



elering
CONNECTING ENERGIES

Annual report for **2020**



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SECURITY OF SUPPLY IN A CLIMATE NEUTRAL MANNER



TAAVI VESKIMÄGI
Chairman of Management
Board of Elering

Elering's objective is to keep the lights on and homes warm in Estonia. In 2020, we succeeded wonderfully. There was an absence of electricity amounting only to the annual electricity consumption of a single regular private building, i.e. merely 10.3 megawatt-hours, and zero megawatt-hours in terms of gas power. International electricity connections with Finland and Latvia worked very well. On the basis of these indicators, it could be stated that Elering handled its main duties in 2020 in an exemplary manner. Taking into consideration the difficult period of time and the high level of confusion in society, ensuring the security of supply of electricity and gas is especially important for maintaining the wellbeing and confidence of people. Reaching such a level of quality in the security of supply of electricity has required hard work. It is a direct result of the programmes "Secure the Lines" and "Reliable Network" launched in 2011 that lasted for 10 years and helped reduce failures in the electricity grid. It is one example among many in order to illustrate the mentality prevalent in Elering – when we start something, we finish the job with excellent results. This shows how reinforced one of Elering's core values – responsibility – is among our people.

As with everyone else, the year 2020 was not usual for Elering. While many companies were above all focused on overcoming short-term challenges in 2020, our main challenges, in addition to short-term issues, were mostly related to strategic plans. I would like to highlight three of them.

Firstly, creating the Estonian Standard for Security of Supply of Electricity

Electricity grids do not produce any electricity. In order to produce electricity, one requires a power plant on the electricity market of the European Union and a sufficiently thick cable connecting the consumer to the network. In terms of the single European electricity market, the sufficiency of the regional electricity system is important, rather than just the sufficiency of the Estonian electricity system. Fortunately, Estonia is a well-connected country. We have 2,500 megawatts of connections with other EU countries along with the third Estonian-Latvian electricity interconnection that was completed in 2020, compared to the approximately 1,600 megawatt peak consumption in Estonia.

Ensuring the security of supply of electricity in the future rests on three pillars, with the first of them being the establishment of the Estonian Standard for Security of Supply of Electricity. The Standard provides a number of hours where, as a result of market actions, production along with connections does not fully cover the peak of local consumption. This does not mean a lights-out situation, but rather the management of consumption or the intervention of Elering by using reserves. Research conducted within the framework of preparations for the Standard recommends permitting a situation in Estonia during nine (9) hours per year where the supply of electricity does not fully cover peak demand on the market. Such a standard is common in the European context (for example, the standard in Ireland and Portugal is eight hours). Secondly, we prepare an annual pan-European analysis on the sufficiency of the electricity system along with other European transmission system operators. Should the analysis result in the discovery that the supply of electricity in Estonia would not meet the Standard for Security of Supply in the future, we are prepared to implement a third administrative step by means of applying the capacity mechanism as a strategic reserve. We are able to foresee that in this decade, Estonia must maintain 1,000 megawatts of certain production capacities in all situations in order to ensure the security of supply of electricity.

Secondly, security of supply in a climate neutral manner

With the European Green Deal, the European Commission established the objective to achieve climate neutrality in Europe by 2050 by substantially reducing greenhouse gas emissions in all sectors of the economy. Elering's vision is to ensure the security of supply of Estonian consumers in a climate neutral manner and with the assistance of digital tools in order to support the climate policy objectives of the European Commission and the Government of the Republic of Estonia. How to provide electricity in an energy economy that is free of carbon emissions? Electricity is produced by means of distributed generation as well as in large generating installations using renewable sources. It must be considered that the majority of electricity in this region will be mostly produced from wind in the future. The total potential of wind energy in the Baltic Sea is immense – up to 93 gigawatts. If all this potential were used, a third of the annual electricity requirements of Baltic Sea countries could be covered with energy produced at sea. Estonian potential exceeds our own consumption many times. Elering has taken initiative in order to develop the Baltic Sea network as this allows accelerating the extensive application of wind energy at the sea and thereby ensuring the security of supply of our consumers in a climate neutral manner. As a specific project, Elering is commencing the creation of an additional marine connection with our Latvian colleagues from the transmission system operator AST along with main storage substations to which the wind energy stations built on high priority marine areas can be connected according to international agreements. The more competitive production in the network, the better it is both in terms of security of supply and the export potential of energy produced in Estonia.

Third, synchronisation as the foundation of energy security

In the last ten years, our focus has above all been on reducing the most systemic risk – the impact of the Russian power system on the Estonian power system. As the result of this work, we should, by the end of 2025, have electricity connections with countries who share a more similar social order and values with us. First and foremost, this means disconnecting from the Russian power system and connecting to the Continental European power system by the end of 2025. When currently observing the situation in Russia

and Belarus, the systemic risk does not decrease, but is increasing. Being prepared for not just planned, but also non-planned desynchronisation from the Russian power system is therefore our central priority in the next few years. In 2020, we were able to commence projects of key importance in terms of synchronisation in a timely manner and we are on schedule on the Estonian side to achieve full desynchronisation by the end of 2025.

Perceiving social responsibility

We took a step forward in Elering to be a better social citizen as a company. For the first time, we approved Elering's environmental, social and good governance plans for the next year with our 2021 budget. This is our action plan with the objective of making Elering's mission – keeping the lights on and homes warm – in a more caring manner than before. We aim to be more caring towards both the environment and people. Elering's professional 'muscle' can be used in Estonia to do anything, anywhere. We must notice and take into consideration our surroundings when using our 'muscle'. By relying on this principle, we are able to conduct our major projects in the following years that will affect living conditions in numerous places all over Estonia, such as synchronisation or development of the marine network, with even higher quality and in better cooperation with local communities.

Finally, in addition to all of our activities for the well-being of the society, our clients and our employees, we were able to achieve the budgetary objectives established by the owner in 2020 and to pay revenue from ownership to the owner in the planned volume, which will contribute to the well-being of all of us in Estonia through the state budget.

Thank you, clients, partners and colleagues, for our excellent cooperation in 2020!

From Elering's mission to its strategic goals

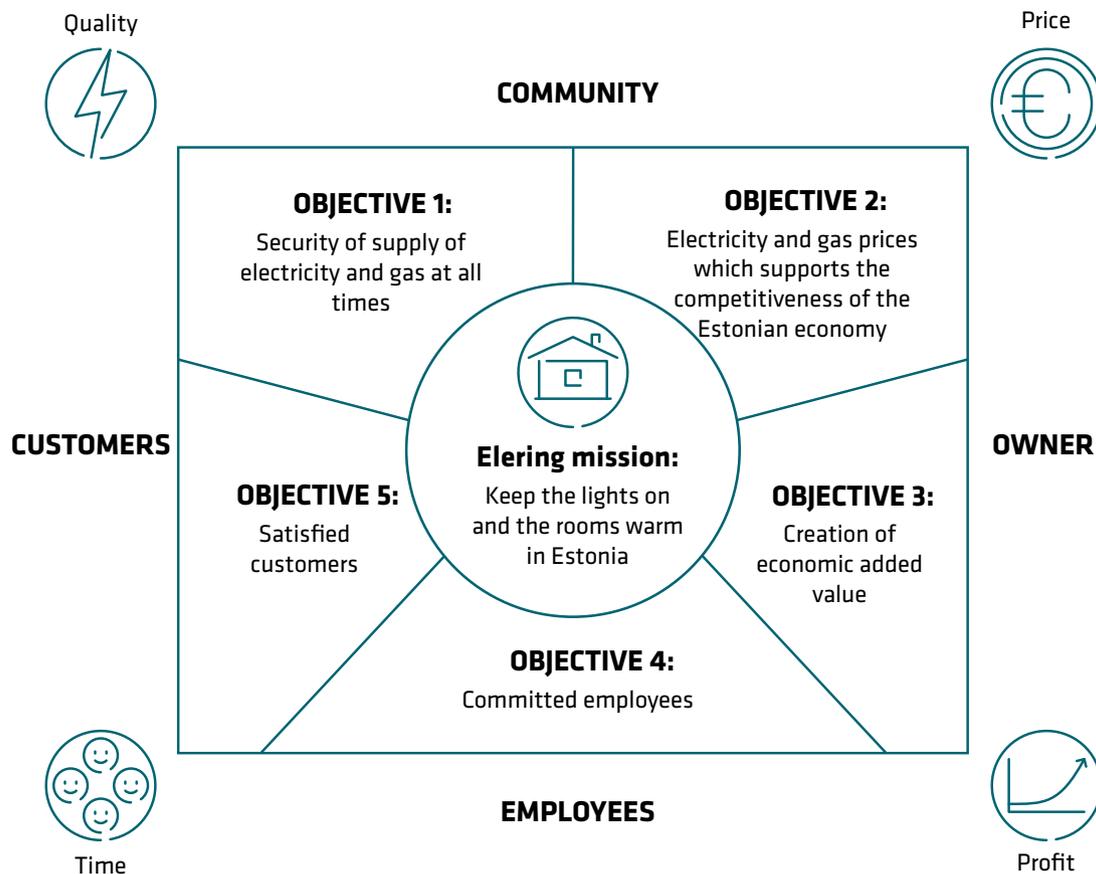
The accessibility of energy has become self-evident in society. Lack of electricity has an impact on a large part of Estonian society, including on the seamless functioning of vital services. The mission of Elering as the manager of the Estonian electricity and gas system is **'to keep the lights on and the rooms warm in Estonia'**. At all times and in every situation.

The rapidly changing environment is setting massive challenges to us in coping with the accelerating climate change while ensuring safety in the current geopolitical situation.

The mission of Elering is to **make Estonia's energy network and markets an integral part of the European energy system**. To achieve this, it is important to synchronise Estonia with the power system of Continental Europe by 2026. As we're doing this, we will maintain the high level of security of supply for Estonian energy consumers, support the competitiveness of the Estonian economy and help fulfil the objectives of the climate policy.

The challenge of Elering over the next decade is to ensure the **security of supply in a climate-neutral manner and with the support of digital tools**.

As we work towards the achievement of our mission and the implementation of our vision, it is necessary to find a balance between the interests of various parties, namely **society, clients, employees and the owner**. Therefore, we have set five strategic goals for Elering.



1. Ensuring security of electricity and gas supply at all times

The value chain of security of supply consists of four pillars: system reliability, network adequacy, system adequacy and cybersecurity. In order to efficiently manage these components, we have set ourselves **the objective of ensuring a well-functioning power and gas transmission network** by 2025. Our goal in respect of the power system is to maintain the downward trend of the ten-year average level of electricity not served. Our goal is to reduce this indicator in the transmission network below the level of 120 megawatt-hours per year by 2025.

There is no difference for the society and the consumers as to whether the energy not served is related to a breakdown of equipment, a failure in the operation of the system, a shortage of capacities or a cyberattack. As a result of climate policy, electricity plays an increasingly important role as an energy carrier. Increasingly more production and consumption equipment is added to the energy system and there are also more new participants, which in turn makes the management, control and protection of the system more complicated. Thus, the achievement of this strategic goal requires the use of new technology as well as smarter and more efficient solutions.

In 2020, the 10-year average of energy not served in the transmission network was the lowest in recent years at the level of 136 megawatt-hours and energy not delivered only amounted to 10.3 megawatt-hours. In the gas system, energy not served in the transmission network has remained at the level of 0 megawatt-hours and our goal is to maintain the achieved level. Achievement of a high level of security of supply is possible if correct maintenance and investment decisions are made. We are implementing increasingly more new solutions to ensure that operation, maintenance and investment decisions are based more on information about the condition of individual devices and their impact on the entire network.

Synchronisation of the Baltic States with the Continental European frequency area

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

risk and ensure the stability and reliability of the power system, we are planning **to synchronise the Baltic States with the Continental European frequency area by 2026.**

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

One of the important milestones of the activities of Estonia in this project was the energisation of the third Estonian-Latvian connection in December 2020 and placing the connection at the disposal of the market on 1 January 2021. Thus, the transmission capacity between the two countries increased by approximately 600 megawatts. The new connection improves the security of supply considerably, as the power connections in the north to south direction and the Estonian network in Western Estonia have been strengthened. The completion of this electrical connection makes it possible to continue with the necessary strengthening in 2021, including renovating the transmission lines that start in the Narva region and run to Latvia via Tartu and Valga. In 2020, we carried out procurements and entered into contracts for the renovation of the Baltic-Tartu and Tartu-Valmiera lines.

An extremely important measure in synchronisation is the existence of sufficient inertia, which ensures the stability of the system in the event of breakdowns and the maintenance of better stability of frequency under normal conditions. In order to synchronise the power system of the Baltic States with the Continental European power system, it is necessary to ensure that there is an adequate quantity (17,100 MWs) of inertia in the system of the Baltic States at all times. Baltic system administrators will install a total of nine synchronous compensators throughout the Baltic States. In 2020, we carried out the procurement and entered into the contract for the construction of a synchronous compensator at Viru, Püssi and Kiisa 330 kilovolt substations. The total value of the joint tender of Siemens Energy Oy Estonia branch and Siemens



Energy Global is 83.5 million euros. The equipment will be built in the German plant of Siemens Energy Global. The start of the synchronous compensator design and construction work is planned for 2021 and the last of the compensators will be operating by late 2024.

In 2020, we started developing the framework of system services. The respective capacities will be implemented and developed in the Baltic States according to the Continental European frequency reserve principle and the capacity for local voltage optimisation will be created. The existing optimisation systems will be updated and additional optimisation systems will be implemented in order to meet the requirements of Continental European frequency areas. It is necessary to procure fast emergency reserves through the existing direct current submarine cables between the Baltic States and the Nordic countries as well as through the cable to be established between Lithuania and Poland.

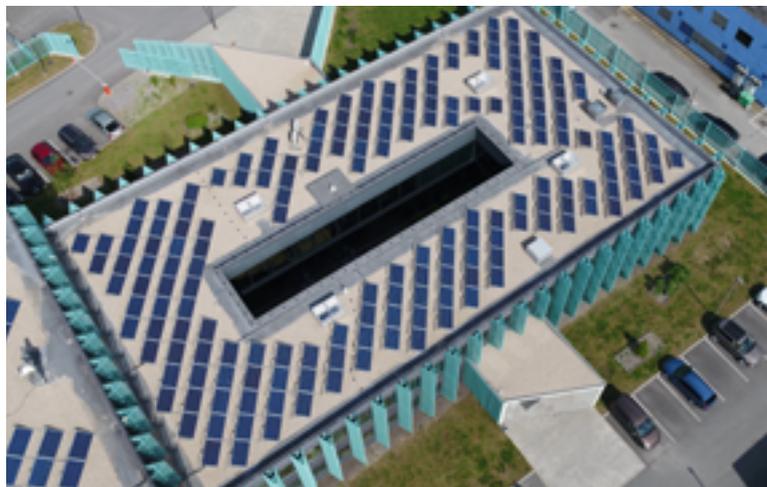
Adequacy of the energy system

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

The goal we have set ourselves is **that the Estonian standard for security of electricity supply is met at all times over a three-year period**. We have regularly analysed the adequacy of the energy system in cooperation with Entso-E and other European system administrators. The analysis for 2020 indicates that according to the best knowledge available today, Estonia will have no problems with the adequacy of the energy system until 2030. Security of supply is analysed and assessed every year, as the market environment of the energy sector is changing rapidly due to the climate policy.

Estonian power system attractive for generation and storage capacities

It is also important to us that **the Estonian power system is attractive for generation and storage capacities in order to make the energy system climate neutral**. The European Union has set itself the goal of becoming climate neutral by 2050; our neighbouring country, Finland, with whom we are strongly integrated in terms of electricity and gas systems and markets,



wants to achieve the same by 2035. We will create solutions and cooperate with our neighbours so that we can offer a competitive environment for the generation of new production capacities. In order to achieve this, Elering developed a unique e-grid map solution in 2020, where investors can find the price of connection to the primary power system at different substations on a cost basis in just seconds. In order to facilitate the fast connection process, we have developed a solution where we can build a standard connection point in 18 months. We have also developed a connection solution with flexible capacity in order to make possible connection cheaper and more attractive to investors.

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

to strengthen the energy system based on volatile production and to make it possible to connect new large offshore production capacities with the energy system in order to contribute to system adequacy. In connection with the joint declaration of intent made between Estonia and Latvia, we started carrying out primary analyses with the Latvian TSO in 2020 to assess the alternatives of the Estonian-Latvian offshore grid. We also launched a survey in order to identify all restrictions and measures and prepare the Estonian power system for operation on 100% inverter-based energy production, i.e. energy production primarily based on wind and sun. As a system operator, we are still technology neutral, but we can also see on the basis of the maturity of technology that we must be prepared for an increase in complexity upon the management of the energy system, as the majority of energy production is based on inverter-based production methods.

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

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

Cross-border capacities must operate at the maximum in order to guarantee the same electricity price as in the Baltic Sea countries

It is important to ensure the highest possible usability of the existing cross-border capacities in order to ensure that the price of electricity and gas in the Estonian price region is the same as in the Baltic Sea countries. We make sure that we can keep the capacities in operation as much as possible during bottleneck hours. It is good to admit that we have managed to keep the reliability of DC connections at a high level in cooperation with the Finnish power system operator. The technical readiness of EstLink 1 in 2020 was 97.4% and the technical readiness of EstLink 2 was 97.5%, and the connections worked at maximum capacity for more than 30% of the time.

Thin power grid

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

In 2020, we carried out analyses for the preparation of the optimum development plan of Estonian power grids in order to find the best socio-economic solutions for society with regard to the entire electricity network (both transmission and distribution network). This development plan has not yet been approved by our partner, distribution network company Elektrilevi. We are also preparing a capacity-based tariff component.

A positive example of the optimisation of investments is the fact that we have essentially managed to develop the synchronisation project in such a manner that the investments required for synchronisation will not bring about an increase in the electricity network tariff. Elering finances three-quarters of the construction costs from the European CF and one-quarter from congestion income. The project for synchronisation with the power system of Continental Europe will cost Estonia around 261 million euros, the majority of which will be covered from European Union co-financing. In 2020, we were once again successful in obtaining EU funds and the European Commission decided to allocate Elering 55.5 million





euros as co-financing of the investments related to synchronisation. **We received the maximum possible support rate from the European Commission in the calls for proposals of both 2020 and 2019 – 75%.** We use the income from transmission capacity auctions for self-financing and this is why the synchronisation investments will not burden our electricity consumers. We are planning to submit another application for the co-financing of investments related to synchronisation with the system administrators of four countries in the next budget period of the European Union in order to obtain EU funds for the modernisation of the management and information systems of the power system.

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

3. Creation of economic added value

Every owner expects the capital invested in their company to generate value according to the established goals. We monitor the added value created on the basis of the economic value added (EVA) methodology. In 2020, we managed to create added value for the owner in the amount of 8.3 million euros.

From an economic value added standpoint, long-term developments in the gas system are definitely important. Today, the development of the gas network is affected by climate policy goals more than ever before. While the gas network used to be the link in the gradual reduction of greenhouse gases, the current ambitious climate policy objectives mean that the fuels transported in the gas pipeline must be made climate neutral as well. Green gases will certainly be a part of the renewable energy circulation system, including in energy transmission, storage and conversion from gas to electricity and vice versa. The challenge to maintain a balance between power consumption and generation, which brings about the

need for stronger integration of the whole energy system, i.e. the electricity, gas and transport sector, and the need for storage of electricity, will increase in relation to the increase in the share of inverter-based renewable energy. **The addition of non-controllable production and closure of ordinary power plants requires greater capacity for storing energy so that the energy system can be safely managed.** The main challenge in the integration of the presumably installed wind energy in 2030+ is the need to apply seasonal flexibility on a large scale. The existing gas infrastructure has the potential to play an important role in the fully climate neutral power system, as this may offer possibilities for the storage of synthetic gases or hydrogen and for transporting them to power plants that can be rapidly launched. Thus, the challenge is how to make the gas infrastructure usable for green gases. We are currently in a situation where we do not have enough knowledge of technology, the applicability of green gases in the gas network and the equipment of end-consumers as well as the possible solutions for transferring to various green gases. In 2020, we analysed the usability of green gases in the Estonian gas network and are initiating regional surveys in cooperation with regional system administrators. We are currently only making unavoidable investments in order to maintain the level of security of supply of the gas network until we have ascertained how we can regionally switch to green fuels with the gas system.

4. Committed employees

Keeping and finding talent is increasingly difficult under the pressure of the generally low unemployment rate and payroll. Therefore, a strong team spirit and a good work culture are important for keeping our existing people, achieving the ambitious goals set for the next five years and managing changes in the energy system. Committed employees are more content with their work and contribute more. We understand that managing the commitment of our employees is important and has real consequences for the achievement of Elering's mission. Every year, we conduct a commitment survey and have set ourselves the goal of keeping the company's commitment index at over 70%. In 2020, the commitment index of our people was 87%. The biggest challenges in 2020 were related to the COVID-19 pandemic and the implementation of remote work. However, we managed to keep the focus on improving the skills and management quality of middle-level managers during this difficult time.



5. Customer satisfaction

Elering has four key service segments: electricity and gas network service, connection to the electricity and gas system, electricity and gas balancing service and payment agency for renewable energy support. While implementing the massive changes to the energy system and energy markets that arise from climate and geopolitical challenges, Elering cannot be successful if our clients are not satisfied. Also, more and more new clients are connected to the network, including wind and solar energy producers who expect Elering to operate quickly and efficiently. We have worked hard to achieve a customer-centric work culture. In 2020, we developed and launched the network service client portal and updated the client portal of connection services in order to make information exchange and processes faster and more efficient. We also developed an e-grid map application for connection clients, which gives primary information on the cost of connection in seconds. We have developed automated solutions for clients of renewable energy support which they can use to apply for support and activities with the certificates of origin of energy.

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

Every year, we carry out a survey among clients in all service segments in order to identify the accuracy of the service as well as assess the satisfaction of clients. Our goal is to keep customer satisfaction above 65%. The survey carried out by Elering in 2020 showed that customer satisfaction was at the level of 71%.





Activities of Elering in ensuring security of supply

As mentioned above, Elering's mission is to ensure security of supply for electricity and gas consumers. Elering systematically observes security of supply across four so-called security of supply pillars: system adequacy, network adequacy, system reliability and cybersecurity. Elering regards the situation where expected consumption is covered by local production, import opportunities and opportunities for consumption management as system adequacy. Network adequacy means that the transmission network is adequate in terms of capacity and reliability to ensure that energy reaches consumption centres. System reliability is the ability to keep the power system operational as a whole and to cope with various disruptions and malfunctions. Cybersecurity is the capacity to prevent cyber threats in an increasingly digitalised energy system.

In order to ensure a high level of security of supply, it is important to ensure the simultaneous and strong performance of all four security of supply pillars.

System adequacy

In 2020, Elering undertook several activities to keep the level of system adequacy high both today and in the future.

In order to assess the adequacy of the Estonian power system, Elering carries out pan-European evaluations of system adequacy in cooperation with the European Network of Transmission System Operators ENTSO-E. The assessment is based on the data provided by European system operators on the generation capacities, consumption and transmission capacities of each country and on the Pan-European Market Modelling Database (PEMMDB) that contains the collected data. The report covers the period up to 2030 and the results include the power system adequacy indicators of all European countries. The adequacy of the power system is assessed using the probabilistic method. The methodology is based on the Monte Carlo method according to which 35 climate years are each simulated 20 times, considering the changes in consumption, wind conditions, solar radiation,

hydrological situation and breakdowns in system elements.

In addition to our cooperation with ENTSO-E, Elering created the internal capacity to analyse system adequacy using the probabilistic method in 2020. To this end, we obtained the necessary software, PLEXOS, and developed the internal competencies required for carrying out the analyses. In addition to pan-European analyses, Elering's report on security of supply issued in December 2020 included the probabilistic method analyses carried out by Elering.

The European regulation on the internal market for electricity stipulates that a national security of supply standard must be established if the risk of shortage of system adequacy exists in the state. Each Member State determines the acceptable level of adequacy of its power system with the standard and compares the results of the analysis of the adequacy of the electrical system with this. In 2020, Elering ordered a survey for the determination of the level of the Estonian security of supply standard in cooperation with the Ministry of Economic Affairs and Communications and the Competition Authority. According to the survey, it would be optimal for Estonia if the standard of security of supply is the average number of restricted hours of 9 per year.

If it becomes evident that the actual system adequacy situation is worse than 9 hours, the establishment of a capacity mechanism in the state will be allowed after the state aid permission is received from the European Commission. In essence, the capacity mechanism is state aid to electricity producers or controlled consumption so that they can offer their capacity when necessary. Elering, the Ministry of Economic Affairs and Communications and the Competition Authority carried out a survey in 2020 in order to find the best capacity mechanism for Estonia. As a result of mapping and analysing the suitability of various mechanisms, the strategic reserve remained the most promising solution. Strategic reserve is the capacity that does not participate in the electricity market but is prepared to cover peak consumption.

As a summary of the above, Elering published its annual security of supply report in December 2020. According to the conclusions made in the report, the security of supply of Estonian consumers with power is guaranteed on a market basis until at least 2030 as indicated by the European power system adequacy survey as well as the analyses of different methodologies ordered and carried out by Elering.



According to current knowledge, the establishment of additional fees similar to the fee for renewable energy for consumers in order to pay support to electricity producers is not justified.

The adequacy of the gas system improved significantly in 2020 as a result of the introduction of the Balticconnector gas pipeline. Balticconnector is a gas pipeline in the Gulf of Finland that connects the Estonian and Finnish gas systems and added an additional supply channel to Estonia in addition to the existing connections with Latvia and Russia. The participants of the regional gas market immediately started using Balticconnector actively and the gas pipeline has been in full use in the direction from Estonia to Finland. Compressor stations are expected to be completed in 2021 as part of the Balticconnector cluster, which will increase transmission capacity between Estonia and Finland.

Network adequacy

Investments in the 110-330 kV power grid

In order to ensure network adequacy and thereby also maintain good security of supply and optimise and modernise the network, Elering AS has consistently made various developments and investments.

A major project for synchronisation with the Continental European frequency area is ongoing. The third 330 kV connection between Estonia and Latvia was completed within the framework of the project in 2020, which has significantly increased the security of supply of the Estonian and Latvian power systems and guarantees higher capacity. The next step will be the reconstruction of the existing Baltic-Tartu-Valmiera and Viru-Tsireguliina-

Valmiera 330 kV connections from 2021 to 2025 and the Mustvee 330 kV substation will also be built. The scope of the project also includes the installation of synchronous compensators in the strategic points of the network, which will guarantee the stability of the system in ordinary situations as well as in the case of disruptions.

In addition to the major synchronisation project, the company will also invest locally in guaranteeing the reliability, capacity and efficiency of the power grid and in stopping the ageing of the grid. 110 kV overhead lines will be reconstructed throughout Estonia, the majority of which will be done within the scope of the synchronisation project, where 110 kV overhead lines running in parallel with the 330 kV lines to be reconstructed will be placed on the same pylons. This guarantees a smaller impact on the environment as well as savings on maintenance costs. The emphasis in the two larger consumption areas of Estonia – Tallinn and Tartu – is on replacing the existing 110 kV overhead lines with cable lines. The new Iru-Viimsi 110 kV cable line in Tallinn and the Tartu-Ülejõe 110 kV cable line in Tartu will also be built. 110 kV overhead lines in the surrounding areas of Tallinn will also be reconstructed and optimised. The power grid is being reconfigured in North-east Estonia as a result of the changes in flows and the redistribution of loads, which will create the strong Püssi-Ahtme-Alutaguse multipoint-ring configuration. The 110 kV network will also be optimised in the Balti-Allika-Oru direction. Reconstruction of the Mustvee-Paide line is planned in the 330 kV network. Increasing the cohesion of the network with the continent and thereby improving the security of supply of the islands is ongoing in the island network area. The 110 kV submarine cable of Rõuste-Tusti and Väike väin has been completed. Cables were partially removed in section of the double-circuit 110 kV Tusti-



Leisi overhead line that crosses the Väike väin dam in order to reduce the impact of the overhead lines on the bird population. Also, the lightning protection cable was replaced and line markets were installed to make the line safer for birds. **The construction of another 110 kV submarine cable through Väike väin, which would make it possible to eliminate the section of overhead line above Väike väin, is also being considered.** The Tusti-Leisi and Võiküla-Orissaare 110 kV lines on the same pylons will be placed on separate pylons on Muhu Island in order to increase security of supply.

Elering cooperated with distribution network companies Elektrilevi OÜ and VKG Elektrivõrgud in 2019 and 2020. The long-term development plan for the 35(20)-330 kV power grid for 2020-2045 was prepared as a result of this cooperation, which combines the short-term and long-term investment plans of distribution network companies and Elering, and found the most optimal technical solutions for different regions that consider the needs of end consumers and the lowest social cost.



Network connection capacity

Available connection capacities are the capacities in the case of which it is not necessary to increase the capacities of the transmission lines upon connection to Elering. The main restricting factor is the thermal limit of transmission lines, which depends on the current passing through the line. The available connection capacities decrease with new connections and increase with investments made in the power grid; those among them with the most significant impact are the completion of the Harku-Lihula-Sindi line, the reconstruction of the Balti-Tartu-Valmiera and Viru-Tsireguliina-Valmiera 330 kV overhead lines and the rearrangement of the North-east Estonia network.

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

Operational network security

2020 was the best year from the point of view of operational network security in the history of Elering. In 2020, the quantity of energy not served was the smallest in our history at just 10.15 MWh. For comparison, the average quantity of energy not served during the last 10 years is 137 MWh per year. The biggest and only event with a significant quantity of energy not served took place in January, when a portable earthing device broke and several connection points lost power due to the resulting short circuit. In total, 7.2 MWh of energy was not served as a result of the aforementioned event. The quantity of energy not served as a result of other events was marginal.



There were 106 switch-offs in 2020. The main causes of switch-offs were various environmental factors with 30 cases. In 13 cases, switch-offs were caused by lightning. The remaining cases were caused by the soiling of insulators due to the activities of birds or other conditions related to the surrounding environment. Almost all of these events occurred on lines and only one lightning strike happened at the Sindi substation and caused the destruction of the equipment there. The reason for the switch-off of electrical devices could not be identified in 20 cases. Human error, such as installation errors, was the cause of 12 switch-offs.

In recent years, there have been no mass switch-offs caused by trees, as the protected zones of lines have been streamlined as a result of consistent activities. This is also the reason bigger storms have not caused switch-offs, which is something that happened often in previous periods. Although there have been no major storms in recent years that would have exceeded the standards used as the basis for designing equipment, there have been gusts of wind that are stronger than usual, e.g. in 2019. However, they have not resulted in mass switch-offs. This proves that the power grid can successfully withstand wind as a result of the systemic maintenance of line routes, which has significantly reduced the number of trees falling or being felled on the lines, which was one of the main reasons for energy not served for years. The area of land not cleared of trees in the power line protection zones is only 180 ha. The maintenance of protection zones require constant work, incl. regular inspections of lines and protection zones.

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

System reliability

The reliability of the power system is guaranteed if the power system operates in the specified manner. In the case of the power system, this means that:

- the frequency is either 50 Hz or the deviation of the frequency from 50 Hz is minimal;
- voltages and power flows are within the permitted limits;



- there are sufficient reserves of active and reactive power to cope with disruptions that may occur in the power system; and
- the power system will operate within the permitted limits of operational security after the occurrence of a disruption of the highest impact.

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

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

Ensuring the reliability of the energy system is organised by Elering's control centre. Guaranteeing reliability can basically be divided into two parts – the operative planning of the energy system and the subsequent real-time management of the operation of the energy system.

The task of operational planning is to carry out a coordinated inspection of the permissibility of the operation of the energy system, i.e. an analysis of the operational reliability, and, if necessary, bring the planned operation within the permitted limits and prepare plans and forecasts for the stage of management of operation. Operational planning proceeds from the requirements set out in the Grid Code and the plans and forecasts prepared in the course thereof must comply with the reliability and security of supply requirements set out in the Grid Code, ensure optimal losses and allow for the maximum possible cross-border transmission capacity. The operational planning of the energy system is followed by the process of real-time control of the operation, which takes place 24 hours a day. The function of operational management is to ensure the safe and reliable operation of the energy system in real time. Operational management is the process that covers all of the activities required for the real-time operation of the energy system in the case of normal, disrupted and emergency operation as well as in the case of the shut-off of the energy system and the restoration of operation.

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

countries as well as market participants of changes in cross-border transmission capacities.

It is necessary to ensure the 24-hour uninterrupted operation and constant improvement of the relevant processes. In 2020, the emphasis was placed on the further development and improvement of various IT tools – the solution for the real-time assessment of the status of the power system in the technical control system of the energy system, i.e. SCADA, was perfected and the balance management software was developed to improve data exchange with market participants and neighbouring system administrators. As for the gas system, it is possible to point out that the Estonian-Latvian joint balancing zone software solution will be implemented and that the gas connection between Estonia and Finland will certainly be capable of operating Balticconnector. The improvement of the cybersecurity, reliability and data quality of the technical control systems of the energy system was also under the spotlight. Several tests were carried out in order to achieve this objective, which included testing the functioning of the control systems in the event of various disturbances in order to find possible weaknesses in them. In order to prepare synchronisation with Continental Europe, a concept of the frequency control area of the Baltic States was developed and discussed with market participants, which regulates the principles of frequency control and the acquisition of reserves in the new situation.

In the summary of 2020, it can be said that the operational planning and real-time management of the energy system was organised in a manner that made it possible to ensure the reliability of the Estonian energy system as a whole at all times.





Cybersecurity

Remote management, great dependence on digital control systems and data communication, remote work and strong digitalisation require increasingly complex IT solutions – the increasing complexity in turn increases the likelihood of security breaches and errors that a malicious attacker can take advantage of.

Elering is threatened by the most common risk factors in the cyber room and, as the entity responsible for power and gas supply throughout Estonia, Elering is also a potentially interesting target for complicated targeted attacks. The background system vividly indicates why ensuring cybersecurity is important for Elering and why its importance increases over time. In addition to the systems directly related to the operation of the power and gas system, Elering also manages several information systems that are critical to the functioning of the electricity and gas market, and their security and reliability is therefore important for ensuring the long-term security of supply in Estonia.

In 2020, Elering strengthened its cyber security team in order to improve the quality of cybersecurity activities and develop new capabilities. Projects aimed at increasing security, which will be implemented in the coming years, must ensure better visibility of what is happening in the company's infrastructure and prevent potential cyberattacks or help identify them better.

Due to the health crisis, the year was also extraordinary from the viewpoint of cybersecurity. During the

emergency, it was necessary to quickly develop innovative remote work solutions, ensure their security and find better solutions for protecting employees in home offices from cyber threats.

We will continue training our employees in the field of cyber hygiene. Every year, we carry out internal training courses that are open to all employees in order to keep them informed of the risks present in the digital world. In 2020, the office workers of Elering worked in their home offices for several months, which created various challenges and contributed to the mixing of private and working life. It is also more difficult to quickly ask colleagues for advice in the case of questions. Noticing and reporting cyber threats is increasingly important in the new situation.

In August, Elering's IT specialists participated in the KüberSärts training exercise organised by the Estonian Information Systems Authority, during which they acquired knowledge about the detection of cyberattacks. Once new knowledge had been acquired, they practiced protecting the information systems of a fictitious energy company with specialists of other energy sector companies. The exercise made it possible to increase the trust required for cooperation between specialists of the energy sector and to practice behaviour in a crisis. Elering is a provider of vital services and therefore carefully follows the obligations provided for in the Cyber Security Act, incl. the principle of cooperation in ensuring cybersecurity and dealing with cyber incidents. For this reason, intra-sectoral cooperation is essential in order to be as well prepared as possible for potential crises.



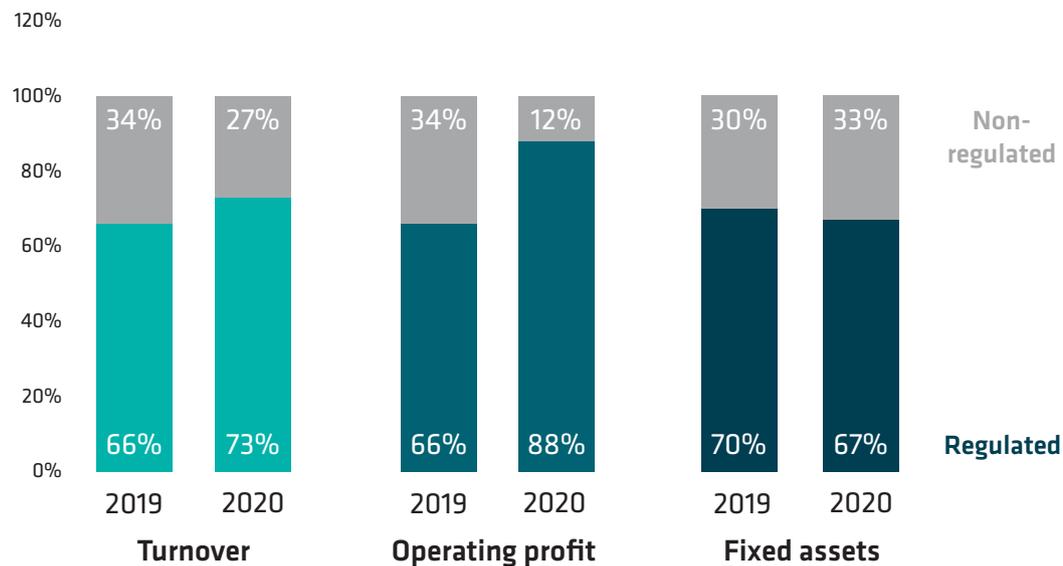
Overview of economic activities and results for 2020

Nature of economic activities

The economic activity of Elering is divided largely in two:

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

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



Network activities are regulated, which means that the permitted network charges are approved by the Competition Authority. The regulator assesses whether the costs presented in the network charge request are justified and prescribes a reasonable return, which is calculated on the basis of the Capital Asset Pricing Model. The network charges consist of the operating charges, capital expenditure and the permitted rate of return in the case of both power and gas. Operating profit is calculated as a multiple of the regulatory asset base and the weighted average cost of capital (WACC).

The company has 27 power grid service clients and 11 gas network service clients in total (2019: 29 power grid service clients and 14 gas network service clients). The majority, i.e. 89.9%, of the network service revenue (2019: 88%) is received from clients who are regulated distribution network operators acting as natural monopolies. The biggest client in terms of network service is Elektrilevi OÜ, whose share in network service revenue is 75.6% (2019: 74.1%). Elektrilevi is a distribution network operator that is part of the Eesti Energia AS group, which in turn is owned by the Republic of Estonia.

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

In order to ensure a stable frequency of electricity in the power system, the system must be balanced, i.e. generation must be equal to consumption at any given time. For this purpose, all market participants also need to be in balance and most of them buy their power balancing services from balance responsible parties. Elering, in turn, provides the power balancing service to the balance responsible parties. There are 15 balance responsible parties to whom Elering provides the service (2019: 8).

The principles of balancing the gas system are generally similar to the principles of balancing the power system. The only difference is that the gas system does not have to be balanced at all times. When the consumption of gas is higher than the inflow, the pressure in the system drops, and vice versa. As a gas system operator, Elering's task is to keep the pressure within the permitted limits. For this purpose, Elering buys and sells gas to balance responsible parties. The number of balance responsible parties with whom balancing gas is bought and sold is 11 (2019: 7).

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

Economic performance

Key financial indicators

	2020	2019	2018	2017	2016
Sales revenue	137.1	142.1	143.0	130.3	134.0
Other operating revenue	5.3	13.1	1.9	1.6	1.9
Operating expenses	109.8	113.4	113.9	98.8	98.1
Operating profit	32.6	41.8	31.0	33.1	37.8
Operating profit before depreciation	72.7	78.7	65.7	67.6	76.0
Financial expenses	2.3	2.1	7.3	11.0	11.4
Income tax	5.0	6.8	5.0	5.0	7.8
Net profit	25.3	32.8	18.6	17.1	18.7
Operating profit margin	23.8%	29.4%	21.7%	25.4%	28.2%
Operating profit margin before depreciation	53.0%	55.4%	46.0%	51.9%	56.7%
Net profit margin	18.5%	23.1%	13.0%	13.1%	14.0%
Return on equity	6.5%	8.5%	5.1%	4.9%	5.5%
Equity capital to asset ratio	36.0%	37.9%	40.6%	38.3%	38.6%
Net loans payable/ operating profit before depreciation	3.9	3.8	4.4	4.1	4.1
Investments in fixed assets	85.0	129.8	125.0	32.2	26.7
Dividends	25.6	29.4	20.0	20.0	31.0

Operating profit before depreciation = operating profit + depreciation

Return on equity = net profit / average equity

Equity to asset ratio = equity / total assets

Net loans payable = debts payable - cash and cash equivalents

Revenue

Total revenue amounted to 142.4 million euros (2019: 155.2 million euros). The most important source of revenue was the sale of network services, which comprised 76.7% or 105.2 million euros (2019: 73.1% or 103.9 million euros) of sales revenue. Revenue from power network service comprised 82% and revenue from gas network services comprised 18% of network services (2019: 88% and 12%). Revenue regulated with network tariffs comprised 91.9% of the revenue from network services (2019: 92.8%).

The sale of power grid services decreased by 4.2%, i.e. 3.5 million euros, but this was balanced by the increase in the sale of gas network services, which increased by 31.2%, i.e. 3.8 million euros. The transmission volumes of both active energy and gas were lower in 2020 than in 2019 by 3.5% and 6.2%, respectively. The decline in transmission volumes was largely caused by winter being warmer than usual. The average temperature in the year was 2.5 degrees higher than usual.

Revenue from the balancing and regulation service decreased by 17.6%, i.e. 5.9 million euros, and amounted to 27.8 million euros (2019: 33.7 million euros). Balance service revenue decreased because of the lower balancing energy prices (approximately 20%), which were directly affected by the lower prices on the power exchange in the previous year, the total decrease in the Baltic imbalance and the decrease in the deliveries of Estonian and Finnish regulation service providers on the Baltic balancing market.

The decrease in other operating revenue from 13.1 million euros to 5.3 million euros is largely related to the one-off contractual penalty received from the contractor in 2019 in the amount of 10.4 million euros.

Expenses

Operating expenses amounted to 109.8 million euros (2019: 113.4 million euros). In relation to the decrease in sales of balancing services, we see a similar decrease in the balancing service purchasing expenses as well, i.e. the balancing service purchasing expenses were 18.1%, i.e. 5.9 million euros lower (2019: 4.7% or 1.6 million euros lower). Savings in power grid losses amounted to 28.0% or 4.8 million euros (2019: 9.5% or 1.8 million euros) as a result of the lower price of power in the financial year. Labour expenses increased by 14.8% or 1.4 million euros in comparison with 2019 and amounted to 11.0 million euros (2019: 10.0% or 0.9 million euros). The increase in salaries and wages is related to the adjustment of salaries.

Depreciation expenses have increased in relation to additional significant investments by 8.7% or 3.2 million euros, amounting to 40.1 million euros (2019: 6.3% or 2.2 million euros).

Operating profit for the financial year amounted to 32.6 million euros (2019: 41.8 million euros).

Net financial expenses remained relatively stable and amounted to 2.3 million euros (2019: 2.1 million euros).

Corporate income tax amounted to 5.0 million euros (2019: 6.8 million euros). Net profit for the financial year amounted to 24.3 million euros (2019: 32.8 million euros).

Investments

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

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

The keyword for 2020 is certainly preparation for synchronisation with the Continental European frequency area. In 2020, the third 300 kV connection between Estonia and Latvia was completed, which will increase capacity as well as security of supply. Investments in synchronisation with Continental Europe will also continue from 2021–2024.

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

	Total investment	≤2020	2021-2025	Investment
Estonian-Latvian third power transmission line	82	80	2	2011-2021
Synchronisation	268	5	263	2018-2025
Estonian-Finnish gas connection	136	125	11	2013-2021
Estonian-Latvian gas connection	45	36	9	2015-2021
GIPL (Gas Interconnection Poland-Lithuania)	2	0	2	2022
Total	533	246	287	

(Million euros)

Financing

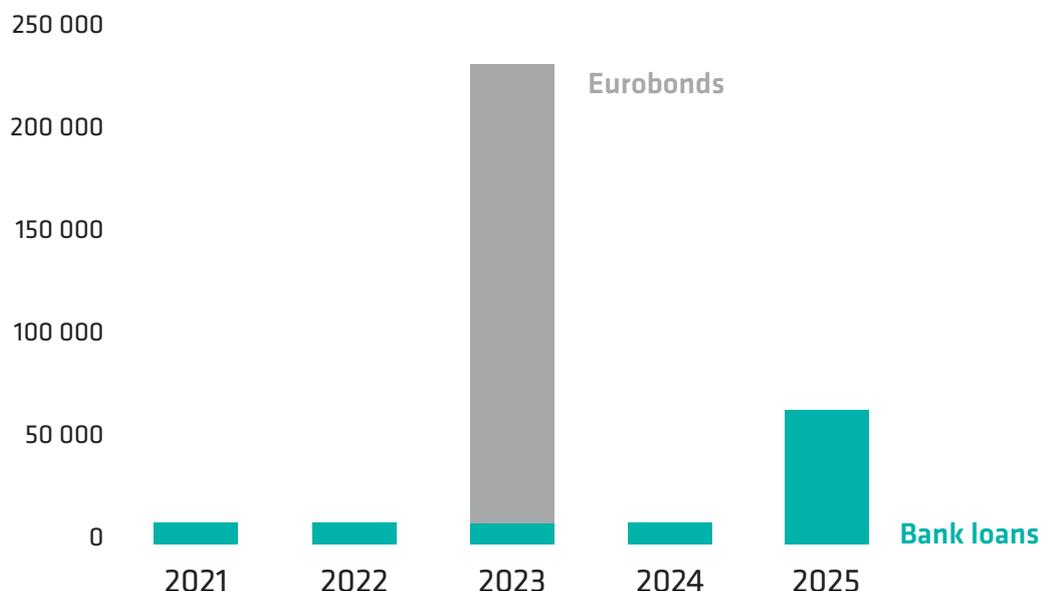
The company financed its investments with European Union funds as well as loans and bonds. The company's interest-bearing liabilities as at the balance sheet date are as follows:

	2020	2019
Depreciable portion of long-term bank loans with average interest rate 0.7% (2019: 0.7%)	10.6	10.6
Total short-term interest-bearing liabilities	10.6	10.6
Eurobonds with 0.875% coupon rate		
Long-term bank loans with average effective interest rate of 0.7% (2019: 0.7%)		
Total long-term interest-bearing liabilities	322.4	332.7
Total interest-bearing payables	333.0	343.3

(Million euros)

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

The bank loans have been taken from the European Investment Bank and the Nordic Investment Bank. The balances of these loans as at 31 December 2020 were 85.4 million euros and 23.0 million euros, respectively (2019: 92.6 million euros and 26.3 million euros). The loans taken from the European Investment Bank and the Nordic Investment Bank can both be amortised. The last repayment of the loans taken from the European Investment Bank will be made in 2033 and the loan taken from the Nordic Investment Bank will be repaid in 2032. The repayment schedule for debt obligations is as follows:



In addition to interest-bearing liabilities, Elering also finances investments from sources that do not involve any interest expenses. The main source is the non-repayable aid received from the European Union. Elering has entered into financing agreements with the EU INEA (Innovation and Networks Executive Agency) for financing the following projects:

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

	Total EU aid received	Receipt of EU aid ≤2020	Receipt of EU aid 2021–2026
Total	341	140	201

(Million euros)



The second financing source that does not involve any interest expenses is congestion income. This occurs in situations where there are differences in prices between price areas (countries) and the power exchange transfers the funds accrued as a result of the price differences to the transmission network operators. In accordance with EU legislation, the money thus obtained must be used primarily to increase cross-border transmission capacity. As at the end of 2020, Elering has collected 112.4 million euros in this manner (87.5 million euros as at the end of 2019).

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

Our Elering Action Plan for Involving and Motivating Employees

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

240 people worked at Elering as at the end of 2020 (2019: 234 people). The average length of employment is a little over 13 years and the average age of employees is 43. Around three-quarters of the employees are men.

Elering is characterised by low labour turnover – voluntary turnover in 2020 was only 2.4% (2019: 4.8%). Low labour turnover is a strategically important indicator for maintaining the high level of competence necessary for the main activities of Elering. To maintain this level, it is important to engage in good dialogue with employees to better understand their expectations and involve them in the development of the organisation. The vast majority of our employees are university graduates, and nearly half of Elering’s employees have a Master’s or a doctoral degree.

Elering supports the integration of work and studies and encourages its specialists to pursue professional and personal development. Elering offers flexible working arrangements and additional days of study leave to employees who are acquiring an education or furthering their education. In order to maintain Elering’s reputation

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

Voluntary turnover only 2.4%

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

The Meie Elering (Our Elering) steering group has been formed for the development and coordination of the follow-up activities of the survey. The steering group of Our Elering prepares the Our Elering action plan on the basis of the feedback, which is aimed at the preservation and development of the strengths of Elering as an employer to ensure that the commitment index of Elering’s people exceeds 70% and to work on the solution of the problems that prevent the commitment and satisfaction of Elering’s people. The result of the commitment survey carried out at the end of 2020 was 87% (2019: 84%).

In order to create better synergy between various activities and implement area-specific policies, we have created permanent steering groups within Elering’s structure, which include specialists and managers from different structural units of Elering that enable the company to create synergy between various topics



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

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

117 new employees have joined Elering over the last five years. When employees are chosen, it is important that the new employees also represent the core values of Elering, i.e. responsibility, commitment and openness.

Considering the diversity of the team, it is particularly important to follow the principle of equal treatment in the recruitment and management of employees, which means giving everyone an equal opportunity, if this is reasonable and feasible in the specific situation. It is important for us to ensure that no one is discriminated against due to their age, sex, religion, origin, disability, sexual orientation, marital status or other circumstances.

It is important to us that the organisation of induction and development activities in our company is well thought through in order to help new employees join the company more smoothly. The duration of the induction programme is approximately two months. In the course of the programme, new employees meet with representatives of structural units and get an overview of the company's fields of activity and the work of different units, corporate values, culture and Elering's role and responsibility in society. Mentoring and supervision are part of corporate culture. In



addition to training aimed at creating and maintaining professional competence, we provide other training courses for general competencies that range from modern machine-learning techniques and artificial intelligence to time management methodologies. The focus is on combining IT and energy competencies and exchanging knowhow within the company. In order to better distribute knowledge in the organisation, we have launched a series of seminar Fridays, where internal and external speakers introduce current or interesting topics in their field.

117 new employees have joined Elering over the last five years

The talent programme of Elering Academy is aimed at specialists of Elering who want to expand their knowledge and contribute to and participate in the topics concerning the future of Elering and the Estonian energy system and have the motivation and readiness to act as leaders of changes in Elering. In order to support the development of our managers, we prepared the good corporate governance practices of Elering with our managers and offered management training. We are constantly striving to improve the work environment by gathering ideas and needs on a regular basis as well as through biannual collaborative discussions. The company has created all necessary conditions for people with special needs to be able to work in the same work environment (lifts, comfortable entry into rooms). Spacious, light and modern workplaces with a good inner climate have been created for all office employees. Employees working on transmission lines wear specific clothing and have comfortable auxiliary rooms for showering, dressing and drying their clothes. It is possible to use quiet and private workspaces and ergonomic tables and chairs in the office.

Responsible action, i.e. ESG

(environment, social, governance)

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



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



In autumn 2020, we became a member of the CSR Forum in order to guide the issues of corporate social responsibility in greater detail, pursue closer cooperation with companies in the sector and bring added value to employees, partners and the society.

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

situation, technology and possibilities. In our everyday activities in Elering, we contribute to the achievement of the UN sustainable development goals.



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

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

In 2020, we developed Elering's internal climate policy principles and carried out Elering's carbon footprint mapping. As a company, we have set ourselves a goal in reducing the carbon footprint that is more ambitious than the goal of the EU: **we want to make Elering climate neutral by 2030**. This will also allow our clients to achieve climate neutrality sooner, as the transport of power and energy to the end customer has a major impact on the footprint of all of the products and services offered in society.

ESG action plan

Since 2020, we have prepared a sustainability or ESG (Environmental, Social, Governance) action plan at Elering, which covers three major dimensions: environmental impact, social impact and governance, which has an important role in the responsible and sustainable management of the company. The plan highlights the most important activities for the development of sustainable entrepreneurship, which we plan to carry out in the coming years.

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

Environmental

Climate policy
Renewable energy
Environmental restoration
Impact of lines
Visual impact of lines
Hazardous waste

Social

Education
Land owners
Clients
Community
Stakeholders
Employees
Suppliers
Data protection

Governance

Involvement and satisfaction
Transparency



Important ESG activities in 2020

The activities of Elering under the ESG plan for 2020 in the **field of the environment** were mainly related to climate policy, the impact of lines and the company's consumption choices.

Climate policy and the environment

Last year we formed a steering group on climate policy in order to develop Elering's climate policy and coordinate and organise the implementation and achievement of the company's climate policy objectives. **The goal**

of Elering's climate policy is to ensure security of supply in Estonia when the energy system is transitioned to climate neutrality and to achieve Elering's strategic goals when transitioning to the climate neutral economy. Our goal is to be the leader of a climate neutral energy system and to make Elering climate neutral by 2030 in line with our desire to set an example in society, provide climate neutral energy to customers and be an outstanding employer.

We mapped Elering's CO₂ footprint in 2020. Direct as well as indirect emissions must be handled with a view to reducing and compensating for emissions. We use a generally recognised methodology to assess the footprint and consider both direct and indirect measures as well as activities that compensate for the impact. In the coming years, we will be dealing with the development and implementation of measures for reducing our footprint. The carbon footprint (GHG) of Elering in 2019 was 291.4 tons of CO₂ equivalent. Approximately 98% of Elering's emissions were emissions associated with indirect energy consumption, such as purchased power and thermal energy and network losses.

In terms of suppliers, we added the guideline on sorting construction waste for contractors to the procurement terms and conditions in order to additionally ensure the correct handling of construction waste.

In 2021, we will develop measures for reducing Elering's carbon footprint and start implementing them. In the coming years, we will work to ensure that the power, gas, heating and motor fuels used by Elering come from renewable sources or are covered by certificates of origin of renewable energy. In order to increase demand for renewable energy, we will raise the awareness of consumers using digital solutions.

In order to make the Estonian power system attractive for production capacities and contribute to the achievement of the renewable energy goals of Europe and Estonia, we have started to lead the international Baltic Sea offshore network initiative with the aim of developing the land and offshore grid into a unified whole in order to strengthen connections between countries, make it possible for countries to build offshore power plants and ensure that offshore energy reaches Estonian consumers. The power grid of the Baltic Sea is an energy network that connects the countries by the Baltic Sea with offshore wind farms, which helps achieve the climate goals cost effectively while guaranteeing security of supply.

The Baltic Sea energy network creates the preconditions for the large-scale offshore production of renewable energy, which in turn increases the long-term security of supply in Estonia, boosts Estonia's economy and improves Estonia's competitiveness as a place where market-based and climate neutral energy production is developed.

By developing large-scale offshore green production and considering the restrictions arising from the living and natural environment as well as from national defence and applied on land in Estonia, it is practical to develop the Baltic Sea energy network in order to achieve the climate neutrality goals.

In 2021, we will carry out a survey on the volume of connecting renewable energy to the Estonian power system, where we will identify network restrictions and measures for the elimination of these restrictions.

Our goal is to be climate neutral by 2030



Activities at substations

The biggest environmental hazards where Elering's substations are concerned are oil that can leak from transformers, chemicals and hazardous waste (mainly batteries). Potential environmental hazards may also arise from the substation transformers when taking oil samples and electrolyte samples from battery packs, wherein small amounts of hazardous substances may be released into the environment.

The oil collection systems of transformers were renovated and new oil traps were installed at Risti, Väike-Maarja, Abja and Lihula substations during the reconstruction of substations in 2020 in order to reduce the potential environmental impact.

The equipment of working substations may cause noise that disturbs the surroundings. The noise caused by substation equipment was also measured at Kohila and Tsirguliina substations in 2020. The measurements indicated that no thresholds were exceeded and there is no need to take extra measures in order to limit the spread of noise.

Activities in the gas networks

We made several investments in the gas transmission network in 2020, which increased the safety of the gas network and improved the overall condition of the environment. We replaced the boilers of the heating systems of Väike-Maarja, Viljandi and Tartu gas distribution stations with the more economical natural gas boilers that operate according to the condensation principle. We replaced 700 metres of depreciated gas pipes with new pipes. We built the remote control system of the Väraska and Lokuta pipeline valve stations, which guarantees the faster and safer operation of gas pipelines and eliminates the need to drive to the site for making switches, which reduces our environmental impact. We also replaced ten cathodic stations with stations that have an automatic operating cycle, which consumes less energy. The need to drive to the site every month for the performance of necessary regulations was eliminated when controlling the stations remotely became possible.

Line maintenance works

83 km of overhead lines were dismantled last year in relation to the construction of the new Harku-Lihula-Sindi 330/110 kV overhead lines. In 2020, we also dismantled 22 km of submarine cables, disposed of 73 pylons and foundations and dismantled and



disposed of 7.7 km of overhead lines and 35 km of lightning protection cables.

Reduction of the impact of power lines

Visual impact of lines

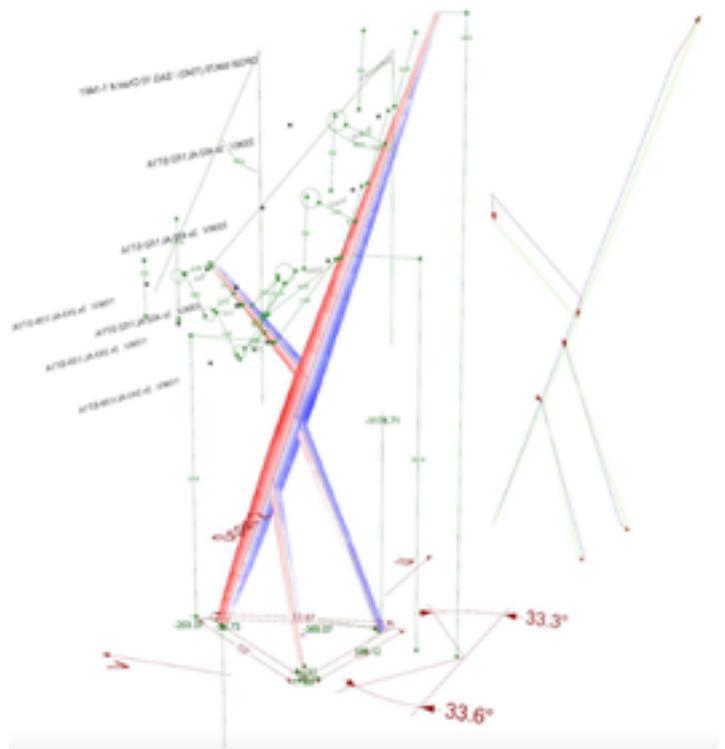
In order to reduce the visual impact of overhead lines, Elering erected Soorebane (Box Fox), Estonia's first designer high-voltage pylon, near Risti in Lääne County in 2020. The vision of the designer pylon is to help fit the artificial power line into the natural environment and also raise the awareness of Estonian people of the role of the power system in modern society. Soorebane points out that a power line can look attractive in the natural environment.

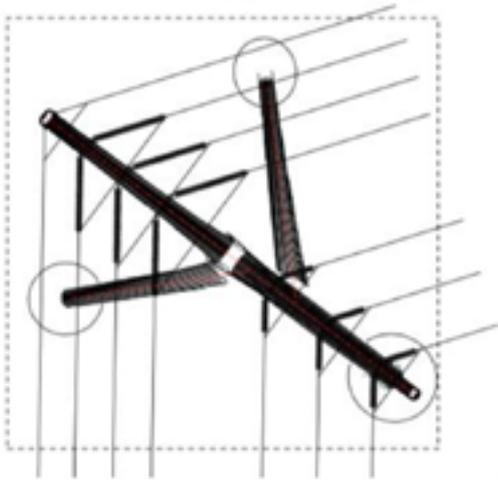
We are implementing the Cities to Cables project to take the overhead lines Veskimetsa-Volta and Veskimetsa-Kopli, Harku-Veskimetsa, Harku-Kadaka and Veskimetsa-Kadaka, whose lifecycles have ended, to underground cables so that overhead lines and pylons will disappear from the urban space and the city can use the empty line corridors for initiatives that improve the living environment of citizens.

Soorebane – the first Estonian designer high-voltage pylon

Soorebane (Bog Fox), Estonia's first designer high-voltage pylon, was ordered by Elering and completed in July 2020 near Risti small town in Lääne County. Soorebane, built near the region of the intersection of Ääsmäe-Haapsalu and Risti-Virtsu highways, is 45 metres high and weighs 38.5 tons. The designer pylon has been made of COR-TEN steel, which gives the pylon its characteristic rusty hue. The diameter of the trunk of the pylon is 1.66 metres at the thickest part and the maximum thickness of the wall is 22 millimetres.

Elering organised the first design contest of this type in Estonia in 2016 in cooperation with the Estonian Association of Architects in order to find the artistic solution for the designer pylon. The panel of the international contest chose the work "Soorebane", with its authors being architects Sille Pihlak and Siim Tuksam from Part OÜ, as the winner from a total of 18 solutions submitted by 15 participants.





The details of the pylon were manufactured 2,000 kilometres away in Romania and transported on three lorries and in 11 parts to Estonia in the beginning of July 2020. The workers of the original manufacturing plant welded the main details of the pylon in a rest area on the Risti-Virtsu highway a few kilometres from the final location of the pylon. Soorebane carries the power lines on the Harku-Lihula-Sindi 330/110 kilovolt high-voltage line.

The design contest organised to find the design solution for the designer pylon was awarded the title of the best procurement in 2016 in the Estonian Design Awards 2016 competition. Soorebane received two awards in the competition for the construction project of the year organised by the Estonian Association of Architectural and Consulting Engineering Companies in 2020. The pylon was awarded the first prize in the contest "Digital Innovation Project of the Year" as well as "Construction Project of the Year" in the category of civil engineering works. The designer pylon received its most prestigious award in the Annual Awards of the Estonian Association of Architects 2020 where it was chosen as the winner of the annual award in the category "Small".

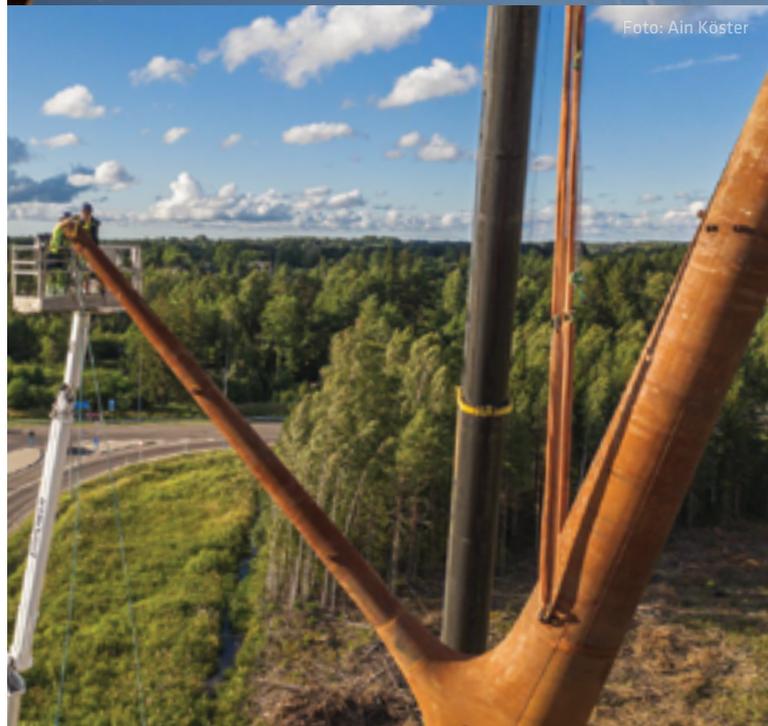


Foto: Ain Köster

Environmental impact of lines

The general principle of Elering is to consider the possible impact of all investments on the bird population, which is why we monitor birds and mark the overhead lines with bird markers, if necessary.

In 2020, in cooperation with the Estonian Ornithological Society, we carried out a comprehensive study of the impact of the high-voltage power lines running along the Väike väin dam on the bird population, removed an overhead line from the dam and streamlined the remaining line, which was also equipped with bird barriers according to the recommendations made in the study.

The bird barriers were also installed on the new Harku-Lihula-Sindi line, which is part of the third power connection between Estonia and Latvia. The decision we made about the overhead line remaining on the Väike väin dam was to move it to the submarine cable as well and we added the establishment of the second submarine cable to the investment budget of the company. The overhead line remaining on the dam can be removed from the bird migration route after the installation of the cable so that it does not endanger them in any way.

As we plan construction and maintenance works, we are looking for solutions that make it possible to take wildlife into consideration as much as possible – the installation schedule of the second submarine cable in the Suur väin was adjusted according to the periods when birds have to be left in peace, and the schedule of the Cities to Cables project was adjusted to protect the habitat of bumblebees.

Environmentally friendly mindset in the office

In 2020, we also made several improvements in our in-house consumption choices, such as sorting of waste by type. We installed waste collection systems in the kitchen corners for our employees, which allow them to sort waste by type and reduce the use of disposable products and plastic. All employees received personal reusable glass water bottles from the company in order to reduce the quantity of plastic packaging. We also stopped buying disposable plastic dishes. We also made preparations for the establishment of the charging infrastructure for electric and plug-in hybrid cars in the car park of the company's office to promote the use of more environmentally friendly means of transport by our employees. We have established bicycle parking facilities next to the company's office in order to promote the car-free mobility of our employees.



Social dimension

Education

In cooperation with the TalTech Development Fund, we gave three future energy system scholarships to Bachelor's, Master's and doctoral students last year, as the topics of their final theses are, in Elering's opinion, very important from the point of view of the future energy system, ensuring security of supply and achievement of the climate goals.

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

Community, society, data protection

Where possible, we promote the use of line corridors for the benefit of the public or along with other routes. In 2020, the City of Tallinn launched a new project for the construction of the Järve light traffic path, within the framework of which the path will be constructed next to the line protection zone on the basis of the approval of Elering.

The old line corridors are also used for the construction of new lines, where possible, in order to reduce the burden on the environment that the construction of a new line would have. The new 175-kilometre Harku-Lihula-Sindi line, which was built as part of the third power connection between Estonia and Latvia, has largely been built in the old line corridor. Route changes were made in order to consider the present conditions and to disturb the local residents and the community as little as possible. As a 330-kilovolt line running in parallel with the 110-kilovolt line was added to the new line, we introduced taller pylons that increased the distance between the pylons from the present ca 200-250 metres to 350-450 metres, i.e. there are now fewer pylons than before. This makes it easier to cultivate fields near the line and in the protected zone.

One of our goals this year is to develop the principles for the reforestation of line corridors that are no longer used.

Before last Midsummer's Day, we carried out a safety campaign aimed at the population to remind them how to act safely near the lines. We have seen the benefits of giving safety information to people as we have received feedback from them on events that have occurred due to non-compliance with safety requirements or the storage of materials in the line protection zone. Giving information on safety is also planned in the ESG action plan for 2021.

When managing the reorganisation of the energy system, Elering wants to create value in the area of the smart grid in addition to the role of the power grid and gas network system operator by developing an energy-centric IT infrastructure.

In 2020, we launched a project for the development of a new client portal to offer consumers and producers a solution with good user experience to monitor their energy consumption and production and to carry out analyses and comparisons. The portal also includes renewable energy data that enables verified monitoring of the consumption of renewable energy and thereby helps private persons and companies act more responsibly.

Elering continued to lead the regional flexibility market platform. Flexibility services allow consumers to offer their consumption capability on the market as an equivalent service to power generation, as a result of which less energy has to be produced.

In order to comply with the requirements established for personal data processing, we updated the information on personal data processing, the terms and conditions of using cookies and visitor notifications on the websites and customer portals of Elering last year. We also developed and implemented a privacy policy in the company.



Clients

Elering has carried out a customer satisfaction survey since 2018. The survey is carried out once a year in order to map the satisfaction of various client segments in relation to the services concerning them that are provided by Elering. According to the results of the survey, Elering will improve its services and processes in order to increase customer satisfaction. The survey for 2020 was carried out from 22 September to 29 October and included clients of the balancing service, connection service and network service. 948 renewable energy clients responded to the survey, which is around a quarter of the clients in this segment. The customer satisfaction index improved somewhat in the network service segment and weakened in the balancing service segment, while satisfaction remained the same in other segments compared to 2019.

Client segments

Network service

1. Major electricity producers
2. Electricity consumers
3. Electricity network operators
4. Major gas consumers
5. Gas network operators

Network connection

1. Major electricity producers
2. Electricity consumers
3. Electricity network operators
4. Major gas consumers
5. Gas network operators
6. Major gas producers

Balancing service

1. Electricity balance responsible parties
2. Gas balance responsible parties
3. Regulation service providers, aggregators

Payment of renewable energy subsidies and management of certificates of origin

1. Microproducers (up to 200 kW producers) and all solar panel producers
2. Producers, major producers using other technology
3. Electricity sellers
4. Electricity consumers
5. Biomethane producers
6. Statistics traders (incl. liquid fuel sellers)





In order to develop energy markets, Elering regularly organises the power and gas councils, the biomethane council, the council of connection and network service clients and the roundtable on synchronisation with Continental Europe for market participants.

Simplification of the connection process for persons who wish to join the transmission network can be considered a major achievement of last year. We launched the e-Gridmap 2.0 free connection capacity application, which gives the initial cost of the connection in seconds. The new smart tool for quick calculation of the cost of connecting to the power grid is also helpful for intermediaries of business contacts (Enterprise Estonia, foreign embassies) and for the development and planning specialists of municipalities and cities in planning future development projects. The application gives producers of renewable energy as well as energy-intensive industrial or other development projects information on the power transmission network and the cost of connection thereto in just a couple of seconds anywhere in Estonia.

As planning green or carbon neutral production has never been as easy as it is now, the application also contributes to the implementation of the European Green Deal in Estonia and will certainly make Estonia more attractive to renewable energy producers from the whole of Europe. We hope that we are an example and a testing environment with the innovative initiative of Estonia for developers elsewhere in Europe because time is also a critical factor in the performance of the European Green Deal. We have also carried out workshops for exchanging knowledge about the development of the application for other European system administrators.

We also developed and launched a portal aimed at clients of the network service, landowners and contractors in order to make accessing and exchanging necessary information easier for them.

Management

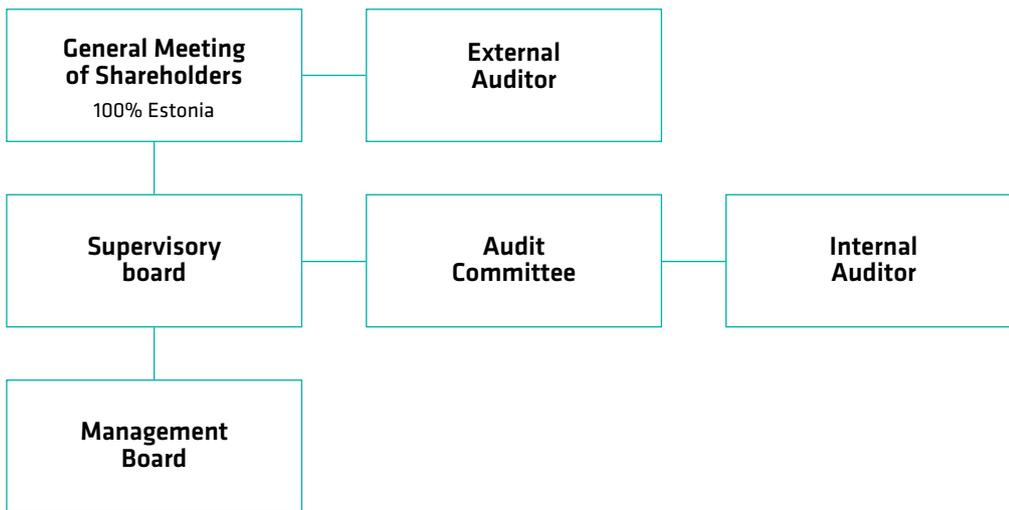
Elering's strategy has largely proceeded from the climate policy dimension as one of the trends, which has a long-term impact on Elering's activities.

Corporate governance

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

Elering is committed to following the Corporate Governance Code and wishes to grow further in this area. We consider this a prerequisite to achieving our strategic goals and shaping our organisational culture. The Corporate Governance Code has been implemented in Elering in such a manner that all employees work towards the achievement of the company's goals. A detailed report regarding compliance with the CGC in 2020 is accessible on Elering's website: elering.ee/en/investors#tab2

Corporate governance structure



General meeting of shareholders

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

The owner is represented at the general meeting by the Minister of Economic Affairs and Infrastructure, who was Taavi Aas in 2020.

One general meeting was held during the year on 1 July 2020, which approved the annual report and the distribution of profit for 2019.

Supervisory board

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

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

Supervisory board membership and remuneration

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

Four annual and two electronic meetings were held in 2020. The supervisory board approved the annual report for 2019 before submitting it to the annual general meeting of shareholders for approval and approved Elering's strategy for 2021-2025 and the 2021 business and investment budgets. At its meetings, the supervisory board usually addresses issues arising from regulations and laws, financial issues, internal control and other important issues concerning the main activity of Elering.

In 2020, the supervisory board of Elering had the following members:

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

attended four regular meetings and participated in four electronic votes.

- Toomas Põld (entrepreneur) from 22 May 2017 until 22 May 2020, attended one regular meeting and participated in one electronic vote.
- Janek Stalmeister (entrepreneur) from 22 May 2020, attended three regular meetings and participated in three electronic votes.

The remuneration including taxes paid to the members of the supervisory board of Elering AS in 2020 was 77.1 thousand euros (2019: 71.8 thousand euros). There is no provision for the payment of severance benefits or other benefits to members of the supervisory board. Toomas Põld left the supervisory board in 2020 and Janek Stalmeister was elected a new member of the supervisory board. The authorities of the supervisory board are valid until 22 May 2023.

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

Management board

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

Composition and remuneration of the management board

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

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

Throughout 2020, the management board of Elering consisted of three members:

- Taavi Veskimägi as the chairman of the management board performs, among other things, the daily responsibilities of Elering's CEO, i.e. manages and represents the company, ensures that activities are in compliance with contracts and relevant laws, organises the work of the management board, coordinates the development of the company's strategy and leads its implementation.
- Riina Käi, member of the management board who also performs the role of the CFO, manages Elering's financial activities, the area of renewable energy and the areas of administration and information technology.
- Kalle Kilik as a member of the management board performs, among other things, the daily tasks of the head of asset management.

According to the articles of association, a member of the management board may be remunerated only on the basis of a management board member contract previously concluded with the member. A member of the management board may also be paid additional remuneration, taking into consideration their performance, of up to four months' regular remuneration. A bonus can be paid to a member of the management board on the basis of annual results, or on a different basis, based on a supervisory board decision. The remuneration of the members of the

management board is fixed and is stipulated in the contract concluded with the management board member. Elering has no long-term bonus schemes in place. A member of the management board may only be paid severance benefits upon their removal at the initiative of the supervisory board before the term of their authority has expired in the amount of up to three months' remuneration.

The remuneration (including taxes) paid to members of the management board of Elering AS in 2020 was 506.6 thousand euros (2019: 494.7 thousand euros).

Prevention of conflicts of interest

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

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

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

Members of the management board must declare any related parties, and the amounts of transactions executed with said related parties are disclosed in the annual report. Elering did not conclude any

transactions with members of the management board or the parties related to them in 2020 (no transactions were concluded with members of the management board or the parties related to them in 2019).

Audit committee

The supervisory board elects the audit committee, which has up to five members and is responsible for exercising supervision over risk management, internal control and financial reporting. The audit committee advises the supervisory board in the area of accounting, financial reporting, verification of the independence of the sworn auditor, risk management, internal control and audit, exercising supervision and preparation of the budget as well as the legality of activities.

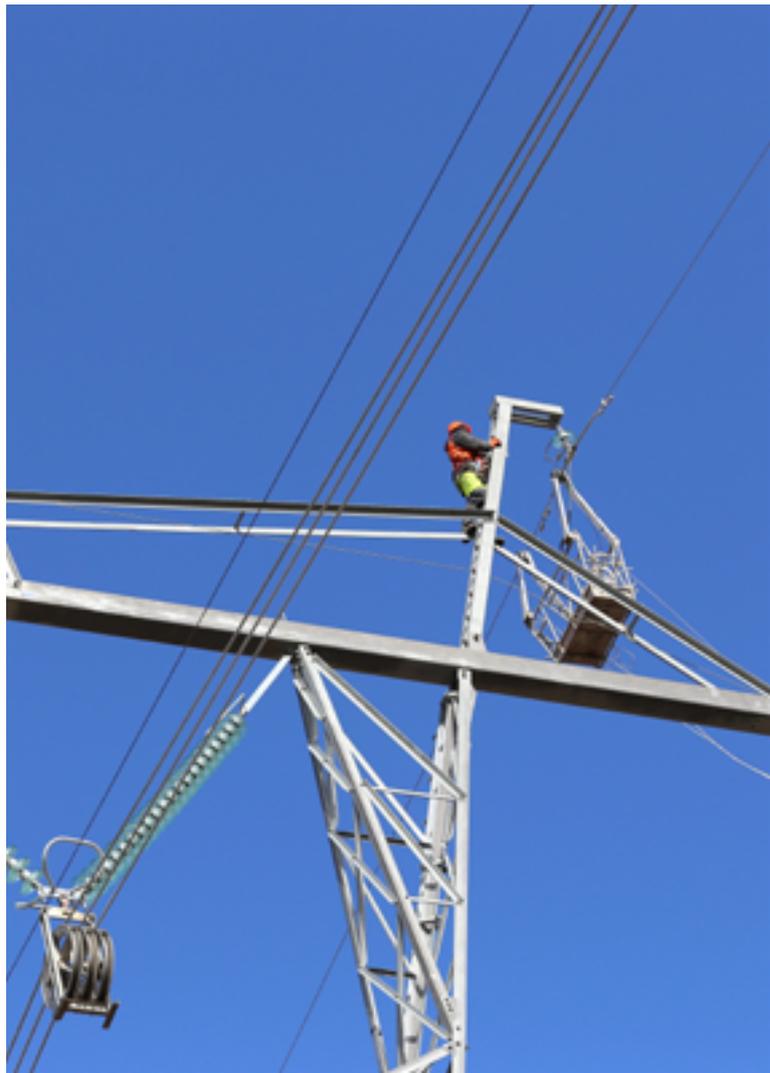
Members of the committee are elected for a term of three years and the members elect a chairman from among themselves who organises the activities of the audit committee. The chairman of the supervisory board may not hold the position of the chairman of the audit committee. The remuneration paid to the members of the audit committee for participation in the committee in 2020 was 4.2 thousand euros (5.0 thousand euros in total in 2019). The members of the audit committee in 2020 were:

- Timo Tatar (Deputy Secretary General for Energy and Mineral Resources, Ministry of Economic Affairs and Communications);
 - Indrek Kasela (entrepreneur);
 - Tarmo Porgand (Deputy Head of the State Assets Department, Ministry of Finance) from 22 May 2017; and
 - Janek Stalmeister (entrepreneur) from 25 June 2020.
- The audit committee held four meetings in 2020: on 23 March, 17 June, 16 September and 9 December (four times in 2019). The audit committee discussed the following internal audits that were carried out: physical security and continuity of power as a vital service. It also reviewed the audit plan, assessed the work of the external auditor, analysed the topics of internal control and financial reporting. The internal audit service is outsourced from the external service provider. The internal auditor was paid 30.1 thousand euros for their services in 2020 (2019: 11.7 thousand euros).

Cooperation between the management board and the supervisory board

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

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



The management of the company is governed by relevant laws, the articles of association, the decisions of and the goals set by the general meeting and the supervisory board meetings.

Disclosure of information

The website of Elering (www.elering.ee) presents a separate list of data subject to disclosure pursuant to legislation. The website presents annual reports, financial results, performance indicators, an overview of principal activities, the structure of Elering, a summary of its strategy, news and notices as well as other information necessary for investors and the public. The website is also available in English. The information (including news and notices) on the website is constantly updated.

Financial reporting and auditing

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

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

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

In spring 2017, a new procurement was carried out to find an auditor for 2017-2021. The tender was awarded to AS PricewaterhouseCoopers. In carrying out the external audit, the company complies with the laws of the Republic of Estonia, international

auditing standards and the risk management rules of the audit firm, including the European Union Regulation on audit activities that entered into force in 2016. In 2020, Elering paid 14.2 thousand euros for the audit of the annual report on the basis of the submitted invoices (2019: 12.3 thousand euros).

In addition to the audit of the financial statements, the external auditor has provided the following services during 2020:

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

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

Risk management and risks

In connection with Elering's obligation to provide vital services, i.e. to provide power grid and gas network services via the transmission network throughout the country, risk management plays an important role in the management of the company and its scope is broader than that of an ordinary company.

The objective of risk management at Elering is to reduce the risks related to the organisation's activities to a level acceptable to the company. The company uses the COSO ERM (Enterprise Risk Management) risk management framework for this purpose.

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

Risk management in the company

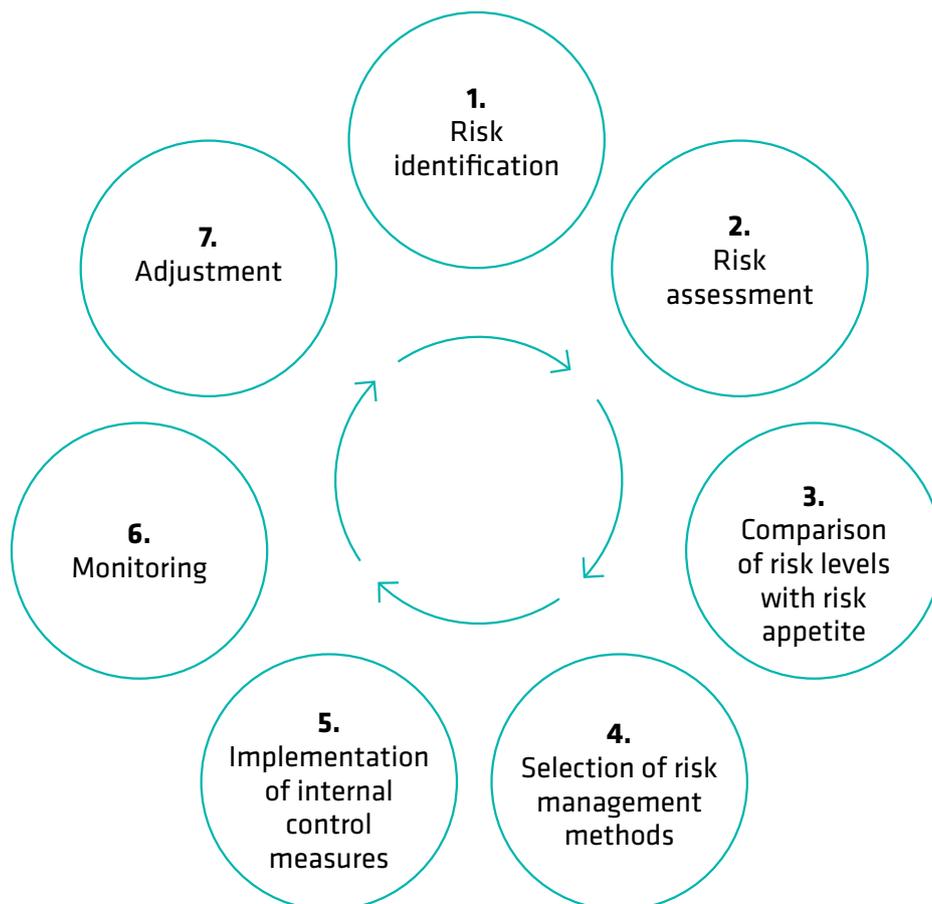
Risk management is integrated in the company's strategic and daily management.

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

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

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

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



1. Identification of risks – the scenarios that may threaten the achievement of objectives are described and divided into categories.

2. Risk assessment – the probability and impact of a risk is analysed and the level of the risk is determined with the relevant matrix on the basis of the analysis.

3. Risk levels are compared to the company's risk appetite. The company has defined the level of risk appetite it is prepared to take without applying any additional risk management measures. Accepting residual risks of a high and very high level is not considered justified by the company because of its special role in society, which is the provision of a vital service.

4. Risk management methods are selected according to the comparison of the risk described in the previous section with the company's risk appetite. If the risk level in the case of a new risk is higher than the company's risk appetite, the company will seek suitable mitigation methods that may be avoidance of the risk or reduction of the risk. If the risk level is low or medium, then accepting the risk may also be a method.

5. Internal control measures ensure the prevention and timely detection of and rapid response to the events that obstruct the achievement of the company's goals and the minimisation of the damage caused.

6. Monitoring means the collection and analysis of the data of internal control measures and reporting them to the managing bodies.

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

In 2020, the company made the following changes in order to raise the risk management level:

- The position of CRO was established for the overall organisation and development of risk management. The CRO also manages and organises the work of the risk committee
- Five working groups were set up inside the risk committee, which analyse the specific topics of their areas:
 - working group on energy system risks
 - working group on financial risks
 - working group on operational risks
 - working group on IT risks
 - working group on compliance risks

In previous years, the analysis of area-specific topics was the task of risk managers instead of working groups. The purpose of setting up working groups is to involve more collective knowledge.

The following division of residual risks between risk levels was revealed as a result of the risk assessment:

Risk category/ risk level	Low	Average	High	Very high	Total
IT risk	0	2	0	0	2
Energy system operation risk	4	5	0	0	9
Financial risk	5	3	0	0	8
Compliance risk	4	2	0	0	6
Activity risk	5	5	0	0	10
Total	18	17	0	0	35

The company's risk tolerance does not allow it to accept residual risks of a high and very high level. As the table indicates, the mitigation measures of all risks have been assessed as adequate, which is why all risks have been taken to the permitted level.

Several changes were made to the risk register over the year: Similar risks were consolidated, risks that were no longer topical were eliminated and new risks were added. These new risks are as follows:

- risk of delay in the synchronisation of the power system
- risk related to the pandemic

- risk of a breach of data protection requirements
- risk of a breach of requirements for issue of certificates of origin
- risk of insufficient development of energy markets.

Risk management related to vital service

Risk management related to vital services is based on the requirements and principles set forth in the Emergency Act and its sub-acts.

Each provider of vital services must prepare a risk analysis related to the vital service and a business continuity plan.

A risk analysis covers:

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

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

The risk management of a vital service has a lot in common with the risk management of the company (identification of risks, application of mitigating measures), but there is also a significant difference:

- The focus of the risk management of vital services is on the uninterrupted provision of vital services to the clients of the energy network and, in the event of disruptions, the recovery of the services as quickly as possible.
- The objective of the company's risk management is to achieve the objectives of the company, not all of which are related to network service clients.

The management board is convinced that risks are well managed for both the company and the customers of vital services as a result of risk management.

Equal treatment

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

In order to ensure equal treatment, Elering has established internal procedures and, based on the legislation of the Republic of Estonia and of the European Union (including network codes), has compiled various standard conditions, methodologies and other rules that have been published on the website of the company and approved by the Estonian Competition Authority.

Ethics and anti-corruption activities

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

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

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

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

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

- **Reputational risk**

Elering's functions include several activities whose impact extends outside ordinary business activities. We must guarantee functioning and efficient electricity and gas markets with our activities, arrange the collection and payment of renewable energy support, want to have a say in shaping the energy and climate policies of the state, etc. All of this can only be done if our reputation is impeccable.

- **Financial risk**

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

- **Loss of internal trust**

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

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

Selleks, et loetletud negatiivseid tagajärgi vältida, tuleb korruptsiooni tekkimist ennetada.

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

- **Bribery/income derived from corrupt practices**

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

- **Conflicts of interest**

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

- **Support and donations**

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

- **Gifts and hospitality**

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

- **Obligation to and procedure for reporting suspicions**

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

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

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

The business software of the company provides accurate accounting of all assets, including those that are in use but whose book value is zero. Assets can be written off only by preparing the respective record that must be approved by the owner of the assets, their line manager and the member of the management board responsible for the area.

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

No cases of corruption were identified in Elering in 2020 or 2019 and the management board is convinced that the measures taken to prevent corruption also help keep the risk of corruption minimal in the future.

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

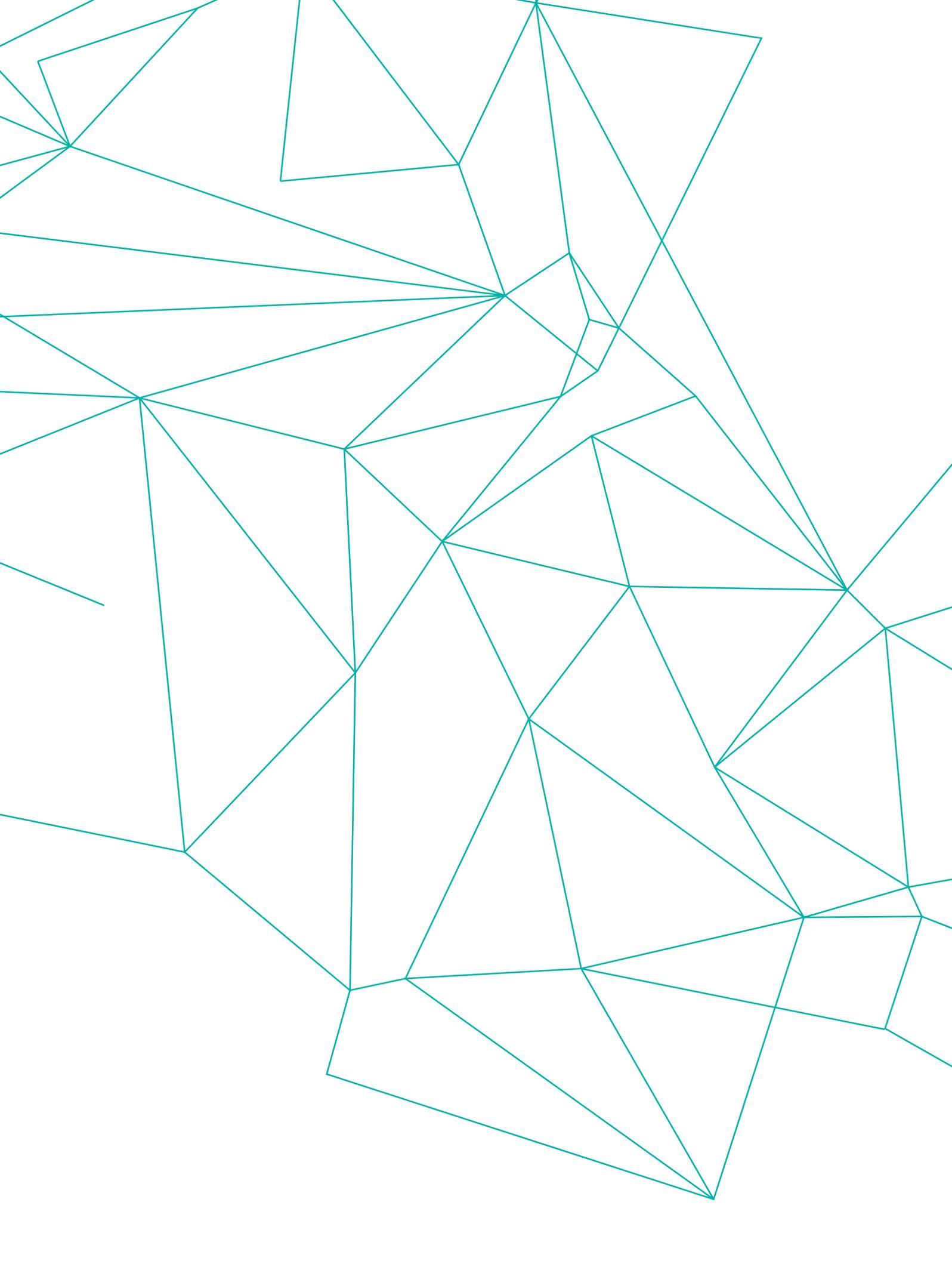


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Statement of financial position

In thousands of euros

Note 31.12.2020 31.12.2019

ASSETS

Current assets

Cash and cash equivalents	7	50,619	42,347
Investments in equity instruments	2	899	1,900
Trade and other receivables	8	38,586	39,025
Inventories	9	3,535	3,687
Total current assets		93,639	86,959

Non-current assets

Property, plant and equipment	10	961,285	919,956
Intangible assets	11	20,812	17,441
Total non-current assets		982,097	937,397

TOTAL ASSETS		1,075,736	1,024,356
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LIABILITIES

Current liabilities

Borrowings	12	10,565	10,577
Trade and other payables	13	28,448	46,670
Total current liabilities		39,013	57,247

Non-current liabilities

Borrowings	12	322,389	332,751
Deferred income	14	327,366	246,091
Total non-current liabilities		649,755	578,842

TOTAL LIABILITIES		688,768	636,089
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EQUITY

Share capital	15	229,890	229,890
Revaluation reserve	2	-1,047	-46
Statutory reserve capital	15	16,330	14,686
Retained earnings	15	141,795	143,737
TOTAL EQUITY		386,968	388,267

TOTAL LIABILITIES AND EQUITY		1,075,736	1,024,356
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The notes on pages 52 to 95 are an integral part of these financial statements.

Statement of comprehensive income

<i>in thousands of euros</i>	<i>Note</i>	<i>2020</i>	<i>2019</i>
Revenue	16	137,068	142,115
Other income	17	5,327	13,105
Goods, raw materials and services	18	-53,255	-61,700
Other operating expenses	19	-5,445	-5,271
Staff costs	20	-10,970	-9,559
Depreciation and amortization	10,11	-40,123	-36,913
Operating profit		32,602	41,777
Financial income	21	2	62
Financial costs	21	-2,338	-2,183
Profit before income tax		30,266	39,656
Income tax expense	15	-4,964	-6,769
Profit for the year		25,302	32,887
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Changes in the fair value of equity investments at fair value through other comprehensive income	2	-1,001	-46
Total comprehensive income for the year		24,301	32,841

The notes on pages 52 to 95 are an integral part of these financial statements.

Cash flow statement

in thousands of euros

	Note	1.01.2020- 31.12.2020	1.01.2019- 31.12.2019
Cash flows from operating activities			
Profit before income tax		30,266	39,656
Adjustments for:			
• Profit from sale of property, plant and equipment	17	-100	-78
• Depreciation, amortisation and impairment	10,11	40,123	36,913
• Dividends received from long-term financial investments	17	-873	-94
• Government grants expended and amortised	17	-2,978	-1,359
• Interest expenses	21	2,287	2,177
• Interest income	21	-2	-62
Operating cash flows before working capital changes		68,723	77,153
• Changes in inventories	9	152	249
• Changes in receivables and prepayments related to operating activities	8	1,707	-4,136
• Changes in liabilities and prepayments related to operating activities	13	-1,155	4,098
• Changes in deferred income from connection and other service fees	14	-583	2,260
Changes in working capital		121	2,471
Income tax paid	15	-6,531	-5,201
Dividends received	17	873	94
Interest paid	13,21	-2,319	-2,282
Interest received	8, 21	2	62
Total cash flows from operating activities		60,869	72,296
Cash flows from investing activities			
Purchases of property, plant and equipment and intangible assets	10,11, 13	-100,214	-117,553
Grants to acquire non-current assets	14	59,477	51,657
Proceeds from sale of property, plant and equipment	10,17	264	125
Congestion fees received	8,13,14	24,053	13,091
Total cash flows used in investing activities		-16,420	-52,679
Cash flows from financing activities			
Repayments of bank loans	12	-10,558	-10,558
Repayments of lease liabilities	12	-19	-28
Dividends paid	15	-25,600	-29,400
Total cash flows used in financing activities		-36,177	-39,986
Net increase/decrease in cash and cash equivalents		8,272	-20,369
Cash and cash equivalents at the beginning of the period	7	42,347	62,716
Cash and cash equivalents at the end of the period	7	50,619	42,347

The notes 52 to 95 are an integral part of these financial statements.

Statement of changes in equity

in thousands of euros

	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Retained earnings</i>	<i>Revaluation</i>	<i>Total</i>
		<i>capital</i>		<i>reserve</i>	
Balance as at 1.01.2019	229,890	13,754	141,182	0	384,826
Profit for the year	0	0	32,887	0	32,887
Other comprehensive income for financial year	0	0	0	-46	-46
Total comprehensive income for the year	0	0	32,887	-46	32,841
Transactions with owners:					
Transfers to statutory reserve capital	0	932	-932	0	0
Dividends paid	0	0	-29,400	0	-29,400
Total transactions with owners	0	932	-30,332	0	-29,400
Balance as at 31.12.2019	229,890	14,686	143,737	-46	388,267
Profit for the year	0	0	25,302	0	25,302
Other comprehensive income for financial year	0	0	0	-1,001	-1,001
Total comprehensive income for the year	0	0	25,302	-1,001	24,301
Transactions with owners:					
Transfers to statutory reserve capital	0	1,644	-1,644	0	0
Dividends paid	0	0	-25,600	0	-25,600
Total transactions with owners	0	1,644	-27,244	0	-25,600
Balance as at 31.12.2020	229,890	16,330	141,795	-1,047	386,968

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

The notes on pages 52 to 95 are an integral part of these financial statements.

Notes to the Financial Statements

Note 1

Elering AS and its operations

The financial statements of Elering AS (hereinafter “Elering”) for the year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. Elering is incorporated in the Republic of Estonia and its registered address is Kadaka tee 42, 12915 Tallinn, Estonia. The principal business activity of Elering is electricity and natural gas transmission in the Republic of Estonia.

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

The sole shareholder of Elering is the Republic of Estonia.

The Management Board has approved the financial statements of Elering on 8 March 2021. Pursuant to the Commercial Code of the Republic of Estonia, the annual report shall be presented for approval to Elering’s Supervisory Board and the General Meeting of Shareholders.

Note 2

Summary of significant accounting policies

Bases of preparation

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

Segment reporting

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

Functional and presentation currency

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

Foreign currency translations

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

Cash and cash equivalents

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

Financial assets

Classification

Elering classifies its financial assets in the following measurement categories:

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

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

Recognition and derecognition

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

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

Measurement

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

Debt instruments

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

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

As at 31 December 2020 and 31 December 2019, the following financial assets of Elering were classified in this category:

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

Equity instruments

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

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

The following equity instruments of Elering are measured at FVOCI:

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

Impairment

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

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

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

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

Prepayments

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

Inventories

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

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

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

Property, plant and equipment

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

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

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

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

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

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

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

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

Intangible assets

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

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

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

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

Personal right of use

Payments made for rights of superficies and servitudes meeting the criteria for recognition as intangible assets are recognised as intangible assets. The costs related to rights of use of land are depreciated according to the contract period, not exceeding 100 years.

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

	<i>Useful lives in years</i>
Software licences	3-5 years
Personal rights of use	50-100 years

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

Impairment of non-financial assets

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

Leases

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

Financial liabilities

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

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

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

Provisions and contingent liabilities

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

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

Development costs

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

Share capital

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

Dividends

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

Statutory reserve capital

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

Revenue recognition

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

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

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

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

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

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

Natural gas inter-transmission system operator compensation mechanism. The gas zone connecting Estonian and Latvian gas systems started operating on 1 January 2020, which also brought changes in the charges for the provision of transmission services with the gas network. Until then, the charge for the transmission service had been collected only on the volume of gas exiting the transmission system and the payers of the transmission service charge have been clients connected to the transmission network on the basis of network contracts, mostly distribution networks. As of January, some of the transmission service charges move to the gas network input points. Such charges for entry points have been harmonised in three countries: Estonia, Finland and Latvia. This means that the entry of gas from the Finnish, Estonian or Latvian entry points costs the same and the gas moves within the three countries without additional transmission charges.

In order to ensure the independence of transmission revenue from the entry point preferred by market participants, Estonian, Finnish and Latvian transmission network operators entered into a mutual compensation agreement (gas ITC). The compensation agreement stipulates that the transmission revenue collected from the entry points of three countries is subject to distribution between the three countries proportionally to their gas consumption. This ensures the relative stability of the entry revenue of the transmission network operators, regardless of which entry point the gas market prefers in a specific period of time. Elering recognises said amounts as net income under "Revenue" within 'Other electricity and gas network services'.

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

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

Congestion income

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

Types of the auctions:

1. Proceeds from the day-ahead market auction are essentially the difference between the exchange prices of Estonia and neighbouring price regions of the Nord Pool power exchange every hour. The power exchange collects the aforementioned price difference through its trading mechanism and transfers it to respective transmission system operators.
2. An auction of long-term transmission capacity, which is aimed at reducing the inter-regional price risk resulting from a lack of transmission capacity. Estonian and Latvian system operators Elering AS and AS Augstprieguma tikls offer forward transmission rights (FTRs) (until 31 December 2018, Physical Transmission Rights (PTRs)) on an annual, quarterly and monthly basis. Market participants that have bought an FTR capacity have the right to the hourly auction proceeds of the day-ahead market for the same volume. Auctions are organised and the proceeds distributed by the Single Allocation Platform (SAP) under the authority of the pan-European System Operators operated by the Joint Allocation Office (JAO). According to the regulators' decision, no long-term auctions are scheduled at the Finnish border for 2020 and 2019.

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

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

Accounting for government grants

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

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

Subsidies to electricity producers

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

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

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

Subsidies to biogas producers

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

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

Employee benefits

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

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

Income tax

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

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

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

Tax rates in Estonia

The following tax rates have been valid through 2020:

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

Note 3

Critical accounting estimates and judgements in applying accounting policies

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

Useful lives of property, plant and equipment

The estimated useful lives of items of property, plant and equipment (Note 10) are based on management's estimates regarding the period during which the asset will be used. The estimation of useful lives is based on historical experience and takes into consideration production capacity and physical condition of the assets. In the reporting period, depreciation amounted to EUR 37,960 thousand (2019: EUR 35,249 thousand). If depreciation rates were increased/decreased by 10%, the depreciation charge for the year would increase/decrease by EUR 3,796 thousand (2019: EUR 3,525 thousand).

Congestion income

According to the accounting principles described in Note 2, timing of recognition of congestion income depends on the purposes for which the proceeds is used – for constructions of new interconnection capacities (in which case it is recognised as deferred income, until such construction is completed) or reduction of current network tariffs (in which case it is recognised in profit and loss). The purposes are outlined in the Article 16 of European Parliament and Council Regulation (EC) No 714/2009. Determining the appropriate accounting requires management judgment. The management has assessed that since 1 July 2014 congestion income should be used for constructions of new interconnection capacities. In 2020 Elering recognised deferred congestion income in the amount EUR 25,320 thousand (2019: EUR 12,708 thousand); see also Note 14. Amounts accrued since 1 July 2014 are used to finance investments in network that will increase the cross-border interconnection capacity, i.e. the construction of the third electricity transmission line between Estonia and Latvia.

Note 4

New accounting pronouncements

Adoption of new or revised standards and interpretations

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

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. The amendment did not have a significant effect on the disclosures in the financial statements of Elering.

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. The amendment did not have a significant effect on the disclosures in the financial statements of Elering.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2020 that would have a material impact to Elering.

New or revised standards and interpretations

Certain new or revised standards and interpretations have been issued that are mandatory for the Elering's annual periods beginning on or after 1 January 2021, and which Elering has not early adopted:

Classification of liabilities as current or non-current – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2022).

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

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2023).

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.

Elering considers the impact of the amendments to be insignificant.

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

Note 5

Financial risk management

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

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

Financial assets

<i>in thousands of euros</i>	<i>31.12.2020</i>	<i>31.12.2019</i>
Financial assets at amortised cost		
Cash and cash equivalents (Note 7)	50,619	42,347
Trade and other receivables (Note 8)	38,120	35,624
Total financial assets at amortised cost	88,739	77,971
Financial assets at fair value through other comprehensive income		
Investments in equity instruments (Note 2)	899	1,900
Total financial assets at fair value through other comprehensive income	899	1,900
Total financial assets	89,638	79,871

Financial liabilities

<i>in thousands of euros</i>	<i>31.12.2020</i>	<i>31.12.2019</i>
Liabilities at amortised cost		
Trade and other payables (Note 13)	23,069	41,602
Borrowings (Note 12)	332,954	343,328
Total financial liabilities	356,023	384,930

Credit risk

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

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

<i>in thousands of euros</i>	31.12.2020	31.12.2019
Cash and cash equivalents (Note 7)	50,619	42,347
Trade and other receivables (Note 8)	38,120	35,624
Total exposure of assets to credit risk in the statement of financial position	88,739	77,971

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

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

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 12 months before 31 December 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. Elering has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis described above, the loss allowance as at 31 December 2020 and 31 December 2019 was determined immaterial. While cash and cash equivalents and bank deposits are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial as at 31 December 2020 and 31 December 2019.

Credit risk concentration

Elering is exposed to concentrations of credit risk. Management monitors and discloses concentrations of credit risk by reports, which list exposures to counterparty with aggregated balances in excess of 5% of Elering's equity. On 31.12.2020, Elering had one counterparty (31.12.2019: one counterparty) with an aggregated receivables balance of EUR 19,646 thousand (31.12.2019: EUR 18,016 thousand) or 63% of the total amount of accounts receivable (31.12.2019: 64%). In 2020 as well as in 2019 the major part of receivables was to the wholly state-owned company who is monopolist in distribution network. Therefore, Management believes that the credit risk arising from the concentration of receivables is not significant.

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

Market risk

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

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

Electricity price risk

For compensating network losses, Elering buys electricity primarily in the electricity exchange. The average electricity exchange price of the last period is used for calculation of network tariffs. In a situation where the exchange price differs from the one used for calculation of tariffs, the difference is not compensated in the next tariff period. Elering does not expect the risk of potential loss to be high and therefore it does not use any financial instruments to mitigate this risk.

Price risk of natural gas

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

Currency risk

Currency risk is the risk that in the future fair value of financial instruments of cash flow will fluctuate due to changes in currency rates. As virtually all of Elering's transactions and balances are denominated in euros, Elering is not exposed to significant currency risk. Elering established separate limits for open currency positions depending on the currency and duration. Transactions in other currencies are insignificant; there were no financial instruments denominated in other currencies as of 31.12.2020 and 31.12.2019.

Interest rate risk

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

As of 31.12.2020 borrowings with fixed interest rate constituted 67% (as of 31.12.2019: 65%) of all borrowings carried at amortised cost; the remaining 33% (as of 31.12.2019: 35%) of the above-mentioned liabilities were long-term bank loans with a floating interest rate carried at amortised cost. More detailed information borrowings items is set out in Note 12.

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

As at 31.12.2020 borrowings with a floating interest rate totalled EUR 108,379 thousand (as at 31.12.2019: EUR 118,920 thousand).

If, as at 31.12.2020, the interest rates of Elering's borrowings, that are exposed to the cash flow interest rate risk, had been 50 basis points (2019: 50 basis points) higher with all other variables held constant, profit for the year would have been EUR 542 thousand (2019: EUR 595 thousand) lower.

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

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

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Elering is exposed to daily calls on its available cash resources. Elering's objective is to obtain a stable funding base primarily consisting of amounts due to banks and bonds. Liquidity risk is managed by the Finance Department of Elering by monitoring the liquidity position and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions.

The table below shows liabilities on 31.12.2020 and 31.12.2019 by their remaining contractual maturity. The amounts disclosed in the maturity table are contractual undiscounted cash flows. The cash flows for borrowings subsequent periods are calculated on the basis of loan interest rates effective at balance sheet date.

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

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

* including interest

The maturity analysis of financial liabilities on 31.12.2019 is as follows:

<i>in thousands of euros</i>	<i>On demand and less than 1 month</i>	<i>From 1 to 12 months</i>	<i>From 12 months to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Liabilities*					
Trade and other payables (Note 13)	39,682	605	0	0	40,287
Borrowings (Note 12)	0	12,721	275,589	66,653	354,963
Total future payments	39,682	13,326	275,589	66,653	395,250

* including interest

Elering holds its money in bank deposits. As of 31.12.2020, Elering had cash and cash equivalents EUR 50,619 thousand (as of 31.12.2019: EUR 42,347 thousand). See further information in Note 7.

Capital Management

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

According to the widespread industry practice, Elering uses the equity to asset ratio for monitoring Elering's capital structure, arrived at by dividing total equity by total assets as of the balance sheet date. Elering's target has been to preserve the ratio of equity to assets at 35% - 45%. The equity to asset ratio is presented in the table below:

<i>in thousands of euros</i>	31.12.2020	31.12.2019
Equity	386,968	388,267
Total assets	1,075,736	1,024,356
Equity to asset ratio	36%	38%

Fair Value of Financial Instruments

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

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

- Level 1.** quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2.** inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3.** inputs for the asset or liability that are not based on observable market data.

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

Financial assets carried at amortised cost

Carrying amounts of trade and other financial receivables approximate their fair values (level 3).

Liabilities carried at amortised cost

Carrying amounts of trade and other payables approximate their fair values (level 3).

The estimated fair value of bonds rate is determined using their quoted price (level 1).

The estimated fair value of non-current borrowings with a floating interest rate (level 3) is determined using valuation techniques, based on expected cash flows discounted at current interest rates (0.36%) for new instruments with similar credit risk and remaining maturity.

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

<i>in thousands of euros</i>	<i>Fair value</i>	<i>Carrying amount</i>
Bonds	228,922	224,561
Bank loans	105,683	108,379

The fair value analysis of borrowings on 31.12.2019 is as follows:

<i>in thousands of euros</i>	<i>Fair value</i>	<i>Carrying amount</i>
Bonds	227,626	224,376
Bank loans	115,032	118,920

Note 6

Segment reporting

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

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

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

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

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

The internal reporting provided to the Management Board has been prepared using the accounting policies and presentation consistent with those used in preparation of the financial statements. The income taxes are allocated to regulated electricity segment only, as dividends are paid out from this activity.

The Management Board assesses the performance of the operating segments based on revenue, EBITDA (net profit plus income taxes, net finance cost, and depreciation and amortization) and net profit.

Elering is domiciled in Estonia and its non-current assets are also located in Estonia. In the reporting period, Elering had one counterparty with an aggregated revenue more than 10% of Elering's revenue. The largest customer's revenue is attributable to the electricity transmission segment and it amounts to EUR 73,678 thousand in the reporting period (2019: EUR 76,476 thousand).

Revenue division by geographical location of customers is disclosed below.

Segment reporting
1.01.2020-31.12.2020

in thousands of euros

	<i>Regulated electricity network services</i>	<i>Regulated gas network services</i>	<i>Balancing services</i>	<i>Other</i>	<i>Transactions between segments</i>	<i>Total</i>
Revenue from external customers	84,305	18,886	27,838	6,039	0	137,068
Revenue between segments	-24	75	-51	0	0	0
Total revenue	84,281	18,961	27,787	6,039	0	137,068
Other operating income	0	0	0	5,327	0	5,327
Total income	84,281	18,961	27,787	11,366	0	142,395
Goods, raw materials and services	-22,616	-3,407	-26,697	-535	0	-53,255
Other operating expenses and staff costs	-9,651	-4,124	-1,046	-1,594	0	-16,415
EBITDA	52,014	11,430	44	9,237	0	72,725
Depreciation and amortization (Note 10, 11)	-30,038	-4,846	-117	-5,122	0	-40,123
Net financial income (costs) (Note 21)	-1,726	-136	-10	-464	0	-2,336
Income tax (Note 15)	-4,964	0	0	0	0	-4,964
Net profit	15,286	6,448	-83	3,651	0	25,302
Total assets	612,043	114,691	5,580	343,422	0	1,075,736
Total liabilities	314,322	49,458	4,471	320,518	0	688,769
Additions to property, plant and equipment (Note 10)	30,155	8,711	235	40,352	0	79,453
Additions to intangible assets (Note 11)	3,121	1,021	433	959	0	5,534

1.01.2019-31.12.2019

in thousands of euros

	<i>Regulated electricity network services</i>	<i>Regulated gas network services</i>	<i>Balancing services</i>	<i>Other</i>	<i>Transactions between segments</i>	<i>Total</i>
Revenue from external customers	89,910	12,323	33,746	6,136	0	142,115
Revenue between segments	-17	51	-34	0	0	0
Total revenue	89,893	12,374	33,712	6,136	0	142,115
Other operating income	0	0	0	13,105	0	13,105
Total income	89,893	12,374	33,712	19,241	0	155,220
Goods, raw materials and services	-26,027	-2,228	-32,559	-886	0	-61,700
Other operating expenses and staff costs	-9,447	-3,387	-955	-1,041	0	-14,830
EBITDA	54,419	6,759	198	17,314	0	78,690
Depreciation and amortization (Note 10, 11)	-29,306	-4,263	-86	-3,258	0	-36,913
Net financial income (costs) (Note 21)	-1,832	-48	-10	-231	0	-2,121
Income tax (Note 15)	-6,769	0	0	0	0	-6,769
Net profit	16,512	2,448	102	13,825	0	32,887
Total assets	607,872	107,422	5,159	303,903	0	1,024,356
Total liabilities	299,841	48,636	3,966	283,647	0	636,089
Additions to property, plant and equipment (Note 10)	16,578	24,550	0	82,528	0	123,656
Additions to intangible assets (Note 11)	2,218	987	227	2,703	0	6,135

Revenue by geographical location of customers, 1.01.2020-31.12.2020

in thousands of euros

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

Revenue by geographical location of customers, 1.01.2019-31.12.2019

<i>in thousands of euros</i>	<i>Regulated electricity network services</i>	<i>Regulated gas network services</i>	<i>Balancing services</i>	<i>Other</i>	<i>Total</i>
Estonia	84,049	11,756	15,950	3,465	115,220
Norway	0	0	0	0	0
Latvia	0	0	3,709	0	3,709
Finland	405	0	4,060	2,656	7,121
Lithuania	0	8	10,027	12	10,047
Russia	0	559	0	0	559
Other	5,456	0	0	3	5,459
Total revenue	89,910	12,323	33,746	6,136	142,115

Note 7

Bank accounts and deposits

<i>in thousands of euros</i>	31.12.2020	31.12.2019
Cash and cash equivalents	50,619	42,347

Bank accounts and deposits:

<i>in thousands of euros</i>	31.12.2020	31.12.2019
Bank accounts and deposits at banks:		
with Moody's credit rating of Aa2	2,107	24,120
with Moody's credit rating of Aa3	48,447	0
with Moody's credit rating of A3	65	18,227
Total bank accounts and deposits at banks	50,619	42,347

Note 8

Trade and other receivables

in thousands of euros

31.12.2020

31.12.2019

Trade receivables

Accounts receivable	30,963	28,295
▪ Incl. FTR-Limited auction receivables	1,284	18
▪ Incl. provision for doubtful receivables	-8	0

Other receivables

	7,157	7,329
▪ Incl. accrued compensation*	5,700	5,700
▪ Incl. subsidies due from electricity producers (Note 2,13)	0	1,354
▪ Incl. accrued ITC receivables	1,358	175
▪ Incl. security deposit	99	99
▪ Incl. interest receivables	0	1

Total financial assets within trade and other receivables in the statement of financial position

38,120 **35,624**

Tax receivables	88	3,248
▪ Incl. VAT receivable	0	2,645

Prepayments	378	153
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Total trade and other receivables **38,586** **39,025**

* According to the agreement between the Estonian and Finnish regulators "Cross-Border Cost Allocation Agreement between the Estonian Competition Authority and Energy Authority of Finland", Baltic Connector Oy will compensate Elering with EUR 5.7 million, which exceeds the amount provided by the European aid for the construction of the gas infrastructure. The given compensation has been recognised as receivable on 31.12.2019. The receipt of the compensation was expected in 2020. On 31.12.2020 the compensation is still recognised as receivable. Based on the best knowledge the compensation is expected to be collected in 2021.

Analysis by credit quality of trade receivables is as follows:

in thousands of euros

31.12.2020

31.12.2019

Accounts receivable not yet due

▪ Distribution networks	23,765	21,124
▪ Other clients	6,603	7,125

Total accounts receivable not yet due **30,368** **28,249**

Accounts receivable past due but not classified as doubtful

▪ 1 to 90 days overdue	595	46
------------------------	-----	----

Total accounts receivable past due but not classified as doubtful **595** **46**

Total accounts receivable past due and classified as doubtful

▪ 1 to 90 days overdue	5	0
▪ more than 90 days overdue	3	0

Total accounts receivable past due and classified as doubtful **8** **0**

Total accounts receivable past due **603** **46**

Provision for doubtful accounts receivable **-8** **0**

Total trade receivables **30,963** **28,295**

Under the accounting policies of Elering, receivables 90 days past due are usually written down in full.

The total amount of allowance for receivables 90 days past due is adjusted using prior experience of how many of the receivables classified as doubtful are collected in a later period and how many of the receivables not more than 90 days past due are not collected in a later period. Also other individual and extraordinary impacts like the global economic recession are taken into account during evaluation.

In the reporting period, write-downs of receivables in the amount of 8 thousand EUR have been made. As of 31.12.2019 Elering had not written down any receivables.

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

Note 9

Inventories

in thousands of euros

	31.12.2020	31.12.2019
Fuel oil	2,447	2,503
Natural gas reserves	344	477
Other materials at warehouses	744	707
Total inventories	3,535	3,687

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

Note 10

Property, plant and equipment

in thousands of euros

	Land	Buildings	Facilities	Machinery and equipment	Other Construction in progress	Total	
Property, plant and equipment at 01.01.2019							
Cost at 01.01.2019	6,138	49,520	510,041	512,341	515	83,461	1,078,555
Accumulated depreciation	0	-9,969	-178,545	-177,474	-215	0	-366,203
Carrying amount at 01.01.2019	6,138	39,551	331,496	334,867	300	0	712,352
Prepayments	0	0	20,729	14,991	0	0	35,720
Total property, plant and equipment at 01.01.2019	6,138	39,551	352,226	349,858	300	83,461	831,533
Movements 1.01.2019-31.12.2019							
Additions	4	0	0	0	0	153,929	153,933
Reclassified from construction in progress	0	2,591	96,977	31,669	18	-131,254	0
Recognition of right-of-use assets (Note 12)	0	0	0	61	0	0	61
Capitalised borrowing costs (Note 21)	0	0	0	0	0	218	218
Disposals and write-offs at carrying amount	-16	0	0	-30	0	0	-46
Prepayments	4	0	-19,905	-10,594	0	0	-30,495
Depreciation charge	0	-1,412	-14,267	-19,464	-105	0	-35,248
Total movements 01.01.2019-31.12.2019	-8	1,180	62,805	1,642	-87	22,893	88,423
Cost at 31.12.2019	6,126	51,889	604,622	538,425	488	106,354	1,201,550
Accumulated depreciation	0	-11,158	-190,417	-191,322	-276	0	-393,173
Carrying amount at 31.12.2019	6,126	40,731	414,205	347,103	212	0	808,377
Prepayments	4	0	824	4,397	0	0	5,225
Total property, plant and equipment at 31.12.2019	6,130	40,731	415,029	351,500	212	106,354	919,956
Movements 1.01.2020-31.12.2020							
Additions	76	0	0	0	0	80,384	80,460
Reclassified from construction in progress	0	704	20,343	22,835	16	-43,898	0
Capitalised borrowing costs (Note 21)	0	0	0	0	0	264	264
Disposals and write-offs at carrying amount	-27	0	0	-137	0	0	-163
Prepayments	5	0	-824	-453	0	0	-1,272
Depreciation charge	0	-1,439	-15,995	-20,420	-106	0	-37,960
Total movements 01.01.2020-31.12.2020	55	-735	3,523	1,824	-90	36,750	41,329
Property, plant and equipment at 31.12.2020							
Cost at 31.12.2020	6,179	52,541	611,275	557,404	504	143,100	1,227,904
Accumulated depreciation	0	-12,546	-192,722	-208,023	-382	0	-413,673
Carrying amount at 31.12.2020	6,179	39,995	418,554	349,381	122	0	814,231
Prepayments	9	0	0	3,944	0	0	3,953
Total property, plant and equipment at 31.12.2020	6,189	39,995	418,554	353,325	122	143,100	961,285

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

Additions to construction in progress during the financial year include capitalised borrowing costs of EUR 264 thousand (2019: EUR 218 thousand). The capitalisation rate is 0.76% (2019: 0.69%).

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

Note 11

Intangible assets

in thousands of euros

	<i>Acquired software and licenses</i>	<i>Right of use of land</i>	<i>Total</i>
Intangible assets at 01.01.2019			
Cost at 01.01.2019	11,778	4,235	16,013
Accumulated amortisation	-5,064	-187	-5,251
Carrying amount at 01.01.2019	6,714	4,049	10,763
Intangible assets not yet available for use	2,207	0	2,207
Total intangible assets at 01.01.2019	8,921	4,049	12,970
Movements 1.01.2019-31.12.2019:			
Additions	3,794	2,340	6,134
Amortisation charge	-1,610	-54	-1,664
Total movements 1.01.2019-31.12.2019	2,184	2,287	4,471
Intangible assets at 31.12.2019			
Cost at 31.12.2019	11,822	6,580	18,402
Accumulated amortisation	-5,862	-244	-6,106
Carrying amount at 31.12.2019	5,960	6,336	12,296
Intangible assets not yet available for use	5,146	0	5,146
Total intangible assets at 31.12.2019	11,105	6,336	17,441
Movements 1.01.2020-31.12.2020			
Additions	5,035	499	5,534
Amortisation charge	-2,092	-71	-2,163
Total movements 1.01.2020-31.12.2020	2,943	428	3,371
Intangible assets at 31.12.2020			
Cost at 31.12.2020	19,670	7,078	26,748
Accumulated amortisation	-7,671	-314	-7,985
Carrying amount at 31.12.2020	11,999	6,764	18,763
Intangible assets not yet available for use	2,049	0	2,049
Total intangible assets at 31.12.2020	14,048	6,764	20,812

Note 12

Borrowings

in thousands of euros

31.12.2020

31.12.2019

Short-term borrowings

Current portion of long-term bank loans	10,558	10,558
Lease liabilities	7	19
Total short-term borrowings	10,565	10,577

Long-term borrowings

Long-term bank loan	97,821	108,362
Bonds issued	224,562	224,376
Lease liabilities	6	13
Total long-term borrowings	322,389	332,751

Borrowings are denominated in the following currencies:

Borrowings denominated in euros	332,954	343,328
Total borrowings (Note 5)	332,954	343,328

Reconciliation of borrowings

in thousands of euros

	Current portion of long-term bank loans	Long-term bank loan	Bonds issued	Current portion of lease liabilities	Long-term portion of lease liabilities	Total borrowings
Balance as at 01.01.2019	10,558	118,901	224,259	0	0	353,718
Lease liabilities	0	0	0	28	32	60
Repayment of borrowings	-10,558	0	0	-28	0	-10,586
Transfers	10,558	-10,558	0	19	-19	0
Non-cash movements	0	19	117	0	0	136
Balance as at 31.12.2019	10,558	108,362	224,376	19	13	343,328
Repayment of borrowings	-10,558	0	0	-19	0	-10,577
Transfers	10,558	-10,558	0	7	-7	0
Non-cash movements	0	17	186	0	0	203
Balance as at 31.12.2020	10,558	97,821	224,562	7	6	332,954

The average effective interest rate on borrowings was 0.70% in 2020 (2019: 0.69%).

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

- **Loans from the European Investment Bank**

Elering has two loans with outstanding balance of EUR 85,422 thousand. The maturity dates of the loans are 2030 and 2033, the interest rate is floating which is the sum of 6-month Euribor and the margin. In the reporting period Elering repaid loans in the amount of EUR 7,209 thousand (2019: EUR 7,209 thousand).

- **Loans from the Nordic Investment Bank**

Elering has two loans with outstanding balance of EUR 23,034 thousand. The maturity dates of the loans are 2025 and 2032. The interest rate is floating which is the sum of 6-month Euribor and the margin. In the reporting period Elering repaid loans in the amount of EUR 3,349 thousand (2019: EUR 3,349 thousand).

- **Eurobonds**

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

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

- **Loans to reduce the risk of refinancing Eurobonds**

The loan agreements entered into by Elering set limits on Elering's financial indicators (equity to total assets and net debt / EBITDA). The limits have not been exceeded. Elering has entered into four overdraft agreements in the total amount of EUR 70 million to mitigate the refinancing risk, with an interest margin of 1 month EURIBOR plus a margin of 0.36-0.55%. The loans have not been withdrawn at 31.12.2020. Overdraft agreements have been concluded until January-February 2023.

Note 13

Trade and other payables

in thousands of euros

	31.12.2020	31.12.2019
Trade payables	11,967	19,924
Payables for purchased property, plant and equipment and intangible assets	4,267	19,758
Subsidies due to biogas producers	4,193	283
Subsidies due to electricity producers	807	0
Other payables	489	322
Total financial liabilities within trade and other payables without accrued interests	21,723	40,287
Accrued interests from borrowings carried at amortised cost	1,346	1,315
Total financial liabilities within trade and other payables in the statement of financial position	23,069	41,602
Taxes payable:		
VAT	2,286	0
Social security tax	448	482
Personal income tax	254	286
Unemployment insurance tax	29	32
Contributions to mandatory funded pension	22	23
Corporate income tax and income tax on fringe benefits	5	1,574
Excise tax	113	525
Total taxes payable	3,157	2,922
Accrued expenses - employee benefits		
Wages and salaries	512	478
Bonuses	834	761
Holiday pay	292	233
Social security and unemployment insurance tax	381	336
Total accrued expenses - employee benefits	2,019	1,808
Other payables	203	338
Total trade and other payables	28,448	46,670

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

Note 14

Deferred income

Contract liability from connection and other service fees

<i>In thousands of euros</i>	2020	2019
Deferred income from connection and other service fees at the beginning of the period	35,020	32,425
Connection and other service fees received	1,784	4,265
Connection and other service fees recognised as revenue (Note 16)	-1,949	-1,670
Deferred income from connection and other service fees at the end of the period	34,855	35,020

Deferred income from government grants

<i>in thousands of euros</i>	2020	2019
Deferred income from government grants at the beginning of the period	123,573	73,275
Grants received for acquisition of property, plant and equipment	59,385	51,657
Grants received for operating expenses	297	209
Grants used for operating expenses (Note 17)	-168	-209
Grants recognised as other income (Note 17)	-2,978	-1,359
Deferred income from government grants at the end of the period	180,109	123,573

Deferred income from congestion fees

<i>in thousands of euros</i>	2020	2019
Deferred congestion income at the beginning of the period	87,498	75,125
Congestion fees received during the period	25,320	12,708
Recognised as income (Note 17)	-416	-335
Deferred congestion income at the end of the period	112,402	87,498
Total deferred income	327,366	246,091

Note 15

Equity

Elering's share capital consists of 229,890 shares with the nominal value of EUR 1,000 (31.12.2019: 229,890 shares with the nominal value of EUR 1,000). The shares have been paid for in full.

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

In 2020 dividends totalling EUR 25.6 million were paid out and dividends per share totalled EUR 111 (in 2019 EUR 29.4 million, dividends per share amounted to EUR 128).

The payment of dividends resulted in an income tax expense of EUR 5 million (2019: EUR 6.8 million of which EUR 5.2 million was paid in 2019 and EUR 1.6 million in 2020).

As of 31.12.2020, Elering's statutory reserve capital totalled EUR 16,330 thousand (31.12.2019: EUR 14,686 thousand). As at 31.12.2020, Elering has the obligation to additionally transfer EUR 1,265 thousand (31.12.2019: EUR 1,644 thousand) to reserve capital. In 2020 Elering additionally transferred to statutory reserve capital EUR 1,644 thousand (2019: EUR 932 thousand).

The distributable retained earnings of Elering as of 31.12.2020 amounted to EUR 140,530 thousand (31.12.2019: EUR 143,737 thousand). From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account (tax rate in 2018: 20/80). As of 31.12.2020, it would be possible to distribute EUR 107,578 thousand as net dividends (31.12.2019: EUR 108,006 thousand) and the corresponding income tax would amount to EUR 32,952 thousand (31.12.2019: EUR 34,087 thousand). These numbers are calculated taking into account the obligation to transfer certain amount of retained earnings to statutory reserve capital. The amount of income tax calculated at more beneficial rate is EUR 4,070 thousand.

Note 16

Revenue

Analysis of revenue by activity

in thousands of euros

2020

2019

Sales of balancing and regulation services

Balancing electricity	22,397	24,134
Balancing gas	3,329	4,863
Regulation services	2,061	4,715
Total sales of balancing electricity and regulation services	27,787	33,712

Sales of electricity and gas network services

Electricity network services	80,483	84,031
Gas network services	16,232	12,374
Revenue from connection fees (Note 14)	1,949	1,670
Other electricity and gas network services	6,527	5,862
Total sales of network services	105,191	103,937

Sales of other goods and services

Lease of transmission equipment (Note 22)	917	917
Other services	2,956	3,469
Other goods	217	80
Total sales of other goods and services	4,090	4,466
Total revenue	137,068	142,115

Note 17

Other income

<i>in thousands of euros</i>	2020	2019
Government grants related to acquisition of property, plant and equipment (Note 14)	2,978	1,359
Dividends from long-term financial investments	873	94
Fines, penalties and compensations received*	788	10,584
Congestion income (Note 14)	416	335
Grants for operating expenses (Note 14)	168	209
Profit from sale of property, plant and equipment	104	78
Other income	0	446
Total	5,327	13,105

* In January 2019, Elering received a contractual penalty in the amount of EUR 10,440 thousand for the breach of contract by the counterparty. The contractual penalty was imposed by the ICC arbitral tribunal.

Note 18**Goods, raw materials and services***in thousands of euros*

2020

2019

Electricity and gas purchased to provide the balancing service

Purchase of balancing energy	20,188	24,221
Purchase of power regulation service	3,293	3,906
Purchase of balancing gas	3,103	4,378
Expenses of emergency reserve power plant to provide balancing services	39	10
Total electricity purchased to provide the balancing service	26,623	32,515

System services

Reactive energy	438	368
Operating expenses of emergency reserve power plant	39	844
Total system services expenses	477	1,212

Losses in electricity and gas network

Electricity network losses	12,193	16,943
Gas network losses	158	343
Total electricity and gas to compensate for network losses	12,351	17,286

Maintenance and repair works

On facilities and equipment related to core activities	9,485	6,985
Disassembly works and waste processing	1,122	464
On production buildings and sites	1,086	1,024
Other	538	510
Total maintenance and repair works	12,231	8,983

Other costs

Other costs	1,195	1,339
Operative switching and dispatching management expenses	378	365
Total other costs	1,573	1,704
Total goods, raw materials and services	53,255	61,700

Note 19

Other operating expenses

<i>in thousands of euros</i>	2020	2019
Research and consulting	1,199	1,314
Information technology	1,169	901
Telecommunication	1,026	1,005
Security, insurance and occupational safety	616	288
Training and other miscellaneous operating expenses	599	976
Office expenses	388	400
Research and development costs (R&D)	270	86
Other expenses	92	182
Transportation and tools	86	119
Total other operating expenses	5,445	5,271

Elering's statement of comprehensive income includes expense relating to short-term leases and leases of low-value assets in the amount of EUR 248 thousand (2019: EUR 275 thousand).

Note 20

Staff costs

<i>in thousands of euros</i>	2020	2019
Base salaries, additional remuneration, bonuses, vacation pay	7,841	6,932
Termination benefits	44	7
Other remuneration	305	195
Total remuneration to employees	8,190	7,134
Social security tax	2,714	2,371
Unemployment insurance tax	66	54
Total staff costs	10,970	9,559
Including compensations to the members of the Management and Supervisory Board		
Salaries, additional remuneration bonuses, vacation pay	439	430
Social security tax	162	153
Fringe benefits	41	28
Income tax on fringe benefits	10	7
Total compensations to the members of the Management and Supervisory Boards	653	618
Average number of employees	234	246
Average number of employees by type:		
Persons working under an employment contract	230	239
Persons providing services under law of obligations act	4	7
Members of the Management and Supervisory Boards	8	8
The average monthly pay of all employees including benefits	3,080	2,682

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

Note 21**Financial income and costs***in thousands of euros*

	2020	2019
Financial income		
Interest income	2	62
Total financial income	2	62
Financial costs		
Interest expenses	-2,552	-2,395
Foreign exchange losses	-2	-3
Other financial costs	-48	-3
Total financial costs	-2,603	-2,401
Less: capitalised borrowings costs (Notes 10)	264	218
Total financial costs recognised in the statement of comprehensive income	-2,338	-2,183
Net financial income (costs)	-2,336	-2,121

Note 22

Operating lease

Elering as a lessor

Operating lease revenue

<i>in thousands of euros</i>	2020	2019
Buildings	82	84
Transmission equipment	917	917
Other	2	2
Total operating lease revenue	1,001	1,003

Transmission equipment

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

Information about assets (facilities) leased out under operating leases

<i>in thousands of euros</i>	31.12.2020	31.12.2019
Acquisition cost	5,567	5,718
Accumulated depreciation at the end of period	-4,970	-4,850
Carrying amount	597	868

Depreciation charge

<i>in thousands of euros</i>	2 020	2 019
Depreciation charge	141	156

Estimated future lease payments under operating leases

<i>in thousands of euros</i>	31.12.2020	31.12.2019
Less than 1 year	916	916
From 1 year to 5 years	2,977	3,664
Over 5 years	0	229
Total future minimum lease payments	3,893	4,809

Note 23

Balances and transactions with related parties

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

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

- I Republic of Estonia and the entities under its control or significant influence;
- II Management and Supervisory Boards of Elering;
- III Close family members of the persons described above and the entities under their control or significant influence.

The outstanding balances with related parties were as follows:

<i>in thousands of euros</i>	31.12.2020	31.12.2019
Trade receivables		
Companies controlled or significantly influenced by the State	21,441	19,982
Total trade receivables	21,441	19,982
incl. from network operators	19,692	18,059
Trade payables and other liabilities		
Companies controlled or significantly influenced by the State	2,104	6,553
Total trade payables and other liabilities	2,104	6,553

Income and expense items with related parties were as follows:

<i>in thousands of euros</i>	<i>Related party</i>	2020	2019
Revenue from sale of goods	Companies controlled or significantly influenced by the State	5,430	8,431
Revenue from sale of services	Companies controlled or significantly influenced by the State	82,311	79,131
Revenue from sale of goods and services		87,741	87,562
Purchase of goods	Companies controlled or significantly influenced by the State	5,224	5,046
Purchase of services	Companies controlled or significantly influenced by the State	2,150	4,729
Purchase of goods and services		7,374	9,775
Expenditures on non-current assets	Companies controlled or significantly influenced by the State	345	1,115

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

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

Key management personnel compensations are disclosed in Note 20.

No receivables from related parties were written off in 2020 and 2019.

Note 24

Contingent liabilities and commitments

Capital expenditure commitments

The network operator must develop the network within its service area in a way that ensures the continued provision of network services in accordance with the set requirements. As at 31.12.2020, Elering has contractual capital expenditure commitments in respect of property, plant and equipment totalling EUR 93,459 thousand (31.12.2019: EUR 85,700 thousand).

Covid-19 did not have a material impact on the Company's business activities.

Tax legislation

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



Independent Auditor's Report

To the Shareholder of Elering AS

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Elering AS ("the Company") as at 31 December 2020, and the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 5 March 2021.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2020;
- the statement of comprehensive income for the year then ended;
- the cash flow statement for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company 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 § 59¹ of the Auditors Activities Act of the Republic of Estonia.

The non-audit services that we have provided to the Company in the period from 1 January 2020 to 31 December 2020 are disclosed in the Management report on page 40.

AS PricewaterhouseCoopers
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Our audit approach

Overview

Materiality	Overall Company materiality is EUR 1,800 thousand, which represents approximately 2.5% of profit before interest, tax, depreciation and amortization (EBITDA).
Key audit matters	<ul style="list-style-type: none">• Estimates involved in capitalisation of capital expenditures and determining their useful lives• Accounting for congestion income

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

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

The audit team performed full scope audit procedures for the Company.

Materiality

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

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

Overall audit materiality	EUR 1,800 thousand
How we determined it	2.5% of profit before interest, tax, depreciation and amortization (EBITDA), as disclosed in Note 6. EBITDA is a non-GAAP performance measure that is defined and calculated by the management and for which management is responsible. Definition and calculation of EBITDA may differ between entities.
Rationale for the materiality benchmark applied	We have applied EBITDA as the benchmark because, as described in Note 6, 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><i>Management's estimates involved in capitalisation of capital expenditures, and determining their useful lives (refer to Note 2 "Summary of significant accounting policies", Note 3 "Critical accounting estimates and judgments in applying accounting policies" and Note 10 "Property, plant and equipment" for further details).</i></p> <p>In 2020 the Company capitalised additions to property, plant and equipment (PPE), mainly related to the construction of electricity and gas transmission network, in the amount of EUR 80.5 million.</p> <p>Expenditures are capitalised if they create new or enhance the existing assets, and expensed if they relate to repair or maintenance of the assets. Classification of the expenditures involves judgment.</p> <p>The useful lives of PPE items are based on management's estimates regarding the period during which the asset or its significant components will be used. The estimates are based on historical experience and market practice and take into consideration the physical condition of the assets.</p> <p>Capital expenditure is not considered to be an area of significant risk for our audit but as it requires considerable time and resource to audit due to its magnitude, it is considered to be a key audit matter.</p>	<p>We assessed whether the Company's accounting policies in relation to the capitalisation of expenditures are in compliance with IFRS.</p> <p>We understood and evaluated controls related to capital expenditures.</p> <p>We evaluated whether the useful lives determined in Company's accounting policy for PPE were appropriate given the nature of the asset, business and industry environment.</p> <p>We obtained a listing of capital expenditures incurred during the year and, on a sample basis, inspected underlying invoices to check that the item has been correctly capitalised.</p> <p>We also obtained a listing of repair and maintenance expenses incurred during the year and, on a sample basis, inspected underlying invoices to ensure the classification as operating expenditure was appropriate.</p> <p>We obtained a detailed listing of items transferred from the construction-in-progress to the finished items during the year. On a sample basis, we checked whether the depreciation of the item was commenced timely, by comparing the depreciation starting date with the date of the act of completion of the work.</p> <p>We also evaluated whether the useful lives assigned to these items were consistent with the Company's accounting policy.</p>
<p><i>Accounting for congestion income (refer to Note 2 "Summary of significant accounting policies – Congestion income", Note 3 "Critical accounting estimates and judgments in applying accounting policies" and Note 14 "Deferred income" for further details).</i></p> <p>In 2020 the Company has received congestion fees of EUR 25.3 million and the deferred</p>	<p>We assessed whether the Company's accounting policy in relation to accounting for the congestion revenue is compliant with IFRS.</p> <p>We evaluated the management's assessment on whether and when the congestion fees will be used for constructions of new interconnection capacities. We corroborated the information received with the Management and Supervisory</p>

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congestion income as of 31 December 2020 amounted to EUR 112.4 million.

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

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

Board minutes of meetings describing future investments and with the capital expenditures budget.

We obtained a confirmation letter from the third party confirming the total amount of congestion fees received during the year. Furthermore, we assessed the adequacy of the disclosures related to congestion income.

Other information

The Management Board is responsible for the other information. The other information comprises Statement by the Chairman of the Management Board, From Elering's mission to its strategic goals, Activities of Elering in ensuring security of supply, Overview of economic activities and results for 2020, Our Elering Action Plan for Involving and Motivating Employees, Responsible action, i.e. ESG, Corporate governance, The Revenue of Elering AS According to EMTAK 2008 (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

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

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

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Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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Report on other legal and regulatory requirements

Appointment and period of our audit engagement

We were first appointed as auditors of the Company, as a public interest entity, for the financial year ended 31 December 2011. Our appointment has been renewed by tenders and shareholder resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for the Company, as a public interest entity, of 9 years. In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of the Company can be extended for up to the financial year ending 31 December 2030.

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A handwritten signature in blue ink, appearing to read 'Lauri Past', is written over a faint, light blue grid background.

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

8 March 2021

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Profit allocation proposal

The retained earnings of Elering AS as of 31.12.2020 were EUR 141,795 thousand.

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

To pay as dividends to the shareholder	EUR 20,600 thousand
To transfer to the statutory reserve capital	EUR 1,265 thousand
Not to distribute the remaining retained earnings	EUR 119,930 thousand

Signatures of the Management to the 2020 Annual Report

The signing of Elering AS 2020 Annual Report on 8 March 2021.



Chairman of the Management Board
Taavi Veskimägi



Member of the Management Board
Riina Käi



Member of the Management Board
Kalle Kilk

The Revenue of Elering AS According to EMTAK 2008

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

EMTAK*		2020	2019
35121	Transmission of electricity - transmission through the transmission network	87,901	94,218
35221	Natural gas transmission	18,962	11,697
35141	Trade of electricity (balancing electricity)	24,457	28,849
35231	Trade of gas (balancing gas)	3,329	4,863
77399	Renting and leasing of other machinery, equipment and tangible goods	919	917
49501	Pipeline transport	0	678
47770	Retail sale of other second-hand goods	217	80
68201	Renting and operating of own or leased real estate	84	84
46699	Other sales	1,199	729

*EMTAK - classification of Estonian economic activities.

Photos and illustrations:

Ain Köster, Andres Treial, Empower,
Part OÜ, Estfilm, Mart Landsberg,
Nikolai Dorovatovski, Tõnu Tunnel,
Valmar Voolaid.