5%. The downturn is mainly attributable to the COVID-19 pandemic, which hit the world at the beginning of the second quarter. Based on the assessment of the Foresight Centre, a think tank of the Estonian parliament, the energy sector was the least affected by the pandemic but the restrictions imposed in other sectors reduced our customers' electricity consumption and the demand for oil products.

## Electricity prices on the Nord Pool power exchange decreased

### DENMARK

Consumption **34.1 TWh**  
 Production **27.9 TWh**  
 Average price **26.7 €/MWh**  
 (-31.8%)

### NORWAY

Consumption **132.9 TWh**  
 Production **152.6 TWh**  
 Average price **9.3 €/MWh**  
 (-76.2%)

### SWEDEN

Consumption **133.0 TWh**  
 Toodang **154.3 TWh**  
 Average price **19.0 €/MWh**  
 (-50.8%)

### FINLAND

Consumption **78.4 TWh**  
 Production **60.9 TWh**  
 Average price **28.0 €/MWh**  
 (-36.4%)

### ESTONIA

Consumption **8.0 TWh**  
 Production **4.4 TWh**  
 Average price **33.7 €/MWh**  
 (-26.5%)

### LATVIA

Consumption **7.1 TWh**  
 Production **5.5 TWh**  
 Average price **34.0 €/MWh**  
 (-26.4%)

### LITHUANIA

Consumption **11.8 TWh**  
 Production **4.8 TWh**  
 Average price **34.0 €/MWh**  
 (-26.2%)

### POLAND

Consumption **165.3 TWh**  
 Production **141.1 TWh**  
 Average price **46.8 €/MWh**  
 (-15.2%)

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

Estonia participates in the Nord Pool power exchange where electricity producers that sell their electricity on the power exchange trade with electricity suppliers that buy electricity from the power exchange in order to resell it to end consumers. Electricity prices in Estonia, Latvia, Lithuania, and Poland have the strongest effect on our performance because we both produce and sell electricity in those countries. In 2020, we also sold electricity in Finland and Sweden.

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

In 2020, electricity production and consumption in the Nordic and Baltic market area extended to 410.4 TWh and 405.3 TWh, respectively. Compared to 2019, electricity output in the Nordic and Baltic countries grew by 14.1 TWh while consumption decreased by 7.3 TWh. In Sweden and Norway, electricity generation exceeded consumption. In Estonia, Latvia, Lithuania, Finland and Denmark, consumption exceeded domestic electricity production and the countries had to import electricity.

## Electricity prices in the Baltics were affected by imports of Nordic hydropower and COVID-19

Electricity prices in Estonia and the neighbouring countries were influenced in 2020 by Nordic hydropower whose generation was record-high compared to prior years, wind power whose output was exceptionally large and the COVID-19 pandemic, which reduced electricity consumption.

Interconnectors supply the Baltic countries with Nordic hydropower, which is cheaper than other types of electricity. In 2020, warm weather and abundant precipitation raised the average level of the Nordic hydro reservoirs to record heights: 68.4% of the maximum, which is 8.5 percentage points higher than in 2019 and 5.8 percentage points higher than in 2019 and 5.8% above the historical median. Record-high availability of hydro resources drove down electricity prices in the Nordic countries and in off-peak hours interconnectors passed the effect on to the Baltic countries. The Nordic hydropower output grew year on year, rising to 237 TWh (+15%), which is comparable to the Baltic countries' nine-fold aggregate annual consumption.

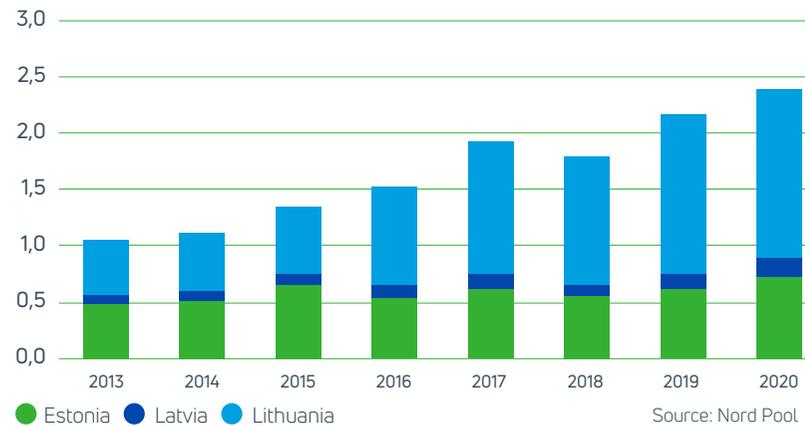
Weekly levels of Nordic water reservoirs, % of maximum



Besides the lower-price Nordic electricity, exported to the Baltics by means of interconnectors, in 2020 electricity prices in our markets were affected by record-high wind power production. A lower cost price makes electricity produced from wind more competitive than electricity produced from oil shale.

### Nord Pool Baltic wind energy production

TWh



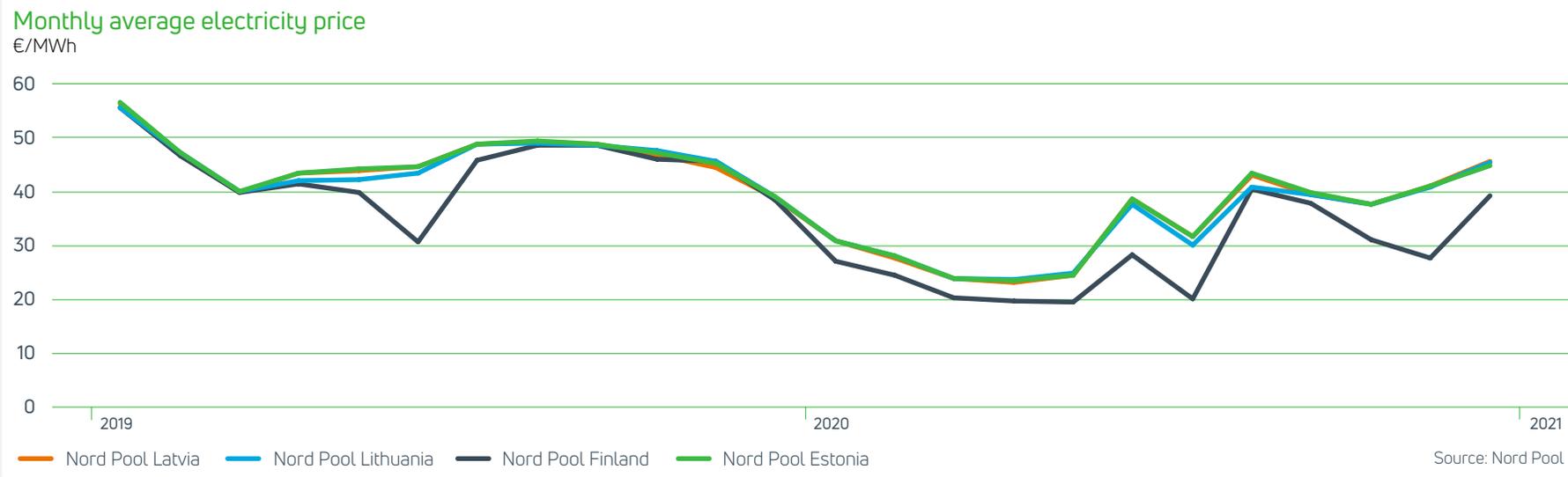
The combined effect of the COVID-19 pandemic, which reduced electricity consumption, exceptionally warm weather and high precipitation during the winter season, and growth in the output of wind power made electricity prices very volatile in 2020. During peak hours when transmission

capacities were in maximum use, hourly prices in the Baltic region were high compared to the Nordic countries, reaching 255 €/MWh. In off-peak hours, however, the influx of favourably-priced Nordic hydropower lowered electricity prices in the Baltic region to a couple of euros per MWh. The year 2020 was historical for the Baltic region because due to the import of cheaper Nordic hydropower and windy weather the electricity price was negative for four consecutive hours.

The average electricity price in the Estonia price area was 33.7 €/MWh in 2020 (-12.2 €/MWh compared to 2019). The average monthly price was the highest in December when a MWh cost 45.5 euros and the lowest in April when it was 23.7 €/MWh.

In 2020, as in 2019, Estonia's electricity consumption exceeded domestic electricity output. This reflects that Estonia has become an electricity importer like Latvia and Lithuania. Since 2019, the average electricity price level in Estonia has been converging with those in Latvia and Lithuania and diverging from that in Finland. In 2020, the average electricity price in the Latvia price area was 34.0 €/MWh (-12.2 €/MWh compared to 2019) and the average electricity price in the Lithuania price area was 34.0 €/MWh (-12.1 €/MWh compared to 2019).



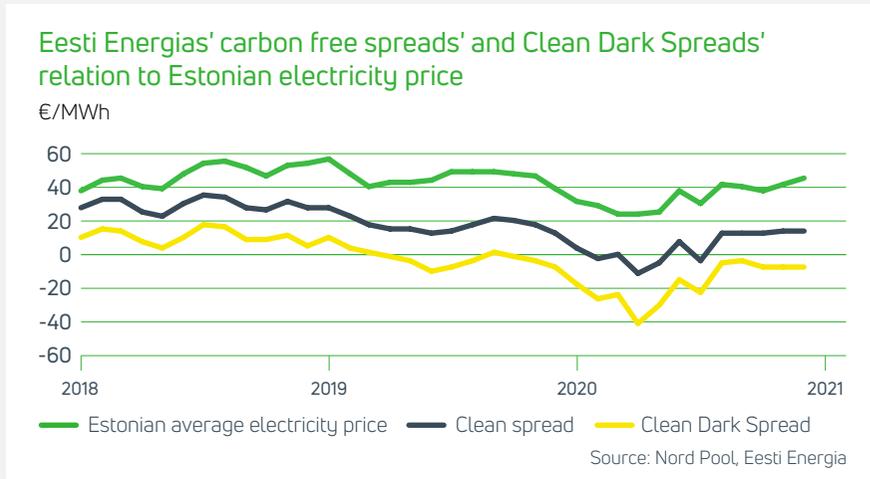


A key indicator in energy production is the clean dark spread (CDS), which reflects an electricity producer's profit margin which remains after fuel and CO<sub>2</sub> emission allowance costs have been deducted from the average market price of electricity. The clean spread reflects the sales margin that remains when CO<sub>2</sub> emission allowance costs have been deducted from the average market price of electricity.

Eesti Energia's clean spread was 5.7 €/MWh in 2020 (-12.1 €/MWh compared to 2019). The decrease in the clean spread is mainly attributable to a decline in the electricity price in the Estonia price area (-12.2 €/MWh compared to 2019). The CO<sub>2</sub> emission allowance component decreased by 0.1 €/MWh compared to 2019.

Eesti Energia's clean dark spread was -14.9 €/MWh in 2020 (-14.0 €/MWh compared to 2019). The oil shale cost component in the clean dark spread increased by 1.9 €/MWh compared to 2019. The combined effect of the change in the CO<sub>2</sub> emission allowance and oil shale cost components

was +1.8 €/MWh. During the year CDS was negative, on average. Therefore, we carefully monitored the market situation to use opportunities to produce electricity in higher-price periods to the maximum.



## CO<sub>2</sub> emission allowance prices rose due to a change in the emission reduction rate in the EU climate goals

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. A high CO<sub>2</sub> emission allowance price in combination with a low gas price has created a situation in Europe where the cost price of electricity produced from gas is lower than the cost price of electricity produced from oil shale or coal.

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

In the first quarter of 2020, the CO<sub>2</sub> emission allowance price dropped from 24.4 €/t to 17.7 €/t due to a global market downturn triggered by the COVID-19 pandemic. The restrictions imposed in connection with COVID-19 and the global slowdown increased the sale of CO<sub>2</sub> emission allowances.

Prices of CO<sub>2</sub> emission allowances

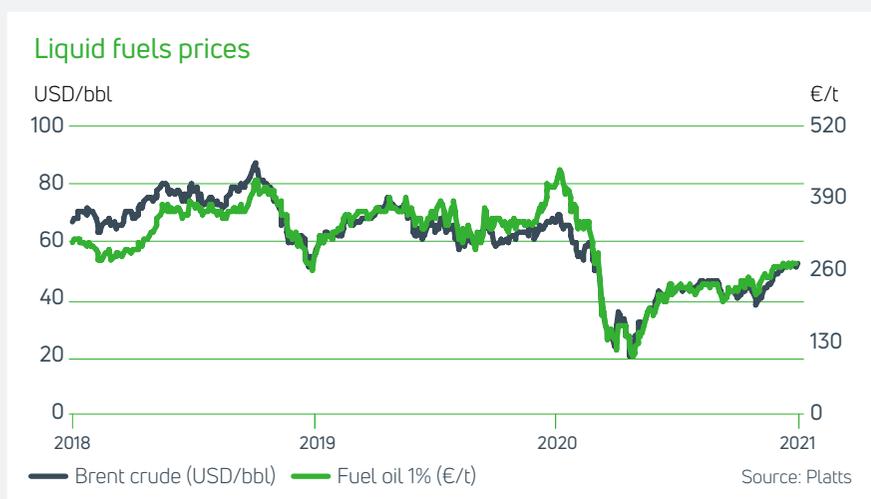


The CO<sub>2</sub> emission allowance price began to rise at the beginning of the second quarter and reached 32.7 €/MWh by the year-end. The price rose because the EU increased the greenhouse gas emission reduction target in its long-term climate goals for 2030 from 40% to 55% (compared to 1990). Traders in the CO<sub>2</sub> emission allowances market include not only producers (CO<sub>2</sub> emitters) but also an increasing number of speculators whose behaviour is strongly influenced by public opinion of developments in the European environmental policy.

○ In 2020, the average annual price of CO<sub>2</sub> emission allowances was 24.8 €/t, 0.4% lower than in 2019 (-0.1 €/t).

## Global prices of oil products plummeted to the past three years' lowest level

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 price of our shale oil and increases revenue.



In the first half of 2020, the average price of Brent crude oil dropped by 23.9 USD/bbl, i.e. 36.2% compared to the price in the first half of 2019 (66.1 USD/bbl). The average monthly price was the lowest in April when it was 26.7 USD/bbl, i.e. 58% lower (-36.9 USD/bbl) than the average price for January 2020. The steep price decrease was attributable to the oil price war between Saudi Arabia and Russia and the impacts of the COVID-19 pandemic.

In April, Saudi Arabia increased its oil production to a record level. The over-supply of oil coincided with the first wave of COVID-19, which triggered a negative demand shock, and the oil price turned negative for the first time in history. This is the largest price decrease since the financial crisis of 2008. In May, OPEC+ reached an agreement on production cuts and the oil price recovered to 40 USD/bbl.

In the second half of the year, the average price of Brent crude oil grew by 2.2 USD/bbl (+5.2%) compared to the first half-year but was still 17.9 USD/bbl (44.3 USD/bbl) lower than the average price for the second half of 2019 (62.2 USD/bbl). The rise was underpinned by Saudi Arabia's decision to further restrict the volume of exports outlined in the OPEC+ agreement.

The average price of Brent crude oil was 43.2 USD/bbl in 2020, which is significantly lower than the average price in 2019 (-32.5%, -20.9 USD/bbl). The average market price of fuel oil with 1% sulphur content trended similarly to the price of Brent crude oil in 2020 and was 234.9 €/t, which is 32.4% (-112.8 €/t) lower than in 2019.

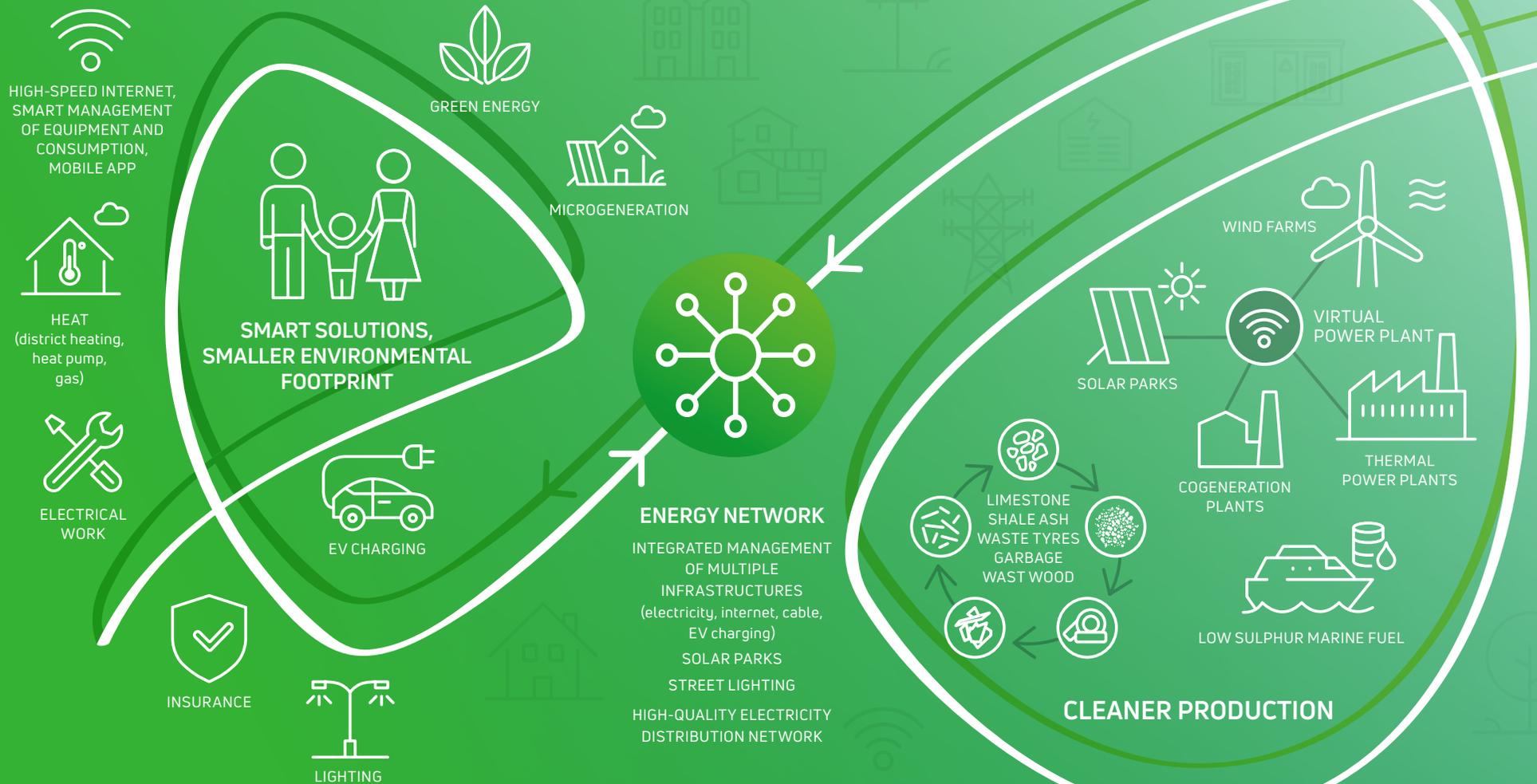
### Liquid fuel prices

Average price		2020	2019	2018
Brent crude oil	USD/bbl	43.2	64.1	71.7
Fuel oil 1%	€/t	234.9	347.7	339.9
Euro exchange rate	EUR/USD	1.14	1.12	1.18



# 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.**



## Growing into a provider of complete energy solutions – we will offer customers simple and convenient options to save on their energy costs, reduce their carbon footprint and contribute to creating a cleaner world

- To make energy production cleaner, we will carry out renewable energy projects from Finland to Poland. The target is to grow our wind and solar energy output. We expect to reach the first pilot project in using wind energy for the production of green hydrogen. It is also essential to develop renewable energy storage capabilities in the new world of energy.

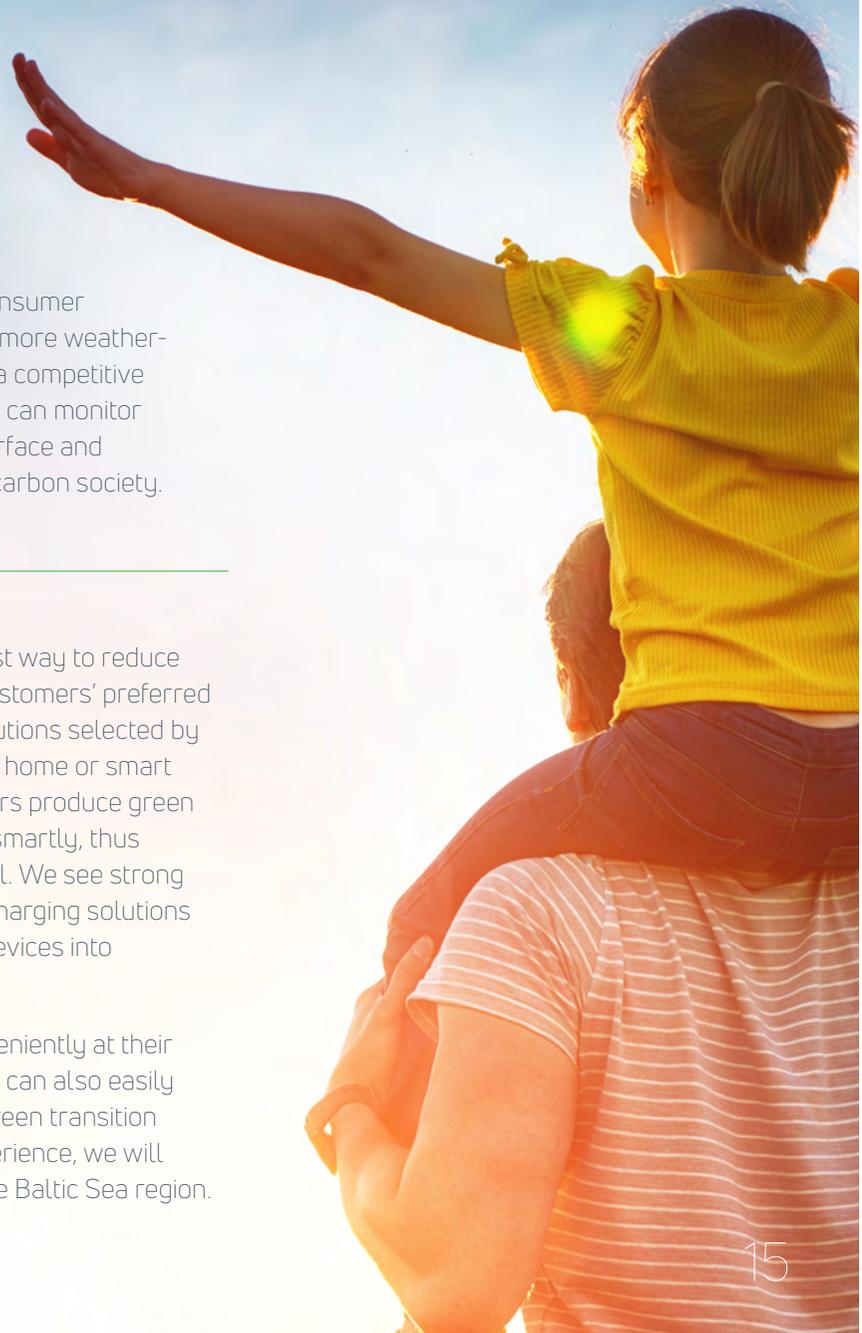
We will reduce the carbon intensity of our controllable energy production operations by increasing the share of waste wood and oil shale gas, which is a by-product of oil production. Thermal power plants participate in the electricity market in periods of high demand, helping to mitigate Estonia's reliance on electricity import and to maintain security of supply.

We will expand the production of high-quality low-sulphur liquid fuels and will develop our Enefit technology in collaboration with scientists with a view to resolving the environmental issues resulting from old tyres and plastic waste.

- We will deliver cleaner energy to the consumer through a high-quality and increasingly more weather-proof electricity distribution network at a competitive price. A digitally controlled network that can monitor consumption data in real time is the interface and the backbone in the transition to a low-carbon society.

- The green energy plan, which the easiest way to reduce the carbon footprint, will become the customers' preferred choice. We will integrate the energy solutions selected by a customer into a single complete smart home or smart business solution. We will help customers produce green energy and manage their consumption smartly, thus enabling them to reduce their energy bill. We see strong potential in integrating electric vehicle charging solutions and batteries or other energy storage devices into the electricity network.

Customers will begin their journey conveniently at their mobile or computer screens where they can also easily manage the services. By enabling the green transition and offering an excellent customer experience, we will reach a million satisfied customers in the Baltic Sea region.

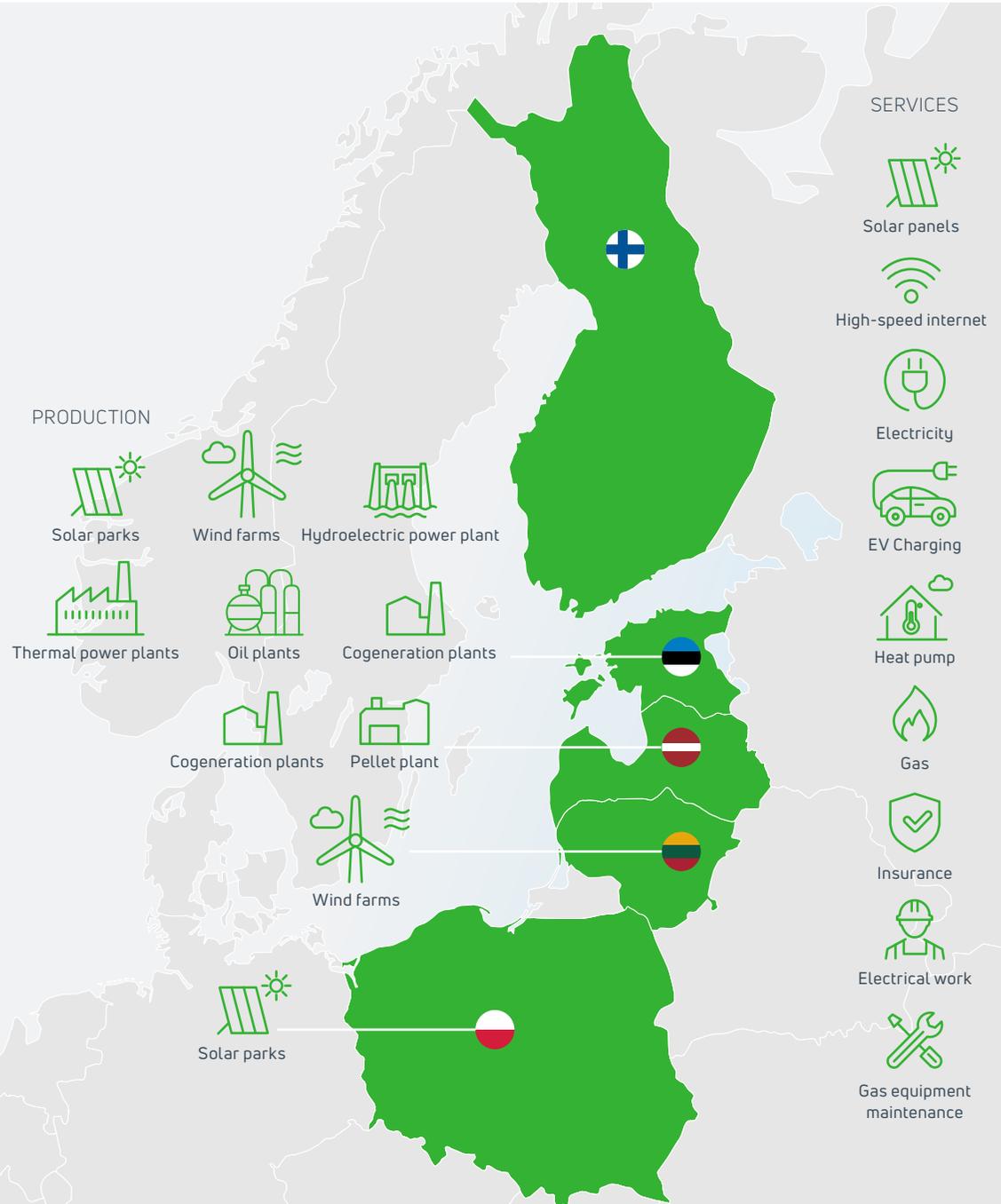


## We offer energy solutions in the Baltic Sea region

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.

	Energy production	Services for private customers	Services for business customers
FINLAND		✓	
ESTONIA	✓	✓	✓
LATVIA	✓	✓	✓
LITHUANIA	✓	✓	✓
POLAND	✓		✓



# Eesti Energia's journey in 2020

- Producing and consuming renewable energy is simpler and more convenient
- Electricity network is becoming the link to a new world of energy
- Cleaner energy production increases our competitiveness

We work to create a cleaner, more flexible and more sustainable energy world in partnership with our customers. Rapid transition to this new world and the era of digitalisation is driven by environmentally friendly thinking – people feel that their choices have a direct impact on the living environment as a whole.

The first and easiest step on the way to a more sustainable lifestyle is to start consuming green electricity and thereby increase demand for renewable energy. The year 2020 saw growth in the popularity of renewable electricity plans and corporate customers' motivation to reduce their carbon footprint.

In contrast to the beginning of 2019 when only about every twentieth household chose a green electricity plan, in 2020 already every third new customer preferred electricity produced from 100% renewable sources. Across our markets, 50,000 customers have chosen a renewable electricity plan.

○ To widen the range of options, we will soon allow customers to choose the green electricity they prefer to consume: wind, solar or hydro. Apart from self-produced wind and solar energy we purchase small producers' excess renewable energy and sell it to our customers in all the markets where we operate.

### Number of green energy customers



- In cooperation with larger corporate customers, we seek opportunities to enter into long-term renewable power purchase agreements (PPAs) which keep the customer's electricity costs stable and guarantee the origin of electricity consumed while providing the producer with a sense of security that it can sell its output.

To that end, we signed a PPA with the Lithuanian wind energy company E energija under which we are going to purchase the entire green energy output of its future wind farm over a period of ten years. It is the largest and longest green PPA ever signed in the Baltics.

According to projections, the wind farm that is going to be built in Telšiai and scheduled to become operational in 2022 will produce 235 GWh of renewable electricity per year, which would meet the annual electricity needs of around 80,000 households. We wish to supply the energy to corporate customers to offer businesses better opportunities to make their operations more eco-friendly.

## Solar energy production and consumption is soaring

We have made renewable energy production as well as consumption as easy for the customer as possible. Our poll-based market research reflects that out of the respondents two thirds are interested in solar panels and every tenth of those who are interested is planning to implement solar energy.

Our solar energy experts do their best to make sure that everything, from the idea to the execution, runs smoothly. We help the customer choose the appropriate solution, apply for relevant permits and sign the network contract, and provide information about available support schemes. In addition, we offer hire-purchase arrangements in cooperation with banks and purchase the customer's excess energy.

Corporate customers can choose between commissioning the construction of a solar power plant and a full-service solution whereby they do not need to worry about self-financing. In 2020, we helped more than 350 residential and corporate customers in Estonia, Latvia and Lithuania to install solar power plants with a combined capacity of 9 MW.



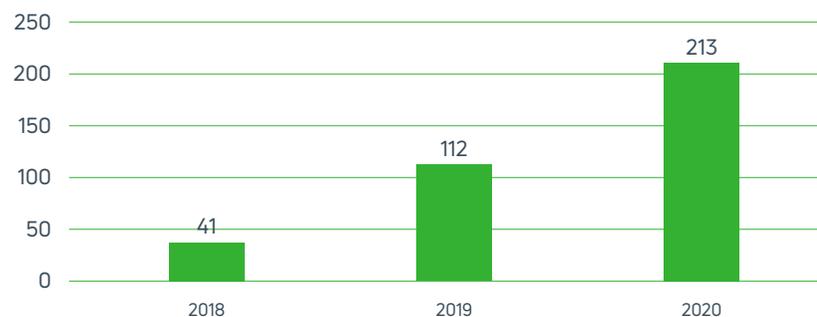
The number of small electricity producers surged and the volume of electricity they supplied to the network multiplied in 2020. This was a great challenge for our distribution network operator Elektrilevi and the Estonian electricity system as a whole.

During the year, the number of places of consumption with electricity production equipment connected to Elektrilevi's network swung from nearly 3,100 to over 6,000. The total capacity of solar power plants connected to the network grew from 112 MW to 213 MW.

During the summer months, the midday solar energy production extended to 20% of total consumption from Elektrilevi's network, i.e. solar power plants were able to cover a fifth of Estonia's electricity supply needs. In the coming summer we may see the situation where all the required electricity is produced locally from wind and solar energy.

Solar production capacity in Elektrilevi's grid

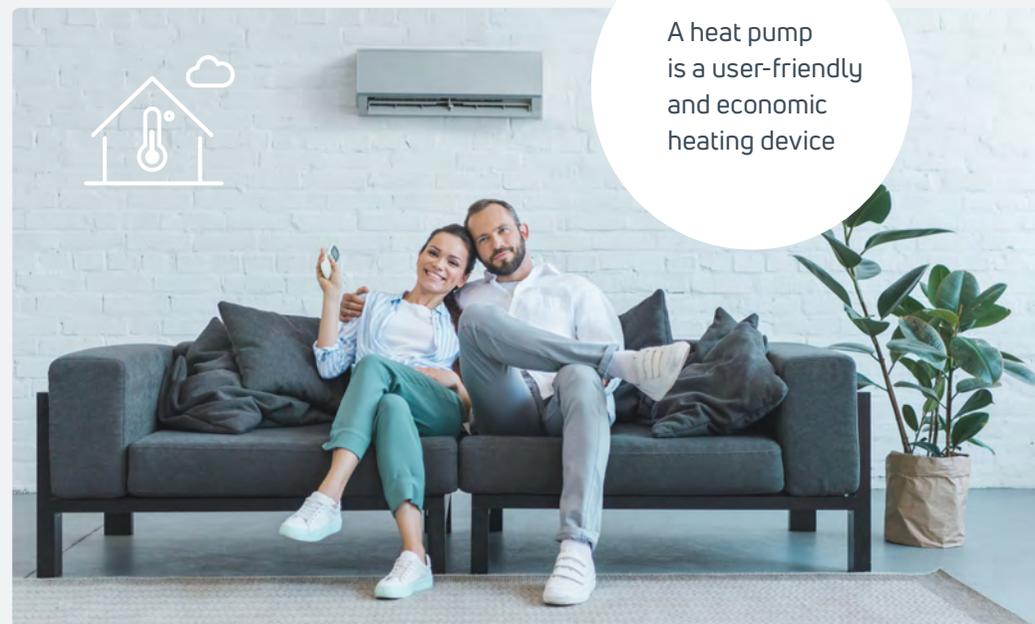
MW



## Customer benefits from flexibility and electrification

Having noted that a lot of customers heat their homes with inefficient heating systems which inflate their electricity bills, we supplemented our range of households' energy solutions with heat pumps last year.

A heat pump is a user-friendly and economic heating device that households can use both as the main or a supplementary source of heat. We offer air to air, air to water and geothermal heat pumps suitable for the Nordic climate.



We began to offer electrical and fire insurance in Estonia and Latvia to increase our customers' sense of security. Statistics reflect that around a half of households in Estonia lack insurance and approximately a quarter of all fires are caused by electrical faults. The solution that comes with a swift claim settlement is simple and makes insurance affordable for a larger number of households. The insurance cover may also be purchased for a dwelling that is not the customer's permanent residence and there is no limit to the age of the building.

We believe that electrification is the fastest way in the transition to a low-carbon economy. In the energy sector, the change has occurred more quickly than elsewhere, which is why in the name of cleaner transport we can give a hand to the transport sector.

Wishing to make ownership of electric vehicles as convenient as possible, we offer charging solutions under the Enefit Volt brand and operate Estonia's largest public charging network. The green energy supplied by the network has helped reduce the number of "dirty energy" kilometres travelled on Estonian roads by around 4 million within just a year. This is thanks to the first 1,900 people in Estonia who decided to get an electric car.

The Enefit Volt public charging network comprised 180 chargers at the end of 2020. We installed the first super-fast chargers in Tallinn and Tartu. Depending on the vehicle, these allow charging the energy required for covering 100 km within less than 10 minutes. We also opened 10 new fast chargers. The public charging network can be used conveniently through the Enefit Volt smart application.

In autumn, we began to offer households smart charging solutions, which will also be made available to corporate customers. The solution can be ordered with flexible load management which directs a vehicle charger to charge batteries at the time when overall consumption is lower. This way an electric vehicle can be charged without additional costs on increasing the capacity of the connection.

Growth in the number of electric vehicles is going to change transport significantly in the next five years. Because of electric cars, we will need, both in our daily life and electricity systems, large energy storage devices which can be used as flexible system components. When the wind is blowing and the sun is shining, electricity is cheaper and charging the battery reasonable. When the volume of renewable energy in the network decreases and

We believe that electrification is the fastest way in the transition to a low-carbon economy



We operate Estonia's largest public charging network



the electricity price rises, car batteries can supply the energy stored in them back to the network and earn money for the owner.

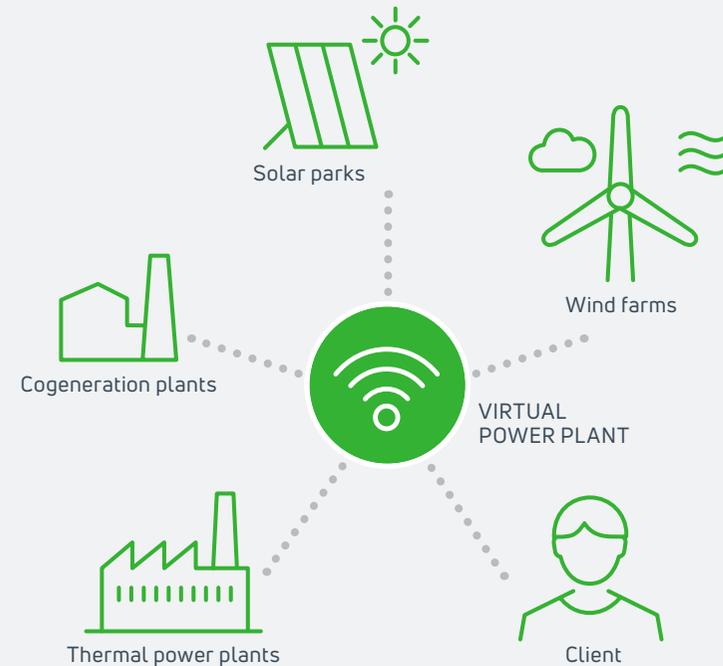
## Flexibility services create savings

The flexibility of an electricity system assumes that production and consumption can be controlled from a digital platform. We took the first step in that direction by launching an innovative virtual power plant. It allows speeding up green and digital transition by making large assets that consume and produce electricity earn money for the customer by reducing energy costs and increasing the supply of renewable energy.

In the first phase, we are planning to offer the solution to large industrial and manufacturing companies and, thereafter, to commercial and office buildings as well as households whose use of smart and flexible devices is increasing annually. We are carrying out the tests required for developing the service in collaboration with partners such as TalTech (Tallinn University of Technology) and preliminary results are promising.

A virtual power plant can make large industrial equipment that is carrying out its core processes earn money smartly, invisibly and without additional investment by reducing its energy costs. Depending on the industry and the equipment, annual cost efficiencies may extend to 15%.

- Virtual power plants monitor energy market developments and network traffic in real time and control the equipment connected to the network in accordance with the owner's convenience requirements on the principle that the equipment should operate as profitably as possible for the owner and optimally for the network. The latter, in turn, enables the service provider to earn extra revenue.**



We also connected our Auvere power plant and a part of our wind farms to the virtual power plant platform. This has allowed us to create a fast response energy reserve with which we participate in the Finnish frequency containment reserve market. In Estonia and the Baltics, the market for such a service will emerge only in 2025.

## Growing our energy sale portfolio in the markets where we operate

Our energy sales are supported by growth in the markets where we operate, particularly in Latvia, Lithuania and Poland. In 2020, we began to sell electricity to households in Lithuania, which is the fourth market besides Estonia, Latvia and Finland where we sell electricity to residential customers.

Thanks to a strong value proposition, we succeeded in winning 20,000 new household customers in just a few months during the first phase in the deregulation of Lithuania's electricity market. In Lithuania, we sell only locally produced renewable energy supplied by the wind farms of our own subsidiary Enefit Green and other local renewable energy producers.

In 2020, we doubled the number of our household customers in Latvia where we have won the trust of 20,000 households. In addition to electricity sales, we offer in the Latvian market solar electricity solutions and insurance and sell the pellets produced by Enefit Green.

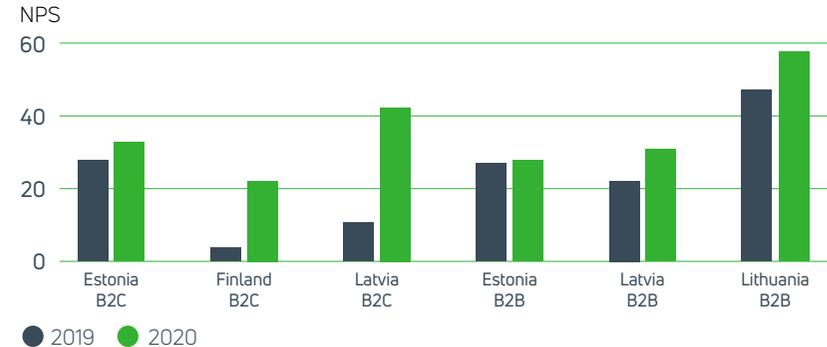
In Poland, we signed a record-large electricity sales contract with the Polish subsidiary of the international telecommunications corporation Orange. During the three-year contract term, Enefit will deliver the customer 510 GWh of electricity per year.

The highly successful transaction demonstrates the strength of our international team and proves that there is room in the Polish market for energy sellers that offer solutions which meet customer needs and a long-term partnership. Within a couple of years, Poland has become our second-largest sales market after Estonia. It has shown the fastest sales growth and strong potential for further growth in the production of renewable energy as well as the provision of smart energy services.

## Customer feedback

We are expected to provide smart services and expert advice. We measure our success against customer feedback. Results reflect that both household and corporate customers' satisfaction has increased year by year. We listen to our customers and try to fulfil their requests. We also involve customers in the testing of new energy services to make sure that our services meet expectations.

### Customer satisfaction



Last year, we refreshed the appearance, structure and contents of our website. For a lot of customers, the Eesti Energia website which gets almost 300,000 visits per month is our number one communication channel. Now the website is even more customer-centric and our products and services even easier to find. On the website of our distribution network operator Elektrilevi, we simplified the structure of the self-service environment and extended session times.

Since people increasingly access websites on smart devices, our mobile view is as user-friendly as the desktop view. We redesigned page setup and tested it against the existing one to make sure that all main topics can be found quickly and easily.

## Electricity network is becoming the link to a new world of energy

A high-quality and smartly controlled electricity network is the backbone of tomorrow's energy system. In Estonia, 93% of the electricity distribution network is operated by our subsidiary Elektrilevi.

We have decided that from 2021 Elektrilevi will provide only electricity distribution service, which will be continuously developed to make it more reliable. This will enable the provider of the regulated distribution service to focus on its strengths while the development of customer services based on the free market logic will be transferred to a new company, Enefit Connect.

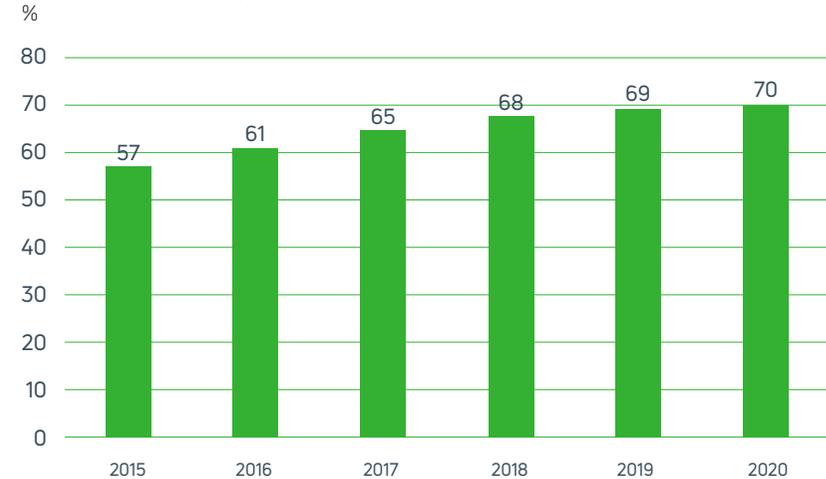
**○ Enefit Connect will manage electricity networks and a major share of Estonia's street lighting networks, build the internet network, develop the electric vehicle charging network and offer customers new cutting-edge technology-based energy solutions.**

We improved the security of supply of nearly 75,000 customers in 2020, twice as many as the year before, by upgrading area and distribution substations.

In weatherproofing the network, we focused on reducing visual pollution. We liquidated 420 km of overhead lines and 7,400 masts. In the past five years, we have liquidated 2,200 km of overhead lines – a distance roughly equal to the one from Tallinn to Venice.

At the end of 2020, 70% of the distribution network was weatherproof. By the year 2025, the figure will rise to 75%.

Share of weather-proof network



## Multi-utility connection is beneficial for the customer

Each new residential area needs electricity and internet, street lighting and increasingly electric vehicle charging readiness. We offer developers a convenient and cost-saving option to connect to multiple networks through our all-in-one multi-utility connection solution. We have signed contracts to provide telecommunications connections through Elektrilevi's distribution network to 3,000 dwellings that are currently under development.

We continue to build the next-generation internet network. Soon internet and TV services that require a high-speed connection can also be used by households that have been waiting for them for decades. By the end

of 2020, we had built connection points at 17,000 addresses. When the project is complete, the number of customers able to connect will rise to 120,000. 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. The customer can choose between different service providers.

Efficient management of multiple networks has already created clear synergies which have translated into lower prices for our customers.

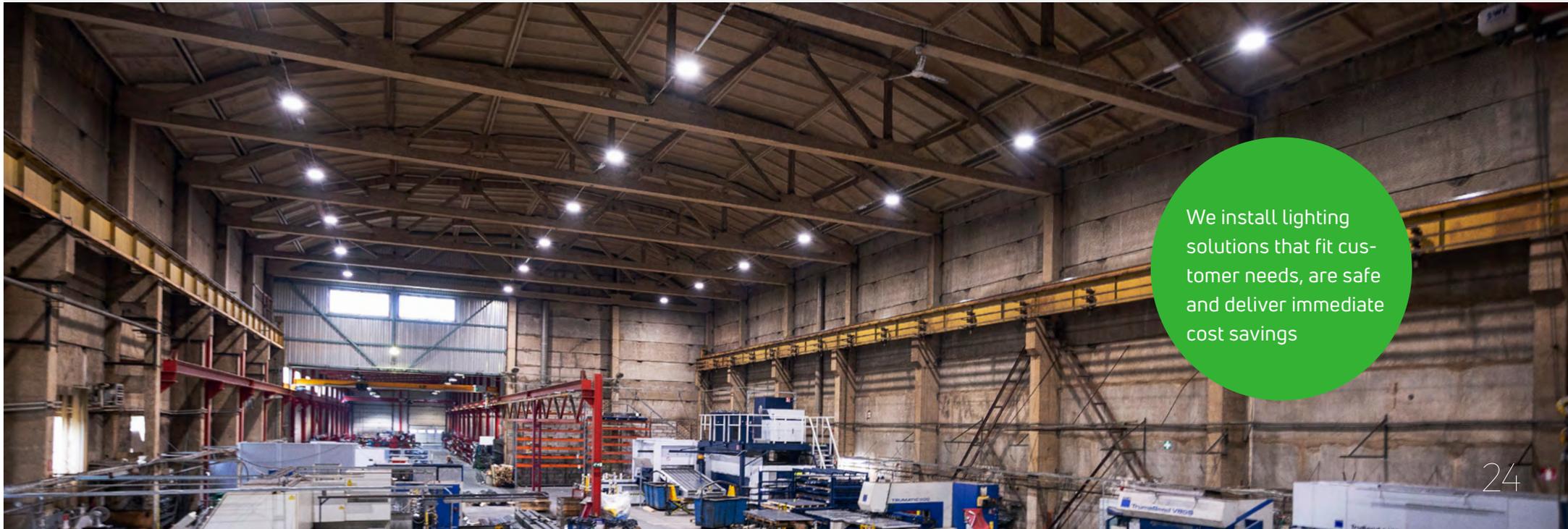
## Energy efficient lighting pays off quickly

We won a five-year contract with the city of Tallinn under which we are going to manage, maintain and renovate the street lighting system of the capital of Estonia. The scope of a similar contract with the city of Tartu

was extended to include the street lighting system of Tähtvere rural municipality. Altogether, we manage and maintain 40% of Estonia's street lighting systems.

We compete for street lighting contracts in the Latvian and Lithuanian markets. We continue to provide complete street lighting service in the Tauragė and Kalvarija districts in Lithuania under previously signed contracts.

A new, quick and cost-effective solution is installing street lighting directly on power lines. In addition, we offer corporate customers outdoor and indoor lighting upgrade and management that allows them to achieve considerable cost savings. It is worth noting that the payoff period of the customer's own investment is very short: generally less than five years.



We install lighting solutions that fit customer needs, are safe and deliver immediate cost savings

## Digital solutions are smart

Carefree electricity consumption assumes that the customer's main circuit breaker is of the right size. Harnessing our smart electricity meters, we developed a unique online electricity test, which quickly indicates whether the size of the main circuit breaker is appropriate for the customer's current consumption or whether it is too large and by reducing it the customer could save on excess network charges.

The test also reflects how high are the risks of overload and the circuit breaker tripping. A more even load distribution could be the solution.

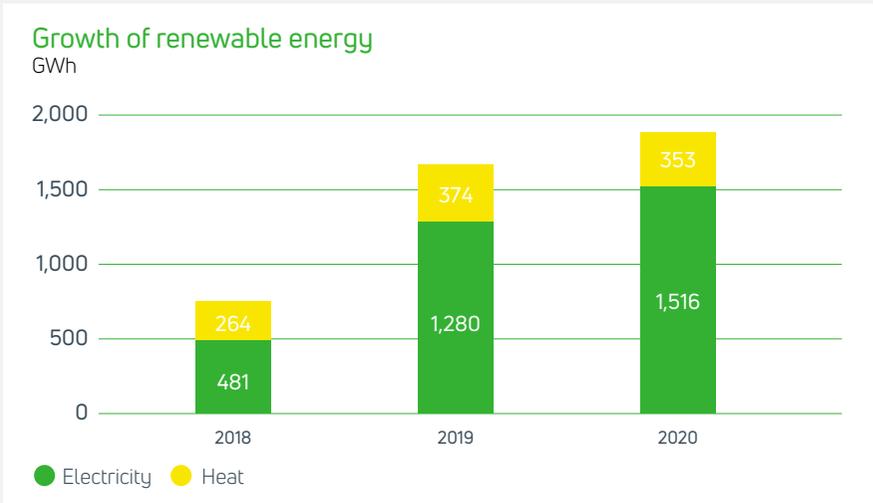
We brought our network services from street lighting to electric vehicle charging under a single control centre, taking the quality of day-to-day network management to a new level. We also integrated the services of maintenance electricians into a digital platform. This should reduce fault recovery time and increase customer satisfaction.



## Cleaner energy production increases our competitiveness

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.

Our priority is to develop renewable energy. In 2020, we produced 1.9 TWh of renewable energy: 1.5 TWh of renewable electricity and 0.4 TWh of renewable heat.



Our renewable energy company Enefit Green is the largest wind energy producer in the Baltics: the combined capacity of its Estonian and Lithuanian wind farms is 398 MW. Although new wind energy production capacities were not added last year, wind energy output grew by 11% to 1.1 TWh.

Production growth was supported by wind conditions, which were better than the year before, and higher availability of the turbines, which is attributable to value-adding data digitalisation, which is one of our focus areas.

When production facilities are located in several countries, effective IT solutions are essential. They provide us with real-time information about the technical condition and operating efficiency of each production asset. Automated data processing enables us to forecast and schedule maintenance more accurately.

We added value to the land site under our Paldiski wind farm by building a 4 MW solar farm and increased our solar energy portfolio to 30 MW.

In line with the owner's expectations, we maintained Estonia's security of electricity supply, keeping available 1,000 MW of controllable production capacities. We participated in the electricity market at full capacity during market failures and periods of higher demand.

We reduced the carbon intensity and increased the competitiveness of our controllable power plants in Ida-Viru County (part of the large-scale energy production business line) by increasing the share of biomass and retort gas (a by-product of liquid fuel production) and reducing the share of oil shale in their fuel mix.

Our large-scale energy production business generated 2.5 TWh of electricity, including 243 GWh of renewable electricity, accounting for 16% of the Group's total renewable electricity production.



We added value to the land site under our Paldiski wind farm by building a 4 MW solar farm and increased our solar energy portfolio to 30 MW



Our Enefit shale oil production technology is the most efficient and environmentally friendly way of deriving energy from oil shale. Carbon emissions from producing high-quality low-sulphur marine fuels are times smaller than those resulting from electricity production by the direct burning of oil shale.

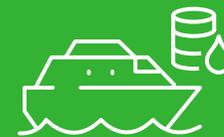
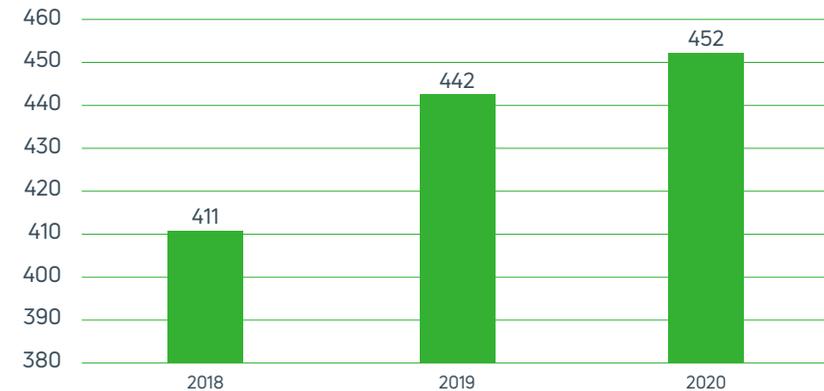
○ The year 2020 was the first in Eesti Energia's history when we used more oil shale for shale oil production than we did for electricity production. Thanks to the higher availability of the oil plants we set a new production record: 452,000 tonnes.

Demand for our liquid fuels has increased since the entry into force of more stringent environmental requirements to the sulphur content of marine fuels, which have driven lower-quality fuels out of the market. With the support of the owner, we adopted the decision to invest in the construction of another Enefit280 oil plant. The new plant, which is expected to be completed in 2024, will raise our annual liquid fuel output to 700,000 tonnes.

The construction phase of the oil plant will offer work to approximately 1,000 people in the construction and technology sector, including up to 700 local people. It will also create additional indirect jobs in the service sector.

### Shale oil production

thousand t



Demand for our liquid fuels has increased since the entry into force of more stringent environmental requirements

# Sustainably and Responsibly to the Future

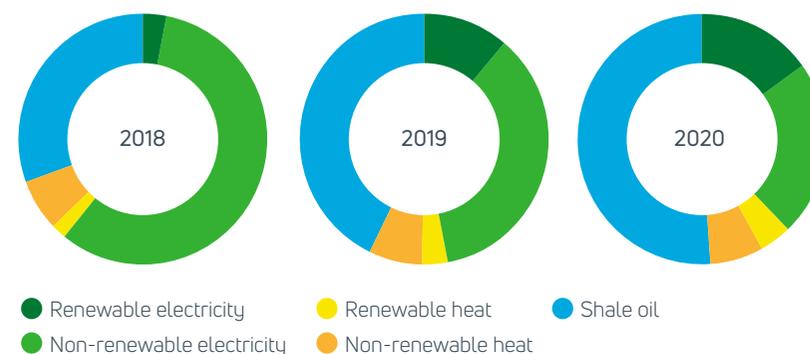
- A renewable energy growth plan for the entire region
- Using circular economy to achieve waste-free production
- Unlocking new opportunities through research and development
- Setting an example
- Self-improvement is the key to success

We feel that we are responsible for more than just supplying energy to customers. We have the competencies required to increase people's awareness and to offer solutions at every level in creating a cleaner living environment.

Historically, the energy sector has had a huge impact on the environment. Therefore, it is fair that we contribute to the change more than others. Our energy production comprises electricity, heat, and liquid fuel (shale oil) production.

The fuel mix of our controllable production assets has changed year by year. We have increased the share of waste wood and retort gas in electricity production and reduced both the use of oil shale and carbon emissions.

Changes in the energy portfolio – breakdown of total output



Our key goals include reducing the combined carbon intensity of our production operations (CO<sub>2</sub> emissions per unit of energy output) to 0.2 tonnes per MWh by the year 2030. A subsidiary goal is to lower the emissions of electricity production to at least 0.4 tonnes per MWh by the year 2030.

Both the European Union (EU) and Estonia have set the goal of climate neutrality. Consistent with that, by the year 2050 (at the latest) will have terminated energy production operations that cause carbon emissions or will have transitioned to technologies that either do not emit or capture CO<sub>2</sub>.

Eesti Energia's CO<sub>2</sub> emission has decreased more than three times in the past two years. The figure for 2020 was 3.8 million tonnes, 35% down from 2019. The steep decline has made Estonia the fastest reducer of CO<sub>2</sub> emissions in the EU.

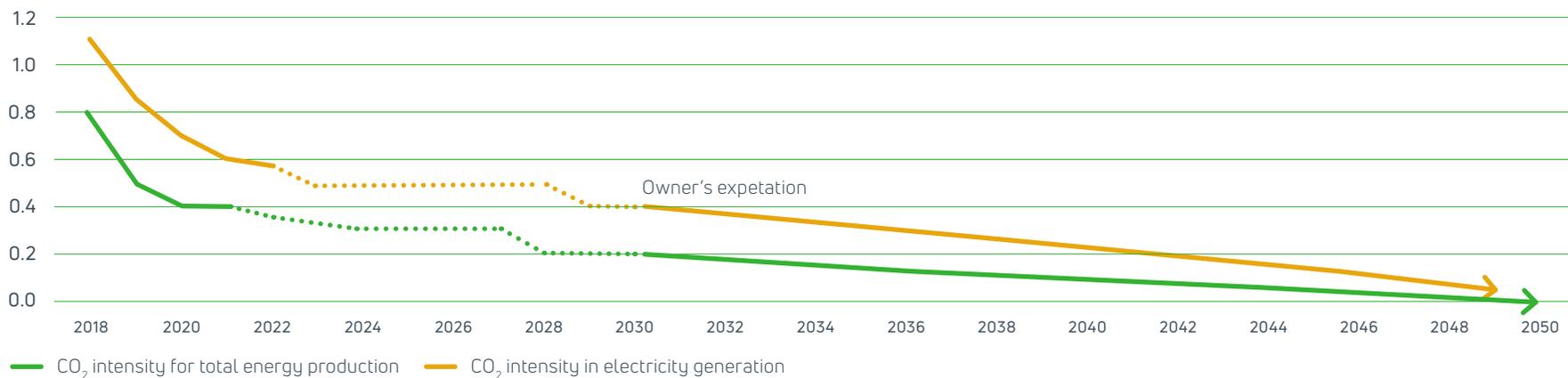
The EU target for 2030 is to reduce greenhouse gas emissions by 55% compared to 1990. Estonia's target is 70% and it is highly likely that the ambitious target was met in 2020 already.

### Eesti Energia's CO<sub>2</sub> emission

million t



### Carbon intensity of energy production



## Key Environmental Figures

		2016	2017	2018	2019	2020
<b>OUTPUT</b>						
Electricity	GWh	9,071	9,736	9,132	5,549	<b>3,808</b>
incl. renewable energy	GWh	380	404	481	1,280	<b>1,516</b>
Heat	GWh	1,358	1,186	1,199	1,150	<b>1,087</b>
incl. biomass and waste energy	GWh	412	424	403	534	<b>541</b>
Liquid fuels	thousand t	318	395	411	442	<b>452</b>
Oil shale gas	million m <sup>3</sup>	91	112	108	111	<b>112</b>
<b>RESOURCES USED</b>						
Oil shale	million t	15.2	16.6	15.6	9.2	<b>6.4</b>
Natural gas	million m <sup>3</sup>	60.7	37.2	39.9	27.1	<b>43.6</b>
Biomass	million t	0.2	0.2	0.2	0.3	<b>0.3</b>
Municipal waste	thousand t	247.9	235.7	232.9	215.7	<b>242.3</b>
Cooling water	million m <sup>3</sup>	1,481.9	1,486.7	1,348.8	711.8	<b>937.7</b>
Pumped mining water	million m <sup>3</sup>	139.5	155.6	91.9	127.4	<b>122.7</b>
incl. water from opencasts	million m <sup>3</sup>	71.2	76.3	43.9	61.9	<b>64.5</b>
incl. water from underground mines	million m <sup>3</sup>	68.3	79.2	48.0	65.5	<b>58.2</b>

		2016	2017	2018	2019	2020
<b>EMISSIONS TO AIR</b>						
SO <sub>2</sub>	thousand t	20.7	22.6	18.2	7.4	<b>2.6</b>
NO <sub>x</sub>	thousand t	6.4	6.7	5.9	3.2	<b>2.6</b>
Particles	thousand t	2.3	2.5	2.1	1.1	<b>0.7</b>
CO <sub>2</sub>	million t	11.5	12.3	11.3	5.9	<b>3.8</b>
<b>SOLID WASTE</b>						
Oil shale fly and bottom ash	million t	7.0	7.2	7.2	4.1	<b>2.9</b>
incl. recycled	million t	0.1	0.1	0.2	0.1	<b>0.1</b>
Waste rock	million t	5.0	4.2	4.2	3.7	<b>1.7</b>
incl. recycled	million t	1.5	1.4	1.2	1.3	<b>2.2</b>
<b>RELEASES TO WATER</b>						
Suspended matter	thousand t	1.0	0.9	0.7	0.5	<b>0.5</b>
Sulphates	thousand t	71.1	86.2	59.1	65.1	<b>62.8</b>
<b>ENVIRONMENTAL CHARGES</b>						
Resource charges*	million €	1.3	15.3	25.0	20.8	<b>9.1</b>
Pollution charges	million €	30.3	28.7	27.4	14.7	<b>6.4</b>

\* The resource charge figure for 2016 was influenced by retrospective reduction of the resource charge rate. Excluding the impact of retrospective reduction, resource charges for 2016 would have amounted to 17.3 million euros.

## A renewable energy growth plan for the entire region

Another important climate goal to which Eesti Energia is contributing is increasing the share of renewable energy in final energy consumption. Renewable energy accounted for 38% of our total electricity and heat output in 2020.

In order to grow renewable energy production, we have launched several new wind farm development projects. In Estonia, we are preparing an environmental impact assessment programme in Pärnu County: in Saarde rural municipality, Tori rural municipality and Paikuse rural municipality district. After that it will become clear whether and on what terms we could build wind farms in those areas. In Lääne-Nigula rural municipality in Lääne County the local council decided to terminate the preparation of the designated spatial plan. Our Tootsi wind farm project is ready for moving on with construction.

In Lithuania, we are finalising the environmental impact assessment programmes of three wind farms and are moving towards investment decisions which we hope to make in 2021. In Finland, we finalised the acquisition of the Tolpanvaara wind farm development project, which is ready for construction.

We are also moving on with the two offshore wind farm projects in Eesti Energia's portfolio. In the Gulf of Riga project, which is the largest and most advanced-stage offshore wind farm development in the Baltics, we are putting the last touches to the environmental impact assessment programme to move on to the survey of the sea area. At the same time, we are working on an offshore wind farm project in North-West Estonia. In that project, we are supplementing the environmental impact assessment report.

We are looking for opportunities to develop wind energy in all the markets where we operate and realise the projects one at a time when we are certain of their future cash flows. In developing any project, we prioritise supporting and involving the local community and environmental sustainability.

○ Our target is to increase our solar energy production capacity in the next four years to at least 74 MW. At the same time, we will continue to offer solar energy solutions to customers in all our markets.



## Using circular economy to achieve waste-free production

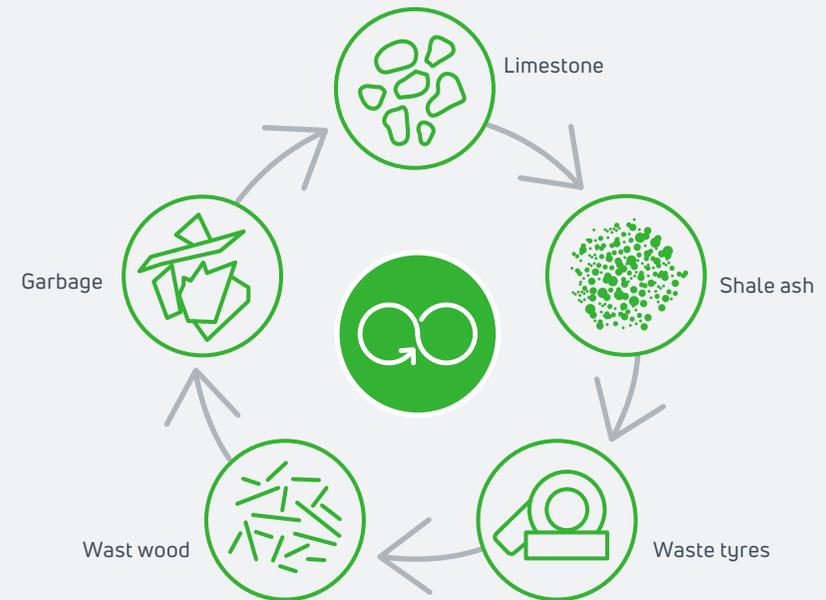
Eesti Energia's goal is waste-free energy production – the by-products of adding value to oil shale are used as raw materials in other areas consistent with the principles of circular economy.

Scientists have researched oil shale ash and limestone in depth and their use has extended from the chemicals industry to road construction and agriculture for decades already. Last year, we transferred 60,000 tonnes of ash into reuse.

The value derived from Estonian oil shale has never been as great and the use of oil shale in Estonia has never been as clean as it is today. Circular economy means, among other things, finding new use for industrial areas. Out of the 2.2 million tonnes of crushed limestone that resulted from our operations during the year, 80% was used in building a foundation for the first solar farm that is going to supply green electricity to our mines. We are planning to build another solar farm in the same manner.

The detailed plan adopted for the area of our Estonia mine in 2020 allows us to build there Estonia's first pumped-storage hydropower plant. We are planning to use crushed limestone in the construction of its upper reservoir. The energy storage system with a capacity of up to 50 MW is expected to be completed in 2026 and up to 5 million tonnes of limestone can be reused in its construction.

A special wood shredding and metal removal complex has enabled us not to accumulate waste and to increase renewable energy production.



We use municipal waste including biowaste in the production of electricity and heat at our Iru power plant. We sell heat to the provider of district heating to the city of Tallinn at the lowest price in the market.

Environmental rehabilitation and restoration of former oil shale mining areas (quarries and opencasts) is an integral part of oil shale mining. Altogether, we have restored over 169 hectares of land. Over the years, we have planted more than half a million trees.

## Unlocking new opportunities through research and development

Eesti Energia invests more than a million euros per year in research and development in order to be able to offer customers increasingly smarter, more convenient and cleaner products. In 2020, we began working with TalTech to find a way to process plastic waste together with oil shale into liquid fuel at our oil plants. The results of lab tests have been promising.

Our Enefit technology provides an opportunity for Ida-Viru County, which is host to our production facilities, to lead the way in the solution of environmental problems. In liquid fuel production we can already replace oil shale partly with old tyres and the prospects of using non-reusable plastic waste for the same purpose adds further value to the technology.

By using tyre crumbs and plastic, we could recycle at least 80,000 tonnes of waste per year into a new and valuable product in an environmentally friendly manner, reduce the carbon emissions of our production operations and increase the quality of our liquid fuels.

In partnership with TalTech, we are also seeking carbon capture technologies that are best suited to Estonian conditions and the needs of our large-scale energy production operations as well as solutions to increasing the quality of oil products without building a pre-refining facility.

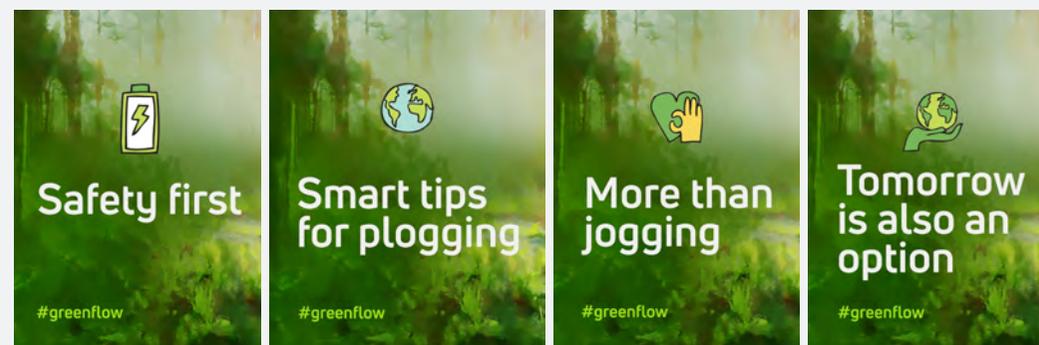
We joined the European Clean Hydrogen Alliance to speed up the implementation of innovative, clean and forward-looking energy solutions in Estonia and other markets where we operate and thus to support green transition in the region.

Hydrogen may become a key element in achieving long-term climate goals and, through our existing wind farms, we have strong potential to become the leading green hydrogen producer in the Baltics.

We are planning to launch green hydrogen production pilot projects near our wind farms in the next few years and, in partnership with other companies, to deliver the product to end-consumers that may include rail, municipal and road transport entities. Large-scale green hydrogen production can start if the project of building an offshore wind farm in the Gulf of Riga can be realised.

## Setting an example

To increase customer awareness, we conducted a campaign designed to provide ideas for energy saving and contributing to a cleaner and greener future. For a month, we used social media to share energy saving tips and clean-up initiatives and to promote zero waste lifestyles.



We have gradually increased the share of electric cars in our vehicle fleet to set an example and support transition to cleaner transport. With more than 20 electric cars, our electric vehicle fleet is one of the largest among Estonian companies. By 2024, electric vehicles will account for at least 20% of our vehicle fleet. By offering smart charging solutions, we wish to make the electric car a natural and preferred means of transport for people and companies alike.

We were the first in the world to implement a new generation Komatsu bulldozer whose exhaust gas includes almost 80% less particulate matter and 50% less nitrogen emissions than that of its predecessors. It is also more powerful, with higher productivity and lower fuel consumption.

We consistently work to reduce the environmental impacts of our offices. Every year, we redesign at least one of our offices so that it complies with the requirements of the Green Office Certificate. Working remotely and videoconferencing have become part of our daily practice. This has reduced domestic and international business travel several times.

We appreciate and support staying active and energetic as well as developing and maintaining a healthy outlook on life. People who exercise regularly are happier. Therefore, together with Swedbank and Merko Ehitus, we have been sponsoring the activities of the Estonian Health Trails Foundation for 15 years already. Investments made over the years, including contributions from central and local governments and the EU structural funds, exceed 50 million euros, which has been used to build and maintain approximately 120 health trails.

Our distribution network operator Elektrilevi promotes electrical safety by sending its safety crew to safety camps designed for children, participating in preventive work and contributing actively to the provision of safety information. In 2020, we conducted a successful safety campaign in the course of which over 15,000 people visited our electrical safety website and more than 9,000 people checked their safety knowledge using our safety test.

A major share of our production facilities and employees are in Ida-Viru County. Therefore, we are committed to helping young people in the region to achieve their dreams. Talented Young People's Energy Fund, established in 2013 in cooperation with the Association of Ida-Viru Local Governments, supports the education and recreational undertakings of young people

who have shown outstanding results in their studies or recreational activities with grants, which are awarded twice a year.

In 2020, Eesti Energia's traditional Environment Day focused on how to change the NIMBY (not in my back yard) attitude to renewable energy production assets to YIMBI (yes, in my back yard). Energy production is increasingly more off the grid, closer to people and inevitably more visible. Achievement of the desired carbon neutrality goal requires the support of local communities.

We continued to support the production of TV science show Rakett69 to promote sciences and make the energy industry more attractive for young people. The final episode of the season was filmed at our Ahtme depot, which was specially adjusted for that purpose.

Our Environment Day ended with a debate among politicians: "Carbon-free Estonia by 2050"



## Self-improvement is the key to success

People are our most valuable assets that allow us to offer forward-looking energy solutions and to attract new staff. Increasing digitalisation and implementation of new production assets assumes new skills from our workforce.

A strong employer brand provides a significant advantage in the labour market. We have put development and career opportunities more clearly in the centre of our value proposition and our employee experience unit takes a comprehensive approach to dealing with recruitment, creating an inspiring work environment, providing training and developing future talent.

We had created conditions for successful remote work already before the health crisis and restrictions caused by the outbreak of COVID-19. We use the opportunities offered by Office 365 and hold virtual meetings.

We have created a virtual learning and development community and have developed solutions for the physical work environment that support generation of ideas, knowledge-sharing, creative problem solving, flexibility, and all-round teamwork.

We offered internship opportunities to 150 young people and the Estonian Employers' Confederation awarded us the title of the best regional internship provider. Offering internship opportunities is one of the cornerstones of our strategy for attracting future talent. Out of all the people we hired in 2020, every tenth had done an internship with us.

We looked at the restrictions imposed to prevent the spread of the virus as an opportunity to demonstrate our resourcefulness and openness to innovation. We quickly switched to organising virtual events, from the traditional Miners' Day and Environment Day to regular onboarding seminars for new staff.

In 2020, 93% of the staff responded to the employee engagement survey by which we measure our progress. We are pleased to report that employee engagement has increased and exceeds the average for Estonia. Voluntary employee turnover has decreased two times, the annual average figure remaining below 4%.

## Challenges of the COVID crisis

We have to ensure the uninterrupted availability of essential services 24/7 and the outbreak of COVID-19 in spring 2020 was a real challenge for us as an energy provider. By putting health and safety first, communicating clearly and swiftly implementing preventive measures, we succeeded in avoiding any serious setbacks.

As soon as the government had declared a state of emergency, we set up a crisis committee that worked until the year-end. We made action plans for production and customer service units to prevent the spread of the virus, made sure that the necessary personal protective equipment and disinfectants were available, promptly transferred around 1,600 people to home offices, maintained open communication, implemented new digital channels and formats, and replaced training and other physical events with virtual ones.

Although our work was partly disrupted and we had to close the mines temporarily, we were able to reduce virus transmission in the workplace to a minimum while keeping our customers' homes warm and their lights on.

# Tax Footprint



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 administrator 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 tax administrators; and
- involve external advisers in projects where we lack in-house tax-technical competencies.

## Our tax footprint

In disclosing our tax footprint, we present tax information by taxes and countries.

### 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 administrator.

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

In 2020, taxes borne and collected by us totalled 60.1 million euros and 106.7 million euros, respectively. Consequently, the Group's tax footprint amounted to 166.8 million euros.

With 58.9 million euros, Eesti Energia Group is one of the largest payers of payroll taxes in Estonia.

### Tax payments by Eesti Energia Group\* (m€)

	Estonia 2020	Estonia 2019	Latvia 2020	Latvia 2019	Lithuania 2020	Lithuania 2019	Poland 2020	Poland 2019	Finland 2020	Finland 2019	Sweden 2020	Sweden 2019	Total 2020	Total 2019
<b>TAXES BORNE</b>														
Payroll taxes borne by the employer	36.3	41.7	0.5	0.5	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.1	37.1	42.5
Environmental charges	21.4	46.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	21.4	46.1
Corporate income tax	0.2	15.9	0.2	0.8	0.3	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.7	17.5
Customs VAT	0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Land tax, Real Estate Tax	0.3	0.3	0.0	0.0	0.6	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.8
<b>Total taxes borne</b>	<b>58.2</b>	<b>104.1</b>	<b>0.7</b>	<b>1.3</b>	<b>0.9</b>	<b>1.3</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>60.1</b>	<b>107.0</b>
<b>TAXES COLLECTED</b>														
Excise taxes	17.8	33	0.0	1.1	0.2	0.2	0.0	0.6	0.0	0.0	0.0	0.0	18.0	34.9
Employee's payroll taxes	22.6	25.5	0.6	0.6	0.2	0.4	0.0	0.1	0.1	0.1	0.2	0.1	23.7	26.8
VAT (balance i.e. Sales VAT minus VAT on purchases)	33.9	49.9	11.8	12.1	18.7	16.1	0.1	0.0	0.2	0.1	0.4	0.0	65.0	78.2
<b>Total taxes collected</b>	<b>74.3</b>	<b>108.4</b>	<b>12.4</b>	<b>13.8</b>	<b>19.1</b>	<b>16.7</b>	<b>0.1</b>	<b>0.7</b>	<b>0.3</b>	<b>0.2</b>	<b>0.5</b>	<b>0.1</b>	<b>106.7</b>	<b>139.9</b>
<b>Total taxes</b>	<b>132.5</b>	<b>212.5</b>	<b>13.1</b>	<b>15.1</b>	<b>20.0</b>	<b>18.0</b>	<b>0.1</b>	<b>0.8</b>	<b>0.4</b>	<b>0.3</b>	<b>0.7</b>	<b>0.2</b>	<b>166.8</b>	<b>246.9</b>

\* Reported on a cash basis

# Corporate governance report

- Management principles
- Differences applying to the management of the distribution network operator Elektrilevi OÜ
- 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 (KPIs) for our strategic goals. This helps us set and achieve clear goals and continuously measure our progress.

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 in conformity 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.

## 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 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.

Eesti Energia's sole owner is the Republic of Estonia, which is represented at the general meeting by the minister of finance. 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. 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 powers of the previous composition of the supervisory board expired on 11 May 2020. The general meeting extended the powers of Ants Pauls, Andres Liinat, Ivo Palu, Einari Kisel and Väino Kaldoja who continues as the chairman of the supervisory board and appointed two new members: Raigo Uukkivi and Meelis Einstein. The new supervisory board does not include Kaie Karniol and Danel Tuusis. The term of office of all members of the supervisory board will expire on 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 2020, the supervisory board held 11 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 2020, the legal adviser of the supervisory board was attorney at law Sven Papp from law firm Ellex Raidla.

### Management Board Members' participation in meetings and total remuneration paid

	Participation in meetings 2020	Total remuneration 2020 (€)	Total remuneration 2019 (€)
Väino Kaldoja	11	24,000	24,000
Ants Pauls	11	12,000	12,000
Andres Liinat	11	12,000	12,000
Ivo Palu	11	12,000	12,000
Einari Kisel	10	12,000	12,000
Raigo Uukkivi	7	7,700	
Meelis Einstein	7	7,700	
Danel Tuusis	4	4,300	12,000
Kaie Karniol	4	4,300	12,000

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

## Supervisory Board

as at 31 December 2020



**VÄINO KALDOJA**  
Chairman

Beginning of term of office:  
09 September 2015  
Chairman since:  
18 May 2017  
End of term of office:  
11 May 2022



**ANTS PAULS**  
Member

Beginning of term of office:  
6 October 2015  
End of term of office:  
11 May 2022



**IVO PALU**  
Member

Beginning of term of office:  
12 May 2017  
End of term of office:  
11 May 2022



**EINARI KISEL**  
Member

Beginning of term of office:  
12 May 2017  
End of term of office:  
11 May 2022



**ANDRES LIINAT**  
Member

Beginning of term of office:  
12 May 2017  
End of term of office:  
11 May 2022



**RAIGO UUKKIVI**  
Member

Beginning of term of office:  
12 May 2020  
End of term of office:  
11 May 2022



**MEELIS EINSTEIN**  
Member

Beginning of term of office:  
12 May 2020  
End of term of office:  
11 May 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 Eesti Energia's management board did not change in 2020 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 their 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. Members of the management board may be paid additional remuneration.

The total amount of additional remuneration paid during a financial year may not exceed fourfold average monthly remuneration received by the member of the management board in the previous financial year. The assignment of additional remuneration must be justified and consistent with the Group's performance, value added and market position. Termination benefits may only be paid when the supervisory board removes a member of the management board on its initiative before the 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 2020, the management board held 55 meetings, 5 of them electronically.

### Management Board Members' participation in meetings and total remuneration paid

	Participation in meetings 2020	Total remuneration 2020 (€)	Total remuneration 2019 (€)
<b>Hando Sutter</b>	52	246,500	254,000
<b>Raine Pajo</b>	51	167,400	165,600
<b>Margus Vals</b>	51	156,600	154,800
<b>Andri Avila</b>	52	156,600	154,800
<b>Agnes Roos</b>	52	127,332	14,368

## Management Board

as at 31 December 2020



**HANDO SUTTER**  
Chairman  
of the Management Board

Beginning of term of office:  
1 December 2014  
End of term of office:  
31 March 2023

### PREVIOUS CAREER

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

### EDUCATION

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



**ANDRI AVILA**  
Member  
of the Management Board

Beginning of term of office:  
1 March 2015  
End of term of office:  
31 March 2023

### PREVIOUS CAREER

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

### EDUCATION

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



**MARGUS VALS**  
Member  
of the Management Board

Beginning of term of office:  
1 December 2014  
End of term of office:  
31 March 2023

### PREVIOUS CAREER

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

### EDUCATION

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



**RAINE PAJO**  
Member  
of the Management Board

Beginning of term of office:  
1 December 2006  
End of term of office:  
31 March 2023

### PREVIOUS CAREER

- Eesti Energia: Member of the Management Board, 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  
of the Management Board

Beginning of term of office:  
1 December 2019  
End of term of office:  
31 March 2023

### PREVIOUS CAREER

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

### EDUCATION

- University of Tartu, Economics

## 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.

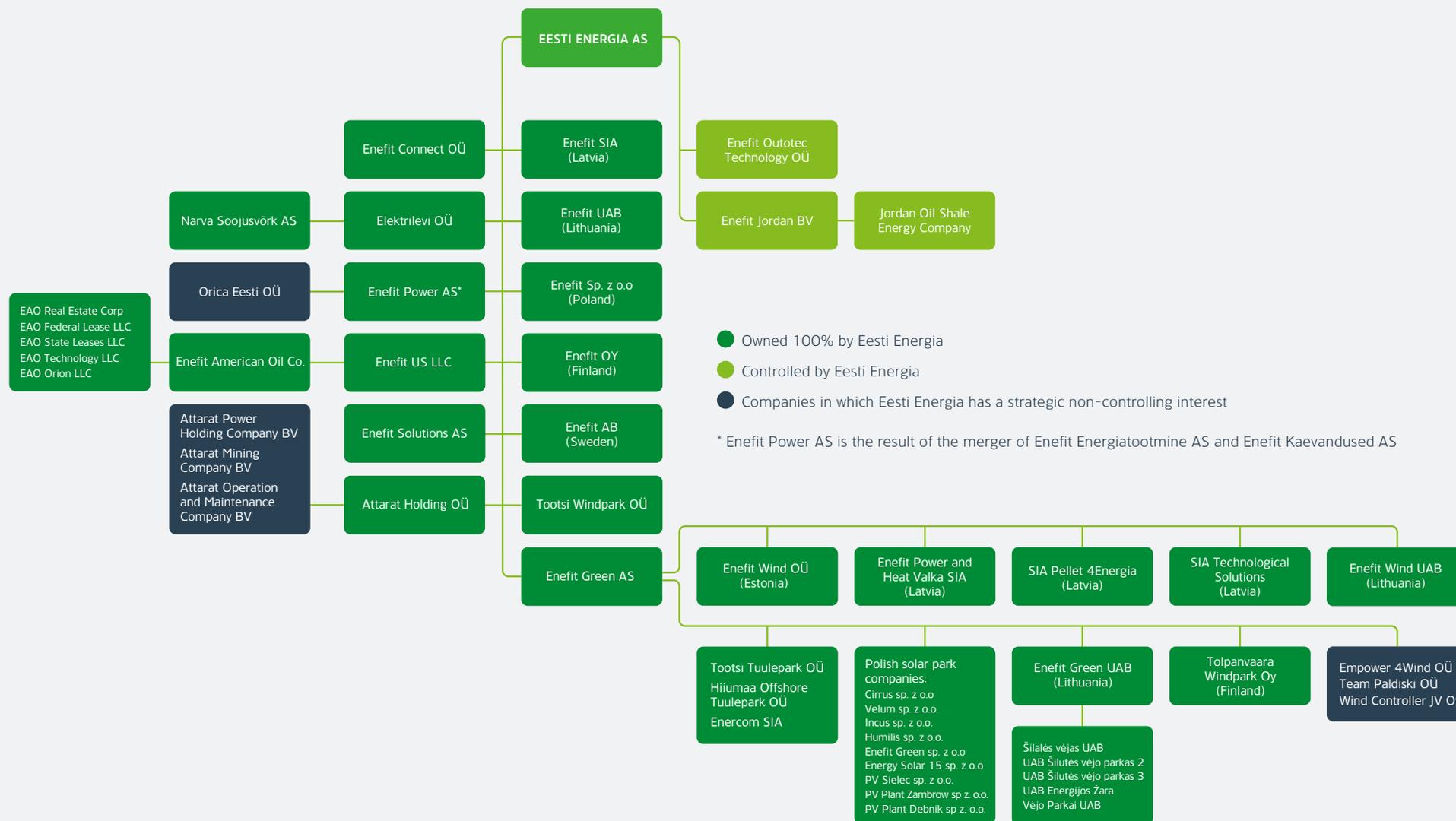
In 2020, the strategic management team consisted of members of the management board of Eesti Energia, the chairman of the management board of Enefit Green, the chairman of the management board of Elektrilevi, the marketing and communication director, the employee experience director, the energy trading director 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.

# Group structure

as at 31 December 2020



## 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 adopt more effective performance indicators.

Reporting and analytics software Tableau is the Group's management accounting tool. Contemporary management information dashboards allow obtaining feedback on results quickly, conveniently and in an interactive manner, helping make higher-quality and faster management decisions.

In addition to numerous reports submitted to the Statistical Office, we release thorough quarterly reports three times a year and an annual report once a year. 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 is one exception: in line with the owner's expectations, the supervisory board of Elektrilevi consists 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, 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 2020, 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. The audit committee statement is presented on page 46.

Eesti Energia's financial statements are audited in accordance with International Standards on Auditing. Under Eesti Energia's articles of association, the appointment of the auditor of the financial statements is the responsibility of the general meeting. The general meeting has appointed audit firm PricewaterhouseCoopers (PwC) as the auditor of the financial statements for financial year 2020. 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 Tiit Raimla. 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.

### **PwC presented the results of the work related to the reporting period in two stages:**

- 1) interim audit results were presented at a meeting of the audit committee in December 2020; and
- 2) year-end audit results were presented at a meeting of the audit committee in February/March 2021.

The independent auditor's report is presented on page 160.

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 financial statements, in 2020 PwC provided the Group with some other advisory services permitted by the Estonian Auditors Activities Act.

### Audit Committee Members' participation in meetings and total remuneration paid

	Participation in meetings 2020	Total remuneration 2020 (€)	Total remuneration 2019 (€)
Kaie Karniol	11	5,000	4,125
Ants Pauls	11	2,750	2,750
Andres Liinat	7	1,750	0
Mait Palts	11	5,500	4,500
Danel Tuusis	4	1,000	2,750

### Audit Committee

as at 31 December 2020



**KAIE KARNIOL**  
Chairwoman

Beginning of term of office:  
16 June 2016



**ANTS PAULS**  
Member

Beginning of term of office:  
23 February 2017



**ANDRES LIINAT**  
Member

Beginning of term of office:  
20 May 2020



**MAIT PALTS**  
Member

Beginning of term of office:  
15 June 2017

## 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 2020 was submitted to the audit committee in February 2021.

## Audit committee statement

In 2020, the audit committee carried out its responsibilities in accordance with its approved statutes and action plan. No restrictions were imposed on our activities and the Group's representatives made all the necessary information available to us. Well-defined reporting lines ensured a fluent flow of relevant information to us. We informed the Group's supervisory board and the representatives of the Group's management board of the opinions we formed based on our work and related suggestions.

### We formed our opinion on the following activities of the Group in fiscal year 2020:

- adherence to established accounting policies;
- operation of processes for the preparation and approval of budgets and financial statements;
- arrangement of a sufficient and effective external audit and assurance of its independence;
- development and operation of the internal control system;
- monitoring of the legal and regulatory compliance of the company;
- organisation of the internal audit function.

The audit committee finds that the activities of Eesti Energia Group do not involve any deficiencies of which the management is unaware and/or which could have a material impact on the Group's annual report for 2020.

The audit committee submitted its activity report and assessments along with this statement to the supervisory board of Eesti Energia in March 2021.



**Kaie Karniol**  
Chairwoman of the Audit Committee

# Risk management

- Risk management framework and organisation
- Risk profile
- Main 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 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 managing financial risks including the price risk of production assets, counterparty credit risk and liquidity 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.

## 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, IT risk, fraud risk, personnel risk 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.

## Main 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, information technology (IT) risk and operational risks. We pay a lot of attention to ensuring the continuity of vital 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.

Market risk has a significant impact on the revenue we earn from the sale of our products and services and the purchase of the resources we use in our production activities. The most significant market risk is price risk, which is the risk of changes in the prices of electricity, liquid fuels and emission allowances. We use derivative financial instruments to hedge market risks.

- One of our main focus areas in 2020 was supporting our customers in coping with the pandemic-related changes in the economic environment. To that end, we quickly adjusted our Group-wide credit risk management process and approach in consideration of the challenges that had emerged.

## Legal risk

The Group's operation is strongly influenced by treaties, conventions and regulations adopted in our markets, the European Union and internationally. 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 adverse environmental impacts. 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 circular and re-use of materials.

**○ To control, manage and reduce our environmental impacts, we have implemented an environmental management system that complies with the requirements of ISO 14001 and EMAS (the EU Eco-Management and Audit Scheme).**

## 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 or data confidentiality.

We manage risk by carrying out and updating the risk analyses of all vital and business-critical activities and increasing our employees' awareness of information and cyber security risks. In October 2020, we organised different IT security awareness training courses and seminars.

## 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 implementing risk mitigation measures. 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.

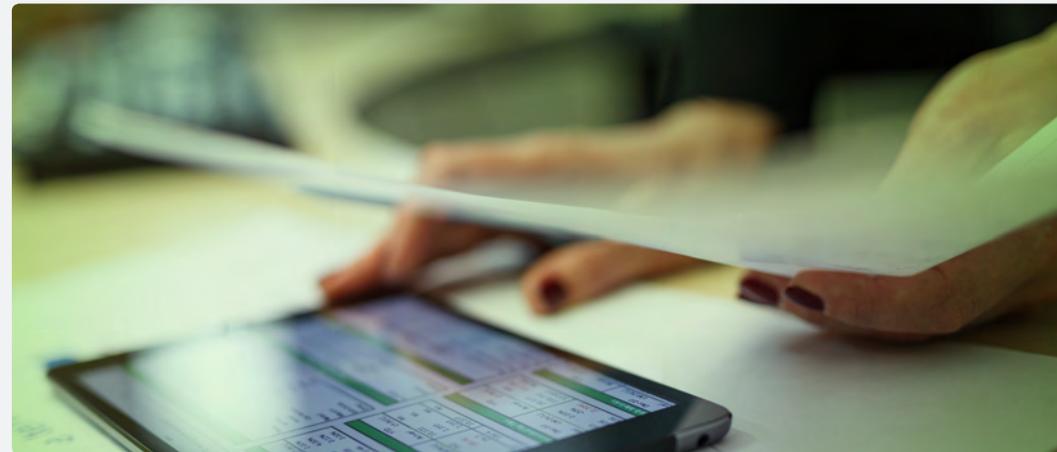
- For better management of fraud risk, the Group has created a special fraud risk management unit, adopted a code of ethics (last updated in 2020) and established fraud risk management principles that comply with international standards.

We also operate a hotline, run information and training programmes, cooperate with law enforcement authorities and 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 processes and activities and the achievement of our goals and targets using key performance indicators.



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 changes in the Group's risk profile.

# Financial results

- Revenue and EBITDA
- Electricity
- Distribution
- Shale oil
- Other products and services
- Cash flows
- Investment
- Financing
- Outlook for 2021

## Revenue and EBITDA

**Eesti Energia's revenue decreased by 10% in 2020. EBITDA and net profit declined by 18% and 45%, respectively.**

The Group generated revenue of 834 million euros, 10% (-92.1 million euros) less than in 2019. Revenue decline is mainly attributable to lower electricity sales revenue (-114.4 million euros) caused by a smaller sales volume and a lower average sales price. Shale oil sales revenue grew, supported by gain on derivative transactions and a larger sales volume. Revenue from the sales of other products and services grew, primarily through higher revenue from the sale of natural gas. Revenue from electricity distribution declined due to a lower sales volume.

EBITDA decreased by 18% to 213.6 million euros (-46.3 million euros).

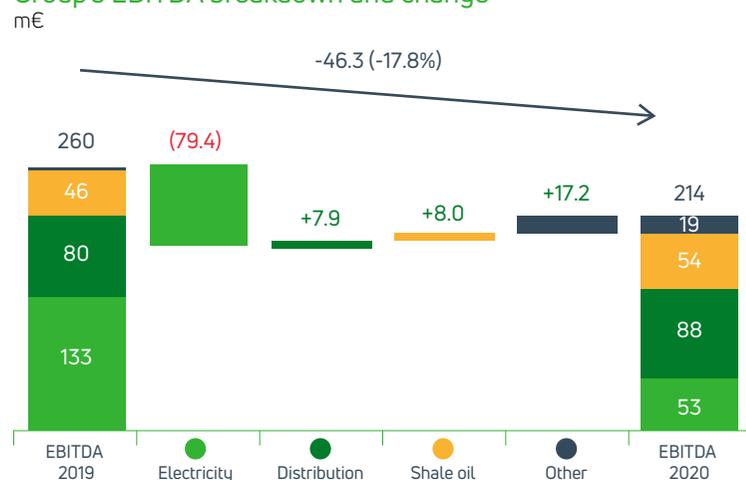
Net profit dropped by 45% to 19.3 million euros (-16.1 million euros). Net profit decreased more than EBITDA due to a change in income tax accounting resulting from a change in the interpretation of IAS 12.

In terms of the key products, the Group's EBITDA was supported by electricity distribution and shale oil EBITDA, which grew by 7.9 million euros and 8.0 million euros, respectively. Electricity distribution EBITDA increased mainly through a higher margin and shale oil EBITDA through a larger sales volume.

### Group's sales revenue breakdown and change



### Group's EBITDA breakdown and change



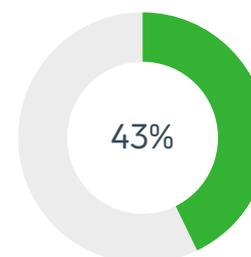
Electricity EBITDA declined by 79.4 million euros due to a smaller sales volume and a lower margin.

EBITDA for other products and services improved year on year.

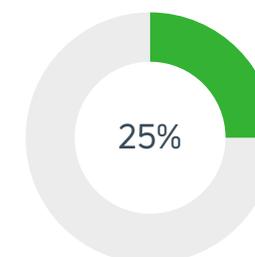
## Electricity

Through the years, electricity has been the main source of Eesti Energia's revenue and EBITDA. In 2020, we also earned the largest share of our revenue from the sale of electricity.

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



% of sales revenues



% of EBITDA

## Electricity revenue

Electricity sales revenue decreased by 24% compared to 2019, mainly due to lower sales prices.

A contributing factor was a loss on derivative transactions (-23.3 million euros). Electricity sales revenue for 2020 amounted to 360.1 million euros (-24%, -114.4 million euros).

## Average sales price of electricity

○ In 2020, the Group's average sales price for electricity was 48.2 €/MWh, which is 9.7% (-5.2 €/MWh) lower than in 2019.

The average sales price excludes the impact of derivative transactions. The average sales price including the impact of derivative transactions would have been 45.3 €/MWh, which is 17% (-9.1 €/MWh) lower than a year earlier.

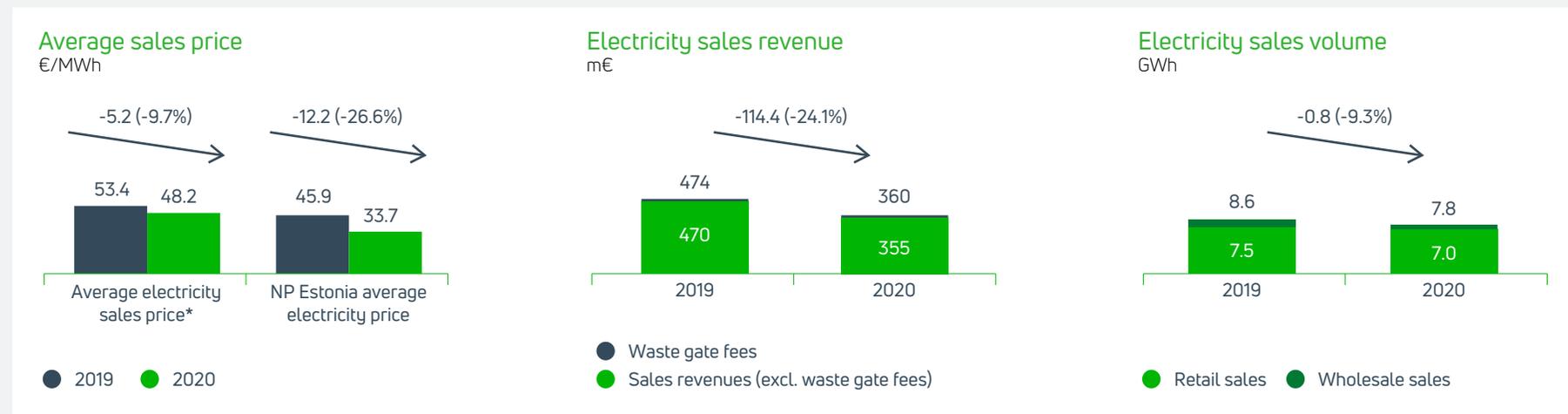
Derivative transactions yielded a loss of 23.3 million euros (-31.2 million euros).

## Electricity sales volume and Eesti Energia's market share

In 2020, our electricity sales volume decreased by 9.3% compared to 2019. Wholesale sales decreased by 267 GWh (-24%) to 864 GWh and retail sales declined by 537 GWh (-7%) to 6,977 GWh. Retail sales broke down between markets as follows: Estonia 3,927 GWh (-403 GWh), Latvia 981 GWh (-12 GWh), Lithuania 1,427 GWh (+230 GWh), Poland 582 GWh (-348 GWh), Finland 31 GWh (+15 GWh) and Sweden 29 GWh (-19 GWh).

In terms of customers' electricity consumption volumes, Eesti Energia's market share in Estonia was 56.7% in 2020 (-3.6 percentage points compared to 2019). Customers trust Eesti Energia: at the year-end when contracts generally expire, 99.4% of our customers in Estonia decided to extend their electricity contract.

Eesti Energia's market shares in Latvia and Lithuania were 14.7% and 11.6%,



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

respectively. Our total share of the Baltic retail electricity market was 24% in 2020, 1 percentage point down from 2019.

## Electricity production volume

- We produced 3,808 GWh of electricity in 2020, 31.4% less than in 2019 (-1,741 GWh).

Production volume decreased due to a lower market price of electricity and continuously high CO<sub>2</sub> emission allowance prices. On the other hand, our renewable energy output was larger than ever, reaching 1,516 GWh (+18%) of which 1,139 GWh was wind energy. The rise in renewable energy production is mainly attributable to excellent wind conditions in the first half of the year and higher availability of the wind farms. The output of our wind farms grew by 116 GWh (+11%) year on year. Electricity produced from other renewable sources, mostly biomass, amounted to 378 GWh.

## Key figures of the electricity product

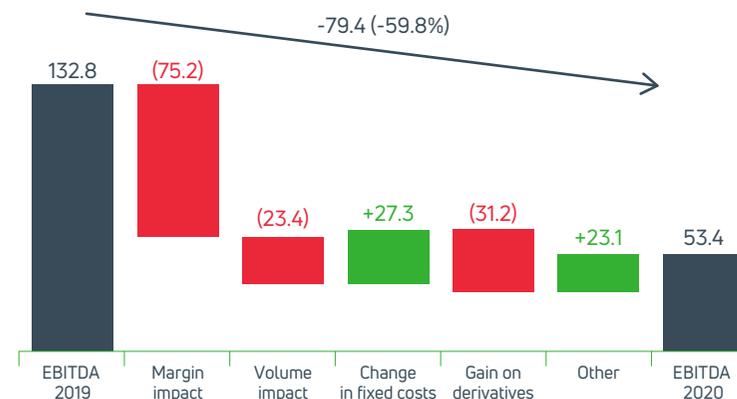
		2020	2019
Return on fixed assets	%	(1.2)	2.3
Electricity EBITDA	€/MWh	6.8	15.4

## Electricity EBITDA

- Electricity EBITDA decreased by 59.8% to 53.4 million euros (-79.4 million euros).

### Electricity EBITDA development

m€



The effect of a lower margin was -75.2 million euros. Thereby, average electricity sales revenue per megawatt hour (excluding the impact of derivative transactions) decreased by 5.1 euros (impact: -39.8 million euros). Growth in average variable costs had an effect of -40.1 million euros. Electricity EBITDA for 2019 also included gain on the sale of CO<sub>2</sub> emission allowances.

A decrease in electricity sales volume lowered EBITDA by 23.4 million euros.

The change in fixed costs improved EBITDA by 27.3 million euros. The effect of lower labour costs was +21.5 million euros and the effect of lower maintenance and repair costs was +4.3 million euros.

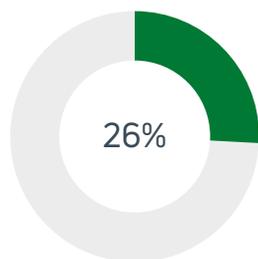
The change in the outcome of realised derivative transactions had an impact of -31.2 million euros.

Other impacts of +23.1 million euros mainly include the change in the value of derivative financial instruments.

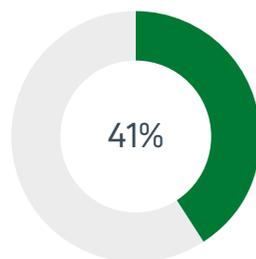
## Distribution

Electricity distribution is a major source of revenue for Eesti Energia.

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



% of sales revenues



% of EBITDA

## Distribution revenue, sales volume and price

- Our electricity distribution revenue decreased by 0.7% to 217.7 million euros (-1.6 million euros) and distribution volume declined by 2.5% to 6,706 GWh (-173 GWh) in 2020.

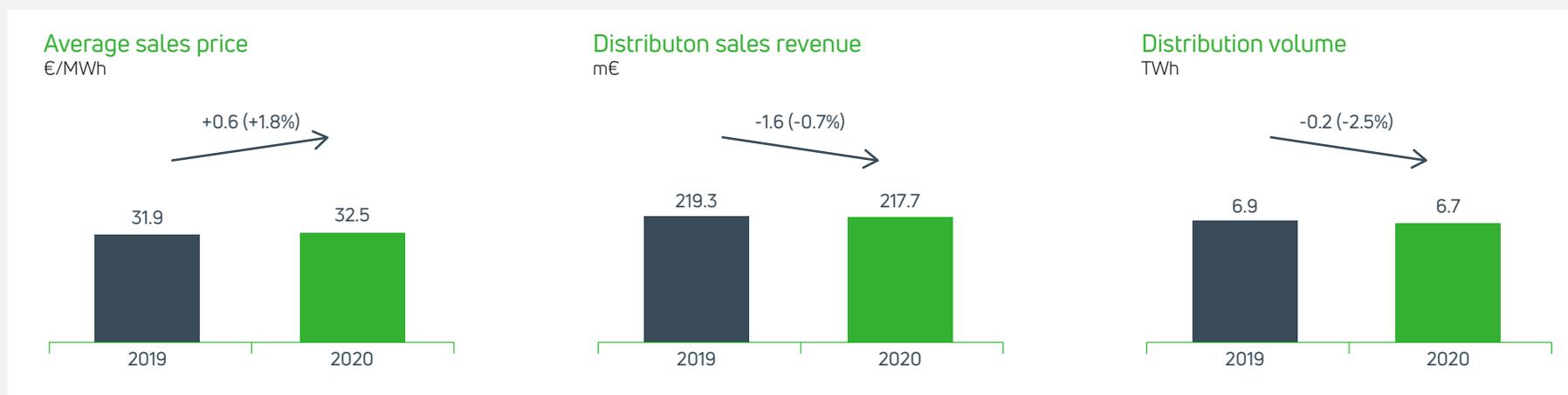
The decrease in distribution volume may be attributed to an exceptionally mild winter as well as COVID-19, which reduced corporate customers' electricity consumption from mid-March.

The average electricity distribution price was 32.5 €/MWh (+0.6 €/MWh, +1.8%). The change in the average price of the distribution service resulted mainly from a shift in the consumption structure between electricity plans.

## Distribution losses

- Electricity distribution losses totalled 284.1 GWh, accounting for 4.0% of electricity that entered the network and decreasing by 5% compared to a year earlier.

Distribution losses decrease because of smart metering which has enabled us to continuously measure and monitor electricity quantities.



## Supply interruptions

- In 2020, the average duration of unplanned supply interruptions was 172.6 minutes per customer (2019: 260.7 minutes). The average duration of planned interruptions was 68.0 minutes per customer (2019: 71.8 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 2020 was less favourable for electricity networks. As a result, the number of unplanned interruptions grew by 6%

(2019: 12,376 unplanned interruptions). Power outages can be reduced by carrying out regular maintenance and replacing bare conductors with weatherproof cables. At the end of 2020, 91.7% of Elektrilevi's low-voltage distribution network and 40.5% of its medium-voltage distribution network was weatherproof. Out of the entire low- and medium-voltage network, 69.8% was weatherproof.

## Key figures of the distribution product

		2020	2019
Return on fixed assets	%	3.8	3.3
Distribution losses	GWh	284.1	298.3
SAIFI	index	1.8	2.4
SAIDI (unplanned)	index	172.6	260.7
SAIDI (planned)	index	68.0	71.8
Adjusted RAB	m€	829.7	809.9

## Distribution EBITDA

○ Distribution EBITDA grew by 9.9% to 87,6 million euros in 2020 (+7.9 million euros).

### Distribution EBITDA development m€



EBITDA growth was mainly driven by a higher average distribution margin. The total impact of margin change was +8.6 million euros, which reflects the effects of a higher sales price of +3.9 million euros and lower variable costs of +4.7 million euros. The rise in the average sales price is attributable to a pandemic.

The decline in variable costs is mainly attributable to a decrease in the cost of distribution losses.

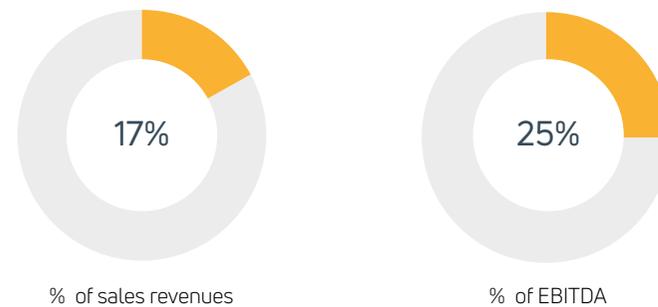
Distribution sales volume decreased by 2.5%, which had a -3.2 million euro effect on EBITDA.

Fixed distribution costs decreased by 2.6 million euros, the figure including a decline in maintenance and repair costs of 1.7 million euros.

## Shale oil

Shale oil production is a business line that has great potential because Eesti Energia has the best available technology for processing oil shale into shale oil. Moreover, international forecasts expect liquid fuel consumption to continue growing for at least two decades.

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



## Shale oil revenue and sales volume

○ We sold 461 thousand tonnes of shale oil in 2020, which generated revenue of 138.1 million euros.

Shale oil revenue grew by 10.2% (+12.8 million euros) and shale oil sales volume by 6% (+25.4 thousand tonnes). Shale oil sales volume and revenue increased through growth in output as well as a rise in the sales margin which is attributable to growth in the demand for low-sulphur products in 2020.

## Shale oil price

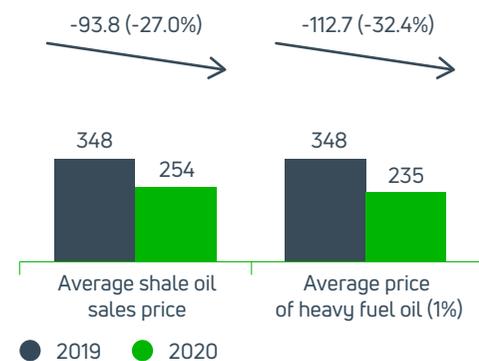
○ The average sales price of shale oil (excluding the impact of derivative transactions) dropped by 27.0% to 253.9 €/t (-93.8 €/t) in 2020.

The main reason for the price decrease was a decline in global liquid fuel prices.

Derivative transactions generated a gain of 45.4 €/t. In 2019, derivative transactions yielded a loss of 60.2 €/t. Taking into account the effect of derivative transactions, the average sales price of shale oil was 299.4 €/t (+4.1%, +11.8 €/t) in 2020. The world market price of the reference product, fuel oil with 1% sulphur content, decreased by 32.4% year on year.

### Average shale oil sales price

€/t



### Shale oil sales revenue

m€



### Shale oil sales volume

'000 tonnes



## Shale oil production volume

- We produced 452 thousand tonnes of shale oil in 2020, 2.1% (+9.3 thousand tonnes) more than in 2019.

The rise in output was underpinned by technical and technological upgrades at the oil plants.

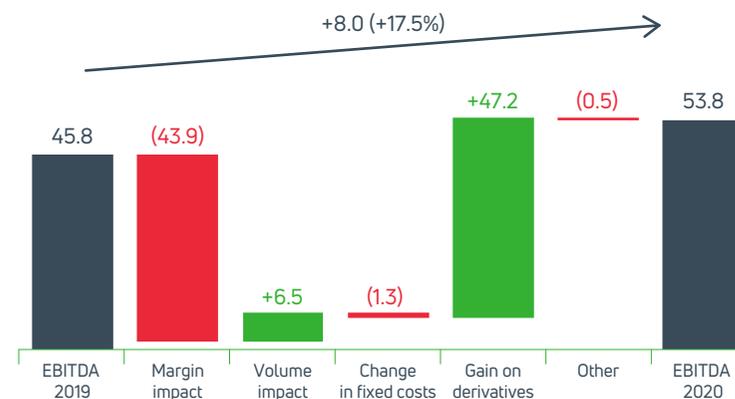
### Key figures of the shale oil product

		2020	2019
Return on fixed assets	%	12.0	9.2
Shale oil EBITDA	€/t	116.7	105.1

## Shale oil EBITDA

- Shale oil EBITDA grew by 17.5% to 53.8 million euros in 2020 (+8.0 million euros).

### Shale Oil EBITDA development m€



The impact of a lower margin was -43.9 million euros (-95.2 €/t). Thereby the effect of a lower average sales price was -43.3 million euros and the effect of higher average variable costs was -0.6 million euros.

The change in the outcome of derivative transactions improved shale oil EBITDA by 47.2 million euros. Derivative transactions in 2020 resulted in a gain of 21.0 million euros whereas in 2019 they resulted in a loss of 26.2 million euros.

Growth in shale oil sales volume had an impact of +6.5 million euros.

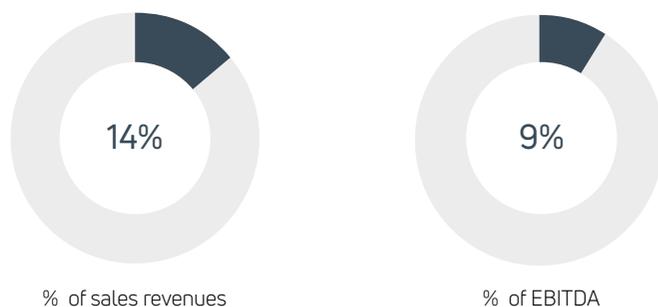
The change in fixed costs had an impact of -1.3 million euros.

The impact of other items on oil shale EBITDA was -0.5 million euros.

## Other products and services

The segment of other products and services comprises the sale of heat, natural gas and industrial equipment. The effect of non-recurring transactions is also reported within this segment.

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



## Revenue from the sale of other products and services

Revenue from the sale of other products and services totalled 117.9 million euros in 2020, rising by 10.5% (+11.2 million euros) compared to the prior year.

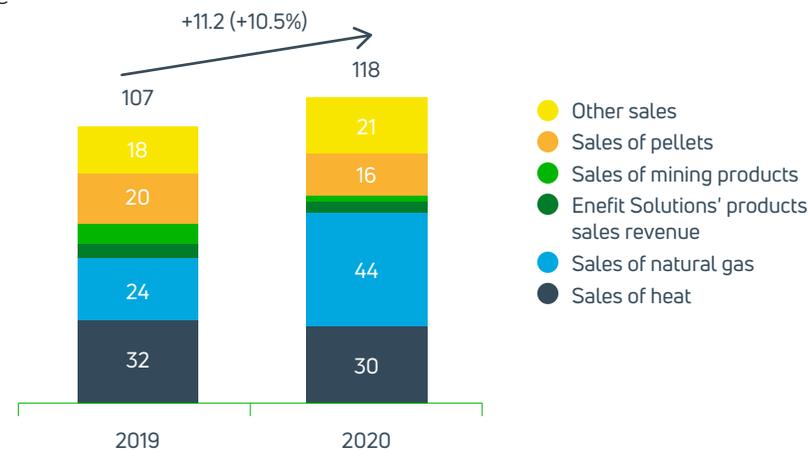
Revenue from the sale of heat decreased by 2.6 million euros due to a lower sales price. External heat sales volume grew by 72.6 GWh (+8.9%).

Revenue from the sale of natural gas grew by 20.2 million euros. In 2020, our retail sales of natural gas amounted to 421 GWh in Estonia, 637 GWh in Latvia, 160 GWh in Lithuania and 820 GWh in Poland.

Revenue generated by the pellet factory decreased by 3.2 million euros and revenue from the sale of mining products decreased by 5.4 million euros.

### Sales revenue from other products and services

m€



## EBITDA on other products and services

EBITDA on other products and services grew by 17.2 million euros to 18.7 million euros in 2020.

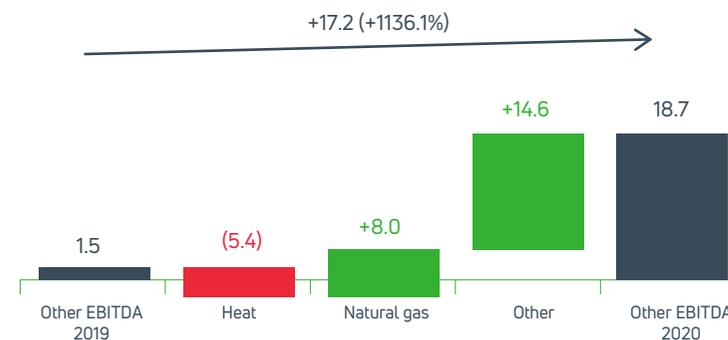
Heat EBITDA decreased by 5.4 million euros. The average sales price of heat was lower than in 2019. In addition, the share of heat produced from natural gas was larger and the share of heat produced from oil shale was smaller, which increased fuel costs.

Natural gas EBITDA grew by 8.0 million euros year on year, mainly through growth in sales volume.

Other impacts on EBITDA totalled +14.6 million euros, including gain on the sale of CO<sub>2</sub> emission allowances of 13.7 million euros, earned in connection with lower than planned production volume.

### Other EBITDA development

m€



# Cash flows

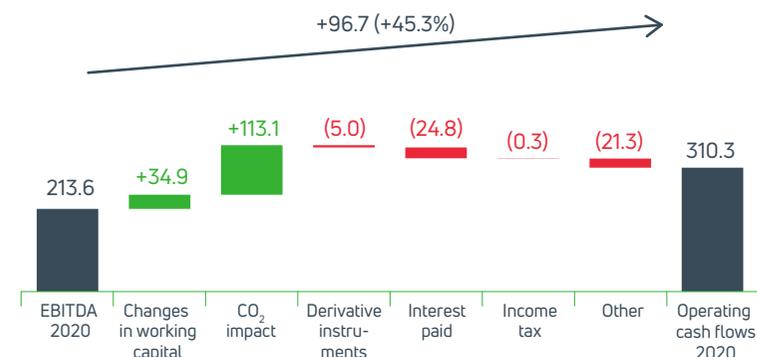
Net operating cash flow for 2020 was 310.3 million euros, 96.7 million euros (+45.3%) larger than EBITDA, which amounted to 213.6 million euros.

Changes in working capital increased net operating cash flow by 34.9 million euros compared to EBITDA. Working capital was influenced by an increase in current liabilities of 46.3 million euros, an increase in inventories of 6.3 million euros and an increase in current receivables of 1.4 million euros.

Settlements related to CO<sub>2</sub> emission allowances increased operating cash flow by 113.1 million euros relative to EBITDA.

The impact of derivative financial instruments (excluding CO<sub>2</sub> instruments)

EBITDA to operating cash flows development  
m€



was -5.0 million euros. The figure includes the impacts of electricity derivatives of -33.7 million euros and shale oil derivatives of +31.0 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 24.8 million euros.

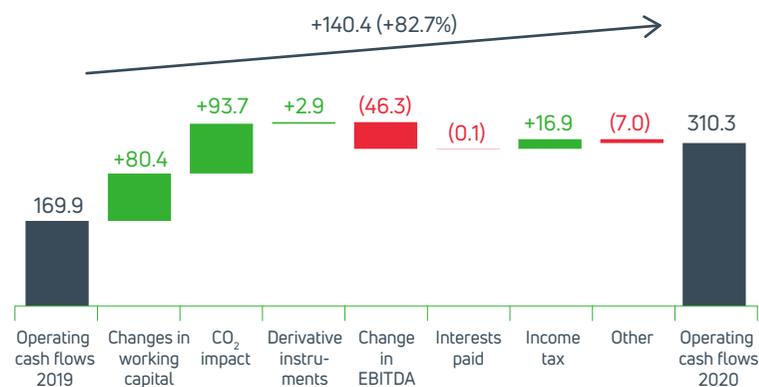
Income tax paid by the Group in 2020 amounted to 0.3 million euros.

Other impacts totalled -21.3 million euros, including the impacts of the recognition of connection fees of -9.6 million euros and non-current asset sales of -1.4 million euros.

○ Compared to 2019, net operating cash flow increased by 82.7% (+140.4 million euros).

### Operating cash flow changes

m€



Changes in working capital had an impact of +80.4 million euros compared to 2019. The figure includes the impacts of a change in current receivables of +11.5 million euros, a change in inventories of +14.1 million euros and a change in current liabilities of +51.3 million euros.

The impact of settlements related to CO<sub>2</sub> emission allowances was +93.7 million euros.

The impact of derivative financial instruments (excluding CO<sub>2</sub> instruments) was +2.9 million euros. The figure includes the impacts of electricity derivatives of -51.4 million euros and shale oil derivatives of +56.7 million euros.

In 2020, the Group paid 16.9 million euros less income tax than in 2019.

Interest paid on borrowings in 2020 was 0.1 million euros larger than a year earlier.

Other impacts totalled -7.0 million euros, including the impacts of non-current asset sales of +3.0 million euros and the amortisation of connection fees and other services of -0.6 million euros.

# Investment

- Large-scale energy production
- Renewable energy
- Network services

We invested 188.0 million euros in 2020 (+38.3%, +52.1 million euros). Expenditure on the distribution network amounted to 95.4 million euros (+14.6%, +12.1 million euros) and expenditure on the improvement of existing assets (excluding the distribution network) totalled 28.3 million euros (-19.8%, -7.0 million euros).

## Large-scale energy production

We invested 1.9 million euros in increasing the capacity of boiler 5A of the Eesti power plant to utilise oil shale gas, which enables us to increase the amount of oil shale gas used in electricity production. This way we can utilise the energy stored in oil shale to the maximum and thereby reduce the environmental impacts of electricity production.

We undertook an important strategic project which involved installing new start-up burners on boiler 5B of the Eesti power plant. The new burners enable us to start the boiler up from standstill, for example in a situation where production units have stopped operating. The purpose of the investment was to further improve the flexibility of our energy production operations. Investments made in the project in 2020 totalled 1.8 million euros. The project was delivered and accepted in the first quarter of 2021.

Expenditure on the acquisition of the largest Komatsu bulldozer in Europe amounted to 1.1 million euros. The new bulldozer's emissions have been minimised and its productivity is about 10% higher than that of its predecessors.

Acquisition of a vent shaft drilling machine for the Estonia mine with a view to increasing occupational safety and optimising costs through process mechanisation cost 2.2 million euros.

## Renewable energy

We invested 43 million euros 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 wind farm and thus increase our renewable energy production capacities.

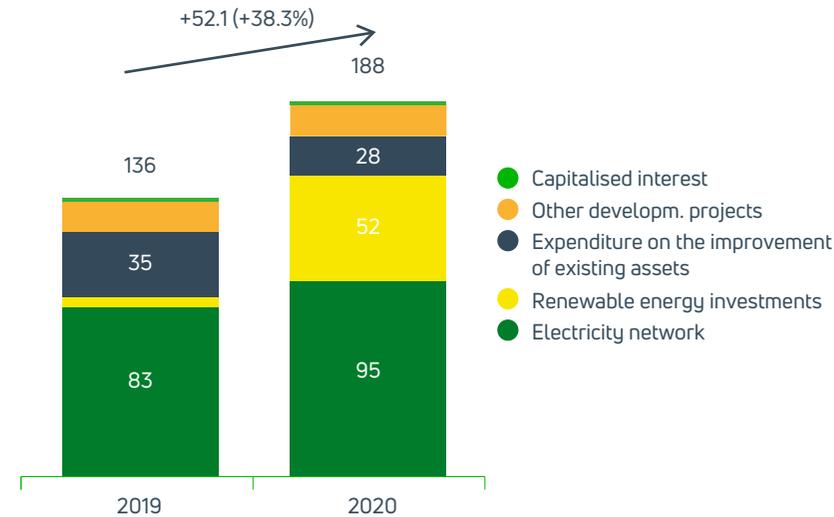
In addition, we invested 2.6 million euros in the construction of a solar farm at Paldiski, which is scheduled to become operational in 2021, and 6 million euros in the acquisition of the Tolpanvaara wind farm development project in Finland.

## Network services

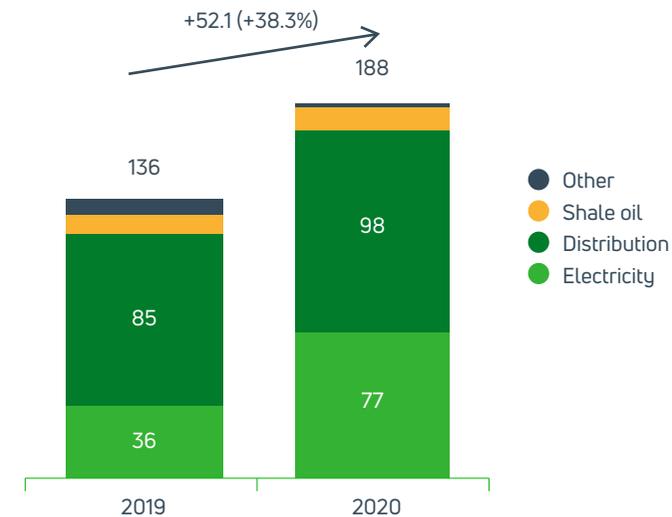
Investments made to maintain and continuously improve the quality of the electricity distribution service totalled 88.4 million euros (2019: 79.1 million euros), of which 35.9 million euros was invested in network connections.

We built 198 new substations and 903 km of network (2019: 275 new substations and 1,065 km of network). At the end of 2020, 91.7% of Elektri-levi's low-voltage network was weatherproof (at the end of 2019: 89.8%). During the year, the weatherproof network increased by 858 km and the bare conductor network decreased by 969 km. At the year-end, 69.8% of our total low- and medium-voltage network was weatherproof.

Capex breakdown by projects  
m€



Investment breakdown by products  
m€



# Financing

- Borrowings and credit ratings
- Equity and financial ratios

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 Eesti Energia's financing policy, which sets out our financing principles as well as the permitted debt ratio and sources of debt financing. According to the policy, 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).

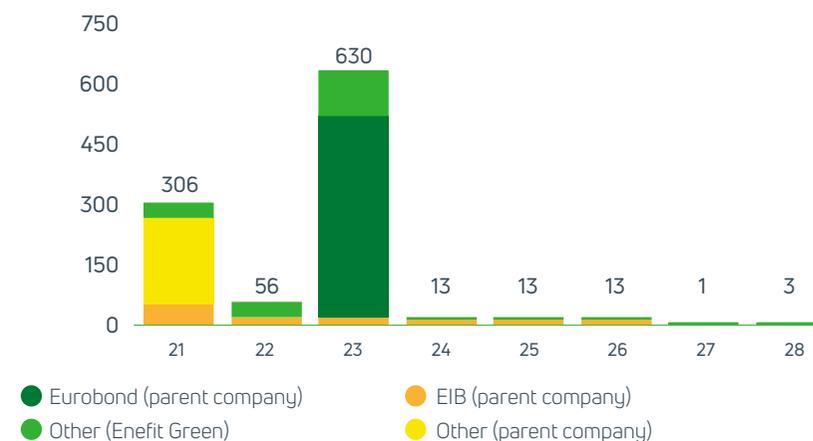
We have raised debt from the international bond market and, in the form of loans, from the European Investment Bank (EIB) and commercial banks. In 2020, we included the European Bank for Reconstruction and Development (EBRD) among our financing providers. Besides long-term loans, we use revolving liquidity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

## Borrowings and credit ratings

At the end of 2020, the Group's borrowings totalled 1,040.4 million euros at nominal value (at the end of 2019: 1,170.9 million euros) and 1,014.4 million euros at amortised cost (at the end of 2019: 1,135.8 million euros). Long-term borrowings as at the reporting date comprised Eurobonds listed on the London Stock Exchange of 500.0 million euros, loans from the EIB of 120.8 million euros, loans from the EBRD of 8.4 million euros (38 million Polish zloty), loans from commercial banks of 405.7 million euros (including revolving liquidity loans of 70.0 million euros), long-term lease liabilities for right-of-use assets of 2.3 million euros and other long-term liabilities of 3.0 million euros (all nominal amounts). At the year-end, the Group's loans from commercial banks consisted of loans of 185.6 million euros taken by Enefit Green and loans of 220 million euros taken by the Group's parent, the latter comprising a flexible revolving liquidity loan of 70 million euros and a loan of 150 million euros that matures in June 2021, both received from Swedbank.

At the end of 2020, Eesti Energia had undrawn loans of 520 million euros, which consisted of revolving liquidity loans of 275 million euros and long-term loans of 245 million euros. Revolving liquidity loans raised by the Group totalled 345 million euros, of which 70 million euros had been drawn down. The maturities of revolving liquidity loans are as follows: loans of 200 million euros will mature in September 2025 (loans from OP Corporate Bank), loans of 120 million euros will mature in September 2023 (loans of 50 million euros from SEB and 70 million euros from Swedbank) and loans of 25 million euros will mature in May 2025 (Enefit Green's loan from SEB). Long-term loan agreements include Eesti Energia's two loan agreements with EIB of 175 million euros and 75 million euros, which at the date of release of this report have not been drawn down.

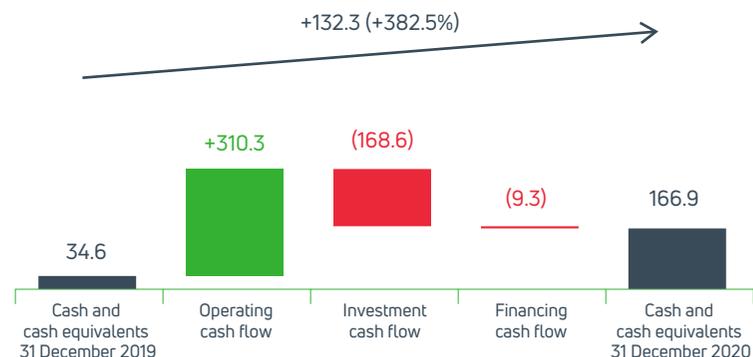
Debt maturity  
m€



During the year, the parent of the Group made regular loan repayments of 18 million euros to EIB and Enefit Green made regular loan repayments of 37.5 million euros. In November 2020, the Group redeemed bonds of 106.4 million euros. In addition, revolving liquidity loans were used during the year according to need.

### Liquidity development in 2020

m€



The year-end weighted average interest rate of Eesti Energia's borrowings was 1.72% (at the end of 2019: 1.99%). The weighted average interest rate has decreased because in November 2020 the Group redeemed bonds with a high interest rate (a coupon of 4.50%).

At the end of 2020, borrowings of 621 million euros had fixed base rates and borrowings of 414 million euros had floating base rates. At the end of 2019, borrowings of 745 million euros had fixed base rates and borrowings of 423 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 8.4 million euros.

In August 2020, the international rating agency Standard and Poor's revised the outlook of Eesti Energia's credit rating from stable to negative but retained the Group's investment grade credit rating at BBB-. In September 2020, the international rating agency Moody's confirmed

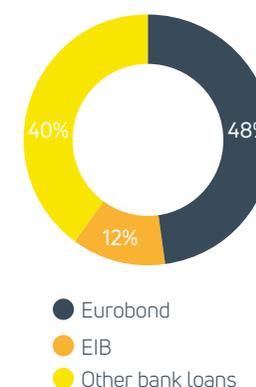
Eesti Energia's credit rating at the previous level. The Group's year-end credit ratings were BBB- (Standard & Poor's, outlook negative) and Baa3 (Moody's, outlook stable). Eesti Energia's financing policy is aimed at maintaining an investment grade credit rating from international rating agencies.

### Loan breakdown by interest rates and borrowers

Loans by interest rates



Foreign capital by borrowers



## Equity and financial ratios

The Group's equity stood at 2,008 million euros at the end of 2020. Eesti Energia's sole owner is the Republic of Estonia. The Group did not pay the owner a dividend in 2020. In April 2020, the owner increased the Group's equity with a contribution of 125.0 million euros to finance new investments.

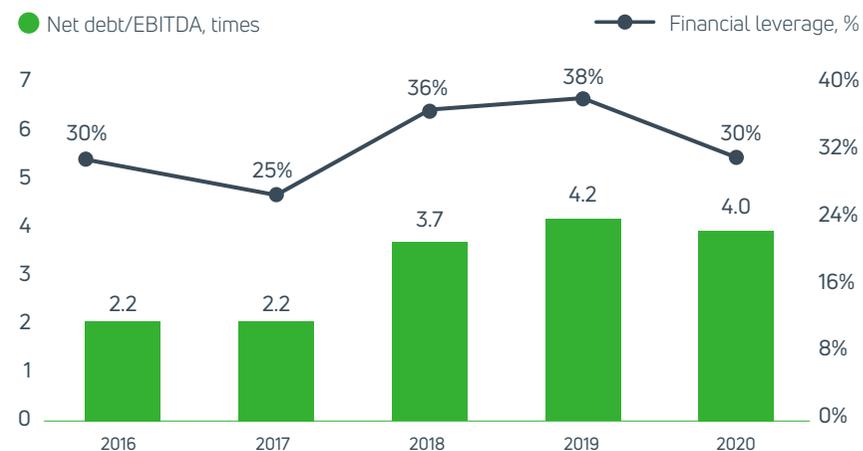
The Group's net debt amounted to 8475 million euros at the end of 2020 (at the end of 2019: 1,101.2 million euros).

At the reporting date, the net debt to EBITDA ratio was 4.0 (at the end of 2019: 4.2).

The current net debt to EBITDA ratio is above the target ceiling of 3.5 set out in the Group's financing policy. Eesti Energia's strategy outlines the measures for bringing the ratio to the desired level.

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



A man with grey hair and glasses, wearing a light blue button-down shirt, is leaning over a desk in a brightly lit office. He is holding a pen and looking at a laptop. In the foreground, several white wind turbine models are visible on the desk. The background is slightly blurred, showing a desk lamp and other office equipment. The overall scene is bathed in a soft, greenish light, suggesting a focus on renewable energy.

## Outlook for 2021

According to our current projections, in 2021 economic growth will gradually revive, electricity and electricity distribution sales volumes will recover from the impacts of COVID-19 and the world market prices of energy will also recover. We thus forecast that our revenue, EBITDA and investments will increase compared to 2020.

- Electricity sales revenue and EBITDA will be supported by the growth expected for electricity sales volumes and the rise expected for the average sales price of electricity.

However, the positive effect of growth in electricity prices is expected to be weakened by a continuing rise in CO<sub>2</sub> emission allowance prices, resulting from the more ambitious EU climate goals for 2030. We also forecast growth in electricity distribution revenue.

- Distribution revenue and EBITDA should be supported by the recovery of the distribution sales volume to the pre-COVID-19 level.

○ We expect that shale oil revenue and EBITDA will remain at the same level as in 2020.

We expect revenue growth to be supported by the supply of new ancillary services. Our main ancillary services are charging service, lighting service, solar services, flexibility service and services related to heating and cooling equipment.

We are planning to increase our investments compared to 2020. The largest development investments will be made in the construction of a new oil plant and the development of the renewable energy portfolio.

○ We are planning to pay the owner a dividend of 5.0 million euros for 2020. The ultimate decision on the distribution of a dividend is at the discretion of the owner.

**Sales revenues**  
m€



**EBITDA**  
m€



**Investments**  
m€



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

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## Consolidated income statement

in million EUR	1 JANUARY - 31 DECEMBER		Note
	2020	2019 adjusted	
Revenue	833.7	925.8	5, 25
Other operating income	73.6	92.7	26
Change in inventories of finished goods and work-in-progress	4.7	14.1	11
Raw materials and consumables used	(513.0)	(551.5)	27
Payroll expenses	(136.6)	(158.4)	28
Depreciation, amortisation and impairment	(161.4)	(188.0)	5, 6, 8, 32
Other operating expenses	(48.8)	(62.7)	29
<b>OPERATING PROFIT</b>	<b>52.2</b>	<b>71.9</b>	
Finance income	0.4	0.1	30
Finance costs	(34.4)	(36.9)	30
<b>Net finance costs</b>	<b>(34.0)</b>	<b>(36.8)</b>	5, 30
Profit (loss) from associates under the equity method	1.7	(0.1)	5, 9, 32
<b>PROFIT BEFORE TAX</b>	<b>19.9</b>	<b>35.0</b>	5
Corporate income tax expense	(0.6)	0.4	31
<b>PROFIT FOR THE YEAR ATTRIBUTABLE TO:</b>	<b>19.3</b>	<b>35.4</b>	
Equity holder of the Parent Company	19.4	34.7	
Non-controlling interest	(0.1)	0.7	
<i>Basic earnings per share (euros)</i>	0.03	0.06	34
<i>Diluted earnings per share (euros)</i>	0.03	0.06	34

The net profit of 2019 includes the changed income tax accounting resulting from a change in the interpretation of IAS 12 (impact +12.2 million euros).

The notes on pages 81-159 are an integral part of these consolidated financial statements.

## Consolidated statement of comprehensive income

in million EUR	1 JANUARY - 31 DECEMBER		Note
	2020	2019 adjusted	
<b>PROFIT FOR THE YEAR</b>	<b>19.3</b>	<b>35.4</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	66.7	(23.7)	20
Exchange differences on the translation of foreign operations	(4.3)	0.7	20
<b>Other comprehensive income for the year</b>	<b>62.4</b>	<b>(23.0)</b>	
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:</b>	<b>81.7</b>	<b>12.4</b>	
Equity holder of the Parent Company	81.8	11.7	
Non-controlling interest	(0.1)	0.7	

The notes on pages 81-159 are an integral part of these consolidated financial statements.

## Consolidated statement of financial position

in million EUR	31 December 2020	31 December 2019 adjusted	1 January 2019 adjusted	Note
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	2,922.7	2,913.4	2,955.4	5,6
Right-of-use assets	2.2	2.7	-	
Intangible assets	80.8	69.2	61.3	8
Deferred tax assets	1.2	1.8	0.6	
Derivative financial instruments	23.7	4.3	11.5	12, 14, 15
Investments in associates	46.8	43.5	44.2	5, 9
Long-term receivables	1.3	1.8	1.6	13
<b>Total non-current assets</b>	<b>3,078.7</b>	<b>3,036.7</b>	<b>3,074.6</b>	
<b>Current assets</b>				
Inventories	117.4	111.0	90.5	11
Greenhouse gas allowances and certificates of origin	85.3	76.1	126.4	16
Trade and other receivables	206.1	199.7	167.0	13
Derivative financial instruments	31.7	10.0	39.1	12, 14, 15
Cash and cash equivalents	166.9	34.6	61.5	12, 15, 17
<b>Total current assets</b>	<b>607.4</b>	<b>431.4</b>	<b>484.5</b>	
<b>Total assets</b>	<b>3,686.1</b>	<b>3,468.1</b>	<b>3,559.1</b>	5
<b>EQUITY</b>				
<b>Total equity and reserves attributable to equity holder of the Parent Company</b>				
Share capital	746.6	621.6	621.6	18
Share premium	259.8	259.8	259.8	
Statutory reserve capital	62.1	62.1	62.1	18
Other reserves	40.2	(22.2)	0.8	20
Retained earnings	898.4	879.1	901.5	18
<b>Total equity and reserves attributable to equity holder of the Parent Company</b>	<b>2,007.1</b>	<b>1,800.4</b>	<b>1,845.8</b>	
<b>Non-controlling interest</b>	<b>1.2</b>	<b>1.2</b>	<b>1.6</b>	
<b>Total equity</b>	<b>2,008.3</b>	<b>1,801.6</b>	<b>1,847.4</b>	

in million EUR	31 December 2020	31 December 2019 adjusted	1 January 2019 adjusted	Note
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings	708.7	924.1	966.8	12, 21
Deferred tax liabilities	12.6	12.2	25.1	31
Other payables	0.3	0.5	1.6	22
Derivative financial instruments	4.4	6.1	2.8	12, 14
Contract liabilities and government grants	260.3	234.7	213.0	23
Provisions	28.1	29.9	31.4	5, 24
<b>Total non-current liabilities</b>	<b>1,014.4</b>	<b>1,207.5</b>	<b>1,240.7</b>	
<b>Current liabilities</b>				
Borrowings	305.7	211.7	142.7	12, 21
Trade and other payables	235.9	147.5	212.6	22
Derivative financial instruments	10.3	24.1	20.5	12, 14
Contract liabilities and government grants	1.0	-	0.3	23
Provisions	110.5	75.7	94.9	5, 24
<b>Total current liabilities</b>	<b>663.4</b>	<b>459.0</b>	<b>471.0</b>	
<b>Total liabilities</b>	<b>1,677.8</b>	<b>1,666.5</b>	<b>1,711.7</b>	
<b>Total liabilities and equity</b>	<b>3,686.1</b>	<b>3,468.1</b>	<b>3,559.1</b>	

The notes on pages 81-159 are an integral part of these consolidated financial statements.

## Consolidated statement of cash flows

in million EUR	1 JANUARY - 31 DECEMBER		Note
	2020	2019 adjusted	
<b>Cash flows from operating activities</b>			
Cash generated from operations	335.2	211.6	32
Interest and loan fees paid	(24.7)	(24.7)	30
Interest received	-	0.2	
Corporate income tax paid	(0.3)	(17.2)	
<b>Net cash generated from operating activities</b>	<b>310.3</b>	<b>169.9</b>	
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets	(173.6)	(143.4)	6, 8, 22
Proceeds from grants of property, plant and equipment	4.0	(0.1)	23, 26
Proceeds from sale of property, plant and equipment	1.9	6.1	6, 26
Dividends received from associates	2.8	3.9	7
Contribution to the share capital of associates	(4.3)	(4.2)	7
Acquisition of subsidiaries, net of cash acquired	-	(13.8)	
Loans granted	(0.1)	-	7
Repayments of loans granted	-	0.6	7
Proceeds from sale of shares of subsidiary, net of cash disposed	-	0.6	
Proceeds from sale of business	0.7	-	36
<b>Net cash used in investing activities</b>	<b>(168.6)</b>	<b>(150.3)</b>	
<b>Cash flows from financing activities</b>			
Loans received	229.0	490.0	21
Redemption of bonds	(106.3)	-	21
Repayments of bank loans	(255.4)	(468.2)	21
Repayments of other loans	(1.2)	-	
Principal elements of lease payments	(0.3)	(11.2)	21
Dividends paid	-	(57.0)	19, 31
Shareholder contribution	125.0	-	18
Acquisition of non-controlling interest in a subsidiary	-	(0.1)	
<b>Net cash used in / generated from financing activities</b>	<b>(9.3)</b>	<b>(46.5)</b>	
<b>Net cash flows</b>	<b>132.3</b>	<b>(26.9)</b>	
Cash and cash equivalents at the beginning of the period	34.6	61.5	12, 15, 17
Cash and cash equivalents at the end of the period	166.9	34.6	12, 15, 17
<b>Net change in cash and cash equivalents</b>	<b>132.3</b>	<b>(26.9)</b>	

The notes on pages 81-159 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 2018</b>	<b>621.6</b>	<b>259.8</b>	<b>62.1</b>	<b>0.8</b>	<b>913.7</b>	<b>1,858.0</b>	<b>1.6</b>	<b>1,859.6</b>	
Adjustment on adoption of deferred tax	-	-	-	-	(12.2)	(12.2)	-	(12.2)	2
<b>Balance as at 1 January 2019 restated</b>	<b>621.6</b>	<b>259.8</b>	<b>62.1</b>	<b>0.8</b>	<b>901.5</b>	<b>1,845.8</b>	<b>1.6</b>	<b>1,847.4</b>	
Profit for the year	-	-	-	-	34.7	34.7	0.7	35.4	
Other comprehensive income for the year	-	-	-	(23.0)	-	(23.0)	-	(23.0)	20
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(23.0)</b>	<b>34.7</b>	<b>11.7</b>	<b>0.7</b>	<b>12.4</b>	
Dividends paid	-	-	-	-	(57.0)	(57.0)	-	(57.0)	
Acquisition of non-controlling interest in a subsidiary	-	-	-	-	(0.1)	(0.1)	-	(0.1)	
Decrease of non-controlling interest due to sale of subsidiary	-	-	-	-	-	-	(1.1)	(1.1)	
<b>Total contributions by and distributions to owners of the company, recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(57.1)</b>	<b>(57.1)</b>	<b>(1.1)</b>	<b>(58.2)</b>	
<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	20
<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 company, 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>898.4</b>	<b>2,007.1</b>	<b>1.2</b>	<b>2,008.3</b>	

Additional information about equity is disclosed in Note 18.

The notes on pages 81-159 are an integral part of these consolidated financial statements.

## Notes to the consolidated financial statements

### 1. General information

The consolidated financial statements of Eesti Energia Group for the year ended 31 December 2020 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. Eesti Energia is engaged in mining oil shale, production of power, heat and oil, development of oil shale refining know-how and technologies as well as provision of services and products to customers. The company'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, Eesti Energia 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 30 March 2021. 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.

### 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

The following new or revised standards and interpretations became effective for the Group from 1 January 2020:

**Definition of materiality – Amendments to IAS 1 and IAS 8** (*effective for annual periods beginning on or after 1 January 2020*) - The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. There is no material impact of application of the amendments to the Group's financial statements.

**Amendments to the Conceptual Framework for Financial Reporting**

(*effective for annual periods beginning on or after 1 January 2020*) - The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. There is no material impact of application of the amendments to the Group's financial statements.

**Definition of a business – Amendments to IFRS 3** (*effective for annual periods beginning on or after 1 January 2020*) - The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if there

are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). There is no material impact of application of the amendments to the Group's financial statements.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2020 that would be expected to 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 2021, 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 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 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 Changes in accounting policies

### Changes in significant accounting policies

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2019.

### Company income tax and deferred income tax

Both Estonia and Latvia have replaced the traditional profit-based tax regimes with distribution-based tax regimes where corporate income tax is not payable on profit but rather on distribution of dividends. In accordance with IAS 12.52A and 57A, in distribution-based tax regimes no current or deferred tax liability is recognised in respect of undistributed profits until a liability to pay dividends is recognised. As a market practice in Estonia, this accounting policy has been applied consistently to all undistributed profits in the group, regardless of whether those profits accumulated in the parent or in the subsidiaries.

In June 2020, IFRS Interpretation Committee made an agenda decision where it concluded that the principle set out in IAS 12.52A and 57A only applies to undistributed profits accumulated in the parent company and does not apply to undistributed profits accumulated in the subsidiaries. Instead, the principles described in IAS 12.39-40 should be followed in respect of undistributed profits in subsidiaries, stipulating that a deferred tax shall be recognised in respect of such accumulated profits, unless it is probable that they will not be distributed to the parent in the foreseeable future.

Deferred income tax is 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 payment.

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.

In Estonia, the valid company income tax rate is 20 percent (the payable tax amount is 20/80 of the net payment). From 2019, a lower tax rate is

applied to regularly payable dividends – 14% (14/86 of the net payment). The lower tax rate can be applied every calendar year on dividend payments and other profit distributions to the extent that does not exceed the average amount of taxable paid dividends and other profit distributions of the previous three calendar years.

The Group has recognised the change in the accounting policy retrospectively.

in million EUR	Balance in 2019 consolidated annual report	Change	Adjusted balance in 2020 consolidated annual report
<b>Impact on the statement of financial position as of 1 January 2019</b>			
Deferred tax liabilities	12.9	12.2	25.1
Retained earnings	913.7	-12.2	901.5
<b>Impact on the income statement in 2019</b>			
Corporate income tax expense	(11.8)	12.2	0.4
Total impact on the income statement	(11.8)	12.2	0.4
Basic earnings per share (euros)	0.04	0.02	0.06
Diluted earnings per share (euros)	0.04	0.02	0.06

## 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.

Goodwill and fair value adjustments arising on the acquisition of a foreign subsidiary are treated as assets and liabilities of the foreign subsidiary and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

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

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

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

## 2.8 Property, plant and equipment

Property, plant and equipment (PPE) are tangible items that are used in the Group's operating activities and have an expected useful life

of over one year. Items of property, plant and equipment are presented in the statement of financial position at historical cost less any accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of an item. The cost of a purchased item of property, plant and equipment comprises the purchase price, transportation and installation costs, and other costs directly attributable to the acquisition or implementation of the asset. The cost of a self-constructed item of property, plant and equipment includes the cost of materials, services and labour incurred in its construction and implementation.

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

When the construction of an item of property, plant and equipment lasts for a substantial period of time and is being funded by a loan or any other debt instrument, the related borrowing costs (interests) are capitalised as part of the cost of the item being constructed. Borrowing costs are capitalised if the borrowing costs and expenditures for the asset have been incurred and the construction of the asset has commenced. Capitalisation of borrowing costs ceases when the construction of the asset is complete or when its construction has been suspended for an extended period of time.

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

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

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

Buildings	30–40 years
Facilities, including electricity lines	12.5–50 years
other facilities	10–60 years
Machinery and equipment, including transmission equipment	5–45 years
power plant equipment	7–32 years
other machinery and equipment	3–30 years
Other items of property, plant and equipment	3–10 years

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when its residual value increases to an amount greater than its carrying amount, it is permanently withdrawn from use or classified as held for sale. The depreciation rate, depreciation method and residual value of an asset are reviewed at each reporting date during the annual stock-taking, 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) Computer software**

Costs associated with the ongoing 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) Greenhouse gas emission allowances**

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. 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 or that will be allocated to the Group free of charge (Note 2.24).

**(e) 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.

#### (f) 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 (for example goodwill) are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation or depreciation and land are assessed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised at the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of the asset's:

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

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

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

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

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

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

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

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

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

## 2.12 Financial assets

### 2.12.1 Classification

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

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

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

### 2.12.2 Recognition and derecognition

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

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

### 2.12.3 Measurement

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

### 2.12.4 Debt instruments

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

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

### 2.12.5 Amortised cost

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

### 2.12.6 Equity instruments

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

### 2.12.7 Derivative financial instruments

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

### 2.12.8 Impairment

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

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

For trade receivables without a significant financing component the Group applies a simplified approach permitted by IFRS 9 and measures the allowance for impairment losses at expected lifetime credit losses from initial recognition of the receivables. The Group uses a provision matrix in which allowance for impairment losses is calculated for trade receivables falling into different ageing or overdue periods.

### 2.13 Offsetting financial instruments

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

### 2.14 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method for recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if it is, the nature of the item being hedged. The Group uses cash flow hedging instruments in order to hedge the risk of changes of the prices of 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 its assessment and tests, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged items.

The fair values of derivative financial instruments used for hedging purposes are disclosed in Note 14. Movements on the hedge reserve in other comprehensive income are disclosed in Note 20. 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 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 recognised when the forecast transaction is ultimately recognised in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately recognised as other operating income or operating expenses in the income statement.

Hedging instruments, which are combined from various components of derivative instruments, are recognised at fair value with changes through profit or loss until the acquisition of all components.

**(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 operating expenses in the income statement.

The Group has signed long-term 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.

**(c) 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. Long-term 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 on dividends in Estonia

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

Corporate income tax paid on dividends is recognised in the income statement as income tax expense and in the statement of financial position as a deferred tax liability to the extent of the planned dividend payment.

Deferred income tax is provided on post-acquisition retained earnings and other post-acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future. The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax

liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

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

### (b) Other taxes in Estonia

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

Tax	Tax rate
Social security tax	33% of the payment made and fringe benefits provided to employees
Unemployment insurance contributions	0.8% of payments to employees
Income tax on fringe benefits	20%, calculated as 20/80 of fringe benefits provided to employees
Pollution charges	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.
Fee for extraction right for oil shale	0.275–2.21 euros per tonne of oil shale extracted (in 2019 0.275–2.21 euros per tonne of oil shale extracted)
Water utilisation charges	1.63–176.99 euros per 1000 m <sup>3</sup> of pond or ground water used (in 2019 1.65–175.24 euros per 1000 m <sup>3</sup> of pond or ground water used).
Land tax	0.1–2.5% of the taxable value of land per year
Heavy goods vehicle tax	3.50–232.60 euros per truck per quarter
Excise duty on electricity	0.5–4.47 (until 30.04.2020) euros per MWh of electricity; 0.5–1.0 (since 01.05.2020 and until 31.12.2020) euros per MWh of electricity
Excise duty on natural gas	40–79.14 euros per 1000 m <sup>3</sup> of natural gas (in 2019 63.31 euros per 1000 m <sup>3</sup> of natural gas)
Excise duty on shale	57.0 euros per 1000 kg of shale oil
Excise duty on oil shale	0.93 euros per giga-joule
Corporate income tax on non-business related expenses	20%, calculated as 20/80 of non-business expenses

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

Latvia	Income earned by resident legal persons is taxed at distribution at the rate of 20%, calculated as 20/80 of the amount of the net distribution
Lithuania	Income earned by resident legal persons is taxed at the rate of 15%
Germany	Income earned by resident legal persons is taxed at the rate of 30-33% (corporate tax, trade tax and solidarity surcharge combined)
the USA	Income earned by resident legal persons is taxed at the rate of 21%
Jordan	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.
the Netherlands	Income earned by resident legal persons is taxed at the rate of 25%
Poland	Income earned by resident legal persons is taxed at the rate of 19%
Finland	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 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 provision is based on the terms of the obligation and the estimated number of people eligible for the compensation.

Provisions for work-related injuries are recognised to cover expenditure related to future payments to former employees according to court orders over the estimated period of such obligations.

#### **(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) Provisions for the termination of mining operations**

Provisions for the termination of mining operations are recognised to cover the costs related to the closing of mines and quarries, if it is required by law. Experts' opinion and prior experience gained from the termination of mining operations is used to estimate the provisions.

#### **(d) 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.

#### **(e) 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.

#### **(f) Provisions for greenhouse gas emissions**

A provision for greenhouse gas emissions is recognised at the average price of the greenhouse gas emission allowances that are owned by the Group or that will be allocated to the Group free of charge to meet the obligations arising from legislation relating to greenhouse gas emissions. 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 (Note 24).

#### **(g) Provisions for onerous contracts**

A provision for onerous contract is recognised when the Group has concluded a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received. The provision is recognised in the amount which is the lower of the cost of fulfilling it (revenues received less expenses incurred of fulfilling the contract) and any compensation or penalties arising from failure to fulfil the contract.

#### **(h) Provision for obligations arising from treaties**

Provision for obligations arising from treaties is recognised to cover such contractual obligations, of which the timing or amount is uncertain.

### 2.25 Contingent liabilities

Where it is not probable that an outflow of resources will be required to settle an obligation, or where the amount of an obligation cannot be measured with sufficient reliability, but the obligation may transform into

a liability in certain circumstances, the obligation is disclosed in the notes to the financial statements as contingent liabilities.

## 2.26 Revenue recognition

Revenue is income arising in the course of the Group's ordinary activities. Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange of transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a good or service to a customer. Revenue is shown net of value-added tax and different types of excise duty applicable to the Group (see Note 2.22).

### (a) Sale of goods - wholesale

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

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

A receivable is recognised when the goods have been delivered as this is the point in time where the right to consideration becomes unconditional

because only the passage of time is required before the payment is due.

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

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

The Group provides electricity, gas and heat sale and waste treatment services under fixed and variable price contracts. Revenue from the services is recognised in the periods over which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided by the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. Revenue from the sale of electricity, gas and heat is recognised based on units delivered and revenue from the reception of waste is recognised based on units received. Invoices are issued on a monthly basis. As permitted by IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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

### (c) Connection fees

When connecting to the electricity network, the 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.

#### (e) Support for electricity produced from renewable sources

In line with section 59 of the Estonian Electricity Market Act, the Group receives support (government grant related to income) of 5.37 cents per kilowatt hour of electricity produced from a renewable energy source with a generating installation whose net capacity does not exceed 125 MW. The Group receives the grant monthly in accordance with the volume of electricity produced from a renewable energy source. The grant is recognised as "Other Income" using the gross method.

## 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 a contract liability 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.

## 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 there is a change in the non-cancellable period of a lease.

#### 2.28.1 Initial measurement

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

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

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group;

- an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

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

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

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the Group as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with the average interest margin of the industry adjusted with the credit risk of the Group;
- makes adjustments specific to the lease, by taking into account factors such as the lease term, country, currency and security.

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

- 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.

### 2.28.2 Subsequent measurement

After the commencement date, the Group measures the right-of-use asset applying a cost model. To apply the cost model, the Group measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

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

- 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. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognises any remaining amount of the remeasurement in the income statement.

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

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

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

- a) there is a change in the amounts expected to be payable under a residual value guarantee. The Group determines the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee.
- b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following

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

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

- a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

### (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.

### (c) Rights to use land

Payments made for the variable portion of the charges related to the rights of superficies (the right to use land belonging to another person to build and own buildings or structures on it) and servitudes (an encumbrance

on a person's property that grants another person the right to conduct certain activities on it) created for the benefit of the Group that meet the criteria for recognition as intangible assets are recognised as intangible assets. The costs related to rights to use land are amortised over the contract term, which may extend to 99 years, on a straight-line basis.

## 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 manage-

ment 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 long-term 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 and sale 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 (swaps, futures and forward contracts), 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 volume of derivative instruments entered into to hedge the price risk associated with the electricity sold to customers in Estonia, Latvia, Lithuania, Poland (under hedge accounting starting from 1 October 2020) and Finland 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.

The derivatives entered into to hedge the risks associated with the purchase of electricity will be settled in 2021–2025 (31 December 2019: 2020–2024). For the period, the Group has entered into derivative contracts on 5.05 TWh (31 December 2019: 4.39 TWh) to hedge exposure to the Nord Pool system price risk component and on 3.96 TWh (31 December 2019: 2.8 TWh)

to hedge exposure to the price spread risk component. For the given period the Group has also entered into derivative contracts on 1.32 TWh (31 December 2019: 0 TWh) to hedge exposure to the TGE Polish base price risk component and on 0.02 TWh (31 December 2019: 0 TWh) to hedge exposure to the TGE Polish peak load price risk component.

The fair value of the transactions is determined based on the Nasdaq OMX and TGE (Towarowa Giełda Energii / Polish Power Market) quotes. Their weighted average underlying price for Nord Pool and Finnish price spreads was 33.50 euros/MWh at 31 December 2020 (36.86 euros/MWh at 31 December 2019) and for TGE Polish base and peak price 52.42 euros/MWh at 31 December 2020.

#### Derivatives used to hedge the risks associated with the sale 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 and has applied hedge accounting principles to the given derivatives from 1 October 2020. 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.

The derivatives entered into to hedge the risks associated with the purchase of natural gas will be settled in 2021–2023. For the period, the Group has entered into derivative contracts on 0.66 TWh to hedge exposure to the natural gas price risk on the Polish Power Exchange. The fair value of the transactions is determined based on the TGE (Towarowa Giełda Energii / Polish Power Market) quotes. Weighted average underlying price was 15.94 euros/MWh at 31 December 2020.

### 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 Group or a 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.

Derivatives entered into to hedge the risks associated with the sale of shale oil will be settled in 2021–2023 (31 December 2019: 2020–2022). For the period, the Group has entered into derivative contracts of 746

thousand Mt (31 December 2019: 740 thousand Mt) to hedge exposure to the heavy fuel oil (1% sulphur content) risk component. The fair value of the transactions is determined based on the ICE and Platts European Marketscan quotes. Their weighted average underlying price was 282 euros/Mt at 31 December 2020 (306 euros/Mt at 31 December 2019).

### 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 or a reduction of revenue 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 20. Further information on derivatives is provided in Notes 12, 14 and 15.

### Derivatives held for trading

Derivatives held for trading are mainly derivatives for the purchase and sale of natural gas as the Group does not apply the principles of hedge accounting to these products and markets (except for Polish natural gas as described above). Liquidity swaps, which are designed to transfer changes in the value of past transactions to counterparties that can be traded without the counterparty requiring the covering of market values of the derivatives 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 and oil products. If the underlying electricity market prices would have been 10% higher/lower it would have the following impact on the Group's financial result: EUR -1.1 million and EUR 1.1 million (2019: EUR -0.2 million and EUR 0.2 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: EUR -0.3 million and EUR 0.3 million (2019: there were no material open fuel oil trading derivative net positions).

### 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 59.9% 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 (31 December 2019: for 63.6% of the Group's borrowings the base interest rate was locked until maturity and 36.4% of the borrowings had a floating interest rate) (Note 21). Had the base interest rate of the borrowings with a floating interest rate at 31 December 2020 been 0.5 percentage points (31 December 2019: 0.5 percentage points) higher with other factors remaining constant, the Group's net profit for the financial year would have been EUR 0.4 million (2019: EUR 1.1 million) lower.

Due to the aforementioned changes the market interest rate do not have a material effect on the Group's borrowings, however they may affect the fair value of the borrowings (Note 21). Any reasonably possible change in the fair value of financial assets at fair value through profit or loss would not have had a significant impact on the Group's net profit.

### 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.

Short-term 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:

in million EUR	31 DECEMBER	
	2020	2019
Trade and other receivables (Notes 12 and 13)*	194.9	194.5
Bank accounts and deposits recognised as cash equivalents in banks (Note 12, 15 and 17)	166.9	34.6
Derivatives with positive value (Notes 3.3, 12, 14 and 15)	55.4	14.3
<b>Total amount exposed to credit risk</b>	<b>417.2</b>	<b>243.4</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 13 and 15.

### 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 2020 the Group has negative working capital in the amount of EUR 56.0 million. Further information about the Group's ability to continue as a going concern is disclosed in Note 36.

As at 31 December 2020, the Group had spare monetary balances of EUR 166.9 million (31 December 2019: EUR 34.6 million). Additionally, as at the end of the financial year, the Group had undrawn loan facilities of EUR 520.0 million (31 December 2019: EUR 425.0 million) (Note 21).

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 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, 12 and 21)*	319.2	749.6	18.9	1,087.7	1,014.4
Derivatives (Notes 3.3, 12 and 14)	10.3	4.4	-	14.7	14.7
Trade and other payables (Notes 12 and 22)	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.

Division of liabilities by maturity date as at 31 December 2019:

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, 12 and 21)*	229.9	981.6	25.2	1,236.7	1,135.8
Derivatives (Notes 3.3, 12 and 14)	24.2	6.0	-	30.2	30.2
Trade and other payables (Notes 12 and 22)	98.9	0.5	-	99.4	99.4
<b>Total</b>	<b>353.0</b>	<b>988.1</b>	<b>25.2</b>	<b>1,366.3</b>	<b>1,265.4</b>

\* Interest expenses have been estimated on the basis of the interest rates prevailing as at 31 December 2019.

### 3.2 Management of equity

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 (Notes 18 and 19).

The Group follows a strategy according to which net debt in long term should not exceed EBITDA more than 3.5 times (in 2019: 3.5 times) and equity should be at least 50% (2019: 50%) of the total assets. 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 2020 and 31 December 2019, the net debt to EBITDA ratio and the equity to assets ratio were as follows:

in million EUR	31 DECEMBER	
	2020	2019
Debt (Notes 3.1, 12 and 21)	1,014.4	1,135.8
Less: cash and cash equivalents (Notes 3.1, 12 and 17)	(166.9)	(34.6)
Net debt	847.5	1,101.2
Total equity	2,008.3	1,801.6
EBITDA*	213.5	259.8
Assets	3,686.1	3,468.1
Net debt/EBITDA	4.0	4.2
Equity/assets	54%	52%
Total capital (net debt + equity)	2,855.8	2,902.8
Debt to equity ratio	30%	38%

\* EBITDA: profit before finance income and costs, profit (loss) from associates under the equity method, tax-, depreciation-, amortisation, impairment losses (see Note 5 for quantitative reconciliation of the amount).

### 3.3 Fair value

The Group estimates that the fair values of assets and liabilities reported at amortised cost in the statement of financial position as at 31 December 2020 and 31 December 2019 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 21). 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 2020 and 31 December 2019:

in million EUR	31 DECEMBER 2020			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Trading derivatives (Notes 12, 14 and 15)	0.6	8.8	10.9	20.3
Cash flow hedges (Notes 12, 14 and 15)	3.3	31.8	-	35.1
<b>Total financial assets (Notes 3.1, 12, 14 and 15)</b>	<b>3.9</b>	<b>40.6</b>	<b>10.9</b>	<b>55.4</b>
<b>Liabilities</b>				
Trading derivatives (Notes 12, 14 and 15)	-	12.9	-	12.9
Cash flow hedges (Notes 12, 14 and 15)	-	1.8	-	1.8
<b>Total financial liabilities (Notes 3.1, 12 and 14)</b>	<b>-</b>	<b>14.7</b>	<b>-</b>	<b>14.7</b>

in million EUR	31 DECEMBER 2019			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Trading derivatives (Notes 12, 14 and 15)	0.1	13.5	-	13.6
Cash flow hedges (Notes 12, 14 and 15)	-	0.7	-	0.7
<b>Total financial assets (Notes 3.1, 12, 14 and 15)</b>	<b>0.1</b>	<b>14.2</b>	<b>-</b>	<b>14.3</b>
<b>Liabilities</b>				
Trading derivatives (Notes 12, 14 and 15)	5.0	18.7	-	23.7
Cash flow hedges (Notes 12, 14 and 15)	0.1	6.4	-	6.5
<b>Total financial liabilities (Notes 3.1, 12 and 14)</b>	<b>5.1</b>	<b>25.1</b>	<b>-</b>	<b>30.2</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 cleared 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, Platt's European Marcetscani 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. It is concluded that the agreement is in scope of IFRS 9 Financial instruments as the contract can be net settled and not held for own use.

The fair values of the level 3 instruments have been estimated using a combination of market prices, mathematical models, and assumptions based on market and other relevant data. The most significant input of the fair value of the PPA is the long-term electricity price. The Group has determined the underlying price for the calculation of fair value based on a long-term price curve for the Lithuanian electricity market. If the estimated prices change +/- 10% the impact to the Group's net profit would be impacted by +/- EUR 10 million.

### 3.4 Offsetting financial assets and financial liabilities

#### (a) Financial assets

The following financial assets are subject to offsetting:

in million EUR	31 DECEMBER 2020				
	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, 12, 14 and 15)	Related amounts not set off in the statement of financial position	Net amount
Derivative financial instruments	63.6	(8.2)	55.4	(0.8)	54.6

in million EUR	31 DECEMBER 2019				
	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, 12, 14 and 15)	Related amounts not set off in the statement of financial position	Net amount
Derivative financial instruments	24.8	(10.5)	14.3	(3.1)	11.2

#### b) Financial liabilities

The following financial liabilities are subject to offsetting:

in million EUR	31 DECEMBER 2020				
	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, 12, 14 and 15)	Related amounts not set off in the statement of financial position	Net amount
Derivative financial instruments	22.9	(8.2)	14.7	(0.8)	13.9

in million EUR	31 DECEMBER 2019				
	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, 12, 14 and 15)	Related amounts not set off in the statement of financial position	Net amount
Derivative financial instruments	40.7	(10.5)	30.2	(3.1)	27.1

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 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 2020, the net book amount of property, plant and equipment of the Group totalled EUR 2,922.7 million (31 December 2019: EUR 2,913.4 million), and the depreciation charge for the reporting period was EUR 158.5 million (2019: EUR 185.4 million) (Note 6). The average residual useful life of property, plant and equipment is 17.7 (31 December 2019: 19.4) years. If the average residual useful life would increase / decrease by 1 year, the depreciation expense would decrease by EUR 8.8 million (2019: EUR 7.4 million) / increase by EUR 9.9 million (2019: EUR 8.2 million).

During the financial year the management has reviewed the useful lives of all property, plant and equipment and made the following changes to better reflect the useful lives of certain assets:  
Eesti Energia AS subsidiary Enefit Power AS has reassessed the useful

lives of the power plant assets due to reduced workload of the machinery compared to what was initially expected. The impact of the reassessment to the yearly depreciation expense is EUR 15.1 million. As at 31 December 2020, the carrying amount of the reassessed assets is EUR 354.6 million.

Management of Enefit Green group has analysed the operating results of the group's wind farms and taking into account the specific technological aspects used for specific farms decided to increase the useful lifetime of Enefit Green wind farms. The impact of the reassessment to the yearly depreciation expense is EUR 2.0 million.

Management of Enefit Green group has analysed the operating results of the group's solar parks and taking into account the specific technological aspects used for specific parks decided to increase the useful lifetime of the Polish solar parks from 15 years to 25 years to bring them into line with actual life expectancy. The impact of the reassessment to the yearly depreciation expense is EUR 1.3 million.

All the aforementioned adjustments were done as at 1 January 2020.

#### (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 revaluation of provisions

As at 31 December 2020, the Group had set up provisions for environmental protection, termination of mining operations, dismantling of assets, employees and contracts related totalling EUR 34.3 million (31 December 2019: EUR 36.3 million) (Note 24). 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 33.

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

As 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 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.

## 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 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 old metal, sale of mining products, sale of 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 obtained 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.

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. 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 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	
	2020	2019
<b>Revenue from external customers</b>		
Electrical Energy	360.1	474.5
Network Services	217.7	219.3
Liquid Fuels	138.1	125.3
<b>Total reportable segments</b>	<b>715.8</b>	<b>819.1</b>
Other	117.9	106.7
<b>Total (Note 25)</b>	<b>833.7</b>	<b>925.8</b>

## EBITDA

in million EUR	31 DECEMBER	
	2020	2019
<b>EBITDA</b>		
Electrical Energy	53.4	132.8
Network Services	87.6	79.7
Liquid Fuels	53.8	45.8
<b>Total reportable segments</b>	<b>194.9</b>	<b>258.4</b>
Other	18.7	1.5
<b>Total</b>	<b>213.6</b>	<b>259.9</b>
Depreciation and amortisation (Notes 6 and 8)	(161.4)	(188.0)
Net finance costs	(34.0)	(36.8)
Profit (loss) from associates under the equity method (Note 9)	1.7	(0.1)
<b>Profit before tax</b>	<b>19.9</b>	<b>35.0</b>

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

2020 results include impairment of assets in Eesti power plant in the amount of EUR 23.0 million (divided between the following segments: Electrical Energy segment EUR 22.1 million; Other segment EUR 0.9 million) and the reversal of impairment of assets in the Auvere power plant

in the amount of EUR 36.1 million (Electrical Energy segment EUR 34.7 million; Other segment EUR 1.4 million). Total impact of the recognition and reversal of impairment costs to the profit before taxation is EUR 13.1 million (Electrical Energy segment EUR 12.6 million; Other segment EUR 0.5 million).

## Other profit and loss disclosures

in million EUR	1 JANUARY – 31 DECEMBER 2020		1 JANUARY – 31 DECEMBER 2019	
	Depreciation and amortisation	Recognition (-) and reversal (+) of provisions	Depreciation and amortisation	Recognition (-) and reversal (+) of provisions
Electrical Energy	(70.0)	84.0	(99.2)	60.8
Network Services	(49.3)	-	(47.1)	-
Liquid Fuels	(21.6)	16.7	(20.8)	8.3
<b>Total reportable segments</b>	<b>(140.9)</b>	<b>100.7</b>	<b>(167.2)</b>	<b>69.2</b>
Other	(20.5)	3.8	(20.8)	1.9
<b>Total (Notes 6, 8 and 24)</b>	<b>(161.4)</b>	<b>104.5</b>	<b>(188.0)</b>	<b>71.1</b>

Interest income and expenses, corporate income tax expense and profit (loss) from associates under equity method are not divided between segments and the information is not provided to the Management Board of the parent company.

Additional information about the impairment, depreciation and amortisation is disclosed in Notes 6 and 8 and recognition and change of provisions in Note 24.

## 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 2020			1 JANUARY – 31 DECEMBER 2019		
	Total assets	Investments in associates (Note 9)	Capital expenditure (Notes 6 and 8)	Total assets	Investments in associates (Note 9)	Capital expenditure (Notes 6 and 8)
Electrical Energy	1,704.2	2.7	76.5	1,649.3	3.5	36.1
Network Services	1,162.6	-	97.6	1,075.4	-	84.6
Liquid Fuels	379.4	1.2	10.8	339.4	0.8	8.1
<b>Total reportable segments</b>	<b>3,246.2</b>	<b>3.9</b>	<b>184.9</b>	<b>3,064.1</b>	<b>4.3</b>	<b>128.8</b>
Other	439.9	42.9	3.1	404.0	39.1	7.2
<b>Total (Notes 6, 8 and 9)</b>	<b>3,686.1</b>	<b>46.8</b>	<b>188.0</b>	<b>3,468.1</b>	<b>43.4</b>	<b>136.0</b>

## Entity-wide information

### External revenue by location of clients

in million EUR	1 JANUARY - 31 DECEMBER	
	2020	2019
Estonia	489.0	506.1
Lithuania	101.3	65.8
Singapore	90.6	128.9
Latvia	69.7	115.4
Poland	65.8	76.8
United Arab Emirates	12.2	-
Switzerland	-	17.3
Nordic countries	4.0	15.0
Other countries	1.1	0.5
<b>Total external revenue (Note 25)</b>	<b>833.7</b>	<b>925.8</b>

The Group operates mostly in Estonia, but electricity, liquid fuels and some other goods and services are also sold in other countries.

### Allocation of non-current assets by location\*

in million EUR	31 DECEMBER	
	2020	2019
Estonia	2,686.4	2,656.8
Lithuania	231.4	243.4
Latvia	36.3	39.1
USA	24.3	26.3
Poland	15.6	15.0
Finland	8.0	-
Other countries	1.5	2.0
<b>Total (Notes 6 and 8)</b>	<b>3,003.5</b>	<b>2,982.6</b>

\* other than financial instruments, deferred tax assets, investments in associates and right-of-use assets

In 2020 the Group had a client, whose revenue from liquid fuels was 10% or more of the Group's revenues. Sales to this customer in 2020 totalled EUR 90.6 million (in 2019 the sales to this customer totalled EUR 109.9 million).

In 2020 the Group had a client, whose revenue from electrical energy was 10% or more of the Group's revenues. Sales to this customer in 2020 totalled EUR 129.3 million (in 2019 the sales to this customer totalled EUR 221.2 million).

## 6. Property, plant and equipment

in million EUR	Land	Buildings	Facilities	Machinery and equipment	Other property, plant and equipment	Construction in progress and prepayments	Total
<b>Property, plant and equipment as at 31 December 2018</b>							
Cost	42.9	327.4	1,153.8	3,057.0	6.3	82.5	4,669.9
Accumulated depreciation	-	(111.5)	(458.8)	(1,139.1)	(5.1)	-	(1,714.5)
<b>Carrying amount at 31 December 2018 (Note 4)</b>	<b>42.9</b>	<b>215.9</b>	<b>695.0</b>	<b>1,917.9</b>	<b>1.2</b>	<b>82.5</b>	<b>2,955.4</b>
<b>Changes occurred in 2019</b>							
Additions (Note 5)	1.4	0.2	0.6	5.8	0.1	120.9	129.0
Depreciation charge and write-downs (Notes 4, 5 and 32)	-	(7.2)	(31.5)	(146.1)	(0.5)	(0.1)	(185.4)
Disposals (at carrying amount)	(0.5)	(0.5)	(0.2)	(0.6)	-	-	(1.8)
Acquisition of subsidiary	-	0.1	0.2	12.0	-	-	12.3
Effects on movements in foreign exchange rates	0.1	-	-	-	-	-	0.1
Other changes	-	-	-	3.9	-	-	3.9
Transfers	0.5	3.4	45.8	78.9	-	(128.7)	(0.1)
<b>Total changes occurred in 2019</b>	<b>1.5</b>	<b>(4.0)</b>	<b>14.9</b>	<b>(46.1)</b>	<b>(0.4)</b>	<b>(7.9)</b>	<b>(42.0)</b>
<b>Property, plant and equipment as at 31 December 2019</b>							
Cost	44.4	330.0	1,196.8	3,140.9	6.1	74.6	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>74.6</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	123.2	171.7
Depreciation charge and write-downs (Notes 4, 5 and 32)	-	(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)	(120.4)	(2.4)
<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>(0.7)</b>	<b>9.3</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	73.9	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>73.9</b>	<b>2,922.7</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.

Assets are tested for impairment when there is a reason to assume that they are at risk of impairment. Based on an assessment made in 2020, the Group concluded that assets requiring impairment testing included Eesti Energia's power plants and wind farms, the Tootsi wind farm development project and the assets of Enefit American Oil. The main indication of possible impairment was high volatility of electricity and emission allowance prices (the fair value of power plant assets is sensitive to electricity and emission allowance prices, and the value of wind farm assets is sensitive to the price of electricity). The market price of electricity decreased and was highly volatile in 2020, mainly because the levels of the Nordic hydro reservoirs were record-high and the COVID-19 pandemic affected electricity consumption volumes. Emission allowance prices were also highly volatile in 2020 and have followed a consistently rising trend. 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**

In 2020, the Group adjusted the structure of impairment tests performed on the assets of its power plants based on the efficiency and fuel consumption of the plants' generating units. In earlier periods, the power plants were divided into two separate cash-generating units (the Auvere power plant, and the Eesti and Balti power plants). From 2020, the power plants are divided into three separate cash-generating units: 1) the Auvere power plant, 2) the generating units of the Eesti and Balti power plants

which use only oil shale as fuel (oil shale-fired generating units), 3) the generating units of the Eesti and Balti power plants that use oil shale as well as other fuels (hybrid generating units). Power plants are divided into separate 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 the management decisions related to the generating units. The generating units of the Eesti and Balti power plants were separated into two cash-generating units based on their efficiency and fuel consumption: some of their generating units produce electricity from oil shale only while others can also use significant amounts of alternative and renewable fuels. The Auvere power plant forms a separate cash-generating unit because its generating unit is considerably more efficient than others and can use other fuels besides oil shale.

At 31 December 2020, the carrying amount of the assets of the Auvere power plant was EUR 509.1 million (31 December 2019: EUR 529.2 million). The recoverable amount of the assets was estimated based on their value in use. The impairment testing indicated a need for reversing the previously recognised impairment loss to the extent of EUR 36.1 million because the assets' value in use significantly exceeded their carrying amount. The rise in the assets' expected future cash flows and, accordingly, value in use is mainly attributable to the Auvere power plant's capacity to use a larger share of alternative and renewable fuels and an increase in its operating efficiency. The expected future cash flows were discounted using a discount rate of 7.5% (2019: 9.0%). 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 (2019: the impact of a 1 percentage point increase in the discount rate was EUR 57 million).

The recoverable amount of the assets of the Auvere power plant is sensitive to changes in electricity and emission allowance prices. In 2019,

the recoverable amount of the assets of the Auvere power plant was sensitive to changes in electricity, fuel (oil shale) and emission allowance prices. The price assumptions which have the strongest impact on the recoverable amount of the assets are assumptions about electricity and emission allowance prices. In 2019, the price assumption which had the strongest impact on the recoverable amount of the assets was the assumption about the electricity price.

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. It was assumed that from 2023 the price levels in the Estonian and the neighbouring electricity markets would gradually equalise. If this assumption did not apply and the market price of electricity was forecast relying on current forward prices, the recoverable amount of the assets would be up to EUR 557 million lower (2019: up to EUR 195 million lower) and the assets' carrying amount would exceed their value in use by up to EUR 347 million. 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 2020 was 8-38% (2019: 4-10%) 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 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 (based on the Ministry of Finance forecast for the Consumer Price Index dated 7 October 2020), (2019: 2.0% growth per year). 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, the recoverable amount of the assets would be EUR 47 million lower and the value in use of the assets would still exceed their carrying amount.

In 2019, the recoverable amount of the assets of the Auvere power plant was sensitive not only to electricity and emission allowance prices but also the price of fuel (oil shale) and if the assumptions had not applied, the recoverable amount of the assets would have been EUR 14 million lower.

At 31 December 2020, the carrying amount of the assets of the hybrid generating units of the Eesti and Balti power plants was EUR 131.7 million. The recoverable amount of the assets was estimated based on their value in use. The impairment testing performed on the assets of the hybrid generating units did not indicate a need for recognising an impairment loss. 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 35 million on the assets' recoverable amount, in which case the assets' carrying amount would exceed their value in use by up to EUR 33 million.

The recoverable amount of the assets of the hybrid generating units of the Eesti and Balti power plants is sensitive to changes in electricity, emission allowance prices, changes in oil shale price and changes in expected subsidy for the use of biofuels. The market assumptions applied in the impairment test were the same as those applied for the assets of the Auvere power plant. If the assumption that the price levels in the Estonian and the neighbouring electricity markets would gradually equalise did not apply and the market price of electricity was forecast relying on current forward prices, the recoverable amount of the hybrid generating units of the Eesti and Balti power plants would be EUR 539 million lower and the assets' carrying amount would exceed their value in use by up to EUR 132 million. If the assumptions about the emission allowance price did not apply and the price of emission allowances was forecast assuming similar price increase as during 2020, the recoverable amount of the assets would be EUR 140 million lower and the carrying amount of the assets would exceed their value in use by EUR 132 million. If the assumptions about oil shale price forecast did not apply and price of oil shale would

increase yearly by expected inflation rate, the recoverable amount of the hybrid generating units of the Eesti and Balti power plants would be EUR 37 million lower and the assets' carrying amount would exceed their value in use by up to EUR 35 million. If assumptions about expected subsidy for the use of biofuels did not apply, the recoverable amount of the hybrid generating units of the Eesti and Balti power plants would be EUR 14 million lower and the assets' carrying amount would exceed their value in use by up to EUR 13 million.

The results of the impairment test performed on the assets of the oil shale-fired generating units of the Eesti and Balti power plants 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 2019, the oil-shale fired and hybrid generating units of the Eesti and Balti power plants were treated as a single cash-generating unit. At 31 December 2019, the carrying amount of the assets of the Eesti and Balti power plants was EUR 171.4 million. The impairment testing did not indicate a need for recognising an impairment loss. The recoverable amount of the assets was estimated based on their value in use. The expected future cash flows were discounted using a discount rate of 9.0%. A 1 percentage point increase in the discount rate would have had a negative impact of EUR 42 million on the assets' recoverable amount, in which case the assets' carrying amount would have exceeded their value in use by EUR 12 million. In 2019, the recoverable amount of the assets of the Eesti and Balti power plants was sensitive to changes in electricity, emission allowance and fuel prices and the rate of the implementation of flexible cooperation mechanisms. The price assumption which had the strongest impact on the recoverable amount of the assets was the assumption about the electricity price. If the assumption that the price levels in the Estonian and the neighbouring electricity markets would gradually equalise had not applied and the market price of electricity was forecast relying on current forward prices, the recoverable amount

of the assets would have been EUR 195 million lower and the assets' carrying amount would have exceeded their value in use by up to EUR 171 million.

### **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 (2019: 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 (2019: 6.0% for wind farms in both countries). 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. The recoverable amount of the assets of wind farms is most sensitive to changes in the electricity price. If the assumption that the price levels in the Estonian and the neighbouring electricity markets would gradually equalise did not apply and the market price of electricity was forecast relying on current forward prices, the impairment losses on wind farms in Estonia and Lithuania would amount to EUR 21 million and EUR 29 million, respectively (2019: the impairment loss would have been EUR 4 million for wind farms in Estonia and EUR 1 million for wind farms in Lithuania). The recoverable amounts of wind farms were estimated taking into account the goodwill allocated to them.

### **Impairment test performed on the assets of the Tootsi wind farm development project**

In 2020, the assets of the Tootsi wind farm development project were tested for impairment. The recoverable amount 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. The recoverable amount of the assets of the Tootsi wind farm development project is most sensitive to changes in the electricity price. If the assumption that the price levels in the Estonian and the neighbouring electricity markets would gradually equalise did not apply and the market price of electricity was forecast relying on current forward prices, 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 2020, 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. The recoverable amount of the assets of Enefit American Oil was estimated using the same methodology as in 2019 when 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 was based on an analysis prepared by Hard Rock Consulting LLC in 2015.

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

in million EUR	31 DECEMBER	
	2020	2019
Cost	6.3	7.4
Accumulated depreciation at the beginning of the financial year	(4.5)	(5.1)
Depreciation charge	(0.1)	(0.1)
<b>Net book amount</b>	<b>1.7</b>	<b>2.2</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 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	
	2020	2019
Purchase of goods	8.2	11.9
Purchase of services	1.7	1.0
Proceeds from sale of services	0.5	1.7
Purchase of property, plant and equipment	0.3	0.2
Loans granted	0.1	-
Repayments of loans granted	-	0.6
Dividends received	2.8	3.9
Capital contributions made	4.3	4.2

The group has committed itself to future capital contributions. The respective contingent liability is disclosed in Note 33.

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

in million EUR	1 JANUARY – 31 DECEMBER	
	2020	2019
Purchases of goods and services	0.6	1.0

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	
	2020	2019
Purchase of services	75.3	78.5
Purchase of goods	14.2	13.2
Purchase of property, plant and equipment and prepayments	1.4	4.3
Sale of goods and services (incl. renewable energy grant) (Note 7)	35.7	37.2

Transaction with Elering results 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	
	2020	2019
Receivables (Note 13)	1.9	6.3
Payables (Note 22)	21.4	19.8

The remuneration paid to the members of the Supervisory and Management Boards is disclosed in Note 28. Receivables from associates are disclosed in Note 13 and payables to associates in Note 22. No impairment loss from receivables was recognised in the current or comparative period.

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 termination benefits.

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	Other intangible assets	Exploration and evaluation assets	Contractual rights	Total
<b>Intangible assets as at 31 December 2018</b>						
Cost	23.4	41.1	2.7	2.0	22.4	91.6
Accumulated amortisation	-	(34.6)	(0.9)	-	(0.6)	(36.1)
Carrying amount at 31 December 2018	23.4	6.5	1.8	2.0	21.8	55.5
Intangible assets not yet available for use	-	5.8	-	-	-	5.8
<b>Total intangible assets as at 31 December 2018</b>	<b>23.4</b>	<b>12.3</b>	<b>1.8</b>	<b>2.0</b>	<b>21.8</b>	<b>61.3</b>
<b>Changes occurred in 2019</b>						
Additions (Note 5)	-	6.9	-	0.1	-	7.0
Amortisation charge and write-downs (Notes 5 and 32)	-	(2.1)	(0.1)	-	(0.2)	(2.4)
Acquisition of subsidiary	2.8	-	-	-	-	2.8
Effects on movements in foreign exchange rates	-	-	-	-	0.4	0.4
Transfers	-	0.2	-	-	(0.1)	0.1
<b>Total changes occurred in 2019</b>	<b>2.8</b>	<b>5.0</b>	<b>(0.1)</b>	<b>0.1</b>	<b>0.1</b>	<b>7.9</b>
<b>Intangible assets as at 31 December 2019</b>						
Cost	26.2	43.9	2.7	2.1	22.6	97.5
Accumulated amortisation	-	(36.4)	(1.0)	-	(0.7)	(38.1)
Carrying amount at 31 December 2019	26.2	7.5	1.7	2.1	21.9	59.4
Intangible assets not yet available for use	-	9.8	-	-	-	9.8
<b>Total intangible assets as at 31 December 2019</b>	<b>26.2</b>	<b>17.3</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)	-	8.1	-	0.2	8.0	16.3
Amortisation charge and write-downs (Notes 5 and 32)	-	(2.7)	-	-	(0.2)	(2.9)
Effects on movements in foreign exchange rates	-	-	-	(0.1)	(1.8)	(1.9)
<b>Total changes occurred in 2020</b>	<b>-</b>	<b>5.4</b>	<b>-</b>	<b>0.1</b>	<b>6.0</b>	<b>11.5</b>
<b>Intangible assets as at 31 December 2020</b>						
Cost	26.2	44.6	2.7	2.2	28.5	104.2
Accumulated amortisation	-	(37.2)	(1.0)	-	(0.6)	(38.8)
Carrying amount at 31 December 2020	26.2	7.4	1.7	2.2	27.9	65.4
Intangible assets not yet available for use	-	15.4	-	-	-	15.4
<b>Total intangible assets as at 31 December 2020</b>	<b>26.2</b>	<b>22.7</b>	<b>1.7</b>	<b>2.2</b>	<b>27.9</b>	<b>80.8</b>

During 2020, the Group has 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	
	2020	2019
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.

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 6.0% (2019: 6.0%), future cash flows for other goodwill impairment tests were discounted using a discount rate of 7.0%-10.0% (2019: 7.0%-10.0%).

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 mining rights acquired in the state of Utah, the estimated useful life of which is 20 years.

In August 2020, the company acquired contractual rights for the development of the Tolpanvaara wind farm for EUR 8 million. The expected useful life of the wind farm is 30 years and currently the asset is not yet amortised.

## 9. Investments in associates

### Details of material investments in associates in 2020 and 2019

Name of the company	Place of business	Interest as at 31 December 2020	Interest as at 31 December 2019	Nature of relationship	Measurement method
Orica Eesti OÜ*	Estonia, the Netherlands	35.0%	35.0%	Note 1	Equity
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
Attarat Power Holding Co BV Group**	the Netherlands, Jordan	10.0%	10.0%	Note 3	Equity
Attarat Operation & Maintenance Co BV**	the Netherlands, Jordan	10.0%	10.0%	Note 3	Equity

\* 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 2020 and 31 December 2019. Loans to Enefit Jordan B.V have been written off (Note 13).

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 with the development of an oil shale power plant in Jordan. See also Note 33 regarding disclosures on the assessment of significant influence of the Group over the mentioned entities.

All material equity investments (except Enefit Jordan B.V. Group, as stated above) have positive net assets as at 31 December 2020 and 31 December 2019.

## Reconciliation of summarised financial information of associates

in million EUR	31 DECEMBER	
	2020	2019
<b>Summarised net assets of associates at the beginning of the period</b>	<b>80.1</b>	<b>32.0</b>
Profit/loss for the period	(13.4)	12.6
Other comprehensive income	(41.4)	(36.5)
Contribution to the share capital	76.1	92.3
Dividends declared	(8.1)	(17.9)
Net assets of the associate acquired in the reporting period	-	-
Net assets of the associate sold in the reporting period	-	(2.4)
Other adjustments	-	-
<b>Summarised net assets of associates at the end of the period</b>	<b>93.3</b>	<b>80.1</b>
Interest in associates (calculated based on Group's share in respective associates)	18.9	23.5
Notional goodwill	12.3	12.3
Group's share in negative net assets not recognised by the Group using the equity method	22.1	14.4
Other adjustments	(6.5)	(6.7)
<b>Carrying amount at the end of the period (Note 5)</b>	<b>46.8</b>	<b>43.5</b>
<b>Group's share of associates profit/loss for the period (Notes 5 and 32)</b>	<b>1.7</b>	<b>(0.1)</b>

## 10. Principal subsidiaries

Name	Country of incorporation	Nature of business	Proportion of ordinary shares held by the Group (%)		Proportion of ordinary shares held by noncontrolling interests (%)	
			31 DECEMBER		31 DECEMBER	
			2020	2019	2020	2019
Elektrilevi OÜ	Estonia	Network operator	100.0	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	100.0	100.0	-	-
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
Hiumaa Offshore Tuulepark OÜ	Estonia	Development of wind farms	100.0	100.0	-	-
Tootsi Tuulepark OÜ	Estonia	Development of wind farms	100.0	100.0	-	-
Enefit Wind OÜ	Estonia	Production of electrical energy	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	100.0	100.0	-	-
Enercom SIA	Latvia	Development of wind farms	100.0	100.0	-	-
Technological Solutions SIA	Latvia	Cogeneration plant	100.0	100.0	-	-
Pellet 4Energia SIA	Latvia	Production of pellets	100.0	100.0	-	-
4ENERGIA SIA	Latvia	Management services	100.0	100.0	-	-
Enefit UAB	Lithuania	Selling electricity to end consumers	100.0	100.0	-	-
Enefit Wind UAB, until 31 May 2019						
Šilutės Vėjo Projektai UAB	Lithuania	Production of electrical energy	100.0	100.0	-	-
Enefit Green UAB	Lithuania	Establishment and operation of wind farms	100.0	100.0	-	-
Šilalės vėjas UAB	Lithuania	Development of wind farms	100.0	100.0	-	-
Šilutės vėjo parkas 2	Lithuania	Development of wind farms	100.0	100.0	-	-
Šilutės vėjo parkas 3	Lithuania	Development of wind farms	100.0	100.0	-	-
Energijos Žara	Lithuania	Development of wind farms	100.0	100.0	-	-
Vėjo Parkai UAB	Lithuania	Development of wind farms	100.0	100.0	-	-
4Energia UAB	Lithuania	Management services	100.0	100.0	-	-
Baltic Energy Group UAB	Lithuania	Research related to the development of the offshore wind farm	100.0	100.0	-	-

Name	Country of incorporation	Nature of business	Proportion of ordinary shares held by the Group (%)		Proportion of ordinary shares held by noncontrolling interests (%)	
			31 DECEMBER		31 DECEMBER	
			2020	2019	2020	2019
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	100.0	100.0	-	-
Cirrus sp z.o.o	Poland	Production of electrical energy from sun	100.0	100.0	-	-
Velum sp z.o.o	Poland	Production of electrical energy from sun	100.0	100.0	-	-
Incus sp z.o.o	Poland	Production of electrical energy from sun	100.0	100.0	-	-
Humilis sp z.o.o	Poland	Production of electrical energy from sun	100.0	100.0	-	-
Energy Solar 15 sp z.o.o	Poland	Production of electrical energy from sun	100.0	100.0	-	-
PV Sielec Sp. z o.o.	Poland	Production of electrical energy from sun	100.0	-	-	-
PV Plant Zambrow Sp. z o.o.	Poland	Production of electrical energy from sun	100.0	-	-	-
PV Plant Debnik Sp. z o.o.	Poland	Production of electrical energy from sun	100.0	-	-	-
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	100,0	-	-	-
Enefit Connect OÜ	Estonia	Network co-management and energy solutions based on new technologies	100,0	-	-	-
Tootsi Windpark OÜ	Estonia	Development of wind farms	100.0	-	-	-

In 2020 Eesti Energia renewable energy subsidiary Enefit Green has acquired three solar parks in the sum of EUR 1.9 million: PV Sielec Sp. z o.o., PV Plant Zambrow Sp. Z.o.o and PV Plant Debnik Sp Z.o.o. These transactions were accounted as acquisitions 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. None of

the carrying amounts of the non-controlling interests as at 31 December 2020 and 31 December 2019 were material.

### 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.

## 11. Inventories

in million EUR	31 DECEMBER	
	2020	2019
<b>Raw materials and materials at warehouses</b>	<b>54.1</b>	<b>52.5</b>
<b>Work-in-progress</b>		
Stored oil shale	51.7	48.3
Stripping works in quarries	1.6	3.1
Other work-in-progress	-	0.1
<b>Total work-in-progress</b>	<b>53.3</b>	<b>51.5</b>
<b>Finished goods</b>		
Shale oil	3.0	4.7
Pellets	6,5	1.8
Other finished goods	0.5	0.5
<b>Total finished goods</b>	<b>10.0</b>	<b>7.0</b>
<b>Total inventories (Note 32)</b>	<b>117.4</b>	<b>111.0</b>

There were inventory write-downs in the amount of EUR 0.3 million during the reporting period (in 2019 there were no inventory write-downs).

Inventories recognised as an expense during the year ended 31 December 2020 amounted to EUR 96.6 million (2019: EUR 83.3 million).

## 12. Division of 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 2020</b>				
<b>Financial asset items in the statement of financial position</b>				
Trade and other receivables excluding prepayments (Notes 3.1, 13 and 15)	194.9	-	-	194.9
Derivative financial instruments (Notes 3.1, 3.3, 14 and 15)	-	20.3	35.1	55.4
Cash and cash equivalents (Notes 3.1, 3.2, 15 and 17)	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>
<b>As at 31 December 2019</b>				
<b>Financial asset items in the statement of financial position</b>				
Trade and other receivables excluding prepayments (Notes 3.1, 13 and 15)	194.4	-	-	194.4
Derivative financial instruments (Notes 3.1, 3.3, 14 and 15)	-	13.6	0.7	14.3
Cash and cash equivalents (Notes 3.1, 3.2, 15 and 17)	34.6	-	-	34.6
<b>Total financial asset items in the statement of financial position</b>	<b>229.0</b>	<b>13.6</b>	<b>0.7</b>	<b>243.3</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 2020</b>				
<b>Financial liability items in the statement of financial position</b>				
Borrowings (Notes 3.1, 3.2 and 21)	1,014.4	-	-	1,014.4
Trade and other payables (Notes 3.1 and 22)	189.1	-	-	189.1
Derivative financial instruments (Notes 3.1, 3.3 and 14)	-	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>
<b>As at 31 December 2019</b>				
<b>Financial liability items in the statement of financial position</b>				
Borrowings (Notes 3.1, 3.2 and 21)	1,135.8	-	-	1,135.8
Trade and other payables (Notes 3.1 and 22)	99.5	-	-	99.5
Derivative financial instruments (Notes 3.1, 3.3 and 14)	-	23.7	6.5	30.2
<b>Total financial liability items in the statement of financial position</b>	<b>1,235.3</b>	<b>23.7</b>	<b>6.5</b>	<b>1,265.5</b>

### 13. Trade and other receivables

in million EUR	31 DECEMBER	
	2020	2019
<b>Short-term trade and other receivables</b>		
<b>Trade receivables</b>		
Accounts receivable	137.6	137.1
Allowance for expected credit losses	(1.6)	(2.5)
<b>Total trade receivables</b>	<b>136.0</b>	<b>134.6</b>
<b>Accrued income</b>		
Other accrued income	2.4	3.5
<b>Total accrued income</b>	<b>2.4</b>	<b>3.5</b>
Prepayments	12.5	7.1
Receivables from associates (Note 7)	-	0.1
Cash restricted from being used	55.1	52.3
Other receivables	0.2	2.2
<b>Total short-term trade and other receivables</b>	<b>206.1</b>	<b>199.7</b>
<b>Non-current receivables</b>		
Loan receivables from associates (Note 7)	10.8	11.7
Allowance for expected credit losses on loan receivables (Note 7)	(10.7)	(11.7)
Other non-current receivables	1.2	1.8
<b>Total non-current receivables</b>	<b>1.3</b>	<b>1.8</b>
<b>Total trade and other receivables (Notes 3.1 and 12)</b>	<b>207.4</b>	<b>201.5</b>

The loan provided to the associate of Enefit Jordan B.V. Group is based on the 2011 agreement, is 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 certain. See also Note 9.

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

The fair values of receivables and prepayments do not significantly differ from their carrying amounts. Collection of receivables and prepayments for services and goods 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 15.

#### Analysis of accounts receivable

in million EUR	31 DECEMBER	
	2020	2019
<b>Accounts receivable not yet due (Note 15)</b>	<b>127.8</b>	<b>124.1</b>
<b>Accounts receivable due but not classified as doubtful</b>		
1-30 days past due	5.6	7.0
31-60 days past due	1.0	0.8
61-90 days past due	0.4	1.1
<b>Total accounts receivable due but not classified as doubtful</b>	<b>7.0</b>	<b>8.9</b>
<b>Accounts receivable written down</b>		
3-6 months past due	0.7	0.7
more than 6 months past due	2.1	3.4
<b>Total accounts receivable that are more than 3 months past due</b>	<b>2.8</b>	<b>4.1</b>
<b>Total accounts receivable</b>	<b>137.6</b>	<b>137.1</b>

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 2020 or 31 December 2019 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 management and is in line with the historical trends (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 2020 and 31 December 2019 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 2020 and as at 31 December 2019.

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 are assessed and analysed separately from other receivables based on their probability of collection.

### Changes in allowance for expected credit losses on trade receivables

in million EUR	31 DECEMBER	
	2020	2019
<b>Allowance for expected credit losses at the beginning of the period</b>	<b>(2.5)</b>	<b>(1.6)</b>
Items considered doubtful and doubtful items collected during the period	(0.6)	(1.4)
Items written off as uncollectible	1.5	0.5
<b>Allowance for expected credit losses at the end of the period</b>	<b>(1.6)</b>	<b>(2.5)</b>

The other receivables do not contain any impaired assets.

## 14. Derivative financial instruments

in million EUR	31 DECEMBER 2020		31 DECEMBER 2019	
	Assets	Liabilities	Assets	Liabilities
Forward- and future contracts for buying and selling electricity as cash flow hedges	7.3	0.3	0.6	0.2
Forward- and future contracts for buying and selling electricity as trading derivatives	11.8	2.0	0.2	8.0
Future contracts for buying and selling greenhouse gas emissions allowances as trading derivatives	-	-	0.1	0.2
Swap and future contracts for buying and selling gas cash flow hedges	2.4	-	-	-
Swap and future contracts for buying and selling gas as trading derivatives	8.4	8.2	11.0	13.5
Swap and forward contracts for selling fuel oil as cash flow hedges	25.4	1.5	0.1	6.3
Swap and forward contracts for selling fuel oil as trading derivatives	0.1	2.2	2.2	2.0
Other derivatives	-	0.5	-	-
<b>Total derivative financial instruments (Notes 3.1, 3.3, 12, 15 and 20)</b>	<b>55.4</b>	<b>14.7</b>	<b>14.3</b>	<b>30.2</b>
<b>including non-current portion:</b>				
Forward- and future contracts for buying and selling electricity as cash flow hedges	1.0	0.1	0.1	-
Forward contracts for buying and selling electricity as trading derivatives	10.9	0.3	-	0.4
Future contracts for buying and selling greenhouse gas emissions allowances as trading derivatives	-	-	0.1	0.2
Swap and future contracts for buying and selling gas as cash flow hedges	0.1	0.1	4.0	4.2
Swap and future contracts for buying and selling gas as trading derivatives	2.5	2.6	-	-
Swap and forward contracts for selling fuel oil as cash flow hedges	9.1	0.8	-	-
Swap and forward contracts for selling fuel oil as trading derivatives	0.1	0.5	0.1	1.3
<b>Total non-current portion</b>	<b>23.7</b>	<b>4.4</b>	<b>4.3</b>	<b>6.1</b>
<b>Total current portion</b>	<b>31.7</b>	<b>10.3</b>	<b>10.0</b>	<b>24.1</b>

## 15. 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	
	2020	2019
<b>Trade receivables</b>		
Receivables from new clients (client relationship shorter than 6 months)	20.6	14.2
Receivables from existing clients (client relationship longer than 6 months), who in the last 6 months have not exceeded the due date	62.0	60.6
Receivables from existing clients (client relationship longer than 6 months), who in the last 6 months have exceeded the due date	55.0	49.2
Receivables from existing clients (client relationship longer than 6 months), with who have not had any transactions in the last 6 months	0.0	0.1
<b>Total trade receivables (Note 13)</b>	<b>137.6</b>	<b>124.1</b>

in million EUR	31 DECEMBER	
	2020	2019
<b>Bank accounts and short-term deposits in banks</b>		
At banks with Moody's credit rating of Aa3	97.0	0.2
At banks with Moody's credit rating of Aa2	63.2	29.7
At banks with Moody's credit rating of A2	5.5	2.0
At banks with Moody's credit rating of A3	1.2	2.7
At banks with Moody's credit rating of Baa1	0.0	-
<b>Total bank accounts and short-term deposits in banks (Notes 3.1, 3.2, 12 and 17)</b>	<b>166.9</b>	<b>34.6</b>
<b>Other receivables and accrued income</b>		
Other receivables with Moody's credit rating of Aa2	13.0	18.8
Other receivables through Nasdaq OMX clearing house	42.8	24.9
Receivables without credit rating from an independent party	3.1	16.2
<b>Total other receivables (Note 13)</b>	<b>58.9</b>	<b>59.9</b>
<b>Derivative financial instruments</b>		
Derivatives with positive value with Moody's credit rating of Aa3	5.3	1.8
Derivatives with positive value with Moody's credit rating of Aa2	-	0.1
Derivatives with positive value with Moody's credit rating of A1	6.8	0.5
Derivatives with positive value with Moody's credit rating of A3	0.0	9.9
Derivatives with positive value with Moody's credit rating of Baa2	7.8	0.4
Derivatives with positive value with Moody's credit rating of Baa1	17.6	0.0
Derivatives with positive value through Nasdaq OMX clearing house	-	0.5
Derivatives with positive value without credit rating from an independent party	17.9	1.1
<b>Derivatives with positive value (Notes 3.1, 3.3, 12 and 14)</b>	<b>55.4</b>	<b>14.3</b>

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 17.9 million. The majority of the amount is hedged through a bank guarantee and a guarantee from our broker.

## 16. Greenhouse gas allowances and certificates of origin

in million EUR	31 DECEMBER	
	2020	2019
<b>Greenhouse gas allowances at the beginning of the period</b>	<b>71.9</b>	<b>123.3</b>
Acquired	97.0	83.9
Sold	(24.2)	(47.9)
Returned to state for the greenhouse gas emissions (Note 24)	(69.2)	(87.4)
<b>Greenhouse gas allowances at the end of the period</b>	<b>75.5</b>	<b>71.9</b>
<b>Certificates of origin at the beginning of the period</b>	<b>4.1</b>	<b>3.1</b>
Acquired	8.2	3.6
Sold	(0.0)	(0.3)
Surrendered	(2.1)	(2.4)
Effects on movements in foreign exchange rates	(0.4)	0.1
<b>Certificates of origin at the end of the period</b>	<b>9.8</b>	<b>4.1</b>
<b>Total greenhouse gas allowances and certificates of origin at the end of the period</b>	<b>85.3</b>	<b>76.1</b>

The value of greenhouse gas allowances acquired is recognised as current intangible assets. In 2020 3,991,493 tonnes (2019: 4,446,000 tonnes) of greenhouse gas allowances were acquired and 1,920,000 tonnes (2019: 3,897,033 tonnes) were sold. In 2020 5,834,907 tonnes (2019: 11,294,984 tonnes) of greenhouse gas emission allowances were returned to the state. 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. Exchange rate differences of certificates of origin arise from the Group's Polish subsidiary.

## 17. Cash and cash equivalents

in million EUR	31 DECEMBER	
	2020	2019
Bank accounts	166.9	32.8
Short-term deposits	-	1.8
<b>Total cash and cash equivalents (Notes 3.1, 3.2, 12 and 15)</b>	<b>166.9</b>	<b>34.6</b>

### Cash and cash equivalents by currencies

in million EUR	31 DECEMBER	
	2020	2019
Euro	149.6	27.4
Polish zloty	11.7	3.1
US dollar	4.2	2.8
Swedish krona	1.4	1.3
<b>Total cash and cash equivalents (Notes 3.1, 3.2, 12 and 15)</b>	<b>166.9</b>	<b>34.6</b>

## 18. Share capital, statutory reserve capital and retained earnings

As at 31 December 2020, Eesti Energia AS had 746,645,750 registered shares (31 December 2019: 621,645,750 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.

On 1 April 2020 the Estonian government made a shareholder's contribution in the amount of EUR 125 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 2020, the Group's statutory reserve capital totalled EUR 62.1 million (31 December 2019: EUR 62.1 million).

As at 31 December 2020 the Group's distributable equity was EUR 898.4 million (31 December 2019: EUR 879.1 million). On distribution of profits to shareholders, 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 178.0 million (31 December 2019: EUR 174.4 million). It is possible to pay out EUR 720.4 million (31 December 2019: EUR 704.7 million) as net dividends.

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	
	2020	2019
Retained earnings	898.4	879.1
Distributable shareholder's equity	898.4	879.1
Corporate income tax on dividends if distributed	178.0	174.4
<b>Net dividends available for distribution</b>	<b>720.4</b>	<b>704.7</b>

## 19. Dividends per share

In 2020 Eesti Energia did not pay dividends to the Republic of Estonia (in 2019 dividends paid amounted to EUR 57.0 million, which made the dividends per share ratio EUR 0.09).

## 20. Other reserves

in million EUR	31 DECEMBER	
	2020	2019
<b>Other reserves at the beginning of the period (Note 3.1)</b>	<b>(22.2)</b>	<b>0.8</b>
<i>of which hedge reserve at the beginning of the period</i>	(32.5)	(8.8)
<i>of which currency translation reserve at the beginning of the period</i>	10.3	9.6
Change in fair value of cash flow hedges	69.0	(5.5)
<i>of which electricity cash flow hedges</i>	37.6	9.5
<i>of which shale oil cash flow hedges</i>	29.0	(15.0)
<i>of which gas cash flow hedges</i>	2.4	-
Recognised as an increase/decrease of revenue	(2.3)	(18.2)
<i>of which recognised as an increase/decrease of revenue of electricity</i>	(23.3)	8.0
<i>of which recognised as an increase/decrease of revenue of shale oil</i>	21.0	(26.2)
Currency translation differences attributable to foreign subsidiaries	(4.3)	0.7
<b>Other reserves at the end of the period (Note 3.1)</b>	<b>40.2</b>	<b>(22.2)</b>
<i>of which hedge reserve at the end of the period</i>	34.2	(32.5)
<i>of which currency translation reserve at the end of the period</i>	6.0	10.3

## 21. Borrowings

### Borrowings 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 2018 (Notes 3.1, 3.2 and 12)</b>	<b>131.6</b>	-	<b>11.1</b>	<b>403.9</b>	<b>562.7</b>	<b>0.2</b>	-	<b>1,109.5</b>
Adoption of IFRS 16	-	-	0.2	-	-	2.7	-	2.9
<b>Borrowings at amortised cost 1 January 2019</b>	<b>131.6</b>	-	<b>11.3</b>	<b>403.9</b>	<b>562.7</b>	<b>2.9</b>	-	<b>1,112.4</b>
<b>Changes occurred in 2019</b>								
Amortisation of borrowing costs	-	-	-	4.1	8.7	-	-	12.8
Borrowings received	267.1	-	-	222.9	-	-	-	490.0
Repayments of borrowings	(348.8)	-	(11.2)	(119.4)	-	-	-	(479.4)
Transfers	55.2	106.3	0.2	(55.2)	(106.3)	(0.2)	-	-
<b>Total changes occurred in 2019</b>	<b>(26.5)</b>	<b>106.3</b>	<b>(11.0)</b>	<b>52.4</b>	<b>(97.6)</b>	<b>(0.2)</b>	-	<b>23.4</b>
<b>Borrowings as at 31 December 2019</b>								
<b>Borrowings at amortised cost 31 December 2019 (Notes 3.1, 3.2 and 12)</b>	<b>105.1</b>	<b>106.3</b>	<b>0.3</b>	<b>456.3</b>	<b>465.1</b>	<b>2.7</b>	-	<b>1,135.8</b>
<b>Changes occurred in 2020</b>								
Amortisation of borrowing costs	-	-	-	(0.1)	9.1	(0.5)	-	8.5
Borrowings received	220.7	-	-	8.3	-	-	-	229.0
Repayments of borrowings	(255.4)	-	(0.3)	-	-	-	-	(255.7)
Transfers	235.1	-	0.2	(235.1)	-	(0.2)	-	-
Redemption of bonds	-	(106.3)	-	-	-	-	-	(106.3)
Other movements	-	-	-	-	-	-	3.0	3.0
<b>Total changes occurred in 2020</b>	<b>200.4</b>	<b>(106.3)</b>	<b>(0.1)</b>	<b>(226.9)</b>	<b>9.1</b>	<b>(0.7)</b>	<b>3.0</b>	<b>(121.4)</b>
<b>Borrowings as at 31 December 2020</b>								
<b>Borrowings at amortised cost 31 December 2020 (Notes 3.1, 3.2 and 12)</b>	<b>305.5</b>	-	<b>0.2</b>	<b>229.4</b>	<b>474.3</b>	<b>2.0</b>	<b>3.0</b>	<b>1,014.4</b>

In the first quarter of 2019 the Group completed the refinancing of the bank loans and finance lease liabilities taken over on the acquisition of Nelja Energia AS, using the loan agreements of EUR 260 million signed by Enefit Green AS with SEB (EUR 200.0 million) and Swedbank (EUR 60.0 million) in December 2018. The refinancing involved repaying Nelja Energia's loans of EUR 153.1 million and finance lease liabilities of EUR 11.0 million and raising new loans of EUR 260.0 million for Enefit Green AS. Out of the new loans, EUR 371 million euros was repaid in 2019 in line with the contractual settlement schedules.

In addition, the Group made scheduled loan repayments of EUR 18 million to the EIB and loan repayment to OP Corporate Bank of EUR 80.0 million. As of 31 December 2019, the Group had taken out a liquidity loan of EUR 50.0 million provided by SEB, which is reported within current liabilities.

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 375 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 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 reported under Other loans in the amount of EUR 3.0 million.

## The fair value of bonds, bank loans and lease liabilities

in million EUR	31 DECEMBER	
	2020	2019
Nominal value of bonds (Note 3.1)	500.0	606.3
Market value of bonds on the basis of quoted sales price (Note 3.3)	528.3	642.1
Nominal value of bank loans with fixed interest rate (Note 3.1)	120.8	138.8
Fair value of bank loans with fixed interest rate (Note 3.3)	123.7	142.0
Nominal value of bank loans with floating interest rate and lease liabilities (Note 3.1)	416.3	425.8
Fair value of bank loans with floating interest rate and lease liabilities (Note 3.3)	416.3	425.8

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 0.369%-0.577% (2019: 0.374%-0.668%) 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.

### Long-term bank loans at nominal value by maturity

in million EUR	31 DECEMBER	
	2020	2019
< 1 year	305.5	105.1
1 - 5 years	212.6	431.8
> 5 years	16.8	24.7
<b>Total</b>	<b>534.9</b>	<b>561.6</b>

Loans are denominated in euros and Polish zloty (31 December 2019 all loans denominated in euros). As at 31 December 2020 the interest rates of loans were between 0.2% and 3.1% (31 December 2019: 0.2-3.1%).

As at 31 December 2020, the weighted average nominal interest rate on loans was 1.71% (31 December 2019: 1.14%).

As at 31 December 2020 the total volume of the Group's bonds were EUR 500.0 million in nominal value with the maturity date in 2023 (31 December 2019: EUR 606.3 million of which EUR 106.3 million with maturity date in 2020 and EUR 500.0 million with maturity date in 2023).

As at 31 December 2020 the Group had undrawn loan facilities of EUR 520.0 million (31 December 2019: EUR 425.0 million).

### Borrowings by periods for which interest rates have been set

in million EUR	31 DECEMBER	
	2020	2019
< 1 year	454.1	546.9
1 - 5 years	543.6	563.7
> 5 years	16.6	25.2
<b>Total (Notes 3.1, 3.2 and 12)</b>	<b>1,014.4</b>	<b>1,135.8</b>

Period until earlier of next interest rate repricing date or the maturity date.

### Weighted average effective interest rates of borrowings

in million EUR	31 DECEMBER	
	2020	2019
Bank loans	1.1%	1.2%
Bonds	2.4%	4.5%
Lease liabilities	2.4%	2.4%

## 22. Trade and other payables

in million EUR	31 DECEMBER	
	2020	2019
<b>Financial liabilities within trade and other payables</b>		
Trade payables	79.7	84.2
Accrued expenses	6.2	6.9
Payables to related parties (Note 7)	0.8	2.0
Other payables	102.4	6.4
<b>Total financial liabilities within trade and other payables (Note 3.1 and 12)</b>	<b>189.1</b>	<b>99.5</b>
Payables to employees (Note 3.1)	19.0	19.6
Tax liabilities (Note 3.1)	26.4	27.6
Prepayments	1.7	1.3
<b>Total trade and other payables</b>	<b>236.2</b>	<b>148.0</b>
<i>of which short-term trade and other payables</i>	235.9	147.5
<i>of which long-term other payables</i>	0.3	0.5

As at 31 December 2020 trade payables for property, plant and equipment of EUR 25.2 million are recognised under the line "Trade payables" (as at 31 December 2019 EUR 24.8 million).

The increase of Other payables is due to payables for CO<sub>2</sub> quotas to be settled in April 2021 in the amount of EUR 99.2 million.

## 23. Contract liabilities and government grants

### Connection and other service fees

in million EUR	31 DECEMBER	
	2020	2019
<b>Deferred connection and other service fees at the beginning of the period</b>	<b>223.6</b>	<b>207.6</b>
Connection and other service fees received	27.6	22.3
The value of assets transferred for connection fees	6.5	2.8
Connection and other service fees recognised as income (Note 32)	(9.6)	(9.1)
<b>Deferred connection and other service fees at the end of the period</b>	<b>248.1</b>	<b>223.6</b>

Contract liabilities in the amount of EUR 13.2 million (in 2019: EUR 11.1 million) is related to government grants.

Contract liabilities 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.

## 24. Provisions

in million EUR	Opening balance 31 December 2019	Recognition and reversal of provisions (Note 5)	Interest charge (Note 30)	Use	Closing balance 31 December 2020	
					Short-term provision	Long-term provision
Environmental protection provisions (Note 27)	22.3	(1.6)	0.5	(0.9)	2.7	17.6
Provision for termination of mining operations (Note 27)	0.7	(0.7)	-	-	-	-
Employee related provisions (Note 28)	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 16 and 27)	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 (Notes 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>

in million EUR	Opening balance 31 December 2018	Recognition and reversal of provisions (Note 5)	Interest charge (Note 30)	Use	Closing balance 31 December 2019	
					Short-term provision	Long-term provision
Environmental protection provisions (Note 27)	25.2	(2.3)	0.7	(1.3)	3.2	19.1
Provision for termination of mining operations (Note 27)	0.7	-	-	-	-	0.7
Employee related provisions (Note 28)	6.7	1.5	0.1	(1.9)	1.8	4.6
Provision for dismantling cost of assets	5.1	-	0.3	-	-	5.4
Provision for greenhouse gas emissions (Notes 16 and 27)	87.6	69.0	-	(87.4)	69.2	-
Provision for onerous contracts	0.2	-	-	-	0.2	-
Provision for obligations arising from treaties	-	0.1	-	-	0.1	-
Provision for renewable energy certificates	0.8	2.8	-	(2.4)	1.2	-
<b>Total provisions (Notes 4 and 5)</b>	<b>126.3</b>	<b>71.1</b>	<b>1.1</b>	<b>(93.0)</b>	<b>75.7</b>	<b>29.9</b>

Other provision is related to the bank guarantee received in connection with an open litigation. This has been recognised as a provision due to the uncertainty around the Arbitration Court's final decision. See further details from Note 33.

Recognition and change in the provisions during financial year 2020 in the amount of EUR 1.6 million (2019: EUR 2.3 million) resulted from the change in discount rate.

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;
- for dismantling and gathering of equipment and facilities.

Long-term environmental protection provisions will be settled at the Enefit Power mines during the time period of in 2021-2044 and at Enefit Power power plants during the time period of 2021-2058.

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.

Long-term 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.

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.

The provision for greenhouse gas emissions has been set up in the average price of the greenhouse gas emission allowances that are owned by the Group or that are allocated to the Group free of charge for heat production or for the purpose of modernisation of electricity production. In the reporting and comparative period the following amounts of the greenhouse gas emission allowances have been allocated to the Group free of charge:

- a) the purpose of modernisation of electricity production – no greenhouse gas emission allowances for the investments made in 2020 and 2019.
- b) In September 2018, the European Commission approved the application of Enefit Power AS for the allocation of free greenhouse gas emission allowances to the oil industry devices E-140 and E-280 that produces liquid fuels from oil shale for the period 2013-2020. In February 2020, 544 743 tonnes of CO<sub>2</sub> emission allowances were received for 2020. (2019: 555 536 tonnes were received in February 2019).
- c) 389,704 tonnes of free EUA were received for heat production and for the combustion of oil production waste gases. Of which 215,455 tonnes EUA were issued for the combustion of waste gases from the oil plants for the years 2017 – 2019; 221,627 tonnes EUA were issued for heat production in Paide and Narva power plants and for the combustion of waste gases from the oil plants for 2020 but the respective amount was reduced by 47,378 tonnes to account for the 2018 – 2019 period (163,507 tonnes were received in 2019).

The greenhouse gas emission allowances allocated free of charge are taken into account for the purpose of calculating the provisions in the period for which the allowances are allocated irrespective of their actual transfer (Note 33).

The provisions are discounted at the rate of 0,24%–2,92% (2019: 0,09%–3,46%). The discount curve is used for discounting provisions that allows more accurate evaluation of the provisions in different time horizons.

## 25. Revenue

in million EUR	1 JANUARY – 31 DECEMBER	
	2020	2019
<b>Revenue by activity</b>		
<b>Sale of goods</b>		
Shale oil (in time)	138.1	125.3
Pellets (in time)	16.7	19.5
Shale (in time)	2.1	7.4
Other goods	6.5	9.9
Total sale of goods	163.4	162.1
<b>Sale of services</b>		
Electricity (over time)	356.9	470.2
Sales of services related to network (over time)	218.2	221.2
Gas energy (over time)	43.9	23.7
Heat (over time)	20.7	24.5
Waste treatment and resale (in time)	14.8	12.5
Rental and maintenance income (over time)	1.0	1.3
Other services	14.8	10.3
Total sale of services	670.3	763.7
<b>Total revenue (Note 5)</b>	<b>833.7</b>	<b>925.8</b>

## 26. Other operating income

in million EUR	1 JANUARY – 31 DECEMBER	
	2020	2019
Gain from revaluation of derivatives	18.6	0.4
Renewable energy grant	33.3	30.6
Gain on greenhouse gas emission allowances sold	14.4	49.8
Gain on disposal of property, plant and equipment (Note 32)	1.4	4.4
Fines, penalties and compensations	4.1	3.2
Government grants (Note 32)	0.7	0.6
Profit on disposal of business (Note 32)	0.7	-
Foreign exchange gain	0.1	0.2
Other operating income	0.3	3.5
<b>Total other operating income</b>	<b>73.6</b>	<b>92.7</b>

## 27. Raw materials and consumables used

in million EUR	1 JANUARY – 31 DECEMBER	
	2020	2019
Electricity	188.5	206.7
Transmission services	73.7	77.4
Maintenance and repairs	39.1	46.8
Technological fuel	34.3	33.3
Materials and spare parts	28.5	33.2
Greenhouse gases emissions expense (Note 24)	76.2	69.0
Resource tax on mineral resources	9.1	20.8
Gas bought for resale	33.9	19.7
Purchased works and services	16.8	11.5
Environmental pollution charges	6.4	14.7
Recognition and reversal of environmental and mining termination provisions (Note 24)	(2.6)	(3.0)
Other raw materials and consumables used	9.1	21.4
<b>Total raw materials and consumables used</b>	<b>513.0</b>	<b>551.5</b>

Resource tax cost on mineral resources had decreased significantly compared to previous year mainly due to decreased volume of oil shale mining.

## 28. Payroll expenses

	1 JANUARY – 31 DECEMBER	
	2020	2019
<b>Number of employees</b>		
Number of employees at the beginning of the period	5,300	5,763
Number of employees at the end of the period	4,387	5,020
Average number of employees	4,555	5,300
in million EUR	1 JANUARY – 31 DECEMBER	
	2020	2019
<b>Payroll expenses</b>		
Wages, salaries, bonuses and vacation pay	107.8	120.3
<i>Average monthly pay (in euros)</i>	<i>1,972.2</i>	<i>1,891.5</i>
Other payments and benefits to employees	3.9	5.7
Payroll taxes	36.7	41.5
Recognition/reversal of employee related provisions (Note 24)	1.0	1.5
<b>Total calculated payroll expenses</b>	<b>149.4</b>	<b>169.0</b>
Of which remuneration to management and supervisory boards		
Salaries, bonuses, additional remuneration	3.1	3.1
Fringe benefits	0.1	0.1
Total paid to management and supervisory boards	3.2	3.2
Capitalised in the cost of self-constructed assets	(12.8)	(10.6)
<b>Total payroll expenses</b>	<b>136.6</b>	<b>158.4</b>

Payroll taxes include social security tax in the amount of EUR 35.8 million (2019: EUR 40.6 million) and employer's unemployment insurance contribution in the amount of EUR 0.9 million (2019: 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.

## 29. Other operating expenses

in million EUR	1 JANUARY – 31 DECEMBER	
	2020	2019
Loss from revaluation of derivatives	8.9	15.1
Miscellaneous office expenses	11.9	11.5
Rental expense	5.0	5.2
Insurance	4.5	4.6
Buildings and structure costs	4.0	4.2
Consultations	3.9	6.4
Taxes	3.4	5.9
Research and development costs	2.2	2.4
Loss on disposal of subsidiary (Note 32)	-	1.4
Other operating expenses	5.0	6.0
<b>Total other operating expenses</b>	<b>48.8</b>	<b>62.7</b>

The rental expenses disclosed in the table above relate to variable lease payments that are not included in the measurement of the lease liabilities in the amount of EUR 0.8 million (2019: EUR 0.9 million), low value leases in the amount of EUR 2.4 million (2019: EUR 2.3 million) and short-term leases in the amount of EUR 1.8 million (2019: EUR 2.0 million).

## 30. Net finance costs

in million EUR	1 JANUARY – 31 DECEMBER	
	2020	2019
<b>Finance income</b>		
Interest income	-	0.1
Foreign exchange gain	0.4	-
<b>Total finance income (Note 32)</b>	<b>0.4</b>	<b>0.1</b>
<b>Finance costs</b>		
<b>Interest expense on borrowings</b>		
Interest expense on bonds and loans	(32.7)	(34.3)
Amounts capitalised on qualifying assets (Note 6)	2.1	2.0
<b>Total interest expense on borrowings (Note 32)</b>	<b>(30.6)</b>	<b>(32.3)</b>
Interest expense on provisions (Note 24)	(0.9)	(1.1)
<b>Total interest expense</b>	<b>(31.5)</b>	<b>(33.4)</b>
Foreign exchange losses	(2.7)	(0.1)
Other finance costs	(0.2)	(3.4)
<b>Total finance costs</b>	<b>(34.4)</b>	<b>(36.9)</b>
<b>Net finance costs</b>	<b>(34.0)</b>	<b>(36.8)</b>

### 31. 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 income tax rate

in million EUR	1 JANUARY – 31 DECEMBER	
	2020	2019 adjusted
<b>Estonia</b>		
Net dividends	-	57.0
<i>of which dividends subject to reduced income tax 14/86</i>	-	5.2
<i>dividends subject to income tax rate of 20/80</i>	-	47.7
<i>tax-exempt dividends</i>	-	4.1
Theoretical income tax at applicable rates	-	12.8
Impact of dividends paid by associates	-	(0.6)
Effective income tax on dividends	-	12.2*
Average effective income tax rate	-	18%
Income tax expense arising from the subsidiaries	-	1.5
<b>Income tax expense</b>	-	1.5
Deferred tax expense (-income)	0.6	(1.9)
<i>of which deferred tax income</i>	-	(1.0)
<i>deferred tax expense</i>	0.6	(0.9)
<b>Total income tax expense</b>	<b>0.6</b>	<b>(0.4)</b>

\* Income tax from dividends is recognised on accrual basis, meaning that the income tax resulting from dividends paid in 2019 were recognised as a deferred tax liability as at 31 December 2018 and respectively in the income statement of financial year 2018.

As at 31 December 2020, the Group has a deferred tax liability of EUR 12.6 million (31 December 2019: EUR 12.2 million) of which EUR 11.6 million (31 December 2019: EUR 12.2 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.

## 32. Cash generated from operations

in million EUR	1 JANUARY – 31 DECEMBER	
	2020	2019
<b>Profit before income tax</b>	<b>19.9</b>	<b>35.0</b>
<b>Adjustments</b>		
Depreciation and impairment of property, plant and equipment (Notes 5 and 6)	158.5	185.4
Amortisation and impairment of intangible assets (Notes 5 and 8)	2.9	2.6
Contract liabilities arising from connection and other service fees (Note 23)	(9.6)	(9.1)
Gain on disposal of property, plant and equipment (Note 26)	(1.4)	(4.4)
Loss (-profit) on sale of a business (Note 26)	(0.7)	-
Loss (-profit) on sale of a subsidiary (Note 29)	-	1.4
Amortisation of government grant received to purchase non-current assets (Note 26)	(0.7)	(0.6)
Profit (loss) from associates under the equity method (Note 9)	(1.7)	0.1
Unpaid/unsettled loss on derivatives	10.1	19.4
Profit (loss) from other non-cash transactions	(0.2)	0.1
Interest expense on borrowings (Note 30)	30.6	35.8
Interest and other finance income (Note 30)	-	(0.7)
<b>Adjusted net profit before tax</b>	<b>207.6</b>	<b>265.0</b>
<b>Net change in current assets relating to operating activities</b>		
Change in receivables related to operating activities (Note 13)	(1.4)	(12.8)
Change in inventories (Note 11)	(6.3)	(20.5)
Net change in other current assets relating to operating activities	(16.8)	30.4
<b>Total net change in current assets relating to operating activities</b>	<b>(24.5)</b>	<b>(2.9)</b>
<b>Net change in current liabilities relating to operating activities</b>		
Change in provisions (Note 24)	32.9	(20.8)
Change in trade payables (Note 22)	(4.8)	(6.9)
Net change in liabilities relating to other operating activities	124.0	(22.8)
<b>Total net change in liabilities relating to operating activities</b>	<b>152.1</b>	<b>(50.5)</b>
<b>Cash generated from operations</b>	<b>335.2</b>	<b>211.6</b>

### 33. 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	
	2020	2019
<b>Estonia</b>		
Measured*	382	392
<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 has 10% ownership of the company.

##### Emission rights

According to Article 10a of the Directive, establishing a system for greenhouse gas emission allowance trading within the European Union, free allowances are allocated to sectors, which are considered to be subject to the threat of carbon leakage. Among other sectors, free allowances are allocated to the refinery sector (including production of shale oil), to production of measurable heat (including district heating) and for burning waste gases for electricity. Given activities are also performed by the installations belonging to Eesti Energia and accordingly in 2021 an estimated amount of 790 000 free allowances will be allocated to

installations belonging to Eesti Energia. Precise amount of free allowances to be allocated for 2021, will be fixed by June 2021 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.

## (b) Contingent liabilities

### Litigation in progress

In January 2011, Enefit Energiatootmine AS (starting October 1st, 2020 Enefit Power AS) contracted GE Power Estonia AS, GE Power Sp z.o.o. and GE Steam Systems S.A.S ("GE") for the construction of Auvere Power Plant. GE was obligated to guarantee the technical availability of the plant and to pay liquidated damages for the non-achievement of the availability guarantee. GE also had to issue a warranty bond to guarantee the fulfilment of its obligations. 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 Société Générale 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. Enefit Power AS is certain that it is entitled to liquidated damages in the sum rendered under the warranty bond (EUR 28.0 million). It shall be determined during further arbitral proceedings whether Enefit Power AS' claim shall be satisfied to its full extent, which exceeds the currently rendered sums by EUR 15.1 million. The final decision of the arbitration court is expected in 2022. The received bank guarantee in the sum of EUR 28.0 million is booked as a provision due to uncertainty around the arbitration court's final decision (Note 24).

Enefit Kaevandused AS (starting October 1st 2020 Enefit Power AS) is involved in an ongoing closed-door legal action in which a claim of EUR 35.5 million has been filed against Enefit Power AS and Enefit Power AS has filed a counterclaim of EUR 38.5 million. The court case is 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. At the date this report is authorised for issue, it is not possible to estimate with reasonable certainty how the circuit court will resolve the dispute. The dispute is expected to be resolved by the end of 2021. Therefore, no provision has been recognised for the legal action and the claim is disclosed as a contingent liability.

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. Neither party has presented their full claim to date. 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 by the end of 2022. 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 2020: 37.8 mEUR) accounted for in the statement of financial position may need to be impaired.

There is an ongoing court case between Elering AS and Tootsi Windpark OÜ over Elering AS decision not to approve Tootsi Windpark OÜ's application under the subsidy scheme in force for projects who started their construction before 31 December 2016. It is not possible to estimate the timeframe of the proceedings as the case could be referred to the European Union court. The possible negative outcome of this court case from the Group's perspective would not have any impact on the financial statements of the Group.

#### 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 21).

#### (d) Commitments

##### Capital commitments arising from construction contracts

As at 31 December 2020, the Group had contractual obligations relating to the acquisition of non-current assets totalling EUR 25.3 million (31 December 2019: EUR 37.3 million).

##### 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 2020 the Group had liabilities for utility network payments of EUR 0.2 million for the year 2021 (as at 31 December 2019: EUR 0.2 million for the year 2020). Total accrued expense for the toleration of grid infrastructure in 2020 amounted to EUR 0.3 million. The amount of the fees depends on the taxable value of land and the applied fee percentage. The former is determined based on irregular surveys prepared by the government (the last took place in 2001 and the next will take place in 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 29).

##### Obligation to make a contribution in the equity of the oil shale power plant in Jordan

Following the completion of the financing of the Attarat Power Company (APCO) for its oil shale power plant in Jordan, APCO's shareholders are YTL Power International (Malaysia) with 45% interest, Guangdong Yudean Group Co. Limited (China) with 45% interest, and Eesti Energia with 10% interest.

On 16 March 2017, Attarat Power Company (APCO) reached financial close for its oil shale fired power plant in Jordan. In connection with the financial close, a shale 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. As at 31 December 2020, Eesti Energia AS has the obligation to contribute to the equity of the associate in the amount of EUR 1.8 million.

### 34. 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 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.

	1 JANUARY – 31 DECEMBER	
	2020	2019 adjusted
Profit attributable to the equity holders of the company (million EUR)	19.4	34.7
Weighted average number of shares (million)	684.1	621.6
Basic earnings per share (EUR)	0.03	0.06
Diluted earnings per share (EUR)	0.03	0.06

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

The nominal value of each share is 1 euro.

### 35. Events after the reporting date

The coalition agreement of the new government of the Republic of Estonia was published on 20 January 2021. The coalition agreement may affect the operations and performance of Eesti Energia AS because the government in the person of the minister of finance represents the state, which is the sole owner of Eesti Energia AS. The coalition agreement sets out, among other things, the coalition's vision of exiting the use of oil shale for electricity production by the year 2035 and for liquid fuel production by the year 2040. The analysis and specific action plan required to implement the vision outlined in the coalition agreement have not been prepared yet. However, we see different solutions to achieve the desired goals – the existing production units which use oil shale can be rebuilt into generating units that use renewable and alternative fuels, the designated purpose of the existing production units can be changed or the oil shale industry can be reorganised by other means. Since there are several possible action plans, it is currently not possible to quantify the impacts of the vision set out in the coalition agreement. The implementation of the coalition agreement may cause an impairment of property, plant and equipment depending on the nature of the actions undertaken by the new government and their impact on the future cash flows of the Group. For Eesti Energia, the adoption of the coalition agreement is a non-adjusting event after the reporting period, which has no retrospective effects.

On 10th of March 2021, Eesti Energia AS's fully owned subsidiary Elektrilevi OÜ as the buyer, and Imatra FNW Oy as the seller entered into a Share Purchase Agreement regarding all the shares of Imatra Elekter AS, a distribution and energy service company operating in Estonia. The transaction remains subject to clearance by the Estonian Competition Authority.

### 36. Going concern

As at 31 December 2020, Eesti Energia AS Group's current liabilities exceeded its current assets by EUR 56.0 million. Negative working capital is mainly attributable to the structure of the borrowings and the impact of the COVID-19 pandemic, which emerged in 2020, on the Group's financial performance. Electricity prices have been very volatile, and the pandemic has lowered electricity consumption. The market prices of liquid fuels have been exceptionally low and the demand for oil products has been weaker than earlier. We can use various measures to eliminate negative working capital in 2021. We have refinanced an existing short-term loan of EUR 150 million and convert it partly into a long-term loan – the refinancing agreement has been signed on 25 March 2021. Additionally, at the end of 2020 the Group had undrawn long-term loans of EUR 245 million, which can be used to repay short-term loans and to replace them with long-term ones.

### 37. Financial information on the parent company

Financial information disclosed on the parent company includes the primary separate financial statements of the parent company, the disclosure of which is required by the Accounting Act of Estonia. The primary financial statements of the parent company have been prepared using the same accounting policies that have been used in the preparation of the consolidated financial statements. Investments in subsidiaries and associates are reported at cost in the separate financial statements of the parent company.

### Income statement

in million EUR	1 JANUARY - 31 DECEMBER	
	2020	2019
Revenue	243.6	285.7
Other operating income	20.7	53.2
Raw materials and consumables used	(207.9)	(270.0)
Payroll expenses	(37.9)	(40.0)
Depreciation and amortisation	(4.2)	(2.3)
Other operating expenses	(41.6)	(80.2)
<b>OPERATING LOSS</b>	<b>(27.4)</b>	<b>(53.6)</b>
Finance income	48.0	85.7
Finance costs	(38.7)	(29.0)
<b>Net finance income</b>	<b>9.3</b>	<b>56.7</b>
<b>(LOSS)/PROFIT BEFORE TAX</b>	<b>(18.1)</b>	<b>3.1</b>
<b>(LOSS)/PROFIT FOR THE YEAR</b>	<b>(18.1)</b>	<b>3.1</b>

### Statement of comprehensive income

in million EUR	1 JANUARY - 31 DECEMBER	
	2020	2019
<b>(LOSS)/PROFIT FOR THE YEAR</b>	<b>(18.1)</b>	<b>3.1</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	15.0	(7.7)
<b>Other comprehensive income/(loss) for the year</b>	<b>15.0</b>	<b>(7.7)</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>	<b>(3.1)</b>	<b>(4.6)</b>

## Statement of financial position

in million EUR	31 DECEMBER	
	2020	2019
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	20.7	32.7
Intangible assets	12.2	10.3
Derivative financial instruments	15.5	4.4
Investments in subsidiaries	981.6	929.3
Loans and receivables from subsidiaries and other receivables	183.8	184.0
<b>Total non-current assets</b>	<b>1,213.8</b>	<b>1,160.7</b>
<b>Current assets</b>		
Inventories	7.8	4.7
Greenhouse gas allowances and certificates of origin	75.5	72.0
Trade and other receivables	865.1	933.5
Derivative financial instruments	13.7	13.6
Cash and cash equivalents	103.5	10.1
<b>Total current assets</b>	<b>1,065.6</b>	<b>1,033.9</b>
<b>Total assets</b>	<b>2,279.4</b>	<b>2,194.6</b>

in million EUR	31 DECEMBER	
	2020	2019
<b>EQUITY</b>		
Share capital	746.6	621.6
Share premium	259.8	259.8
Statutory reserve capital	62.1	62.1
Hedge reserve	13.0	(2.0)
Retained earnings	199.0	215.9
<b>Total equity</b>	<b>1,280.5</b>	<b>1,157.4</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Borrowings	547.1	735.8
Derivative financial instruments	4.0	4.8
Provisions	0.4	0.4
<b>Total non-current liabilities</b>	<b>551.5</b>	<b>741.0</b>
<b>Current liabilities</b>		
Borrowings	267.9	174.3
Trade and other payables	157.7	100.7
Derivative financial instruments	21.6	21.0
Provisions	0.2	0.2
<b>Total current liabilities</b>	<b>447.4</b>	<b>296.2</b>
<b>Total liabilities</b>	<b>998.9</b>	<b>1,037.2</b>
<b>Total liabilities and equity</b>	<b>2,279.4</b>	<b>2,194.6</b>

## Cash flow statement

in million EUR	1 JANUARY - 31 DECEMBER	
	2020	2019
<b>Cash flows from operating activities</b>		
<b>(Loss)/Profit before tax</b>	<b>(18.1)</b>	<b>3.1</b>
<b>Adjustments</b>		
Depreciation of property, plant and equipment	3.4	1.7
Amortisation of intangible assets	0.8	0.6
Profit/loss from sale of property, plant and equipment	(0.6)	(3.5)
Other gains/losses on investments	-	(16.2)
Unpaid/unsettled loss on derivatives	3.6	28.1
Interest expense on borrowings	29.1	29.9
Interest income	(29.5)	(28.7)
<b>Adjusted net (loss)/profit</b>	<b>(11.3)</b>	<b>15.0</b>
<b>Net change in current assets relating to operating activities</b>		
Change in receivables relating to operating activities	(5.4)	7.2
Change in inventories	(3.0)	(1.4)
Net change in current assets relating to other operating activities	12.8	13.4
<b>Total net change in current assets relating to operating activities</b>	<b>4.4</b>	<b>19.2</b>
<b>Net change in liabilities relating to operating activities</b>		
Change in provisions	0.1	(0.1)
Change in trade payables	(0.4)	(1.6)
Net change in liabilities related to other operating activities	58.5	9.2
<b>Total net change in liabilities relating to operating activities</b>	<b>58.2</b>	<b>7.5</b>
Interest paid and borrowing costs	(21.1)	(21.1)
Interest received	23.8	24.6
<b>Net cash generated from operating activities</b>	<b>54.0</b>	<b>45.2</b>

in million EUR	1 JANUARY - 31 DECEMBER	
	2020	2019
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment and intangible assets	(45.9)	(8.8)
Proceeds from sale of property, plant and equipment	0.7	4.5
Dividends received from financial investments	-	57.0
Contribution to the share capital of subsidiaries	-	(400.0)
Repayments of loans granted to subsidiaries	(0.1)	1.5
Change in overdraft granted to subsidiaries	63.9	399.4
<b>Net cash used in investing activities</b>	<b>18.6</b>	<b>53.6</b>
<b>Cash flows from financing activities</b>		
Loans received	220.0	230.0
Redemption of bonds	(106.3)	-
Repayments of bank loans	(217.9)	(277.9)
Shareholder contribution	125.0	-
Dividends paid	-	(57.0)
<b>Net cash generated from financing activities</b>	<b>20.8</b>	<b>(104.9)</b>
<b>Net cash flows</b>	<b>93.4</b>	<b>(6.1)</b>
Cash and cash equivalents at the beginning of the period	10.1	16.2
Cash and cash equivalents at the end of the period	103.5	10.1
<b>Net change in cash and cash equivalents</b>	<b>93.4</b>	<b>(6.1)</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 2018</b>	<b>621.6</b>	<b>259.8</b>	<b>62.1</b>	<b>5.7</b>	<b>269.9</b>	<b>1,219.1</b>
Profit for the year	-	-	-	-	3.1	3.1
Other comprehensive loss for the year	-	-	-	(7.7)	-	(7.7)
<b>Total comprehensive (loss)/income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7.7)</b>	<b>3.1</b>	<b>(4.6)</b>
Dividends paid	-	-	-	-	(57.0)	(57.0)
<b>Total contributions by and distributions to owners of the company, recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(57.0)</b>	<b>(57.0)</b>
<b>Equity as at 31 December 2019</b>	<b>621.6</b>	<b>259.8</b>	<b>62.1</b>	<b>(2.0)</b>	<b>216.0</b>	<b>1,157.4</b>
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>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15.0</b>	<b>(18.1)</b>	<b>(3.1)</b>
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>	<b>125.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.1</b>	<b>126.1</b>
<b>Equity as at 31 December 2020</b>	<b>746.6</b>	<b>259.8</b>	<b>62.1</b>	<b>13.0</b>	<b>199.0</b>	<b>1,280.5</b>

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	
	2020	2019
Equity capital of the parent entity	1,280.5	1,157.4
Carrying amount of holdings under controlling and significant influence	(981.6)	(929.3)
Carrying amount of holdings under controlling and significant influence using equity method	(981.6)	1,572.3
<b>Adjusted unconsolidated equity (Note 18)</b>	<b>2,007.1</b>	<b>1,800.4</b>



## Independent auditor's report

To the Shareholder of Eesti Energia AS

### Report on the audit of the consolidated financial statements

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#### Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Eesti Energia AS ("the Company") and its subsidiaries (together – "the Group") as at 31 December 2020, 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.

Our opinion is consistent with our additional report to the Audit Committee dated 30 March 2021.

#### What we have audited

The Group's consolidated financial statements comprise:

- the consolidated income statement for the year ended 31 December 2020;
- the consolidated statement of comprehensive income for the year ended 31 December 2020;
- the consolidated statement of financial position as at 31 December 2020;
- 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

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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.

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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.



## 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 2020 to 31 December 2020 are disclosed in the management report on page 47.

## Our audit approach

### Overview



Overall group audit materiality is EUR 5.3 million, which represents approximately 2,5% of underlying earnings before interest, tax, depreciation, amortization and impairment, foreign exchange gains or losses and share of results of associates ("EBITDA").

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

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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.

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#### **Overall Group audit materiality**

EUR 5.3 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 as disclosed in Note 5 of the consolidated financial statements. EBITDA is defined by the Group as earnings before interest, tax, depreciation, amortization and impairment, foreign exchange gains or losses and share of results of associates. EBITDA is a non-IFRS performance measure. 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, it is one of the key measures the management uses to assess the Company's performance

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## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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 financial statements.

As at 31 December 2020 the Group has EUR 2,922.7 million of property, plant and equipment, the majority of which relate to the oil shale mining, shale oil production and power generation assets in Estonia. Volatile market prices for electricity and CO2 emissions quotas and uncertainty regarding their future are an indication that the recoverable amount of the assets related to the production of electricity from oil shale may be below their carrying amount. In 2020 the Group impaired its oil-shale fired generating units by EUR 23 million and reversed a historical impairment of EUR 36.1 million on its Auvere power plant.

The recoverable amount of the Group's property, plant and equipment is determined by their value in use which is based on discounted future cash flows.

Impairment assessment of these assets is subjective and requires significant judgment due to an inherent uncertainty involved in the forecasting and discounting of future cash flows. Many of the key underlying assumptions are impacted by the global and country-specific political and economic factors. Consequently, there is a high risk that due to the judgemental factors, potential impairment may be unidentified, or the impairment loss be miscalculated. Due to the above reasons we considered this area to be a key audit matter.

We began our procedures by assessing whether impairment indicators exist for the assets not identified by management. We considered our knowledge of the Group and its business activities as well as the accumulated knowledge related to the industries where the Group operates. In addition, we performed inquiries with management and key employees and inspected internal documents of the Group.

We evaluated management's key assumptions and estimates used in the calculation of the recoverable value of the assets identified for impairment, including the assumptions related to operational performance, such as operating cost forecasts, electricity production volumes and reliability of 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 governing bodies. Where management had used market and market derived inputs, such as electricity and CO2 emissions 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 its industry.

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### 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 entities within the Group: Enefit Power AS (electricity generation, shale oil production and oil shale mining), Elektrilevi OÜ (transmission grid), Eesti Energia AS (parent company), Enefit Green AS (electricity generation from renewable sources), and its subsidiaries (electricity generation from renewable sources). In addition, specific audit procedures over significant balances and transactions were performed for sales revenue of Enefit SIA (electricity sale in Latvia) and Enefit UAB (electricity sales in Lithuania), sales revenue and greenhouse certificates balance of Enefit Sp. z.o.o. (electricity and gas sales in Poland) and for the potential impairment of assets of Enefit American Oil (oil shale mining development rights in USA), Enefit Solutions AS (manufacturing of metal structures), Tootsi Windpark OÜ (windpark development) and Enefit Outotec Technology OÜ (Enefit technology testing facility). 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 10 of the consolidated financial statements.

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### Other information

The Management Board is responsible for the other information. The other information comprises the Management 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 and we do not express any form of assurance conclusion thereon.

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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. 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.



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## 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.

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## Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.

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- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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## Report on other legal and regulatory requirements

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### Appointment and period of our audit engagement

We were first appointed as auditors of Eesti Energia AS, as a public interest entity, for the financial year ended 31 December 2005. Our appointment has been renewed by tenders and shareholder resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for Eesti Energia AS, as a public interest entity, of 16 years.

AS PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Tiit Raimla', is written over a light blue rectangular background.

Tiit Raimla  
Certified auditor in charge, auditor's certificate no.287

30 March 2021  
Tallinn, Estonia

Translation note:

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## Profit Allocation proposal

The retained earnings of Eesti Energia Group as at 31 December 2020 were EUR 898,438,637.06, of which the net profit for the year 2020 amounted to EUR 19,360,167.80.

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 2020 as follows:

1. to pay EUR 5,000,000 as dividends to the shareholder;
2. to transfer to the statutory reserve capital EUR 12,847,370.61
3. not to distribute the remaining retained earnings of EUR 880,591,266.45 due to the continuing financing needs of the Eesti Energia Group.

## Signatures of the Management Board to the Annual Report for Financial Year 2020

In the 2020 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 2020 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.

30 March 2021

Chairman of the Management Board

Hando Sutter



Members of the Management Board

Andri Avila



Raine Pajo



Agnes Roos



Margus Vals



## 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** – Earnings before interest, taxes, depreciation and amortisation

**EBITDA margin** – Earnings before interest, taxes, depreciation and amortisation divided by revenue

**FFO** – Funds from operations. Cash flow from operations, excluding changes in working capital

**Financial leverage** – Net debt divided by the sum of net debt and equity

**Future** – A contract between counterparties which obligates to buy or sell an underlying asset (e.g. a commodity) at a pre-agreed price

**Green paper on industrial policy** – A document prepared by the state and employers' associations which outlines the bottlenecks of industrial development and suggests solutions for their elimination and improving industrial development

**Level of water reservoirs** – The level of water in the reservoirs of hydro power plants as a percentage of the maximum possible level. Most of the Nordic countries' electricity production is based on hydro power whose output depends on the level of water reservoirs

**Liquidity** – Amount of liquid assets. Sum of cash and cash equivalents, short-term financial investments and deposits with a maturity of more than 3 months

**Maintenance and repair expenditures** – Expenditures incurred to maintain the existing production capacities

**MWh** – megawatt hour. 1 MWh is the unit of energy generated (or consumed) in one hour by a device operating at a constant power of 1 MW (megawatt)

**1,000,000 MWh = 1,000 GWh = 1 TWh**

**Net debt** – Debt obligations (amortised) less cash and cash equivalents (incl. bank deposits with maturities exceeding 3 months), units in money market funds and investments in fixed income bonds

**Network losses** – The amount of electricity delivered to customers is somewhat smaller than the amount supplied from power plants to the network because during transfer a part of electricity in the power lines and transformers converts into heat. To a lesser extent, network losses are caused by power theft and incorrect measuring. The network operator has to compensate energy losses and for this a corresponding amount of electricity has to be purchased every hour

**NP system price** – The price on the Nord Pool power exchange that is calculated on the basis of all purchase and sale bids without taking into account transmission capacity limitations

**OHSAS, ISO 14001** – International standards which deal with risk management in the area of occupational health and safety, the environment management system, and accident prevention

**Oil shale resource charge** – A charge to be paid to the state for the use of 1 tonne of oil shale located in the mineral deposit

**Position hedged with forward transactions** – The quantity of electricity and shale oil to be sold and emission allowances to be purchased in future periods whose average price is previously fixed

**RAB** – Regulated Asset Base, which represents the value of assets used to provide regulated services

**Return on Fixed Assets (ROFA)** – Operating profit (rolling 12 months) divided by average fixed assets excluding assets under construction (allocated to specific products)

**ROIC** – Return on Invested Capital, calculated by dividing operating profit by average invested capital

**SAIDI** – System Average Interruption Duration Index. The sum of all customer interruption durations in minutes divided by the total number of customers served

**SAIFI** – System Average Interruption Frequency Index. The total number of customer interruptions divided by the total number of customers served

**Tax footprint** – An indicator which reflects the contribution made to society through taxes

**Variable profit** – Profit after deducting variable costs from sales revenue

## Investor Information

The Group's results concerning the financial year 2021 are released as follows:

- Q1 interim report – 4 May 2021
- Q2 interim report – 29 July 2021
- Q3 interim report – 28 October 2021
- The audited results for the financial year 2021 – 01 March 2022

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)

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