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elering
CONNECTING ENERGIES

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STATEMENT BY THE CHAIRMAN OF THE MANAGEMENT BOARD

TAAVI VESKIMÄGI,
Chairman of the Management Board

Statement by the Chairman of the Management Board

At the time of writing, exactly one year has passed since the beginning of Russia's full-scale aggression in Ukraine. The past year has been one of the most challenging in recent memory for both Estonia and Elering. However, we've coped well with the challenges that the war launched by Russia has set us. Together with our partners, we've ensured security of natural gas supply and prepared for the emergency disconnection of the Baltic electricity grid from the Russian energy system. The complex geopolitical situation with its significant impact on the energy sector, and the ambitious targets set for renewable energy continue to pose significant challenges for us.

The European energy crisis, which has lasted for a year, has shown that we don't have a broader social agreement about the role of energy in society. Is energy a public good to which everyone is entitled according to their needs, with the obligation to contribute according to their means? Like we use the Tallinn-Tartu motorway? Or is energy a commodity, like any other commodity on the commodity market, where price and availability are determined by a supply-demand equilibrium, similar to oil, for example? The debate about the kind of energy management that makes us rich as a society, and the kind that makes us poor, must begin with the question of whether or not energy is a market commodity.

Treating energy either as a public good or as a market commodity are mutually exclusive, and trying to apply these approaches simultaneously is ultimately the costliest for society. The market is promoted, while public subsidies/support try to smooth out the inefficiencies of the whole market. If society cannot tolerate the efficiency of the market, we must move on to an administrative price. Many of us have experienced what a planned economy leads to. The result is over-investment or a deficit.

At the same time, two years of high energy prices have shown that, after all, the market economy works in electricity generation as well. The high price has generated huge interest in the investment of electricity generation. In order to meet demand, producers have started to prepare for the construction of a large number of new power plants. Almost 3,500 MW of connection applications were therefore submitted to Elering in 2021 and a record 9,000 MW in 2022. For comparison, the average consumption in Estonia is around 1,000 MW. At present, developers have estimated that the potential capacity of the studied developments is approximately 4,500 MW. Elering has also started to perform the connection contracts in this volume.

However, the problem is that it takes time to bring the generation reserve needed to meet the demand to the market. This time shift, the potential security of supply and price risks, are the things that society is not prepared to tolerate. We're in a situation where market efficiency has ground the capacity reserves to a minimum, but new investments have not yet started. That's something we need to think about. In the light of the energy market reform package, the energy only market is dead. Maybe we'll have to start trading in capacity instead of energy on the new energy market, which is mainly based on renewable energy?

So I still dare to claim that the consumer is interested in a competitive market with many market participants. However, a competitive market cannot be based on Estonia alone. Estonia is too small for competition to emerge in a capital-intensive business-like energy. We did well in opening up both the electricity and gas markets to competition, as a retail market for many market participants emerged. Today, we're unfortunately returning to the situation where the vertically integrated companies of the past are dominating – Eesti Gaas has a 78% share of the gas market and Eesti Energia a 58% share of the electricity market. This is why Elering has been opposed to or critical of attempts by dominant market participants to further strengthen their market position. Be it the acquisition of the electricity generation company Nelja Energia or Elektrilevi belonging to Eesti Energia, the creation of a vertical on the gas market from the capacity to receive LNG in Paldiski, from the gas distribution network to gas sales. The vertical integration of both Eesti Energia and Eesti Gaas is not in the interest of society if we want to develop the energy economy based on a competitive market. Paradoxically, this is not in the interest of these companies either, because sooner or later the question will arise whether a market with a single market participant is still a market, or whether we should go back to the regulated electricity and gas economy.

Unfortunately, in a small country like Estonia, a market with many participants is not a given. We must work hard all the time to keep the market going. The whole energy sector is electrifying, but even a 10-12 TWh electricity market is too small for the emergence and existence of a sustainable competitive market. Therefore, being a part of the functioning EU internal energy market remains important to us. In addition to security of supply, we at Elering will continue to build connections on both the northern and southern directions for this very reason.

It's the cross-border electricity trade that creates the prerequisite and provides the opportunity to maximise the use of Estonia's maritime areas for energy generation. Estonia's transmission network is capable of meeting the target set by the Government of the Republic of Estonia of ensuring 100% of Estonia's annual electricity supply with domestic renewable electricity generation by 2030. Getting rid of phantom connections is the key here, so that the full resource of the electricity grid is actually put to use. Another result of the goal for 2030 is Estonia becoming a net exporter of electricity. This is underpinned by the need to have plants using other energy sources alongside renewable energy during certain hours.

The questions here is what kind of fuel these plans should use and on what conditions they should emerge. Who should the surplus energy be sold to, because our neighbours are also planning to connect huge quantities of wind energy and solar power plants to the electricity system. Let me reiterate what I said earlier: in view of the year 2030, we won't be short of energy in terms of annual balance, but rather have a surplus. I admit that at certain hours there may be a shortage of capacity to generate electricity at those particular hours. This is why we've said that we see room in Estonia for one fast-starting gas-fuelled power plant. For its part, Elering is trying to offer a

5-7 year contract for fast reserves to the market so that such investment could come to Estonia. Elering's own Kiisa emergency power plants will be fully withdrawn from the reserve market in 2028, but they will remain in Elering's ownership to ensure security of supply in today's difficult geopolitical situation.

Thus, the government's goals for 2030 have been met as far as Elering is concerned. In terms of generation, the network is ready to accommodate almost 7 GW of generation capacity in different regions. There is no need to reinforce the network significantly for them.

The most topical question at the moment is why and how we're developing offshore capacity that is not needed to ensure security of supply for Estonian consumers. Why are we doing this as a society, what are the benefits for Estonia? In order to achieve the goal for 2030, a maximum of 1 to 1.5 GW of offshore wind power plants are needed, which can be connected to the Lihula, Sindi or Kilingi-Nõmme substations with radial lines. At the same time, tens of GW of offshore wind potential have been discussed in the case of Estonian maritime areas. There is no market for this energy in Estonia and it doesn't fit into the Estonian grid.

We need to answer the "why" of wind power generation that exceeds Estonia's security of supply needs. For example, one option is to transport this electricity to Continental Europe, where there could be a market for it. Today, Elering and the German transmission system operator 50Hertz are analysing the possibility of a direct connection from Estonian maritime areas to Germany. This solution would economically open up these areas for development. But if the wind turbines come from Germany, the energy goes to Germany, and probably most of the complex maintenance is done by foreign companies, what is left to Estonia? As a society, what will we get in return for giving away our public asset, the Estonian seabed, for energy generation? The question of the distribution of rewards and risks between private operators and society is linked to this. The risks remaining with the state and all the rewards and fruits going to private enterprises is not an option. As a society, we need to find a balance point. Elering has always stood for the efficient use of the taxpayer's money so that the lights are on and the homes are warm in Estonia.

Taavi Veskimägi
Chairman of the Management Board

MANAGEMENT REPORT

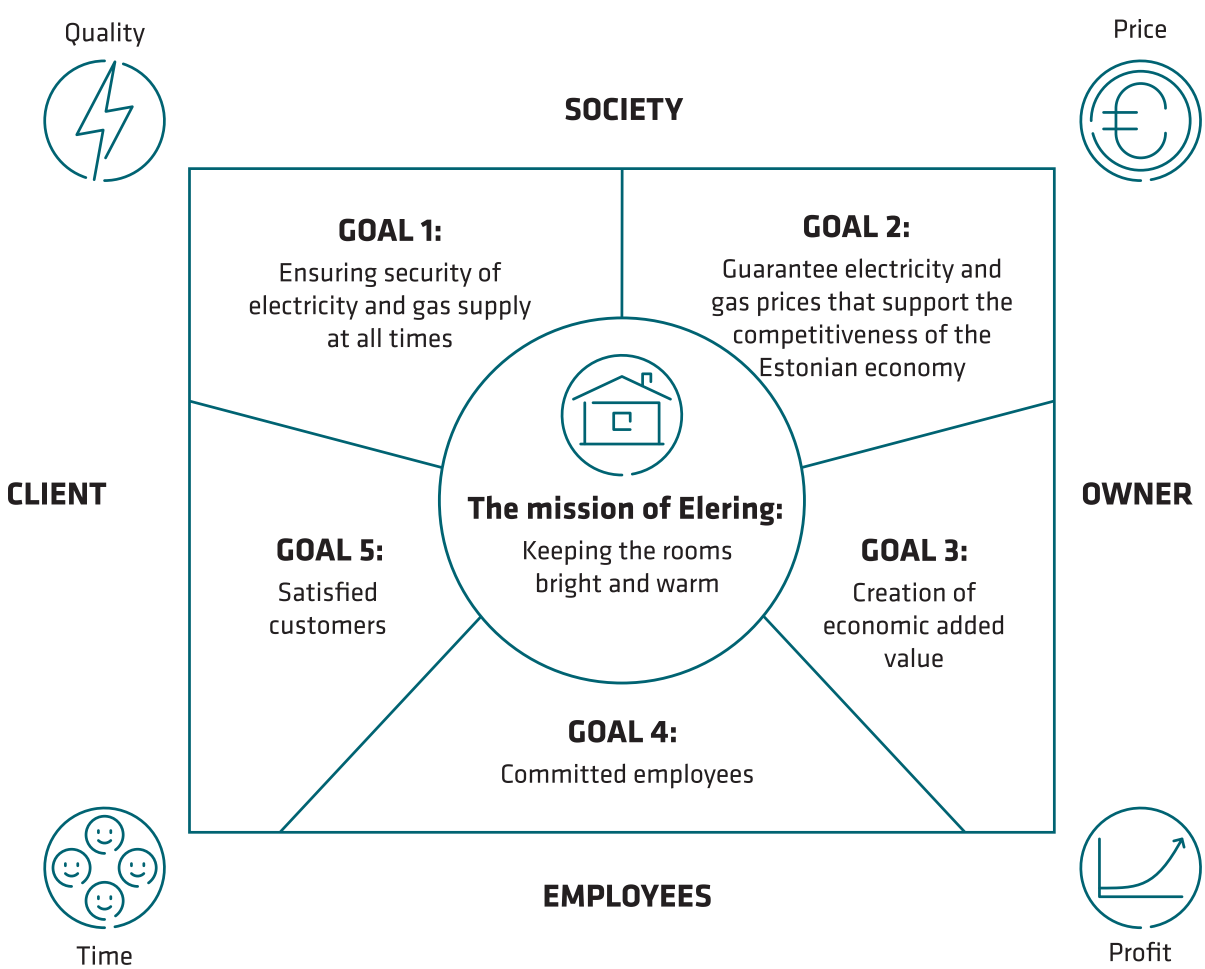
FROM ELERING'S MISSION TO ITS STRATEGIC GOALS

The access to of energy has become a right in society. The lack of electricity has an impact on a large part of Estonian society, including on the functioning of vital services. Elering's mission as the electricity and gas system operator is "to keep the lights on and the rooms warm in Estonia". At all times and in all situations.

The rapidly changing environment is setting us massive challenges in coping with the increasingly faster climate change, whilst ensuring energy security in today's rapidly escalated geopolitical situation. Our vision in Elering is to have "SECURITY OF SUPPLY in a climate-neutral manner and therefore support the competitiveness of the Estonian economy".

Our main challenge is to guarantee security of supply to Estonian consumers at all times and to synchronise Estonia with the Continental European electric power system by 2026, whilst maintaining a reliable electricity supply during the transition period. These are the most important steps to ensure continuous security of supply for Estonian consumers.

At the same time, we will help Estonia and the wider EU community to achieve the 2030, 2035 and 2050 climate policy targets, bearing in mind the competitiveness of the Estonian economy. As we work towards the achievement of our mission and implementation of our vision, it's necessary to find a balance between the interests of various parties, namely society, clients, employees and the owner. Therefore, we've set five strategic goals for Elering.



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

The value chain of security of supply consists of four pillars of system capability: control, network, system and digital. In order to efficiently manage and develop these capabilities, we've set ourselves the objective of ensuring a well-functioning power and gas transmission network. In the electric power system, our goal has been to keep the ten-year average level of electricity not served on a downward trend and to keep this below 120 MWh from 2025.

There is no difference for society and 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 cyber-attack.

In 2022, we managed to bring the 10-year average of energy not served of the electric power system to its lowest level ever. The 10-year average energy not served fell to the level of 51.8 megawatt-hours (61.7 MWh in 2021). Energy not served in 2022 only amounted to 49.7 megawatt-hours (13.8 MWh in 2021). Approximately 8.1 million megawatt-hours of energy was transmitted during the year, which means that the reliability of Elering's network in 2022 was 99.99 percent.

In the gas system, energy not served in the transmission network in 2022 was 0 megawatt-hours (0 MWh in 2021 as well) and our goal is to maintain the level achieved.

2022 was an unprecedentedly challenging year for the energy sector. Russia's full-scale aggression against Ukraine, which started on 24 February 2022 increased the risks to the security of supply of energy dramatically, both for Estonia and for Europe as a whole. Due to the geopolitical situation, two risks increased significantly for Elering after the start of the war: the interruption of gas supply in winter 2022/2023 and the blackout of the electric power system in the event of an unplanned disconnection of the Baltic electric power system by Russia.

To reduce these risks, we put together a large-scale plan of additional actions to keep the lights on and homes warm in Estonia. Although risks and uncertainties did not disappear as 2022 ended, many risk reduction measures were successfully implemented in 2022. The risks remain, but their impact is significantly lower thanks to mitigation measures.

In order to secure the region's gas supply for the coming winter, we developed a three-pillar action plan in the winter/spring season in cooperation with the Ministry of Economic Affairs and Communications:

1. Temporarily reducing gas consumption switching to alternative fuel;

2. Increasing reserves and building up Estonia's national gas reserve

3. Creating an additional gas supply chain in the Gulf of Finland region.

All three work streams of the action plan have been successfully implemented – gas consumption has decreased significantly due to the switch to other fuels, stocks are significantly higher than expected and an additional gas supply source in the Gulf of Finland region became operational at the end of December 2022. Thanks to this, the initially very high risk of gas supply disruptions has been reduced and the gas market is now calm.

Ensuring gas supply is important for ensuring a supply of electricity to the region. The electricity previously imported from Russia and the frequency control support of the Russian electric power system will have to be replaced upon desynchronisation, in particular by gas-fired power plants in Finland and the Baltic States.

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In order to mitigate the risk of the blackout of the electric power system and increase preparedness, we have implemented the following package of additional actions with our partners:

1. We have completely stopped electricity trade with Russia and Belarus. The lack of electricity trade significantly decreases the chance of a blackout of the Baltic electric power system due to unexpected switch-off from the Russian power system, as it allows us to keep the electricity imbalance of the Baltic States minimal in respect of Russia.
2. We entered into an agreement and developed procedures with the continental European TSOs to carry out an emergency synchronisation, which is estimated to take 6-12 hours. The technical capacity on the Lithuanian-Polish border (at Alytus substation in Lithuania) is ready for extraordinary synchronisation with the continental European electric power system.
3. We entered into agreement and developed procedures for implementing measures for ensuring frequency stability with the Nordics on the EstLink1, EstLink2 and NordBalt connections. In total, we can get up to 400 MW of fast reserve capacities from the Nordics in the case of extraordinary synchronisation.
4. The Government of the Republic decided to maintain *ca* 1,000 MW of power generation capacity based at Eesti Energia's Narva power plants until the end of 2026. Eesti Energia has begun to resolve the availability of cooling water faced by Narva plants through potentially lowering the water level in Narva reservoir.
5. We initiated pan-Baltic coordination as regards to timing of maintenance and renovations of large generating equipment to avoid all maintenance being done at the same time.
6. We renewed our agreement with Elektrilevi, Estonia's largest distribution network, to limit consumption by 200 megawatts in case of insufficient generation

capacity. Elering will inform Elektrilevi of the necessary extent of curbs and the latter will implement the limits. Rolling outages will be implemented to prevent interruption of service to critical consumers (such as vital service providers and general-interest service providers); consumers will be rotated so that the outage for each individual consumer will be as brief as possible.

7. All kept investments in synchronisation with the continental European electric power system and all activities for developing markets and increasing electric power system administration capacity have been kept on schedule in spite of the increased complexity, higher prices and supply problems.

In addition to taking urgent action to ensure security of supply and mitigate risks for winter 2022/2023, we must take steps to ensure security of supply for the longer term. Although a number of activities agreed on for risk mitigation have been implemented, there are certainly

a number of risks in the coming years that cannot be completely mitigated. Such risks include those related to physical infrastructure attacks (NordStreams), cyber-attacks (attacks against Ukraine's power grid), fuel availability (gas and coal supplies) or the reliability of power plants (Olkiluoto3). Therefore, we must be flexible and ready for the unexpected.

In order to ensure long-term security of supply on the energy market in uncertain conditions, we proposed to utilise the strategic reserve in Estonia. Forward-looking analyses show that in spite of today's high energy prices, the market may change by 2027 and Estonia's oil shale plants may no longer be competitive on the electricity market. To ensure Estonia's security of supply, it will be necessary to have certain capacities of *ca* 1,000 MW. It is to maintain the generation capacity that Elering proposed to the Ministry of Economic Affairs and Communications and the Competition Authority to implement a strategic reserve. The strategic reserve is a measure used to keep generating capacities sufficient for guaranteeing security of supply in Estonia in order even in a situation where maintaining the given capacities would not be commercially profitable based on the energy market. In 2022, we proposed a concept for how the strategic reserve mechanism could work in Estonia.

Synchronisation of the Baltic States with the Continental European frequency area

Although 2022 was a year of increasing uncertainty and risk in the energy system and the implementation of a package of mitigating actions, the focus was on critical projects, such as synchronisation with the Continental European electricity grid.

One of the biggest risks in ensuring security of supply is the exceptional separation of the Baltic States from the Russian synchronous area, which arises from the 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 implementing developments to synchronise the power system of the Baltic States with the Continental European frequency area by 2026.

In 2022 the most important equipment of the Püssi synchronous compensator arrived in Estonia and was installed, also smaller equipment was assembled and configured. The completion of the compensator in Püssi in the first quarter of 2023 will be a major step forward in our ability to maintain the stability of our electric power system after disconnecting from the Russian network.

Siemens Energy is constructing three synchronous compensators for Estonia: one each for the Püssi, Kiisa and Viru substations. Construction work in Kiisa began in summer 2022, while the final compensator at the Viru substation is due for completion by the end of 2024.

Reinforcement of the existing Balti-Tartu-Valmiera and Viru-Tsirguliina 330 kV overhead lines is ongoing. During renovation of the Balti-Tartu and Tartu-Valmiera overhead lines, the Ahtme-Illuka, Illuka-Alutaguse, Alutaguse-Mustvee, Mustvee-Saare, Tartu-Saare, Tartu-Elva, Elva-Rõngu and Tsirguliina-Valka 110 kV overhead lines that run in parallel line corridors with them will be installed in part on the same masts.

Attractiveness of the Estonian power system to new generation and storage capacities

Although security of supply and price of energy have been in the centre of attention, there is no other long-term alternative when it comes to reducing the carbon emissions of the energy sector. Especially in a situation where the energy sector is responsible for nearly 70% of global CO_2 emissions.

Today, the power grid in Estonia is capable of integrating renewable energy production in a volume that will ensure that Estonia's annual consumption is covered in a climate-neutral way, in line with the 2030 target that Estonia has set itself. Estonia has 6 GW of built or pending network connections for electricity producers. As a reminder and for context, Estonia's all-time peak consumption was *ca* 1.6 GW and the Estonian electric power system is largely designed for transporting *ca* 3 GW of power with external connections. It will be possible to add renewable energy-based production capacities of *ca* 4-5 GW of this 6 GW to the power grid in the near future.

This does not take into account the offshore wind power capacities, where about 1-2 GW of offshore wind could be connected to the Estonian electricity grid via radial connections. Connecting this generation capacity is more than enough for supplying Estonia's consumers. The key question is undoubtedly whether all of the network connections built or to be built will also be actually utilised or whether they will block plans of investors who actually want to build new generation equipment. To this end, Elering proposed to establish a new measure in the Electricity Market Act that imposes a fee for all network connection capacities that are not used for feeding electricity to the market within two years. This measure will create economic motivation for making actual use of idle network capacity.

The support allocated from the Recovery and Resilience Facility of the European Commission with the decision made in 2022 makes it possible to add 310 megawatts of new renewable energy capacities to the transmission network managed by Elering. Pursuant to the contract entered into between Elering and the Ministry of Economic Affairs and Communications, the total cost of the project is 69 million euros. As of now, the Recovery and Resilience Facility of the European Commission will support it to the extent of 30 million euros. We will reconstruct the powerful 330-kilovolt Kiisa-Paide and Mustvee-Paide overhead transmission lines within the framework of the investments of the Recovery and Resilience Facility. In the 110-kilovolt network, we will build new Lihula-Virtsu and Rõuste-Virtsu overhead transmission lines and the Võiküla-Orissaare parallel line. Likewise, we will upgrade the Lihula-Rõuste and Kiisa-Rummu overhead transmission lines and the Lihula 330/110-kilovolt substation and build the second 110-kilovolt submarine cable in Väike Väin Strait. The investments to be made within the framework of the project must be implemented in 2026 at the latest.

Elering's owner also enhanced its expectations in 2022 by giving Elering the additional task to start the development of a 330 kV connection of the transmission network to Saaremaa to ensure the connection of the new offshore wind energy production area planned in the Estonian Maritime Spatial Plan for the west coast of Saaremaa to the Estonian power system.

The objective and obligation in cooperation with AST, the Latvian TSO, is to plan and build additional transmission capacities between the transmission networks of Estonia and Latvia. In 2022, we carried out the 10-Year Network Development Plan (TYNDP 2022) process to identify the socio-economic benefits of the connection, as a result of which the project can be submitted to the list of Projects of Common Interest (PCI). Being on the PCI list is a prerequisite for applying for funding for the project from the Connecting Europe Facility (CEF).

Finland has set itself the ambitious goal of achieving climate neutrality by 2035. As a result of this goal, we can already see a major connection of wind generation capacities to the network in the Nordic countries in the next 10 years, due to which the price differences at the Estonian-Finnish border will continue to be present. Elering and Fingrid signed a memorandum of understanding in 2022 in which they agreed on the launch of a joint working process for the construction of a third electricity connection between Estonia and Finland. On the Estonian side, a preliminary study commissioned by Elering on the route EstLink 3 could take on land has been completed, with the Paldiski region seen as having some of the best prospects as a starting point in the country.

In 2022, we carried out an analysis of the socio-economic benefits of the connection within the scope of the TYNDP 2022 process, as a result of which the project can be submitted to the PCI list. The Estonia-Latvia and Estonian-Finland maritime links would increase the export potential of the generation and storage capacities to be built in Estonia.

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

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

Cross-border capacities must operate to the maximum in order to equalise the electricity price level with the Baltic Sea countries.

Cross-border capacities must operate to the maximum in order to equalise the electricity price level with the Baltic Sea countries

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

It's good to note that we've managed to continue keeping the reliability of DC connections one of the highest in Europe in cooperation with the Finnish power system operator. In 2022, we managed to guarantee the reliability of EstLink 2 (650 MW) at 99.3% and the reliability of EstLink 1 (350 MW) at 94.8 (2021: the reliability of EstLink 2 was 99.8% and the reliability of EstLink 1 was 98.1%) and the EstLinks transmitted a record quantity of energy in 2022 at 6888 GWh.

Thin power grid

Another important aspect is to make the power grid more efficient and guarantee the long-term transformation of the grid depending on the change in generation and consumption and thereby keep the transmission network tariff under control. Our long-term goal is to keep the five year replacement investments just under 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 technologies in the operation of the grid that are more efficient and innovative than the present ones. In 2022, we prepared the methodology of the two-package capacity-based tariff component, as the transmission network is becoming increasingly responsible for ensuring the availability of energy and the reliability of the system due to the development of distribution production. As a result, clearer input on customer capacity is also needed for long-term planning of developments. A tariff based on the capacity component would provide clear input on where the network must be strengthened and where it should be made thinner in the long term. A capacity-based tariff also encourages the storage capacities to enter the market.

A positive example of the optimisation of investments is also the fact that we've financed the synchronisation project investments from other sources than network tariff. Elering finances three-quarters of the construction costs from the European CF and one-quarter from congestion income. In 2022, the Baltic States and Poland received 170 million euros from the Connecting Europe Facility for implementing the third, i.e. final, stage of investments in synchronisation with the Continental Europe frequency area. Elering will modernise the control and information systems of the Estonian electric power system in the last stage, which includes

the construction of a reserve control centre and the upgrading of the control systems of the EstLink direct current connections. The European Commission had previously allocated 196 million euros to Elering in two financing stages for the investments required for synchronisation. The total cost of the projects in Estonia is approximately 300 million euros. The total cost of the synchronisation project for the Baltic States and Poland is estimated at 1.6 billion euros.

Highly competitive energy market

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.

The war that started in 2022 which brought along the risk to the accessibility of fuel in Europe led to an unprecedented risk of volatility of energy prices. In order to enable market participants to offer electricity contracts with lower risk margins to consumers, we developed Estonian-Finnish hedging instruments, Financial Transmission Rights (FTR), in cooperation with the Finnish system operator Fingrid. At the first auction for the Estonian-Finnish Financial Transmission Rights (FTR FI-EE Year 2023), instruments were sold to the extent of 350 megawatts for each hour of 2023 in a total volume of 53.7 million euros. 27 interested parties participated in the auction, and the capacity was shared between 16 market participants. The market participants submitted purchase requests within the extent of 4007 Mwhz, meaning that the volume for purchase requests exceeded the offered sales volume of the instruments 11 times.

In 2022, we developed and published, together with the other Baltic TSOs, a proposal for rules for the Baltic market for frequency reserves. A common market for frequency reserves is essential to ensure the operation and security of supply of the electric power system after the synchronisation of the Baltic electric power systems with the Continental European synchronisation area, when the use of automatically and manually triggered frequency management reserves for system management will be required to a much greater extent than today. The Baltic TSOs have also planned to use the resources at their disposal to reduce market demand for system services, which means the deployment of the Kiisa emergency reserve power plant in Estonia and battery systems in Latvia and Lithuania. According to analyses, this is essential to ensure that sufficient frequency management resources are available in the Baltic states after the synchronisation of the Baltics with Continental Europe and to avoid excessive cost increases for end-users. The use of the resources of TSOs will end at the latest in 2030, when sufficient reserves will have reached the market and the use of TSO resources will no longer be necessary.

Goal 3: Creation of economic added value

Every owner expects the capital invested would generate value according to the established goals. Elering is one of the biggest electricity consumers in Estonia due to network losses. Currently the tariff methodology established by the Competition Board does not allow Elering to fix the electricity price for a long time, hence the market price of electricity had a direct and strong impact on Elering’s financial performance in 2022.

The high electricity prices in 2022 have, on one hand, rapidly increased the Elering’s expenses when purchasing electricity in order to compensate the physical losses occurring in transmission of electricity, whilst on the other hand, high prices have increased the congestion income arising from the difference in prices between Estonia and Finland. In order to avoid an increase of network fees

in conjunction with the acceptance from Estonian Competition Authority the congestion income can be used in order to cover the extraordinary peak of expenses on electricity losses.

The energy crisis caused by the war has also had a significant impact on electricity consumption and hence transmission volumes. In 2022, transmission volumes decreased by 25.6% in gas and 7.8% in electricity. Despite the numerous challenges thrown at us by 2022, we managed to end the year with a net profit of 17.4 million euros.

Goal 4: Committed employees

Keeping and finding talent is increasingly difficult when the unemployment rate is low and the pressure for salaries is high. 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 they are willing to contribute more. In order to find out satisfaction of our employees, we conduct an annual employee commitment survey. We have set ourselves the goal of keeping the company's commitment index above 70%. In 2022, the level of our people commitment index was 80% (2021: 81%).

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

Goal 5: Customer satisfaction

Elering has four key service segments: electricity and gas network service, connection to the electricity and gas system, electricity and gas balancing service, and payment agency for renewable energy support. Whilst making the massive changes in the energy system and on energy markets that arise from climate and geopolitical challenges, Elering cannot be successful if our clients are not satisfied. Also, an increasing number of new clients are connected to the network, including wind and solar energy producers who expect Elering to operate quickly and efficiently. We've worked hard to achieve a customer-centric work culture. The energy price crisis in 2022 has clearly demonstrated the importance of joint information and discussion fora: the Advisory Council on Interconnection and Network Services, the Electricity Market and Gas Market Advisory Council.

2022 brought the biggest change for Elering in the electricity connection service customer segment. Compared to 2021, the volume of projects coming from connection contracts increased by around 2.5 times in 2022. This has led to the need to increase in-house capacities and streamline work processes significantly to ensure high service quality. The connections have led to a surge in the volume of electricity network construction work, which construction companies have been unable to match with their tenders. Unfortunately, this is leading to a situation where construction projects fail due to the lack of tenderers, delivery and contract delays are extended and construction costs for connections increase. We're working to inform contractors in advance of the volumes that will come on to the market over the next few years so that they can respond to market changes on time.

OVERVIEW OF ECONOMIC ACTIVITIES AND RESULTS FOR 2022

Economic environment

Elering is an autonomous and independent integrated electricity and gas system operator of Estonia with the primary task of ensuring high-quality energy supply to Estonian consumers at all times.

Whilst the economic environment in both 2021 and 2020 was affected by the pandemic and the related restrictions on movement and business, the economic and political environment in 2022 was affected by Russia's aggression against Ukraine. Aggression has had a significant impact on commodity prices, gross domestic product, interest rates and inflation. Russia's aggression against Ukraine reduces demand and increases inflation worldwide. Estonia is significantly affected due to its geopolitical location. The rise in energy prices that started in 2021 accelerated further in 2022 and solutions were sought across the EU to reduce dependence on Russian gas. Estonia is in a somewhat better position in this respect, as its consumption is relatively low compared to other EU countries. However, Elering has also done its utmost to continue to ensure the security of electricity and gas supply in Estonia.

Whilst GDP growth in 2021 amounted to 8.1% at constant prices, Eesti Pank forecasts a negative GDP of 0.5% in 2022. A small increase of 0.4% is expected in 2023.

Paradoxically, the contradictory situation on the labour market continues – on one hand, finding qualified labour is difficult, but on the other hand, while unemployment remains somewhat lower compared to the previous year, it is still relatively high. In 2022, the unemployment rate reached an estimated 5.7% (6.2% in 2021). At the same time, price increases have had a significant impact on wage pressures, which will have a larger impact in 2023 but which already had some impact in 2022. Whilst average gross wages grew by 6.9% in 2021, the increase in them in Q3 2022 was 8.1% (7.8% in Q3 2021).

Inflation has been substantial in 2022, with significant increases in both energy prices and fuel prices contributing considerably. The consumer price index made an extraordinary leap in 2022, rising by 19.4%, while average inflation in 2021 was 4.7%. However, an indication of growth could already be felt in December 2021, when the CPI went up by 12.2%. The upwards trend in prices is set to continue, which in turn has a significant impact on wage costs, energy costs, including network losses, and other services as well as on the cost of investment.

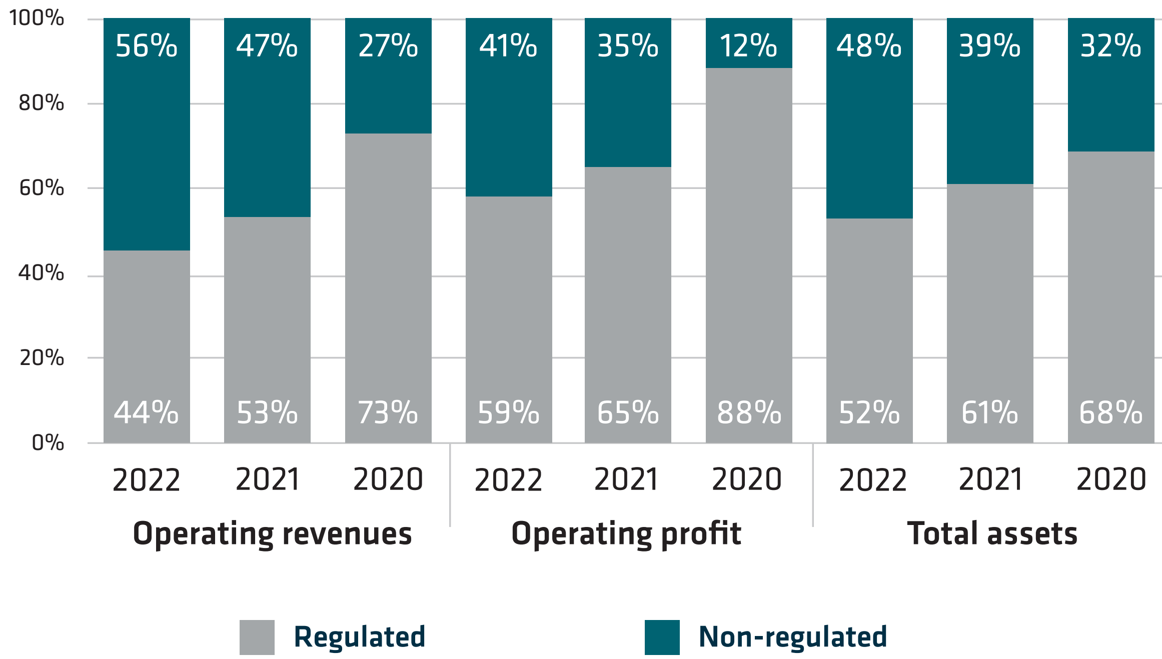
Nature of economic activities

The economic activity of Elering divides largely into two:

a. Regulated power and gas network activities;

b. Non-regulated activities.

Regulated network activity 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 operation is a regulated activity and the authorised network charges are approved by the Competition Authority. The regulator assesses whether the costs presented in the network charge request are justified and prescribes a reasonable return, which is calculated on the basis of the Capital Asset Pricing Model. The network charges consist of the operating charges, capital expenditure and the justified profitability in case of both power and gas transmission. Operating profit is calculated as the product of the regulatory asset base and the weighted average cost of capital (WACC) determined by the Competition Authority.

The company has 28 power grid service clients and nine gas network service clients (2021: 27 electricity network service clients and nine gas network service clients). The majority, i.e. 91.9%, of the network service revenue (2021: 91.6%) is received from clients who are regulated distribution network operators acting as natural monopolies. The biggest client in terms of the network service is Elektrilevi OÜ, whose share in network service revenue is 78.7% (2021: 75.0%). Elektrilevi is a distribution network operator that is part of the Eesti Energia AS group, which in turn is owned by the Republic of Estonia.

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

In order to ensure a stable frequency in the power system, the system must be balanced, i.e. generation must be equal to consumption at any given time. For this purpose, all market participants also need to be in balance and most of them buy their power balancing services from balance-responsible parties. Elering provides the power balancing service to the balance-responsible parties. There are 21 balance-responsible parties to whom Elering provides the service (2021: 18).

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 eight (2021: 11).

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

Performance results

Key financial indicators

	2022	2021	2020	2019	2018
Sales revenue (mil €)	387.0	201.4	137.1	142.1	143.0
Other operating revenue (mil €)	11.1	6.7	5.3	13.1	1.9
Operating expenses (mil €)	378.2	199.1	109.8	113.4	113.9
Operating profit (mil €)	19.9	9.0	32.6	41.8	31.0
Operating profit before depreciation (mil €)	67.5	54.6	72.7	78.7	65.7
Financial expenses (net) (mil €)	2.4	2.3	2.3	2.2	7.3
Income tax (mil €)	0.0	1.6	5.0	6.8	5.0
Net profit (mil €)	17.4	5.1	25.3	32.8	18.6
Operating profit margin	5.1%	4.5%	23.8%	29.4%	21.7%
Margin of operating profit before depreciation	17.5%	27.1%	53.0%	55.4%	45.9%
Net profit margin	4.5%	2.5%	18.5%	23.1%	13.0%
Return on equity	4.5%	1.3%	6.5%	8.5%	5.1%
Equity capital to assets	27.3%	32.3%	36.0%	37.9%	40.6%
Net loans payable/operating profit before depreciation (mil €)	1.2	4.8	3.9	3.8	4.4
Investments in fixed assets (mil €)	118.8	78.8	85.0	129.8	125.0
Dividends (mil €)	0.0	10.0	25.6	29.4	20.0

Operating profit before depreciation = operating profit + depreciation
Return on equity = net profit / average equity
Equity to assets = equity / total assets
Net loans payable = debts payable - cash and cash equivalents

Revenue

Total revenue amounted to 398.1 million euros (2021: 208.1 million euros). The company's most important source of revenue was the sale of network services, which comprised 45.2% or 174.8 million euros (2021: 54.9% or 110.7 million euros) of sales revenue. 49.4% of the revenue from network transmission services was revenue from electricity network transmission service, 7.8% revenue from gas transmission network service and 42.7% revenue from other network service (2021: 75.8%, 16.6% and 7.5%). In 2022, electricity network losses not included in the tariff were covered by the accumulated capacity allocation revenues with the approval of the Competition Authority, provided that the balance of the capacity allocation revenues is sufficient to finance cross-border investments. Revenue regulated with network tariffs comprised 57.3% of the total revenue from network services (2021: 92.5%).

60-80% of transmission revenues in both electricity and gas are generated from October to March.

Operating profit for the financial year amounted to 19.9 million euros (2021: 9.0 million euros).

Compared to 2021, electricity transmission revenues increased in 2022, whilst the fall in gas consumption also hit gas transmission revenues. Sales of electricity network services increased by 2.9%, or 2.5 million euros, as a result of the new tariffs effective from 1 April 2022, as electricity transmission volumes decreased by 7.8%, or 0.6 thousand GWh, compared to 2021. Gas transmission volumes fell by 25.6%, or 1.2 thousand GWh, which was also reflected in a decrease in gas transmission revenues by the same percentage, or 4.7 million euros. Russia's aggression in Ukraine played a significant role in the fall in gas transmission volumes. Electricity transmission volumes have also shown a downward trend in recent years, which is quietly continuing. Elering plans to introduce a fixed component tariff in the coming years to hedge the risk of falling transmission volumes.

The balancing and regulation service increased by 131.5%, i.e. 108.1 million euros, and amounted to 190.3 million euros (2021: 82.2 million euros). The increase in balancing service revenues was mainly related to balancing electricity, whose revenues increased by 88.4 million euros. Revenues increased by 77.6 %, or 68.6 million euros, due to the higher electricity price and 22.4%, or 19.8 million euros, came from the increase in volumes. The increase in revenues from gas-balancing services was also linked to both price and volume growth.

Expenses

Operating expenses amounted to 378.2 million euros (2021: 199.1 million euros). In relation to the increase in sales of balancing services, we see a similar increase also in the balancing service purchasing expenses, i.e. the expenses of purchasing the balancing service energy were 133.4%, i.e. 108.0 million euros more (2021: 204.2% or 54.4 million euros more). The significant increase in costs compared to 2021 came from even higher electricity prices in 2022, which more than doubled the cost of electricity network losses to 51.9 million euros (2021: more than double or 26.0 million euros). Labour expenses increased by 18.6%, or 2.1 million euros, in comparison with 2021 and amounted to 13.3 million euros (2021: 2.3% or 0.3 million euros, reaching 11.2 million euros). The increase in salaries and wages is related to the increase in the number of people as well as in remuneration.

Depreciation expenses have increased in relation to additional significant investments by 4.7% or 2.1 million euros, amounting to 47.7 million euros (2021: 13.5% or 5.4 million euros, reaching 45.5 million euros).

Operating profit for the financial year amounted to 19.9 million euros (2021: 9.0 million euros).

Net financial expenses increased by 0.1 million euros and amounted to 2.4 million euros (2021: 2.3 million euros).

As the company did not pay dividends in 2022, the company had no income tax expense (2021: 1.6 million euros). Net profit for financial year amounted to 17.4 million euros (2021: 5.1 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 15-30 million euros per annum. In 2022, we made replacement investments of 16.4 million euros.

Similar to 2021, investments in synchronisation with the continental European frequency area will be the main focus in 2022. The investments in synchronisation with Continental Europe will also continue from 2023-2025.

The company also invested more than 18 million euros in guaranteeing the security of supply of gas at an exceptional pace to build capacity for reception into LNG network in Paldiski.

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

Million euros	**Total investment**	**<= 2022**	**2023–2027**	**Investment**
Estonian-Latvian 3rd power transmission line	82	82	0	2011–2021
Synchronisation	293	105	188	2018–2025
Estonian-Finnish gas connection	136	136	0	2013–2023
Estonian-Latvian gas connection	45	44	0	2015–2023
GIPL (Gas Interconnection Poland-Lithuania)	2	0	2	2023
Estlink 3	490	0	34	2023–2032
Estonia-Latvia 4th line	394	0	3	2026–2035
RRF	99	2	97	2022–2026
Total	**1 539**	**368**	**324**	

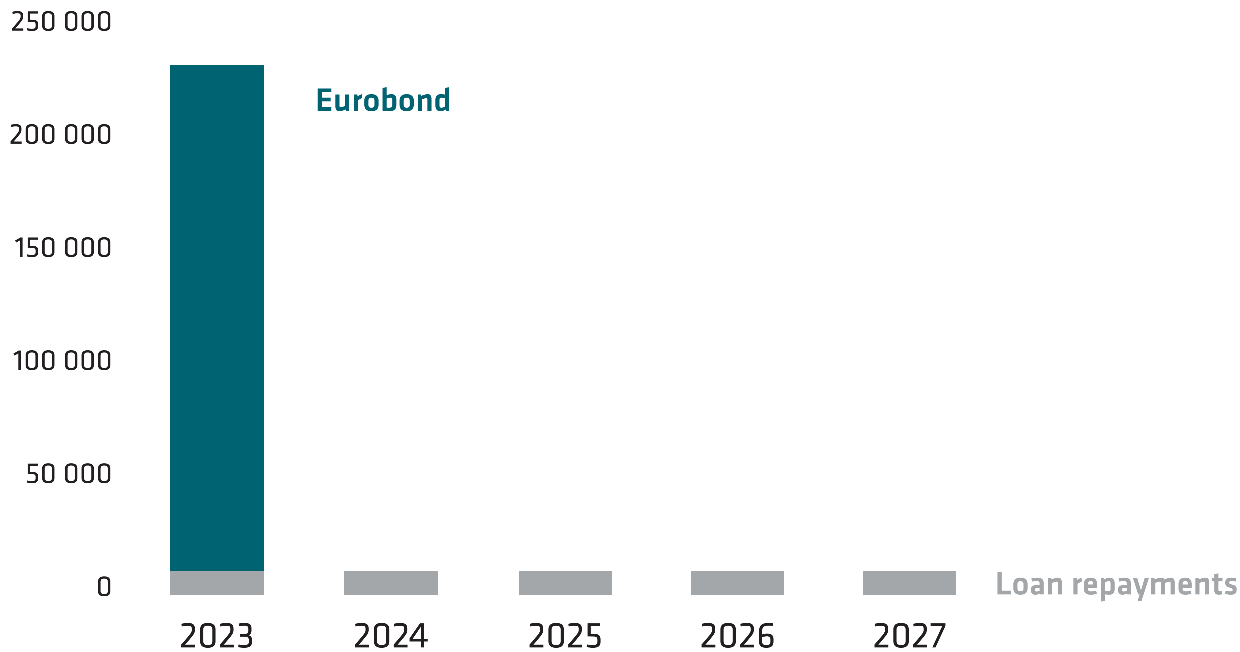
Financing

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

Million euros	**2022**	**2021**
Depreciating portion of long-term bank loans with average interest rate of 0.79% (2021: 0.69%)	10.6	10.6
Eurobonds with 0.875% coupon rate	224.9	0.0
Interest payable	1.7	1.4
Lease liabilities	0.1	0.1
Total short-term interest-bearing liabilities	237.3	12.1
Eurobonds with 0.875% coupon rate	0.0	224.7
Long-term bank loans with average effective interest rate of 0.79% (2021: 0.69%)	76.7	87.3
Lease liabilities	0.0	0.1
Total long-term interest-bearing liabilities	76.7	312.1
Total interest-bearing payables	314.0	322.6

Elering has issued Eurobonds in 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 company plans to redeem the issued bonds at maturity.

The bank loans have been taken from the European Investment Bank and the Nordic Investment Bank. The balances of these loans as of 31 December 2022 were 71.0 million euros and 16.3 million euros, respectively (2021: 78.2 million euros and 19.7 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 finances investments from sources that do not involve any interest expenses. The main source is the non-repayable aid received from the European Union. Elering has entered into financing agreements with the CINEA (European Climate Infrastructure and Environment Executive Agency) for financing the following projects:

Power transmission line connecting Estonia and Latvia	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	Investments required for synchronisation

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

Million euros	**Total EU aid received**	**Receipt of EU aid <=2022**	**Receipt of EU aid 2023–2027**
Total	422.3	275.7	146.6

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 of the end of 2022, Elering has collected 341.3 million euros in this manner, of which 268.8 million euros is not yet tied to the reporting date (176.6 million euros as of the end of 2021, 124.7 million euros untied on 31 December 2021).

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

OUR ELERING ACTION PLAN FOR INVOLVING AND MOTIVATING EMPLOYEES

The biggest capital of Elering in achieving its mission and vision is our people and their knowledge and skills.

As of the end of 2022 272 people worked in Elering (2021: 258 people). The average length of service is slightly under 12 years and the average age of employees is 43 (2021: length of service slightly over 12 years and average age of employees 43 years). 75% of the employees are men (2021: almost three-quarters).

Elering has historically been characterised by relatively low labour turnover. The voluntary turnover increased somewhat in 2022, mainly due to the significant increase in the labour market, reaching 8.3% (2021: 7.8%). Keeping the labour turnover relatively low is important to Elering in order to maintain the high level of competence required for its core business. Therefore, it's important to understand the expectations of the employees and involve them in the development of the organisation. The vast majority of our employees are university graduates; nearly half of Elering's employees have a master's or 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 for 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 and information technology within the scope of the scholarship programme. The scholarship programme is also a part of Elering's activities in the development of an energy and IT centre of excellence. Students of sciences 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 the traineeships. Job-shadowing and information classes at schools are 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.

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

The steering group "Meie Elering" ("Our Elering") has been formed for the development and coordination of the follow-up activities of the survey. The steering group "Our Elering" prepares the action plan on the basis of the feedback, which is aimed at the preservation and development of the strengths of Elering as an employer to ensure that the commitment index of Elering's people exceeds 70% and to work on the resolution of problems that prevent the commitment and satisfaction of Elering's people. The 2022 commitment study was postponed to January 2023, when the commitment of employees was 80%. The commitment level of 2021 reached 81%.

In order to create better synergy between various activities and implement area-specific policies, we have created permanent steering groups within Elering's structure, which include specialists and managers from several structural units of Elering that enable the company to create synergy between various topics and provide broader perspectives and challenges for the employee. Cooperation within and between teams is also promoted with 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 contacts 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; they are responsible for organising the events of Elering.

We support a healthy lifestyle; therefore, in addition to the exercise benefit, Elering holds various sporting events and joint actions at the initiative of the company and the employees. The compulsory health checks aimed at employees are carried out every two years; employees aged 40+ can undergo an exercise stress test.

50 new employees joined Elering in 2022 alone, which means that organising systematic induction and development activities is essential. The duration of the induction programme at Elering is approximately one and a half months. In the course of the programme, new employees meet with representatives of structural units and get an overview of the company's fields of activity and the work of each unit, corporate values, culture and Elering's role and responsibility in society. Mentoring and supervision are part of the corporate culture. In addition to training aimed at creating and maintaining professional competence, we provide other training courses for general competencies that range from modern machine learning techniques and artificial intelligence to 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 relevant or interesting topics in their field.

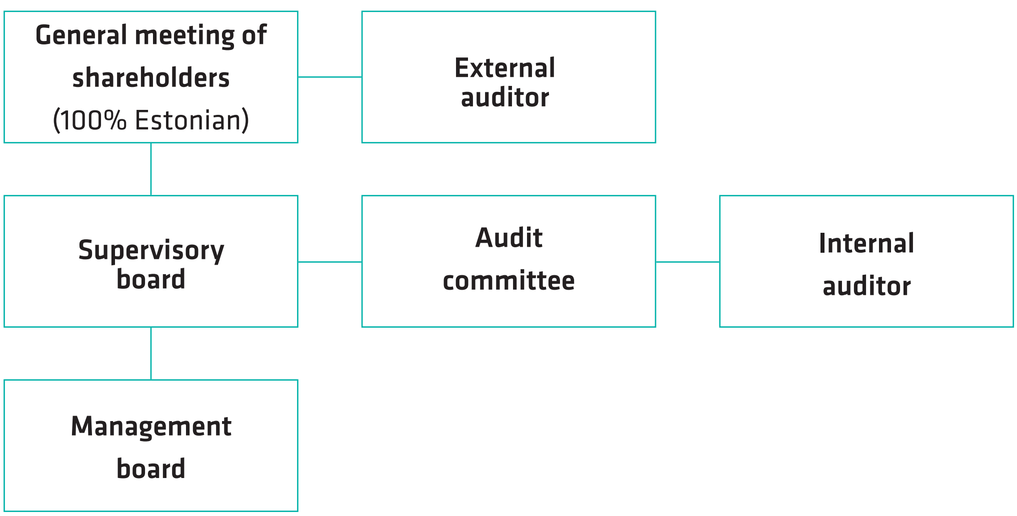
The talent programme of the Elering Academy is aimed at specialists of Elering who want to expand their knowledge and contribute to and participate in the topics concerning the future of Elering and the Estonian energy system and they have the motivation and readiness to act as the leaders of changes in Elering. In order to support the development of our managers, we prepared the good corporate governance practices of Elering with our middle managers and offered management training. We are constantly striving to improve the working environment by gathering ideas and needs on a regular basis and through the collaborative discussions held at least twice a year. The company has created all the necessary conditions for people with special needs to be able to work in the same work environment (lifts, comfortable entry into rooms). Spacious, light and modern workplaces with a good inner climate have been created for all office employees. Employees working on transmission lines wear specific clothing and have comfortable auxiliary rooms for showering, dressing and drying their clothes. It is possible to use quiet and private workspaces and ergonomic tables and chairs in the office. Remote work is also being used increasingly often and we've also created convenient tools to provide a comfortable and modern environment no matter where people work.

CORPORATE GOVERNANCE

The management of Elering is based on the Commercial Code, the State Assets Act, Elering's Articles of Association and the Good Corporate Governance Code (GCGC), which has been prepared by the Estonian Financial Supervision Authority and OMX Tallinn Stock Exchange.

Elering is committed to following the Corporate Governance Code and wishes to grow further in this area. We consider this a prerequisite for 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 for the achievement of the company's goals. A detailed report regarding compliance with the CGC in 2022 is accessible on Elering's website: https://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 the share capital; elect and remove members of the supervisory board; elect auditors; designate a special audit; approve the annual report and distribute profit; and decide on the merger, division, transformation and/or dissolution of the company as well as on other issues placed in the competence of the general meeting by law and the articles of association. In addition to the Commercial Code, the general meeting follows in its activities (calling a meeting, information to be disclosed, etc.) the State Assets Act.

The sole owner of Elering AS is the Republic of Estonia, which is represented at the general meeting by the Minister of Economic Affairs and Infrastructure, who until 3 June 2022 was Taavi Aas and from 18 July 2022 was Riina Sikkut. The shareholder adopts resolutions at a general meeting or without calling a meeting.

Two regular general meetings were held during the year: the first on 17 June 2022, where the distribution of profit for 2021 was approved, and the second on 11 July 2022, where Elering's annual report for 2021 was approved. On 2 March, the shareholder adopted the resolution to remove Tarmo Porgand from the supervisory board as of 07.03.2022 and appoint Kaie Karniol a new member of the supervisory board; on 28 March 2022, the sole shareholder appointed the company's financial auditor for 2022-2026; on 12 April 2022, the owner adopted the resolution to approve the investments of Elering AS in the development of the energy system in relation to the capacity to receive liquefied gas; on 21 April 2022, the sole shareholder adopted the resolution to amend the document of the owner's expectations; on 31 May 2022, the sole shareholder adopted the resolution to remove Timo Tatar from the supervisory board and appoint Jaanus Uiga a new member of the supervisory board; on 3 August 2022, the sole shareholder adopted the resolution on the investments of Elering in the establishment of the capacity to receive liquefied gas; on 18 November 2022, the sole shareholder adopted the resolution to amend the document of the owner's expectations.

Supervisory board

The owner's interests in the company are guaranteed through the members of the supervisory board. The supervisory board provides the Management Board with guidelines for organising the management of the company and exercises supervision over the activities of the Management Board of the company. The supervisory board regularly reviews and evaluates the company's strategy, main activities, risk assessments, the annual report and the budget.

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

Composition and remuneration of the supervisory board

The supervisory board consists of three to five members. The number of members of the supervisory board is decided and the members of the supervisory board are elected and removed by the representative of the owner, i.e. the Minister of 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.

In 2022, there were four regular, five extraordinary and three electronic meetings. The supervisory board approved the annual report for 2021 before submitting it to the annual general meeting of shareholders for approval and approved Elering's strategy for 2023-2027 and the 2023 business and investment budgets. The establishment of liquefied gas reception capacity was also discussed. 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 2022, the supervisory board of Elering comprised the following members:

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

- Timo Tatar, member of the supervisory board as of 26.03.2012 (Deputy Secretary-General for Energy and Mineral Resources at the Ministry of Economic Affairs and Communications), authorised until 31.05.2022, participated in one regular and one extraordinary meeting and in one electronic vote.

- Indrek Kasela, as of 21.08.2016 (entrepreneur), authorised until 22.05.2023, participated in four annual and four extraordinary meetings and in two electronic votes.

- Tarmo Porgand, as of 22.05.2017 (Deputy Head of the State Assets Department at the Ministry of Finance) authorised until 07.03.2022, participated in one electronic vote.

- Janek Stalmeister, as of 22.05.2020 (entrepreneur), authorised until 22.05.2023, participated in four annual and five extraordinary meetings and in three electronic votes.

- Jaanus Uiga as of 31.05.2022 (energy expert, former Head of the Energy Department at the Ministry of Economic Affairs and Communications), authorised until 01.06.2025, participated in three regular and four extraordinary meetings and in two electronic votes.

- Kaie Karniol, as of 07.03.2022 (Head of the State Assets Department at the Ministry of Finance), authorised until 06.03.2025, participated in four annual and five extraordinary meetings and in two electronic votes.

In 2022, the members of the supervisory board were paid remuneration as follows:

Member of supervisory board	Total remuneration in 2022 (thousand euros)	Total remuneration in 2021 (thousand euros)
Timo Rajala	18.0	18.0
Timo Tatar	3.8	9.0
Indrek Kasela	9.0	9.0
Tarmo Porgand	1.6	9.0
Janek Stalmeister	9.0	9.0
Kaie Karniol	7.5	0.0
Jaanus Uiga	5.3	0.0

There is no provision for the payment of severance benefits or other benefits to members of the supervisory board. In 2022, Timo Tatar and Tarmo Porgand left the supervisory board and Jaanus Uiga and Kaie Karniol were elected new members of the supervisory board.

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; day-to-day management decisions are made independently of the owner and the supervisory board. The management board needs approval from the supervisory board for transactions and operations that go beyond the day-to-day economic activities of the company. The management board ensures that the members of the supervisory board are adequately informed of the economic situation of the company and the most important circumstances with regard to economic activity and inform the supervisory board of the most important circumstances with regard to economic activity, as necessary.

Composition and remuneration of the management board

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

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


Taavi Veskimägi


Riina Käi


Kalle Kilk

Throughout 2022, 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, as a member of the management board who also performs the role of CFO, manages Elering's financial activities, the area of renewable energy and the areas of administration and information technology

- Kalle Kilk, 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 regular results or on another basis, based on a supervisory board decision. The remuneration of the members of the management board is fixed and stipulated in the contract concluded with the management board member. Elering has 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.

In 2022, the remuneration paid to the members of the management board of Elering AS, including taxes, was as follows:

Member of management board	Total remuneration in 2022 (thousand euros)	Total remuneration in 2021 (thousand euros)
Taavi Veskimägi	192.5	170.5
Kalle Kilk	146.7	127.1
Riina Käi	146.5	125.4

The authorities of all members of the management board are effective as follows:

The authorities of Taavi Veskimägi are effective until 30.11.2024
The authorities of Kalle Kilk are effective until 31.12.2024
The authorities of Riina Käi are effective until 31.12.2024

Prevention of conflicts of interest

Members of the management board do not adopt resolutions based on their own interests, nor do they use commercial offers made to Elering to their own gain. A member of the management board notifies the supervisory board and other members of the management board of any conflicts of interest prior to the conclusion of their contract and without delay upon 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; the amounts of transactions executed with said related parties are disclosed in the annual report. Elering did not conclude any transactions with members of the management board or parties related to them in 2022 (no transactions were concluded with member of the management board or parties related to them in 2021).

Audit committee

The supervisory board elects an audit committee of up to five members, charged with overseeing risk management, internal control and financial reporting. The audit committee advises the supervisory board in the area of accounting, financial reporting, verifying the independence of the sworn auditor, risk management, internal control and audit, exercising supervision and preparation of the budget as well as the legality of activities.

Members of the committee are elected for a term of three years and the members elect a chairman from among themselves who organises the activities of the audit committee. The chairman of the supervisory board may not hold the position of chairman of the audit committee.

- Timo Tatar (Deputy Secretary-General for Energy and Mineral Resources at the Ministry of Economic Affairs and Communications) until 31.05.2022
- Jaanus Uiga (energy expert, former Head of the Energy Department at the Ministry of Economic Affairs and Communications) as of 31.05.2022
- Indrek Kasela (entrepreneur)
- Tarmo Porgand (Deputy Head of the State Assets Department at the Ministry of Finance) until 07.03.2022
- Kaie Karniol (Head of the State Assets Department, Ministry of Finance) as of 07.03.2022
- Janek Stalmeister (entrepreneur).

The audit committee held five (5) meetings in 2022: on 14 March, 8 June, 13 September, 3 October and 7 December (five times in 2021). The audit committee addressed the following completed internal audits: investment management at Elering, ensuring security of gas supply and the procurement process. It also reviewed the audit plan, assessed the work of the external auditor and analysed the topics of internal control and financial reporting as well as the criteria for selecting an internal auditor. The internal audit service is outsourced from the external service provider. The internal auditor was paid 34.0 thousand euros for their services in 2021 (2021: 29.7 thousand euros).

In 2022, the members of the audit committee were paid remuneration as follows:

Member of the audit committee	Total remuneration in 2022 (thousand euros)	Total remuneration in 2021 (thousand euros)
Timo Tatar	0.3	1.4
Indrek Kasela	0.8	0.8
Tarmo Porgand	0.0	0.9
Janek Stalmeister	0.8	0.9
Kaie Karniol	0.6	0.0
Jaanus Uiga	0.8	0.0

Cooperation between management board and supervisory board

The management board and the supervisory board cooperate closely for the purpose of the best protection of interests of Elering. The management board and the supervisory board work together to develop the company's strategy. The management board follows the strategic guidelines provided by the supervisory board when making management decisions.

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

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

Disclosure of information

The website of Elering (https://elering.ee/en) presents data that is 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 together with the annual report.

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

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

In spring 2022, a new procurement was carried out to find an auditor for 2022-2024 with the option to extend until 2026. The tender was awarded to AS PricewaterhouseCoopers. In carrying out the external audit, the company complies with the laws of the Republic of Estonia, international auditing standards and the risk management rules of the audit firm, including European Union Regulation on audit activities that entered into force in 2016. In 2022, Elering paid 29.4 thousand euros for the audit of the annual report on the basis of the submitted invoices (2021: 14.0 thousand euros) (the indicated fee does not include VAT).

In addition to the assessment of Elering’s financial reporting, the external auditor provided the following services in 2022:

- Carried out an audit of the activity report in accordance with the requirements of § 17 of the Electricity Market Act.
- Prepared a report on the findings of the audit to the National Audit Office.
- Checked the regularity of transactions pursuant to the requirements of the National Audit Office of Estonia.
- Provided tax and accounting advisory services that comply with the Auditing Act.

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

Ethics and prevention of corruption

Elering is a company with zero tolerance for corruption.

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

- The risk of violation of laws, as corruption is clearly an unlawful activity.

  Elering wants to be an class leader to other companies 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's possible to suffer remarkably serious economic damage as a result of corruption. This may become evident in higher purchasing costs, lower quality of the equipment purchased, etc.

- Loss of internal trust

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

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

The supervisory board of the company has approved 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 good business practices, which are defined in the policy.

- Obligation and procedure of reporting suspicions

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

In addition to the Anti-corruption Policy, nine procedures of the company include provisions that prevent the possibility of the emergence of corruption.

The risk analysis revealed that the likelihood for the corruption is highest in procurements. The preventive measures have been described in procurement procedure and enforced to all employees related to procurements. Some of the measures are: the procurement documents must be submitted to the management board prior to making them public. Also, management board approves the results of procurements after the tenders have been received. Amendments to the awarded public contracts may only be made with a decision of the management board. The use of the four-eyes principle in processing the invoices received is implemented.

The assets are registered and accounted for in the business software also for the assets, which value might be zero. Assets can be written off only with an approval by the owner of the assets, their line manager and the member of the management board responsible for the area approving it with the sign-off.

Employees can find guidelines on the recognition and prevention of corruption in the intranet under the section Corruption Prevention. All employees confirm electronically that they have read and are familiar with the guidelines and will act accordingly.

Regular trainings mandatory for all employees on the corruption prevention are carried out. The main focus of the training is on the quick recognition of potential corruption situations. In society. There have often been cases of corruption in which the participants committed an unlawful act without realising it and for no personal gain. Completing the training enables the employees of Elering to better recognise possible situations of corruption and respond to them preventively.

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

No corruption cases were identified in Elering in 2022 and the management board is convinced that the measures taken to prevent corruption also help to keep the risk of corruption minimal in the future.

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

Risk management and risks

Elering performs a very important public task: the provision of electricity and gas network services through the transmission network across the country, which is a vital service by law. Therefore, the company's risk management consists of two parts:

- Risk management in the company

  The objective of risk management at Elering is to identify the risks that may jeopardise the achievement of the company's strategic goals and thereafter to reduce the risks to a level acceptable to the company. Thus, the company's risk management deals with risks from the perspective of the company. The company uses the COSO ERM risk management framework for risk management.

- Risk management related to vital service

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

Risk management in the company

The management board is responsible for the functioning of risk management and reports the results to the audit committee and the supervisory board. The company's CRO, who reports directly to the chairman of the management board, organises risk management on a daily basis. Risks are primarily assessed by sector-specific risk working groups:

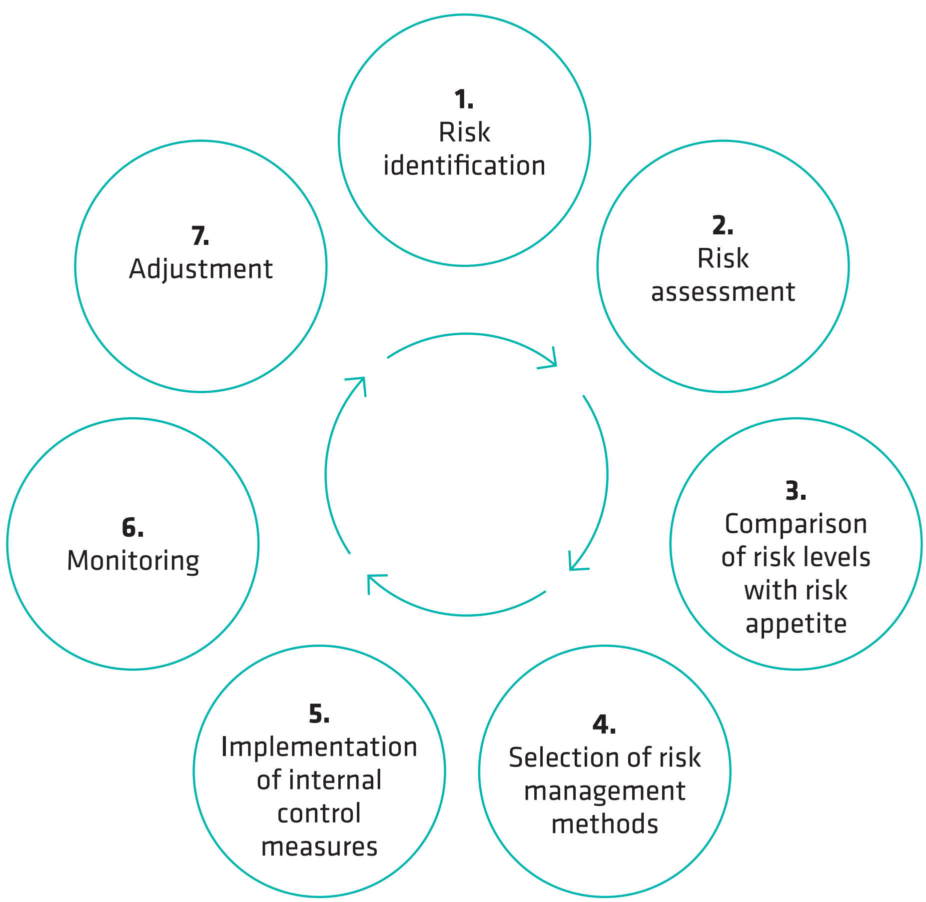
- Working group on energy system risks
- Working group on operational risks
- Working group on financial risks
- Working group on compliance risks
- Working group on IT risks

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

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

The internal control system of the company (including compliance with procedures) is assessed by an independent internal auditor who regularly reports the results of the assessment to the audit committee. Ernst & Young Baltic AS was the internal auditor in the financial year. The financial risks are described in more detailed in the financial report Note 5.

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



1. Risk identification – the scenarios that may threaten the achievement of objectives are described and placed into categories.

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

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

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

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

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

7. Adjustment means the 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.

The risk assessment showed that external threats have increased significantly during the year.

There is no doubt that 2022 went down in history as the year when geopolitical threats increased sharply in Europe. Russia's aggression, which had already become evident in late 2021, culminated in February with the war they launched against Ukraine. For historical and geographic reasons, our region's energy infrastructure has been closely linked to that of Russia, which means that Russia has the potential to influence Estonia's energy and gas infrastructure in several ways. The increase in the geopolitical threat has led to an increase in a number of key threats:

- Threat of a physical attack on energy system infrastructure
- Threat of disruption of the electricity system
- Threat of a cyberattack
- Threat of a decrease in economic activity
- And more

The biggest change in threats during the year concerns gas supply. For decades, Russia has been the largest gas supplier in our region. So, an unexpected cease of gas supplies from Russia was one of the biggest threats just a year ago. However, the regional gas infrastructure was well prepared for this. Russian gas supplies were completely cut off in 2022, but there was enough gas for the start of the heating season stored in an underground storage facility in

Latvia. The Inkoo and Hamina LNG terminals in Finland were also completed and the technical capacity for a fast floating storage and regasification unit (FSRU) was established in Paldiski. The GIPL gas connection between Poland and Lithuania was also completed during the year. Thus, in coming years, the region's gas supply will mainly come from LNG. Still LNG is also not entirely risk-free, as it depends on the price and availability of LNG on the world market, the quality of LNG terminal operations, logistics and more. However, LNG supply risks are much more predictable and manageable than the risks related to Russia.

The risk of electricity system disruption remains a particular concern, as it may materialise if Russia suddenly disconnect all power lines linked to the Baltic States. The consequence would be the operation of the Baltic electricity system in an islanded state. This means that the Baltic electricity system would not be connected to any other electricity system via AC connections (DC connections to the Nordic countries and Poland would remain), which means greater vulnerability to major systemic disturbances. To this end, the Baltic and Polish electricity TSOs have agreed on an action plan for connecting the Baltic electricity system to the Continental European electricity system via Poland.

The increase in external risks is also reflected in the estimated residual risks:

Number	Low	Medium	High	Very high	Total
Energy system risks	2	6	1	1	10
Financial risks	0	2	2	0	4
IT risks	4	2	2	0	8
Operational risks	4	6	1	0	11
Compliance risks	2	4	0	0	6
Total	12	20	6	1	39

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

In 2022, a significant realised risk was identified at a company level: a decrease in energy transmission volumes. Electricity and gas consumption were negatively affected by both the unprecedented high level of energy prices and the economic slowdown. The quantities of electricity transmitted by Elering for domestic consumption decreased by *ca* 8% and the quantities of gas by *ca* 26%, resulting in a loss of approximately 17 million euros compared to the revenues assumed in the current network fee calculations.

Risk management related to vital service

Risk management related to vital services is based on the requirements and principles set forth in the Emergency Act and its sub-acts. Pursuant to the Act, each provider of vital services must prepare a risk analysis related to the vital service and a business continuity plan and submit them for approval to the agency organising a vital service set forth by law, which in the case of Elering is the Ministry of Economic Affairs and Communications.

A risk analysis covers:

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

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

Risk scenarios address the following threats:

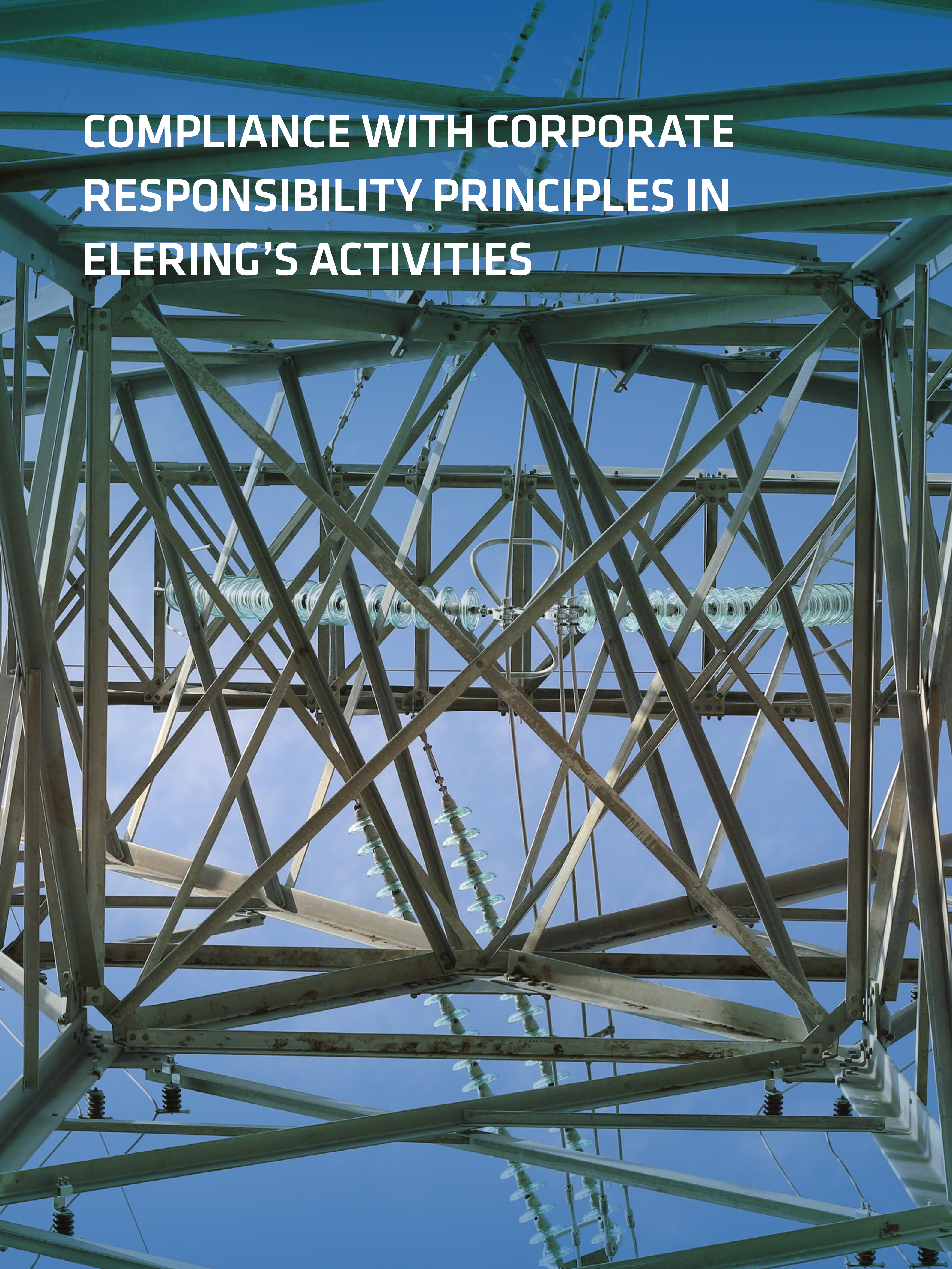
- weather (storm, exceptional cold wave, etc.);
- insufficient electricity generation capacity;
- disruption of gas supply;
- human errors;
- physical attacks against infrastructure;
- cyberattacks;
- deterioration of the technical condition of equipment;
- impact of neighbouring electric power systems;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

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

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

Despite the increased threats in the external environment, the management board is convinced that risks are well managed for both the achievement of the company's strategic goals and the energy supply of the customers of the vital service. This does not mean that the materialisation of risk scenarios is completely ruled out. Elering has worked and will continue to work to bring the probability of risks materialising and their impacts to an acceptable level.

COMPLIANCE WITH CORPORATE RESPONSIBILITY PRINCIPLES IN ELERING'S ACTIVITIES



Contribution to UN Sustainable Development Goals

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

SDG 7 Affordable and clean energy

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

SDG 13 Climate action

The goal of Elering's climate policy is to ensure security of supply in Estonia in a climate-neutral manner; to achieve Elering's strategic goals when transitioning to the climate-neutral economy. We put our heads together and contribute to the achievement of the European climate goals set with the Paris Climate Agreement. We are the leaders in making power and gas systems climate neutral. As a company, we've 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 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 the products and services offered in society.

Corporate social responsibility principles

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

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

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

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

Gold Label of the CSR Index

RESPONSIBLE BUSINESS INDEX GOLD LEVEL 2022

One of the options for monitoring Elering's corporate responsibility is the annual Corporate Social Responsibility (CSR) index organised by the Corporate Social Responsibility Forum. The index is an assessment of the corporate responsibility of companies in the form of self-assessment, the result of which is valid for the company for two years. Elering achieved the Corporate Responsibility Gold Label for the first time in 2019 by participating in the CSR Index and we repeated that result in the 2021 index. The Gold Label clearly demonstrates Elering's commitment to contribute to the management of responsible topics beyond what is required by law.

Focus topics of corporate responsibility and their management

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

The focus topics are divided into sub-topics and in order to manage them, we've created an ESG action plan and more detailed sectoral action plans and guidelines. We also manage ESG topics through sectoral policies and strategies. In the ESG Action Plan, we set out the annual objectives, the responsible persons and the resources allocated and update the document throughout the year. The ESG Action Plan is also approved by the supervisory board of Elering as part of the corporate budget.

Elering's ESG areas and focus topics:

Environmental impact management (E)	Social impact management (S)	Responsible governance practice (G)
1. Reduction of climate impact 2. Development of a network oriented towards renewable energy 3. Prevention of environmental pollution and waste 4. Increasing biodiversity and reduction of negative impact on wildlife 5. Reduction of the environmental impact of office activities	**Social impact on the economy and the community** 1. Security of supply and strengthening the competitiveness of the economy 2. Reduction of negative impact on the community resulting from operational activities 3. Infrastructure safety 4. Innovation and promotion of science 5. High-quality customer service **Positive impact on Elering's employees** 1. Healthy and safe working environment 2. Diversity and equal treatment 3. Inclusive management culture 4. Training and development activities 5. Next generation employees	1. Transparency and openness 2. Fair and ethical management 3. Responsible criteria for suppliers and partners 4. Data protection 5. Cybersecurity

ELERING ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) ACTION PLAN 2022

Environmental impact management

- **Climate impact**

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

Elering manages its climate impact through the Elering Climate Policy, which aims to contribute to the climate neutrality of Estonia's security of supply (more: https://elering.ee/eleringi-kliimapoliitika).

During the year, we kept Elering's action plan for achieving carbon neutrality by 2030 up to date and implemented greenhouse gas reduction activities in line with the plan. As one of the activities to offset the carbon footprint, we have for the first time purchased renewable energy certificates of origin to reduce the environmental footprint of the grid and will continue to do so on a larger scale and according to the action plan in the coming years.

Elering has set itself the goal to decrease greenhouse gas emissions by 50% by 2025

We also explored the possibilities of developing an information system for the automatic monitoring of Elering's carbon footprint and will go further with the analysis.

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

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

In order to explore the possibilities for the wider use of renewable energy, we carried out and initiated several studies this year, including a regional study on the storage and transmission capacity of hydrogen fuel and a study on the scenarios of the future electricity consumption in Estonia.

We're actively involved in the work of the European Hydrogen Backbone, a consortium of European Gas System Operators, which will produce an analysis in 2022 comparing hydrogen supply chains, production potential and consumption and presenting a hydrogen map of Europe. The report was published in April and is available at https://www.ehb.eu/. In early June, an event was held with European market participants to present the EHB vision and to receive feedback from market participants.

As an ongoing action, we've been promoting biomethane as a domestic renewable fuel for several years; through this, we support the decarbonisation of the transport sector. We conduct regular biomethane advisory meetings, involving all stakeholders, and publish relevant information on the biomethane website https://biometaan.info and on social media.

We carried out various studies on the development of the future submarine network and worked on the pre-selection of the route and the action plan for the third Estonian-Finnish electricity interconnector EstLink 3, also concluding a Memorandum of Understanding (MoU) with the Finnish TSO FinGrid in June.

We carried out preparations for investments in RRF (the European Recovery and Resilience Facility) in order to increase the capacity for renewable energy connections. Among the RRF investments, we're reconstructing the Kiisa-Rummu and Mustvee-Paide overhead lines, building the Võiküla-Orissaare parallel line, constructing a second new 100-kilovolt submarine cable in the Väike Väin Strait and building and expanding the 110-kilovolt substations in Lihula and Orissaare.

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

- **Prevention of environmental pollution**

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

Activities on power transmission lines

As an action to protect the environment, we're dismantling out-of-service power lines as a continuous activity, so in 2022 we removed 48 kilometres of the L206 Püssi-Kiisa 220-kilovolt overhead line as planned, which we'll continue in 2023. 142 towers, more than 144 running kilometres of conductors, more than 20 running kilometres of lightning protection cables and 78 towers worth of concrete foundations were decommissioned during dismantling.

We made preparations for dismantling three Soviet-era 35-kilovolt oil cables from the Suur Väin Strait, which we've replaced in previous years with new and environmentally friendly submarine cables. We also decommissioned the residues of old oil cables that were more harmful to the environment.

In the framework of the Continental European Frequency Interconnection Programme, we dismantled a total of 512 masts on the L310 Tartu-Valmiera, L040 Tsirguliina-Valga, L300 Balti-Tartu, L072/L073 Alutaguse-Konsu, L104A Illuka-Alutaguse and L104B Mustvee-Alutaguse lines and 857 kilometres of conductors on 151 kilometres.

During the renovation and maintenance of lines, we dismantled and decommissioned 17 towers and seven running kilometres of lightning protection cables and 15 km of conductors.

Activities at substations

During the year, we analysed the possibility of using medium- and high-voltage equipment free of SF_6 in new installations in the future. We provided input to the development of the state's position on the new European Commission draft regulation on ozone-depleting substances (including SF_6 gas) and presented the topic to the Environmental Committee of the Riigikogu.

We'll continue to work on updating the system for calculating environmental costs and hazardous waste disposal volumes and on creating a specific manual for parties involved in hazardous waste disposal.

At older substations, we're making the necessary improvements on an ongoing basis to reduce potential negative environmental impacts. By actively communicating with the manufacturer, we found an opportunity to practice a more robust solution for the oil traps of the transformer oil collection baths in new substations and to replace the old oil trap valves in existing substations.

Gas network activities

In 2022, we carried out a number of investment works on the gas transmission network, which resulted in increased safety of the network and improved the overall environmental status.

We built, replaced or renovated 1944 metres of depreciated gas pipes in total. We built the branch valve station of the Roiu line, which guarantees the faster and safer operation of gas pipelines and eliminates the need to drive to the

site to make switches, which reduces our environmental impact.

We renovated the heating systems in four gas distribution stations (Narva, Sillamäe, Kunda and Rakke), which will result in lower exhaust gas emissions and less fuel (natural gas) used.

We replaced 13 cathodic stations on pipelines with remotely controlled ones, which ensure low corrosion levels in the pipelines and lower energy consumption due to an automatic and continuously adjustable operating cycle. The need to drive to the site every month for the performance of the necessary regulations was eliminated when controlling the cathodic stations remotely became possible, which also reduces the use of car transport for monitoring.

We freed 4.85 kilometres of land under overhead lines in Tallinn in 2022

We replaced the anode earthing systems of three cathodic stations with new ones, resulting in improved corrosion resistance of the piping and reduced environmental impacts of stray currents. We replaced diesel-fuelled back-up generators with natural gas-fuelled generators at three gas distribution stations, resulting in reduced emissions, and since the gas is available from the gas distribution station, there is no need to drive to the station and refuel, significantly reducing the environmental costs of emissions from driving.

The complete reconstruction of the Veriora gas distribution station reduced environmental costs thanks to a more accurate odorant addition to the distribution network gas leaving the station as well as more accurate and automatic gas preheating and a natural gas back-up generator.

In connection with the reconstruction of older gas stations, we needed a solution for the utilisation of odorant residues, which is a complex area. In cooperation with a framework contract partner, we found a solution for the disposal of the residues in a foreign country, where they are properly managed.

- **Increasing biodiversity and reduction of negative impact on wildlife**

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

This year, we signed a partnership agreement and started working with the Nature Fund, which brings together private landowners. The purpose of the cooperation agreement is to promote biodiversity on the private land used by Elering in support of the climate objectives of the European Union's Biodiversity Strategy (30% protected areas) and the Green Deal; to find science-based solutions in cooperation to provide new or alternative habitats for species in the protection zones of Elering's buildings; to increase responsible business practices in the field of nature conservation and to minimise potential negative impacts on the environment and increase activities that have a positive impact on biodiversity.

We freed 4.85 kilometres of land under overhead lines in Tallinn in 2022 by replacing the Volta-Paljassaare line with a cable. We continued the projects for replacing overhead lines with underground cables. In Tartu, we completed the final preliminary project of route selection for the undergrounding of two lines (Tartu-Tööstuse and Tartu-Ülejõe) and made the necessary preparations for the undergrounding contracts for the Veskimetsa-Harku and Viimsi overhead lines.

As part of the programme to synchronise Estonian and Baltic electricity systems with the Continental European frequency area, we started to release line space on lines from Narva to Latvia in connection with the concentration of lines on common masts. By the end of the programme in 2025, we'll have freed up a total of 1300 ha of land.

In order to increase the security of supply to the large island in Western Estonia, we moved the 110-kilovolt high-voltage lines running through the island of Muhu and located on the same masts to separate masts. No new route was built in order to reduce the environmental impact, but the new mast row will run about 15 metres from the existing line. As usual, we took all environmental restrictions into account when doing the work, i.e. we avoided disturbing birds during spring and autumn migration and did not carry out any works during the bird nesting period from 15 April to 15 July. We also avoided excessive off-road driving and, when digging trenches in areas with semi-natural communities, we put back the turf at the end of the work to speed up vegetation recovery.

- **Reduction of the environmental impact of office activities**

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

In line with Elering's Climate Neutrality Action Plan, we launched the analysis of the replacement of Elering's vehicles with green fuel vehicles and the creation of the corresponding charging infrastructure this year.

We cover on average one-fifth of the building's electricity consumption with solar panels on the roof of the headquarters, collect rainwater for use in toilets at the headquarters and in some substations and collect waste separately. Every year, we encourage our employees to consciously monitor and reduce digital waste. This year, we also called on Elering employees to take part in the World Cleanup Day in mid-September and distributed the necessary resources. Employees could choose the area where they contributed to the Cleanup Day.

We continue to keep bees in the courtyard of the Elering headquarters in cooperation with the Tallinn Beekeepers Association. In 2022, we had eight bee colonies with about 300,000 bees. The presence of urban bees enhances the city's biodiversity; they can help raise awareness of the city's residents of the need for a nature-friendly lifestyle and contribute to increasing the yield of fruit trees and berries. We've also planted fruit trees in the garden of the Elering office.

We only source Fairtrade coffee and Ethical Tea Partnership tea for our offices. This year, we also launched a herbal tea collection campaign among our staff and we prepare herbal tea in the office on a daily basis, which has proved very popular.

Social impact management

- **Security of supply**

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

In December, we published our annual Security of Supply Report, a comprehensive overview of energy system management, network, power system and digital capabilities in Estonia. The Security of Supply Report can be found on the Elering website https://elering.ee/varustuskindluse-aruanded.

In late autumn/early winter, we organised a series of webinars on the adequacy of the system next winter and system capacity reviews for the Baltic Sea region to give the public a broader picture of the European energy system and Estonia's role in it.

We worked on concepts for new energy market services and published the common rules for the Baltic TSO frequency reserve markets for public consultation.

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

- **Impact of the principal activity on the surrounding community**

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

When developing and upgrading the energy infrastructure, we contribute to the public space by visually fitting the infrastructure into the surround-

ing environment (e.g. designer masts, drawings on substation walls). Our goal is to use design to bring people closer to energy topics.

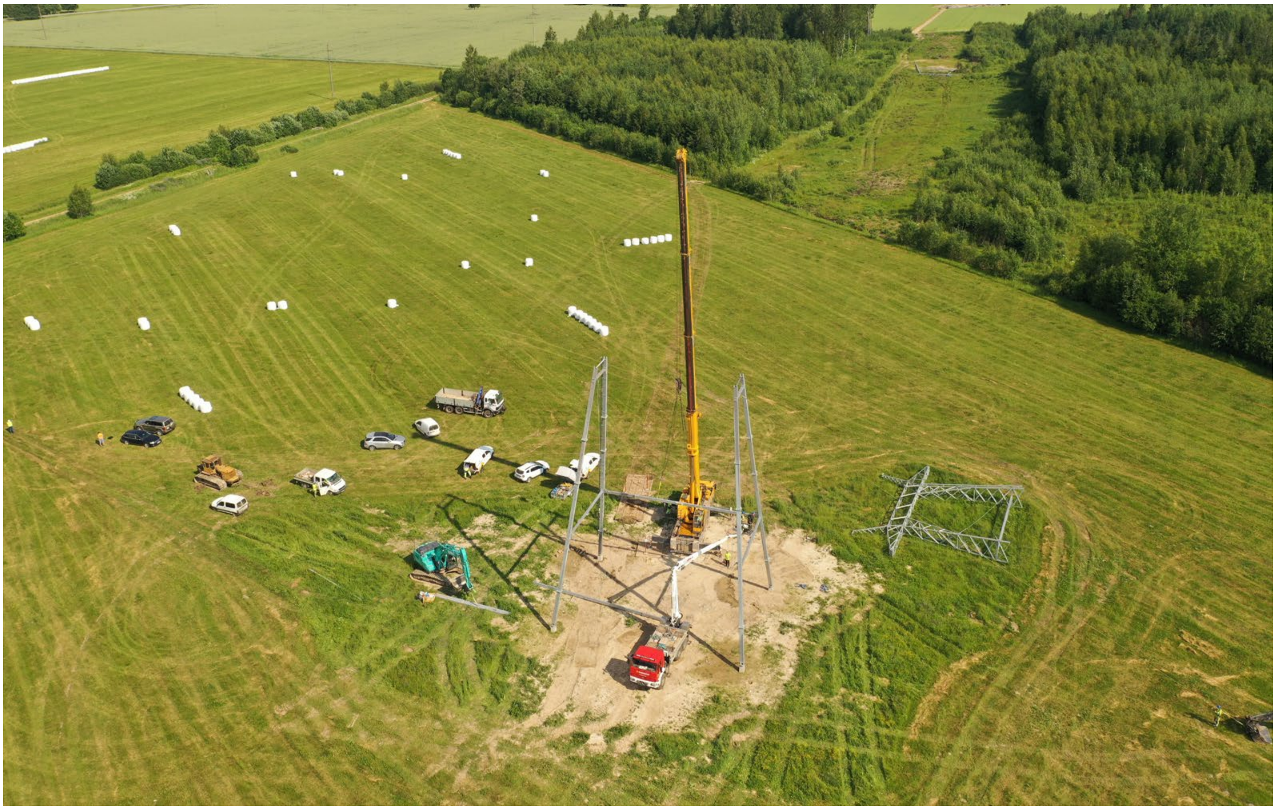
In August 2022, we erected a new designer pylon Sookurg (Bog Crane) near Tartu at the intersection of Tallinn-Tartu highway and Tiksoja Road – it's an excellent example of Estonian infrastructure design with which Elering contributes to the development of the living environment, local identity and creative economy.

The designer pylon Sookurg belongs to the same family as Soorebane (Bog Fox), the first Estonian designer pylon erected in Lääne County in 2020. Architects Sille Pihlak and Siim Tuksam from PART Architects are the authors of both designer pylons.

Inspired by the success of Estonia's first high-voltage line designer pylon Soorebane, we decided to install the next designer pylon as part of a major project to join the Continental European power grid.

Sookurg carries the wires of Elering's powerful 330-kilovolt Balti-Tartu transit line, i.e. the Estonian-Latvian electricity connection and the 110-kilovolt power line of local importance. Sookurg is part of a major project that will see Estonia and the other Baltic States disconnect from the Russian power grid and join the Continental European grid by 2026 at the latest, thus ensuring a more secure electricity supply.

Considering the interests of landowners, we'll erect farming-friendly pylons when building new lines, i.e. pylons that are free-standing without guy lines, so that farm machinery can drive under them. Thanks to the absence of guy lines, field cultivation in the line protection zone is much easier than for masts with guy lines. The 230 new



pylons to be installed will serve two power transmission lines, both of which play a crucial role in connecting to the Continental European power grid and are currently under reconstruction.

When clearing line protection zones of woody vegetation, we use milling as much as possible, which is a better option for landowners than no milling. In 2022, we cleared more than 1,700 hectares of line protection zones in this manner.

The equipment of working substations may cause noise that disturbs the surroundings. Although measurements have not shown that the limit values have been exceeded, we launched preparatory activities in 2022 to surround the transformers of 330 kV substations on all sides with noise barriers. Walls will be installed in nine (9) substations in total.

- **Infrastructure safety**

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

We carried out the annual spring safety campaign in 2022 in order to draw attention to the dangers of staying and working in the protection zones of power transmission lines and gas pipelines. We carried out the campaign in cooperation with Elektrilevi and the Rescue Board and plan to continue this constructive cooperation in order to bring information about threats to people as effectively as possible.

We'll also continue marking the gas infrastructure, which we've upgraded and improved throughout the 2022 maintenance period to ensure safety.

- **Research and development**

We contribute one percent of our turnover to research and development as expected by Elering's owner. The objective of the R&D projects is to contribute to the achievement of Elering's strategic goals in order to ensure security of supply in a climate-neutral manner by supporting the competitiveness of the Estonian economy.

In order to achieve the climate and renewable energy targets set by the European Union and Estonia, a number of changes in the energy system and the wider energy economy are needed. This is accompanied by changes in energy production and consumption, which Elering has tried to assess in recent years. A study on the transition of gas consumption to clean energy was carried out in 2021 and a study on electricity consumption scenarios in Estonia was completed in 2022. The electricity consumption study estimated Estonia's electricity consumption up to 2050, taking into account the electrification of the transport sector, the widespread use of heat pumps instead of fossil fuels in the heating sector, the long-term strategy for building renovation and the growth of local distributed generation on rooftops. Elering uses the results of these studies in the preparation of network development plans and in analyses of system adequacy.

Russia's aggression against Ukraine in 2022 and the resulting high fossil energy prices and supply constraints gave the EU an additional reason (beyond climate policy) as to why Europe should reduce its dependence on fossil energy from third countries. As a solution, the European Union wants to introduce hydrogen, based on renewable energy, to replace fossil fuels in heavy industry. Hydrogen could be used to replace fossil fuels in uses where electrification is not possible or would be too costly. Hydrogen, or its compounds, would also allow long-term storage of renewable energy, contributing to security of supply. Elering is evaluating the possibilities for hydrogen transmission from two angles. First, together with the gas system operators in the Baltic states and Finland, the capacity of the existing gas system to transfer limited amounts of hydrogen with natural gas will be investigated. Second, Elering has joined the European Hydrogen Backbone, which is exploring the creation of a pan-European hydrogen infrastructure and market. We also signed a cooperation agreement with the gas system operators of Finland, Latvia, Lithuania, Poland and Germany to assess the feasibility of establishing a clean hydrogen infrastructure from Finland via Estonia to Germany.

In early 2022, we renewed our cooperation agreements with Tallinn University of Technology, where we brought in IT scientists in addition to energy specialists. The energy system of the future must be greener and smarter, yet still affordable and reliable. An important component therein is IT, which binds the energy system into a functional whole and affords its real-time management. The cooperation with TalTech is creating additional synergy in these precise fields. Notably, it is similarly important to contribute to the general knowledge and literacy of the energy economy in society. We've supported energy and IT students with scholarships and offered traineeships. In 2016, TalTech opened a laboratory with the support of Elering and the European Union, where energy sector students are able to model electricity systems, test the operability of the equipment in the power grid and survey the impact of failures on the Estonian energy system.

- **High-quality customer service**

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

Elering conducts an annual customer satisfaction survey and we update our customer policy, which formulates the principles of a customer-centric culture. We would like to improve the customer experience largely through digital solutions, which is why in 2022 we carried out an analysis of the automation of connection offers, developed the new customer portal e-elering where every consumer sees their own energy consumption data and continued the development of the portal for network service customers and landowners, the renewable energy information system and the free connection capacity application e-gridmap. In the renewable energy information system, consumers can now see the share of renewable energy in their own consumption and that of electricity sellers, as well as a comparison with the average consumer, in order to make discretionary decisions about consumption and choice of seller.

Responsible governance practice

- **Requirements for partners**

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

During the year, we carried out 15 safety training sessions for contractors to ensure that our partners are aware of and comply with the safety requirements of Elering. 138 people attended the training sessions and we’re always open to advising our partners on safety issues.

Elering’s safety specialist regularly carries out inspections of the working environment to check compliance with safety requirements on site. In 2022, we carried out such inspections at 126 sites (2021: 58), where we checked, for example, safety aspects, compliance with maintenance requirements, proper storage and sorting of waste and materials.

We also updated the safety manual for the operation of electrical installations, which is designed to ensure a safe working environment for Elering employees and contractors, and started working with other companies to establish a competence centre for contractors to ensure the safety and high quality of work in the power grid. In cooperation with our partners, we started creating a common safety card for contractors, which will ensure uniform rights and requirements for contractors (e.g. if a contractor violates safety requirements when working for one customer, the right to operate with another customer will be withdrawn) and a common safety manual.

We’ll continue to analyse further possibilities to include criteria for corporate responsibility in procurement and map existing requirements, criteria and standards that could serve as a basis for additional requirements.

- **Transparency and openness**

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

Equal treatment of market participants is important to us and we do this by providing market information to all at the same time through rapid market information platforms by organising electricity, gas, network customer and biomethane advisory councils as open discussion forums and by conducting public consultations on new rules and developments. Due to Russia's aggression against Ukraine, Elering regularly organised joint gas and electricity market councils during the year aimed at improving the exchange of topical information. We've been holding monthly meetings of the gas market crisis committee since May.

- **Fair and ethical management**

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

Elering employees declare economic interests in all procurement committees. Last year, we developed the principles for a code of conduct for employees' economic activities outside work.

- **Data protection**

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

In 2022, we developed a personal data processing register for managing the activities related to personal data processing and managing the related risks, which we'll implement in the company next year. Developments continued on the creation of a new consent service, which complies with the EU General Data Protection Regulation (GDPR) and through which energy consumers can grant rights to view and query their metering points and metering data to different service providers.

- **Cybersecurity**

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

In 2022, we started to develop a process to implement regular security testing and carried out a procurement to ensure the data and cyber security of Elering's web applications. We also implemented a new mobile device management and security solution, introduced incident management software to improve our security monitoring and incident response capabilities, and conducted a cyber security crisis exercise to be prepared to respond to incidents that threaten the vital service.

FINANCIAL STATEMENTS
1.01.2022 – 31.12.2022

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Statement of financial position

In thousands of euros	*Notes*	*31.12.2022*	*31.12.2021*
ASSETS			
Current assets			
Cash and cash equivalents	7	229,287	62,668
Short-term deposits	7	50,000	42,000
Trade and other receivables	8	73,280	59,683
Inventories	9	22,398	3,658
Total current assets		**374,965**	**168,009**
Non-current assets			
Investments in affiliates		53	0
Property, plant and equipment	10	1,069,013	1,000,232
Intangible assets	11	16,912	14,613
Total non-current assets		**1,085,978**	**1,014,845**
TOTAL ASSETS		**1,460,943**	**1,182,854**
LIABILITIES			
Current liabilities			
Borrowings	12	237,265	12,010
Trade and other payables	13	70,906	57,135
Total current liabilities		**308,171**	**69,145**
Non-current liabilities			
Borrowings	12	76,759	312,095
Other long-term liabilities		1,250	0
Contract liability from connection fees	14	72,355	36,154
Deferred income	14	602,906	383,372
Total non-current liabilities		**753,269**	**731,621**
TOTAL LIABILITIES		**1,061,440**	**800,766**

EQUITY			
Share capital	15	229,890	229,890
Statutory reserve capital	15	17,850	17,595
Retained earnings	15	151,762	134,603
TOTAL EQUITY		**399,502**	**382,088**
TOTAL LIABILITIES AND EQUITY		**1,460,943**	**1,182,854**

The notes on pages 74 to 124 are an integral part of these financial statements.

Statement of comprehensive income

In thousands of euros	*Notes*	*2022*	*2021*
Revenue	16	386,975	201,457
Other income	17	11,146	6,672
Goods, raw materials and services	18	-309,692	-135,210
Other operating expenses	19	-7,589	-7,144
Staff costs	20	-13,304	-11,222
Depreciation and amortization	10, 11	-47,675	-45,531
Operating profit		**19,861**	**9,022**
Financial income	21	197	16
Financial costs	21	-2,644	-2,302
Profit before income tax		**17,414**	**6,736**
Income tax expense	15	0	-1,628
Profit for the year		**17,414**	**5,108**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Profit from sale of equity investments at fair value through other comprehensive income	2	0	12
Total other comprehensive income		**0**	**12**
Total comprehensive income for the year		**17,414**	**5,120**

The notes on pages 74 to 124 are an integral part of these financial statements.

Cash flow statement

In thousands of euros	*Notes*	*1.01.2022-31.12.2022*	*1.01.2021-31.12.2021*
Cash flows from operating activities			
Profit before income tax		17,414	6,736
Adjustments for:			
· Profit from sale of property, plant and equipment	17	-24	-257
· Depreciation, amortisation and impairment	10, 11	47,675	45,531
· Government grants expended and amortised	17	-6,031	-5,122
· Interest expenses	21	2,640	2,295
· Interest income	21	-189	-6
· Profit by equity method		-8	0
Operating cash flows before working capital changes		**61,477**	**49,177**
· Changes in inventories	9	-18,740	-123
· Changes in receivables and prepayments related to operating activities	8	-15,446	-20,476
· Changes in liabilities and prepayments related to operating activities	13	14,775	24,272
· Changes in deferred income from connection and other service fees	14	34,909	224
Changes in working capital		**15,498**	**3,897**
Interest paid	13, 21	-2,056	-2,016
Interest received	8, 21	166	6
Total cash flows from operating activities		**75,085**	**51,064**
Cash flows from investing activities			
Purchases of property, plant and equipment and intangible assets	10, 11, 13	-117,753	-75,497
Net change in deposits over 3 months	7	-8,000	-42,000
Grants to acquire non-current assets	14	60,838	31,827
Contribution to the equity capital of the affiliate		-45	0
Proceeds from the sale of equity instruments	2	0	912
Proceeds from sale of property, plant and equipment	10, 17	114	773
Congestion fees received	8, 13, 14	167,009	65,582
Total cash flows from (used in) investing activities		**102,163**	**-18,403**
Cash flows from financing activities			
Repayments of bank loans	12	-10,558	-10,558
Repayments of lease liabilities	12	-71	-54
Dividends paid	15	0	-10 000
Total cash flows used in financing activities		**-10,629**	**-20,612**

Net increase/decrease in cash and cash equivalents		**166,619**	**12,049**
Cash and cash equivalents at the beginning of the period	7	**62,668**	**50,619**
Cash and cash equivalents at the end of the period	7	**229,287**	**62,668**

The notes on pages 74 to 124 are an integral part of these financial statements.

Statement of changes in equity

In thousands of euros	*Share capital*	*Statutory reserve capital*	*Retained earnings*	*Revaluation reserve*	*Total*
Balance as at 1.01.2021	**229,890**	**16,330**	**141,795**	**-1,047**	**386,968**
Profit for the year	0	0	5,108	0	5,108
Other comprehensive income for the year	0	0	-1,035	1,047	12
Total comprehensive income for the year	**0**	**0**	**4,073**	**1,047**	**5,120**
Transactions with owners:					
Transfers to statutory reserve capital	0	1,265	-1,265	0	0
Dividends paid	0	0	-10,000	0	-10,000
Total transactions with owners	**0**	**1,265**	**-11,265**	**0**	**-10,000**
Balance as at 31.12.2021	**229,890**	**17,595**	**134,603**	**0**	**382,088**
Profit for the year	0	0	17,414	0	17,414
Total comprehensive income for the year	**0**	**0**	**17,414**	**0**	**17,414**
Transactions with owners:					
Transfers to statutory reserve capital	0	255	-255	0	0
Total transactions with owners	**0**	**255**	**-255**	**0**	**0**
Balance as at 31.12.2022	**229,890**	**17,850**	**151,762**	**0**	**399,502**

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

The notes on pages 74 to 124 are an integral part of these financial statements.

Notes to the Financial Statements

Note 1. Elering AS and its operations

The financial statements of Elering AS (hereinafter "Elering") for the year ended 31 December 2022 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 13 March 2023. 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 translation. Foreign currency transactions are translated into the functional currency using the exchange rates of the European Central Bank prevailing on the dates of the transactions. 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.

Investment in affiliates. Affiliated companies are all companies over which Elering has significant influence, but not control, with 20-50% of the voting rights. Investments in associates are accounted for using the equity method and are initially recognized at cost. The carrying amount is increased or decreased to reflect the investor's share of the post-acquisition profit or loss of the investee.

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 2022 and 31 December 2021, 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 December 2020, 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 was recognized in the statement of 2020 and the impairment loss of EUR 46 thousand in the statement of 2019 comprehensive income. The shares were sold in 2021 and the revaluation reserve was written off to retained earnings. As at 31.12.2022 Elering has no equity except for investment in the affiliate.

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 realisable 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.

Payments made for rights of use of land are recognised as property, plant and equipment. The costs related to rights of use of land are depreciated according to the contract period, not exceeding 99 years.

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

	Useful lives in years
Buildings	25–40
Facilities – electricity transmission lines, gas pipelines	30–60
Machinery and equipment – electricity and natural gas transmission equipment	7–40
Other property, plant and equipment	3–20
Land use rights	99

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.

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

	Useful lives in years
Software licences	3–5 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

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

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

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

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

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

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

Natural gas inter-transmission system operator compensation mechanism. The gas zone connecting Estonian and Latvian gas systems started operating on 1 January 2020, which also brought changes in the charges for the provision of transmission services with the gas network. Until then, the charge for the transmission service had been collected only on the volume of gas exiting the transmission system and the payers of the 86 transmission service charge have been clients connected to the transmission network on the basis of network contracts, mostly distribution networks. As of January of 2020 some of the transmission service charges move to the gas network input points. Such charges for entry points have been harmonised in three countries: Estonia, Finland and Latvia. This means that the entry of gas from the Finnish, Estonian or Latvian entry points costs the same and the gas moves within the three countries without additional transmission charges. In order to ensure the independence of transmission revenue from the entry point preferred by market participants, Estonian, Finnish and Latvian transmission network operators entered into a mutual compensation agreement (gas ITC). The compensation agreement stipulates that the transmission revenue collected from the entry points of three countries is subject to distribution between the three countries proportionally to their gas consumption. This ensures the relative stability of the entry revenue of the transmission network operators, regardless of which entry point the gas market prefers in a specific period of time. Elering recognises said amounts as net income under "Revenue" within 'Other gas network services'.

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

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

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

1. Proceeds from the day-ahead market auction are essentially the difference between the exchange prices of Estonia and neighbouring price regions of the Nord Pool power exchange every hour. The power exchange collects the aforementioned price difference through its trading mechanism and transfers it to respective transmission system operators.

2. An auction of long-term transmission capacity, which is aimed at reducing the inter-regional price risk resulting from a lack of transmission capacity. Estonian and Latvian system operators Elering AS and AS 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 decision of the regulators, there are no long-term auctions for capacities on the Finnish border in 2022 and 2021.

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 fees should be used in particular for the construction of new interconnection capacities between countries and for guaranteeing the actual availability of the allocated transmission capacity; if the proceeds cannot be used for these purposes, the proceeds will be taken into account when reducing the network service tariff.

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

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

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

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

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

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

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

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

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 2022:

Tax	Tax rate
Social security tax	33% of the paid payroll to employees and fringe benefits
Unemployment insurance tax	0.8% of the payroll paid to employees
Fringe benefit income tax	20/80 of fringe benefits paid to employees
Land tax	1.0 - 2.5% on taxable value of land per annum
Excise tax on electricity	EUR 1 per MWh of electricity (from 01.05.2020 to 30.04.2023)
Excise tax on gas	EUR 40 per thousand cubic meters (from 01.05.2020 to 30.04.2023)
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 44,536 thousand (2021: EUR 42,403 thousand). If depreciation rates were increased/decreased by 10%, the depreciation charge for the year would increase/decrease by EUR 4,454 thousand (2021: EUR 4,240 thousand).

Congestion fees. According to the accounting principles described in Note 2, timing of recognition of congestion fees depends on the purposes for which the proceeds is used – for constructions of new interconnection capacities (in which case it is recorded as a fee liability in future periods, until such construction is completed, when the construction is completed, the income calculation is started according to the depreciation period of that asset) or reduction of current network tariffs (in which case it is recognised in profit and loss). The purposes are outlined in the Article 16 of European Parliament and Council Regulation (EC) No 714/2009. Determining the appropriate accounting requires management judgment. The management has assessed that since 1 July 2014 congestion fees should be used for constructions of new interconnection capacities. In 2022 Elering recognised deferred congestion fees in the amount EUR 227,736 thousand (2021: EUR 65,232 thousand) see also Note 14. Amounts accrued since 1 July 2014 are used to finance investments in network that will increase the cross-border interconnection capacity, i.e. the construction of the third electricity transmission line between Estonia and Latvia. By the decision of the Competition Authority, it is allowed to cover the difference in the price of network losses from the funds of the congestion fee (capacity allocation revenue) and partly to cover reasonable costs related to the provision of electricity transmission network services.

Note 4. New accounting pronouncements

Adoption of new or revised standards and interpretations

The following new or revised standards and interpretations became effective for Elering from 1 January 2022:

"Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework" – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (effective for annual periods beginning on or after 1 January 2022).

The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of property, plant or equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity has to use IAS 2 to measure the cost of those items. Cost does not include depreciation of the asset being tested because it is not yet ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfill a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

The amendment did not have a material impact on Elering's results or the scope of information disclosed by 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 2022 that would have a material impact to Elering.

New or revised standards and interpretations

New or amended standards and interpretations have been issued, which will become mandatory for Elering from 1.01.2023 or in later periods and which Elering has not early adopted:

IAS 1 and IFRS amendments to implementation guide No. 2: "Disclosure of Accounting Principles" (effective for annual periods beginning on or after 1 January 2023).

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

Amendments to IAS 8: "Concept of Accounting Estimates" (effective for annual periods beginning on or after 1 January 2023).

The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates

"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, 2024; not yet adopted by the European Union).

These 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. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. 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.

"Sale or transfer of assets between investor and its associate or joint venture" – Amendments to IFRS 10 and IAS 28 (effective date to be determined by the IASB; not yet adopted by the EU).

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

Elering assesses the impact of the amendments as not material.

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

In thousands of euros	*31.12.2022*	*31.12.2021*
Financial assets at amortised cost		
Cash and cash equivalents (Note 7)	229,287	62,668
Short-term deposits (Note 7)	50,000	42,000
Trade and other receivables (Note 8)	72,489	59,122
Total financial assets	**351,776**	**163,790**

Financial liabilities

In thousands of euros	*31.12.2022*	*31.12.2021*
Liabilities at amortised cost		
Trade and other payables (Note 13)	63,340	49,662
Borrowings (Note 12)	314,024	324,105
Total financial liabilities	**377,364**	**373,767**

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:

In thousands of euros	*31.12.2022*	*31.12.2021*
Cash and cash equivalents (Note 7)	229,287	62,668
Short-term deposits (Note 7)	50,000	42,000
Trade and other receivables (Note 8)	72,489	59,122
Total exposure of assets to credit risk in the statement of financial position	**351,776**	**163,790**

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 2022 or 31 December 2021 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. 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 2022 and 31 December 2021 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 2022 and 31 December 2021.

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 31.12.2022, Elering had one counterparty (31.12.2021: one counterparty), with an aggregated receivables balance of EUR 21,022 thousand (31.12.2021: EUR 21,528 thousand) or 36% of the total amount of accounts receivable (31.12.2021: 39%). In 2022 as well as in 2021 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 amounts.

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

Electricity price risk. For compensating network losses, Elering buys electricity primarily in the electricity exchange. The average electricity exchange price of the last period is used for calculation of network tariffs. In a situation where the exchange price differs from the one used for calculation of tariffs, the difference is not compensated in the next tariff period. According to Elering, this risk may cause fluctuations in profits in the short term, but it does not endanger Elering's sustainability. Therefore, no financial instruments have been used to mitigate this risk. In light of exceptionally high energy prices in 2022, power distribution income is used to cover the cost of wasted electricity, which is not included in the tariff.

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

Currency risk. Currency risk is the risk that in the future fair value of financial instruments of cash flow will fluctuate due to changes in currency rates. As virtually all of Elering's transactions and balances are denominated in euros, Elering is not exposed to significant currency risk. Elering established separate limits for open currency positions depending on the currency and duration. Transactions in other currencies are insignificant; there were no financial instruments denominated in other currencies as of 31.12.2022 and 31.12.2021.

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 31.12.2022 borrowings with fixed interest rate constituted 72% (31.12.2021: 70%) of all borrowings carried at amortised cost; the remaining 28% (31.12.2021: 30%) 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 31.12.2022 borrowings with a floating interest rate totalled EUR 87,292 thousand (31.12.2021: EUR 97,836 thousand).

If, as at 31.12.2022, the interest rates of Elering's borrowings, that are exposed to the cash flow interest rate risk, had been 50 basis points (2021: 50 basis points) higher with all other variables held constant, profit for the year would have been EUR 436 thousand (2021: 489 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 31.12.2022 and 31.12.2021 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 31.12.2022 is as follows:

In thousands of euros	**On demand and less than 1 month**	**From 1 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities					
Trade and other payables (Note 13)	56,271	7,069	0	0	63,340
Borrowings (Note 12)*	0	239,405	42,333	41,619	323,357
Total future payments	**56,271**	**246,474**	**42,333**	**41,619**	**386,697**

*Including interest

The maturity analysis of financial liabilities on 31.12.2021 is as follows:

In thousands of euros	**On demand and less than 1 month**	**From 1 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities					
Trade and other payables (Note 13)	44,775	4,887	0	0	49,662
Borrowings (Note 12)*	0	12,604	266,955	47,556	327,115
Total future payments	**44,775**	**17,491**	**266,955**	**47,556**	**376,777**

*Including interest

Elering holds its money in bank deposits. As of 31.12.2022, Elering had cash and cash equivalents amounting to EUR 229,305 thousand and short-term deposits amounting to EUR 50,000 thousand (as at 31.12.2021 cash and cash equivalents amounted to EUR 62,668 thousand and short-term deposits EUR 42,000 thousand). See further information in Note 7.

Capital management

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

According to the widespread industry practice, Elering uses the equity to asset ratio for monitoring Elering's capital structure, arrived at by dividing total equity by total assets as of the balance sheet date. Elering's target has been to preserve the ratio of equity to assets at 20 - 45%.

The equity to asset ratio is presented in the table below:

In thousands of euros	*31.12.2022*	*31.12.2021*
Equity	399,503	382,088
Total assets	1,460,943	1,182,854
Equity to asset ratio	**27.3%**	**32.3%**

Fair value of financial instruments

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

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: inputs for the asset or liability that are not based on observable market data.

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

Financial assets carried at amortised cost. Carrying amounts of trade and other financial receivables approximate their fair values (level 3).

Liabilities carried at amortised cost. Carrying amounts of trade and other payables approximate their fair values (level 3).

The estimated fair value of bonds rate is determined using their quoted price (level 1). The estimated fair value of non-current borrowings with a floating interest rate (level 3) is determined using valuation techniques, based on expected cash flows discounted at current interest rates (3.693%) for new instruments with similar credit risk and remaining maturity.

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

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

The fair value analysis of borrowings on 31.12.2021 is as follows:

In thousands of euros	*Fair value*	*Carrying amount*
Bonds	227,106	224,749
Bank loans	95,693	97,836

Note 6. Segment reporting

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

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

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

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

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

The internal reporting provided to the Management Board has been prepared using the accounting policies and presentation consistent with those used in preparation of the financial statements.

All revenues and expenses that can be directly allocated to a specific segment are reported under the respective segment. Costs that are not directly attributable to a single segment are allocated on a pro rata basis. The drivers are either the proportion of the segment's sales revenue or the proportion of working time directly related to the segment. Net financial income / expenses are allocated to all segments according to the proportion of long-term and short-term interest-bearing debt in the statement of financial position at the end of the previous period. The income taxes are allocated to regulated electricity segment only, as dividends are paid out from this activity.

All significant balance sheet accounts that can be allocated directly between segments are reported under the respective segment. Balance sheet items not allocated using the direct method are allocated to segments by balance sheet item using different drivers: either the proportion of the segment's fixed assets or the proportion of working time of employees directly related to the segment.

The Management Board assesses the performance of the operating segments based on revenue, EBITDA (net profit plus income taxes, net finance cost, and depreciation and amortization) and net profit. EBITDA is not a defined performance measure under IFRS. The Elering's definition of EBITDA may not be comparable with similarly titled performance measures and disclosures by other entities.

Elering is domiciled in Estonia and its non-current assets are also located in Estonia. In the reporting period, Elering had one counterparty with an aggregated revenue more than 10% of Elering´s revenue. The largest customer´s revenue is attributable to the electricity transmission segment and it amounts to EUR 78,229 thousand in the reporting period (2021: 77,115 thousand)

Revenue division by geographical location of customers is disclosed below.

Segment reporting, 1.01.2022-31.12.2022

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

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

Segment reporting, 1.01.2021–31.12.2021

In thousands of euros	*Regulated electricity network services*	*Regulated gas network services*	*Balancing services*	*Other*	*Total*
Revenue from external customers	89,683	20,949	82,214	8,611	**201,457**
Revenue between segments	-28	53	-25	0	**0**
Total revenue	**89,655**	**21,002**	**82,189**	**8,611**	**201,457**
Other operating income	0	0	0	6,672	**6,672**
Total income	**89,655**	**21,002**	**82,190**	**15,283**	**208,129**
Goods, raw materials and services	-48,841	-3,316	-81,033	-2,020	**-135,210**
Other operating expenses and staff costs	-10,137	-5,181	-1,360	-1,688	**-18,366**
EBITDA	**30,677**	**12,505**	**-204**	**11,575**	**54,553**
Depreciation and amortization (Note 10, 11)	-30,984	-6,311	-193	-8,043	**-45,531**
Net financial income (costs) (Note 21)	-1,694	-218	-17	-357	**-2,286**
Income tax (Note 15)	-1,628	0	0	0	**-1,628**

Net profit	**-3,629**	**5,976**	**-414**	**3,175**	**5,108**
Total assets	**599,663**	**119,849**	**29,143**	**434,199**	**1,182,854**
Total liabilities	**315,573**	**48,640**	**28,448**	**408,105**	**800,766**
Additions to property, plant and equipment (Note 10)	13,889	13,644	51	47,519	**75,103**
Additions to intangible assets (Note 11)	1,848	369	540	935	**3,692**

Revenue by geographical location of customers, 1.01.2022-31.12.2022

In thousands of euros	*Regulated electricity network services*	*Regulated gas network services*	*Balancing services*	*Other*	*Total*
Estonia	147,155	13,557	102,570	5,001	**268,283**
Latvia	0	201	27,659	0	**27,860**
Finland	0	2,377	4,375	16,759	**23,511**
Lithuania	389	0	55,693	96	**56,178**
Norway	0	0	0	1	**1**
Other	11,083	0	0	59	**11,142**
Total revenue	**158,627**	**16,135**	**190,297**	**21,916**	**386,975**

Revenue by geographical location of customers, 1.01.2021-31.12.2021

In thousands of euros	*Regulated electricity network services*	*Regulated gas network services*	*Balancing services*	*Other*	*Total*
Estonia	83,955	19,496	44,273	5,167	**152,892**
Latvia	0	198	5,646	-20	**5,824**
Finland	0	1,254	1,913	3,299	**6,466**
Lithuania	264	0	30,382	43	**30,689**
Norway	795	0	0	0	**795**
Other	4,669	0	0	122	**4,791**
Total revenue	**89,684**	**20,948**	**82,214**	**8,611**	**201,457**

Note 7. Bank accounts and deposits

In thousands of euros	*31.12.2022*	*31.12.2021*
Cash and cash equivalents	229,287	62,668
Short-term deposits*	50,000	42,000

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

As at 31.12.2021, seven contracts for an amount of EUR 35,000 thousand were signed with Coop Pank AS. The maturity of the contracts was April - December 2022 and the interest rates are 0.15%-0.35%. One contract amounting to EUR 7,000 thousand was concluded with LHV Pank AS. The maturity of the contract was 13.12.2022 and the interest rate is 0.02%. All contracts are denominated in EUR.

Bank accounts and deposits

In thousands of euros	*31.12.2022*	*31.12.2021*
Bank accounts and deposits at banks:		
With Moody's credit rating of A2	10,929	0
with Moody's credit rating of Aa2*	96,974	25,193
with Moody's credit rating of Aa3*	95,307	24,671
with Moody's credit rating of A3	977	0
with Moody's credit rating of Baa1	25,100	54,804
Total bank accounts and deposits at banks	**229,287**	**104,668**

* The two unrated banks in which Elering deposited its funds are Estonian-registered subsidiaries of international banks rated Aa2 and Aa3 by Moody's.

Note 8. Trade and other receivables

In thousands of euros	*31.12.2022*	*31.12.2021*
Trade receivables		
Accounts receivable	59,035	55,551
· Incl. FTR-Limited auction receivables	33	1,904
· Incl. provision for doubtful receivables	0	-11
Other receivables	**13,453**	**3,571**
· Incl. Accrued potential ITC receivables	9,801	3,470
· Incl. security deposit	11	0
· Incl. interest receivables	24	1
Total financial assets within trade and other receivables in the statement of financial position	**72,489**	**59,122**
· Tax receivables	190	33
· Prepayments	601	528
Total trade and other receivables	**73,280**	**59,683**

Analysis by credit quality of trade receivables is as follows:

In thousands of euros	*31.12.2022*	*31.12.2021*
Accounts receivable not yet due		
· Distribution networks	24,844	26,445
· Other clients	32,101	29,098
Total accounts receivable not yet due	**56,945**	**55,543**
Accounts receivable past due but not classified as doubtful		
· 1 to 90 days overdue (distribution networks)	2	0
· 1 to 90 days overdue (other clients)	2,088	8
Total accounts receivable past due but not classified as doubtful	**2,090**	**8**
Accounts receivable past due but not classified as doubtful		
· more than 90 days overdue	0	11
Total accounts receivable past due but not classified as doubtful	**0**	**11**
Total accounts receivable past due	**2,090**	**19**
Provision for doubtful accounts receivable	**0**	**-11**
Total trade receivables	**59,035**	**55,551**

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 EUR 11,000 thousand received of previously classified as doubtful. In the reporting period there were no write-downs. As of 31.12.2021 write-downs of receivables in the amount of EUR 3 thousand have been made.

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

Note 9. Inventories

In thousands of euros	*31.12.2022*	*31.12.2021*
Fuel oil	9,403	2,372
Natural gas reserves	1,457	661
Gas in natural gas storage	10,708	0
Other materials at warehouses	830	625
Total inventories	**22,398**	**3,658**

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

Note 10. Property, plant and equipment

In thousands of euros	Land	Right of use of land	Buildings	Facilities	Machinery and equip-ment	Oth-er	Construc-tion in progress	Total
Property, plant and equipment as at 1.01.2021								
Cost as at 1.01.2021	6,180	7,078	52,541	611,275	557,405	505	143,100	1,378,082
Accumulated depreciation	0	-314	-12,545	-192,722	-208,023	-382	0	-413,986
Carrying amount as at 01.01.2021	**6,180**	**6,764**	**39,996**	**418,553**	**349,382**	**122**	**143,100**	**964,098**
Prepayments	9	0	0	0	3,944	0	0	3,953
Total property, plant and equipment as at 01.01.2021	**6,189**	**6,764**	**39,996**	**418,553**	**353,326**	**122**	**143,100**	**968,051**
Movements 1.01.2021-31.12.2021								
Additions	29	183	0	0	0	0	78,389	78,601
Reclassified from construction in progress	0	0	16,828	90,119	68,332	11	-175,290	0
Capitalised borrowing costs (Note 21)	0	0	0	0	0	0	145	145
Disposals and write-offs at carrying amount	-4	0	-5	0	-508	0	0	-517
Prepayments	0	0	0	0	-3,643	0	0	-3,643
Depreciation charge	0	-73	-1,799	-18,679	-21,759	-93	0	-42,403
Total movements 1.01.2021-31.12.2021	**25**	**110**	**15,024**	**71,440**	**42,422**	**-82**	**-96,756**	**32,182**
Cost as at 31.12.2021	6,205	7,261	69,280	699,862	620,664	516	46,343	1,450,131
Accumulated depreciation	0	-387	-14,260	-209,870	-225,217	-475	0	-450,209
Carrying amount as at 31.12.2021	**6,205**	**6,874**	**55,020**	**489,992**	**395,447**	**41**	**46,343**	**999,922**
Prepayments	9	0	0	0	301	0	0	310
Total property, plant and equipment as 31.12.2021	**6,214**	**6,874**	**55,020**	**489,992**	**395,748**	**41**	**46,343**	**1,000,232**

Movements 1.01.2022-31.12.2022								
Additions	364	142	0	0	0	0	112,387	112,893
Reclassified from construction in progress	8	0	3,326	20,139	21,904	44	-45,420	4
An asset taken into account when reclassifying an operating lease	0	0	0	0	29	0	0	29
Capitalised borrowing costs (Note 21)	0	0	0	0	0	0	109	109
Disposals and write-offs at carrying amount	-7	0	0	0	-26	0	0	-33
Prepayments	-9	0	0	0	327	0	0	318
Depreciation charge	0	-74	-2,103	-19,200	-23,136	-23	0	-44,536
Total movements 1.01.2022-31.12.2022	**356**	**68**	**1,223**	**939**	**-902**	**21**	**67,076**	**68,781**
Property, plant and equipment as at 31.12.2022								
Cost as at 31.12.2022	6,570	7,404	72,291	708,200	639,352	552	113,419	**1,547,788**
Accumulated depreciation	0	-462	-16,048	-217,269	-245,134	-490	0	**-479,403**
Carrying amount as at 31.12.2022	**6,570**	**6,942**	**56,243**	**490,931**	**394,218**	**62**	**113,419**	**1,068,385**
Prepayments	0	0	0	0	628	0	0	628
Total property, plant and equipment as at 31.12.2022	**6,570**	**6,942**	**56,243**	**490,931**	**394,846**	**62**	**113,419**	**1,069,013**

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 109 thousand (2021: EUR 145 thousand). The capitalisation rate is 0.72% (2021: 0.75%).

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

Note 11. Intangible assets

In thousands of euros	Acquired software and licenses	Total
Intangible assets as at 1.01.2021		
Cost as at 1.01.2021	19,670	19,670
Accumulated amortisation	-7,671	-7,671
Carrying amount 1.01.2021	**11,999**	**11,999**
Intangible assets not yet available for use	2,049	2,049
Total intangible assets as at 1.01.2021	**14,048**	**14,048**
Movements 1.01.2021-31.12.2021:		
Additions	3,693	3,693
Amortisation charge	-3,128	-3,128
Total movements 1.01.2021-31.12.2021	**565**	**565**
Intangible assets as at 31.12.2021		
Cost as at 31.12.2021	22,070	22,070
Accumulated amortisation	-10,553	-10,553
Carrying amount as at 31.12.2021	**11,517**	**11,517**
Intangible assets not yet available for use	3,096	3,096
Total intangible assets as at 31.12.2021	**14,613**	**14,613**
Movements 1.01.2022-31.12.2022		
Additions	5,494	5,494
Amortisation charge	-3,138	-3,138
Sales and write-off at residual value	-57	-57
Total movements 1.01.2022-31.12.2022	**2,299**	**2,299**
Intangible assets as at 31.12.2022		
Cost as at 31.12.2022	25,414	25,414
Accumulated amortisation	-13,583	-13,583
Carrying amount as at 31.12.2022	**11,831**	**11,831**
Intangible assets not yet available for use	5,081	5,081
Total intangible assets as at 31.12.2022	**16,912**	**16,912**

Note 12. Borrowings

In thousands of euros	*31.12.2022*	*31.12.2021*
Short-term borrowings		
Bonds issued	224,936	0
Current portion of long-term bank loans	10,558	10,558
Accrued interests	1,705	1,387
Lease liabilities	66	65
Total short-term borrowings	**237,265**	**12,010**
Long-term borrowings		
Bonds issued	0	224,749
Long-term bank loan	76,734	87,278
Lease liabilities	25	68
Total long-term borrowings	**76,759**	**312,095**
Borrowings are denominated in the following currencies:		
Borrowings denominated in EUR	314,024	324,105
Total borrowings (Note 5)	**314,024**	**324,105**

Reconciliation of borrowings

In thousands of euros	*Short-term borrowings*				*Long-term borrowings*			*Total*
Balance	*Bank loans*	*Accrued interests*	*Lease liabilities*	*Bonds issued*	*Bonds issued*	*Bank loans*	*Lease liabilities*	
Balance as at 01.01.2021	**10,558**	**1,346**	**7**	**0**	**224,562**	**97,821**	**6**	**334,300**
Increase in borrowings	0	0	0	0	0	0	174	**174**
Repayment of borrowings	-10,558	0	-54	0	0	0	0	**-10,612**
Transfers	10,558	0	112	0	0	-10,558	-112	**0**
Non-cash movements	0	0	0	0	187	15	0	**202**
Accrued interests	0	2,057	0	0	0	0	0	**2,057**

Paid interests	0	-2,016	0	0	0	0	0	**-2,016**
Balance as at 31.12.2021	**10,558**	**1,387**	**65**	**0**	**224,749**	**87,278**	**68**	**324,105**
Increase in borrowings	0	0	12	0	0	0	22	**34**
Repayment of borrowings	-10,558	0	-70	0	0	0	0	**-10,628**
Transfers	10,558	0	59	224,936	-224,936	-10,558	-64	**-5**
Non-cash movements	0	0	0	0	187	13	0	**200**
Accrued interests	0	2,374	0	0	0	0	0	**2,374**
Paid interests	0	-2,056	0	0	0	0	0	**-2,056**
Balance as at 31.12.2022	**10,558**	**1,705**	**66**	**224,936**	**0**	**76,733**	**26**	**314,024**

The average effective interest rate on borrowings was 0.79% in 2022 (2021: 0.69%).

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

1. Loans from the European Investment Bank

   Elering has two loans with outstanding balance of EUR 70,972 thousand (2021: EUR 78,175 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 (2021: EUR 7,209 thousand).

2. Loans from the Nordic Investment Bank

   Elering has two loans with outstanding balance of EUR 16,319 thousand (2021: EUR 19,661 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 (2021: EUR 3,349 thousand).

3. Eurobonds

   Elering has issued Eurobonds in the nominal value of EUR 225 million. 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 Company plans to redeem the issued bonds at maturity. Interest payments are made once a year.

4. Overdraft agreements

Elering has entered into four overdraft agreements in the total amount of EUR 70 million, with an interest margin of 1 month EURIBOR plus a margin of 0.36-0.55%. The loans have not been withdrawn at 31.12.2022. Overdraft agreements have been concluded until January-February 2023.

The loan agreements entered into by Elering set limits on Elering's financial indicators (equity to total assets and net debt / EBITDA). The limits have not been exceeded.

Note 13. Trade and other payables

In thousands euros	*31.12.2022*	*31.12.2021*
Trade payables	48,094	37,529
including debts for FTR transactions	94	970
Payables for purchased property, plant and equipment and intangible assets	8,177	7,246
Subsidies due to biogas producers	3,711	4,122
Subsidies due to electricity producers	2,590	113
Other payables	768	652
Total financial liabilities within trade and other payables in the statement of financial position	**63,340**	**49,662**
Taxes payable:		
VAT	3,328	2,684
Corporate income tax and income tax on fringe benefits	6	1,634
Social security tax	558	490
Personal income tax	318	288
Excise tax	26	94
Unemployment insurance tax	37	32
Contributions to mandatory funded pension	25	23
Pollution tax	1	0
Total taxes payable	**4,299**	**5,245**
Accrued expenses - employee benefits:		
Wages and salaries	635	560
Bonuses	1,532	803
Holiday pay	343	305
Social security and unemployment insurance tax	633	374
Total accrued expenses - employee benefits	**3,143**	**2,042**
Other payables	**124**	**186**
Total trade and other payables	**70,906**	**57,135**

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

Note 14. Contract liability and deferred income

Contract liability from connection and other service fees

In thousands euros	*2022*	*2021*
Contract liability from connection and other service fees at the beginning of the period	**36,154**	**34,855**
Connection and other service fees received	38,227	3,284
Connection and other service fees recognised as revenue (Note 16)	-2,026	-1,985
Contract liability from connection and other service fees at the end of the period	**72,355**	**36,154**

Government grants

In thousands euros	*2022*	*2021*
Deferred income from government grants at the beginning of the period	**206,815**	**180,110**
Grants received for acquisition of property, plant and equipment	60,843	31,827
Amortisation of grants (Note 17)	-6,031	-5,122
Deferred income from government grants at the end of the period	**261,627**	**206,815**

Congestion fees

In thousands euros	*2022*	*2021*
Deferred congestion fees at the beginning of the period	**176,558**	**112,402**
Congestion fees calculated on an accrual basis*	227,736	65,231
Congestion fees recognised for the construction of new transmission capacities (Note 17)	-1,292	-1,075
Use of congestion fees to cover losses	-60,740	0
Use of congestion fees to cover operating costs	-983	0
Deferred congestion income at the end of the period	**341,279**	**176,558**

Total deferred income	**602,906**	**383,372**
Total contract liability from connection and other service fees and deferred income	**675,261**	**419,526**

*In the cash flow statement, the congestion fees are recorded in the amount received, from which the use of the congestion fees to cover losses and operating expenses have been deducted.

Note 15. Equity

Elering's share capital consists of 229,890 shares with the nominal value of EUR 1,000 (31.12.2021: 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 2022, no dividends were paid (in 2021 dividends totalling EUR 10 million were paid out and dividends per share totalled EUR 43.50 and the payment of dividends resulted in an income tax expense of EUR 1.6 million).

As of 31.12.2022, Elering's statutory reserve capital totalled EUR 17,850 thousand (31.12.2021: EUR 17,595 thousand). As at 31.12.2022, Elering has the obligation to additionally transfer EUR 871 thousand (31.12.2021: EUR 255 thousand). In 2022, Elering additionally transferred to statutory reserve capital EUR 255 thousand (2021: EUR 1,265 thousand).

The distributable retained earnings of Elering as of 31.12.2022 amounted to EUR 150,891 thousand (31.12.2021: EUR 134,348 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 31.12.2022, it would be possible to distribute EUR 113,986 thousand as net dividends (31.12.2021: EUR 102,586 thousand) and the corresponding income tax would amount to EUR 36,906 thousand (31.12.2021: EUR 31,761 thousand). These numbers are calculated taking into account the obligation to transfer certain amount of retained earnings to statutory reserve capital. The amount of income tax calculated at more beneficial rate is EUR 1,932 thousand.

Note 16. Revenue

Analysis of revenue by activity

In thousands euros	*2022*	*2021*
Sales of balancing and regulation services		
Balancing electricity	150,975	65,165
Balancing gas	33,942	14,268
Regulation services	5,371	2,756
Total sales of balancing electricity and regulation services	**190,288**	**82,189**
Sales of electricity and gas network services		
Electricity network services	86,385	83,927
Gas network services	13,708	18,418
Other electricity network services	72,212	5,728
Other gas network services	2,467	2,584
Total sales of network services	**174,772**	**110,657**
Sales of other goods and services		
Revenue from connection fees (Note 14)	2,026	1,985
Lease of transmission equipment (Note 22)	941	920
Other services	18,837	5,417
Other goods	111	289
Total sales of other goods and services	**21,915**	**8,611**
Total revenue	**386,975**	**201,457**

Note 17. Other income

In thousands euros	*2022*	*2021*
Government grants related to acquisition of property, plant and equipment (Note 14)	6,031	5,122
Amortization of congestion fees (Note 14)	1,292	1,075
Profit from sale of property, plant and equipment	24	289
Fines, penalties and compensations received*	3,642	113
Grants for operating expenses	41	72
Other income	116	1
Total	**11,146**	**6,672**

*In December 2022, the arbitration court awarded a fine in favor of Elering AS along with arrears. In the 2022 annual report, the claim in the amount of 3,610 thousand euros is reflected under other income.

Note 18. Goods, raw materials and services

In thousands euros	*2022*	*2021*
Electricity and gas purchased to provide the balancing service		
Purchase of balancing energy	141,235	60,473
Purchase of balancing gas	33,576	13,876
Purchase of power regulation service	14,232	6,289
Expenses of emergency reserve power plant to provide balancing services	-54	351
Total electricity purchased to provide the balancing service	**188,989**	**80,989**
System services		
Reactive energy	401	410
Operating expenses of emergency reserve power plant	659	131
Total system services expenses	**1,060**	**541**
Losses in electricity and gas network		
Electricity network losses	90,058	38,145
Gas network losses	1,611	379
Total electricity and gas to compensate for network losses	**91,669**	**38,524**
Maintenance and repair works		
On facilities and equipment related to core activities	10,058	9,261
On production buildings and sites	1,196	1,253
Disassembly works and waste processing	845	771
Other maintenance and repair costs	605	514
Total maintenance and repair works	**12,704**	**11,799**
Other costs		
Other costs	14,714	2,804
Operative switching and dispatching management expenses	556	553
Total other costs	**15,270**	**3,357**
Total goods, raw materials and services	**309,692**	**135,210**

Note 19. Other operating expenses

In thousands euros	*2022*	*2021*
Information technology	1,843	1,592
Research and consulting	1,684	1,768
Telecommunication	1,056	951
Training and other miscellaneous operating expenses	908	874
Security, insurance and occupational safety	904	858
Office expenses	582	442
Research and development costs (R&D)	492	529
Transportation and tools	58	62
Other expenses	62	68
Total other operating expenses	**7,589**	**7,144**

Elering's statement of comprehensive income includes expense relating to short-term leases and leases of low-value assets in the amount of EUR 219 thousand (2021: EUR 296 thousand).

Note 20. Staff costs

In thousands euros	*2022*	*2021*
Base salaries, additional remuneration, bonuses, vacation pay	9,594	8,087
Termination benefits	18	11
Other remuneration	317	275
Total remuneration to employees	**9,929**	**8,373**
Social security tax	3,302	2,789
Unemployment insurance tax	73	60
Total staff costs	**13,304**	**11,222**
Incl. compensations to the members of the Management and Supervisory Board		
Salaries, additional remuneration bonuses, vacation pay	543	481
Social security tax	203	179
Fringe benefits	58	49
Income tax on fringe benefits	14	12
Total compensations to the members of the Management and Supervisory Boards	**818**	**721**

Average number of employees	**262**	**253**
Average number of employees by type:		
Persons working under an employment contract	258	248
Persons providing services under law of obligations act	4	5
Members of the Management and Supervisory Boards	8	8
The average monthly pay of all employees including benefits	3,564	3,093

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

Note 21. Financial income and costs

In thousands euros	*2022*	*2021*
Financial income		
Interest income	189	6
Profit by equity method	8	0
Foreign exchange gains	0	10
Total financial income	**197**	**16**
Financial costs		
Interest expenses	-2,749	-2,439
Foreign exchange losses	0	-6
Other financial costs	-3	-2
Total financial costs	**-2,752**	**-2,447**
Less: capitalised borrowings costs (Notes 10)	109	145
Total financial costs recognised in the statement of comprehensive income	**-2,643**	**-2,302**
Net financial income (costs)	**-2,446**	**-2,286**

Note 22. Operating lease

Elering as a lessor

Operating lease revenue

In thousands euros	*2022*	*2021*
Buildings	80	81
Transmission equipment	941	920
Other	2	2
Total operating lease revenue	**1,023**	**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

In thousands euros	*31.12.2022*	*31.12.2021*
Acquisition cost	5,708	5,674
Accumulated depreciation at the end of period	-5,216	-5,118
Carrying amount	**492**	**556**

Depreciation charge

In thousands euros	*2022*	*2021*
Depreciation charge	360	265

Estimated future lease payments under operating leases

In thousands euros	*31.12.2022*	*31.12.2021*
Less than 1 year	942	940
From 1 year to 5 years	1,177	2,115
Total future minimum lease payments	**2,119**	**3,055**

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:

In thousands euros	*31.12.2022*	*31.12.2021*
Trade receivables		
Companies controlled or significantly influenced by the State	25,801	31,136
Total trade receivables	**25,801**	**31,136**
incl. from network operators	21,496	21,824
Trade payables and other liabilities		
Companies controlled or significantly influenced by the State	8,618	6,635
Total trade payables and other liabilities	**8,618**	**6,635**

Income and expense items with related parties were as follows:

In thousands euros	*Related party*	*2022*	*2021*
Revenue from sale of goods	Companies controlled or significantly influenced by the State	49,692	17,250
Revenue from sale of services	Companies controlled or significantly influenced by the State	83,507	82,810
Total revenue from sale of goods and services		**133,199**	**100,060**
Purchase of goods	Companies controlled or significantly influenced by the State	16,825	12,450
Purchase of services	Companies controlled or significantly influenced by the State	21,703	6,319
Total purchase of goods and services		**38,528**	**18,769**
Expenditures on non-current assets	Companies controlled or significantly influenced by the State	1,187	880

- 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 2022 and 2021.

The potential payroll liability would be EUR 103.5 thousand excluding social security contributions if the Supervisory Board were to replace all Management Board members.

Note 24. Contingent liabilities and commitments

Capital expenditure commitments. The network operator must develop the network within its service area in a way that ensures the continued provision of network services in accordance with the set requirements. As at 31.12.2022, Elering has contractual capital expenditure commitments in respect of property, plant and equipment totalling EUR 190,699 thousand (31.12.2021: EUR 151,275 thousand).

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

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

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 2022, and the Company´s financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2022;
- 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.

Our audit approach

Overview

Materiality	The overall audit materiality is EUR 14.6 million, which represents approximately 1% of the total assets of the Company as at 31 December 2022. When testing key audit matters and performing audit procedures in selected areas (for example, sending revenue confirmation letters, testing sales cut-off), we have applied a separate materiality of EUR 1.7 million, which represents approximately 2.5% of the profit for the year before interest, tax, depreciation and amortization (EBITDA).

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Translation note:

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

Key audit matters	●	Estimates involved in capitalisation of capital expenditures and determining their useful lives
	●	Accounting for congestion fees

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.

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 Company materiality	The overall audit materiality is EUR 14.6 million. When testing key audit matters and performing audit procedures in selected areas (for example, sending revenue confirmation letters, testing sales cut-off), we have applied a separate materiality of EUR 1.7 million, which represents approximately 2.5% of the profit for the year before interest, tax, depreciation and amortization (EBITDA).
How we determined it	Materiality for the financial statements as a whole: approximately 1% of the Company’s assets as at 31 December 2022. Separate materiality: approximately 2.5% of the profit before interest, tax, depreciation and amortization (EBITDA) for the reporting year. EBITDA is a non-GAAP performance measure that is defined and calculated by the management and for which the management is responsible. Definition and calculation of EBITDA may differ between entities.
Rationale for the materiality benchmark applied	We have calculated materiality based on total assets at the end of the reporting year, since the core business of the Company is to manage significant state assets and, in our

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opinion, assets are the best indicator for the valuation of the Company.

In addition, we have applied a separate materiality for testing key audit matters and performing audit procedures in selected areas (for example, sending revenue confirmation letters, testing sales cut-off). We have applied a separate materiality on selected financial statement line items and procedures that have a direct impact on EBITDA which is one of the key measures the management uses to assess the Company's performance.

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
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). In 2022 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 112.9 million. Expenditures are capitalised if they create new or enhance the existing assets or expensed if they relate to repair or maintenance of the assets. Classification of the expenditures involves judgment. 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. 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.	We assessed whether the Company's accounting policies in relation to the capitalisation of expenditures are in compliance with IFRS. We understood and evaluated controls related to capital expenditures. We evaluated whether the useful lives determined in Company's accounting policy for PPE were appropriate given the nature of the asset and industry environment. 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. 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. 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. We also evaluated whether the useful lives assigned to these items were consistent with the Company's accounting policy.

Furthermore, we assessed the adequacy of the disclosures related to PPE.

Accounting for congestion fees (refer to Note 2 “Summary of significant accounting policies – Congestion fees”, Note 3 “Critical accounting estimates and judgments in applying accounting policies” and Note 14 “Deferred income” for further details). In 2022 the Company has received congestion fees of EUR 227.7 million and the balance of congestion fees recognised within deferred income as of 31 December 2022 amounted to EUR 341.3 million. In the statement of comprehensive income • congestion fees used to cover network losses and other operating costs recognised as income in 2022 totalled EUR 61.7 million, and • income recognised for the construction of new interconnection capacities totalled EUR 1.3 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 and then are credited to other operating income over the estimated useful life of the asset. Congestion fees used for the reduction of network tariffs are recognised in profit and loss in the period of congestion. Determining the appropriate accounting requires judgment. Due to the size and related estimation uncertainty, it is considered a key audit matter.	We assessed whether the Company’s accounting policy in relation to accounting for the congestion revenue is compliant with IFRS. We evaluated the management’s assessment on whether and when the congestion fees will be used for constructions of new interconnection capacities or for reduction of tariffs, and whether the latter has been approved by the Competition Authority. We corroborated the information received with the capital expenditures budget. We obtained confirmation letters from administrators of congestion fees confirming the total amount of congestion fees received during the year. Furthermore, we assessed the adequacy of the disclosures related to congestion fees.

Reporting on other information including the Management report

The Management Board is responsible for the other information. The other information comprises the chapter “Statement by the Chairman of the Management Board” and the Management report (“From Elering’s mission to its strategic goals”, “Overview of economic activities and results for 2022”, ““Our Elering” Action Plan for Involving and Motivating Employees”, “Corporate governance”, “Compliance with corporate responsibility principles in Elering’s activities” and “Elering Environmental, Social and Governance (ESG) Action Plan 2022”) (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, including the Management report.

Translation note:

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

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

With respect to the Management report, we also performed the procedures required by the Auditors Activities Act of the Republic of Estonia. Those procedures include considering whether the Management report is consistent, in all material respects, with the financial statements and is prepared in accordance with the requirements of the Accounting Act of the Republic of Estonia.

Based on the work undertaken in the course of our audit, in our opinion:
- the information given in the Management report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the financial statements; and
- the Management report has been prepared in accordance with the requirements of the Accounting Act of the Republic of Estonia.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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.

AS PricewaterhouseCoopers

Janno Hermanson
Certified auditor in charge, auditor's certificate no. 570

Jekaterina Ivtšik
Auditor's certificate no. 694

14 March 2023
Tallinn, Estonia

Translation note:

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Profit allocation proposal

The retained earnings of Elering AS as of 31.12.2022 were EUR 151,762 thousand.

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

To pay as dividends to the shareholder	EUR 13,500 thousand
To transfer to the statutory reserve capital	EUR 871 thousand
Not to distribute the remaining retained earnings	EUR 137,391 thousand

Signatures of the Management to the 2022 Annual Report

The signing of Elering AS 2022 Annual Report on 13 March 2023

Taavi Veskimägi	Riina Käi	Kalle Kilk
Chairman of the Management Board	*Member of the Management Board*	*Member of the Management Board*

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 economic activity*		*1.1.2022 - 31.12.2022*	*1.1.2021 - 31.12.2021*
35121	Transmission of electricity – transmission through the transmission network	177,559	95,195
35221	Natural gas transmission	16,176	21,003
35141	Trade of electricity (balancing electricity)	156,346	67,921
35231	Trade of gas (balancing gas)	33,942	14,268
77399	Renting and leasing of other machinery, equipment and tangible goods	941	920
47770	Retail sale of other second-hand goods	111	289
68201	Renting and operating of own or leased real estate	81	83
46699	Other sales	1,819	1,778

* EMTAK – classification of Estonian economic activities

Photos:

Tõnu Runnel (cover page), Ain Köster, Laura Oks, Estfilm, MT Group