

# OVERVIEW OF ECONOMIC ACTIVITY AND 2024 RESULTS

## Economic environment

Elering is an independent and self-sufficient Estonian electricity and gas integrated system operator, whose main goal is to ensure reliable and high-quality energy supply to Estonian consumers at all times.

Elering is an independent and self-sufficient electricity and gas system operator in Estonia, dedicated to ensuring a reliable and high-quality energy supply for consumers at all times.

In 2024, Russia's aggression against Ukraine continued to shape Estonia's economic and political landscape, significantly impacting commodity prices, GDP, interest rates, and inflation. The global effects of the conflict have led to increased inflation and reduced demand, with Estonia particularly affected due to its geopolitical location. Given its proximity to Russia, Estonia has placed a strong emphasis on security.

As a result, Estonia's defence budget increased to €1.33 billion in 2024, exceeding 3% of GDP,

compared to slightly below 3% in 2023. To further strengthen national defence, a security tax is planned for 2025 and 2026. This includes a VAT increase from 22% to 24% starting July 1, 2025, a 2% rise in personal income tax from January 1, 2025, and the introduction of a security tax of 2% on a company's pre-tax profit, effective January 1, 2026.

In 2023, Estonia's GDP growth at constant prices was negative at -3.1%. According to Eesti Pank's forecast, GDP is expected to decline by 0.7% in 2024 before returning to positive growth in 2025. While the economy experienced a downward trend in 2022, 2023, and 2024, the EURIBOR, which had remained negative since 2016, began rising in 2022. By the end of 2023, the average 6-month EURIBOR had reached 4%. In 2024, it started to decline gradually, falling slightly below 3% by November.

The labour market remains in a paradoxical state, where finding qualified labour is challenging despite an upward trend in unemployment. By the end of the third quarter of 2024, the unemploy-

ment rate had risen to 7.4%, compared to 6.4% in 2023, reflecting the expected year-end level.

At the same time, rising prices have significantly influenced wage pressures, with the most pronounced effects seen in 2023 and continuing into 2024. In 2023, the average gross wage increased by 11.4%, while in the third quarter of 2024, it grew by 8.1% compared to the same period in 2023 (down from 10.4% growth in the third quarter of 2023). According to the Bank of Estonia, gross wage growth is projected to reach 7.8% in 2024 but is expected to slow to 5.9% in 2025 and 5.1% in 2026.

After a sharp rise in inflation to 19.4% in 2022, price growth slowed to 9.2% in 2023 and further to 3.5% in 2024. While the inflation gap between Estonia and the Eurozone has narrowed, Estonia's inflation rate remains one percentage point higher, continuing to impact the country's overall competitiveness.

Rising prices have a significant impact on wage costs, energy expenses—including network losses—and various services, ultimately affecting the

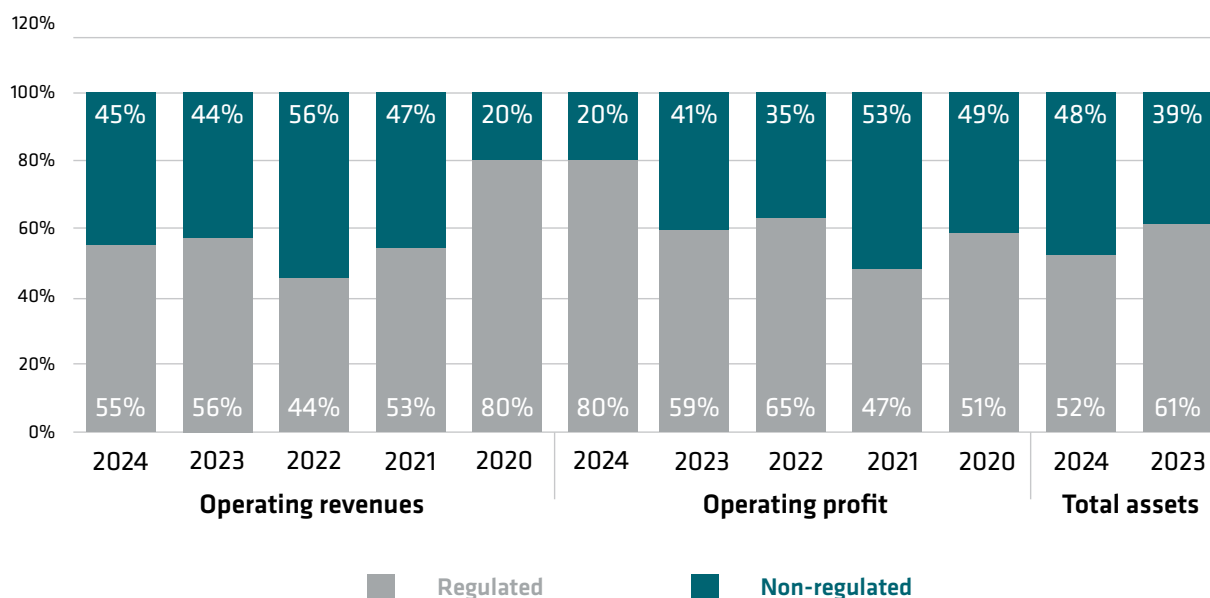
overall cost of investments. Investment costs are further driven by the substantial increase in electricity sector investments in Estonia and beyond, particularly in renewable energy. Although the construction price index grew at a slower rate than inflation, reaching 6.1% in 2023 and expected to remain below 3% in 2024, the cost of electricity investments has multiplied significantly.

## Nature of economic activity

Elering's economic activities are primarily divided into two categories:

- a. Regulated electricity and gas online activity;
- b. Unregulated areas of activity.

Regulated network operations involve the transmission of electricity and gas through the company-owned transmission networks. These operations are the most significant in terms of turnover, profitability, and assets, as illustrated in the following graph.



Network operations are regulated activities, with permitted network charges approved by the Competition Authority. The regulator evaluates the justification of costs submitted in the network charge application and determines an appropriate return, calculated using the Capital Asset Pricing Model (CAPM).

Network charges include essential operating costs for both electricity and gas transmission, capital costs, and the allowed return. Operating profit is derived as the product of regulated assets and the justified return on capital (WACC – Weighted Average Cost of Capital).

Elering serves a total of 36 electricity network service customers and 9 gas network service customers in 2024 (compared to 32 electricity and 10 gas customers in 2023).

The majority of network service revenues (92.2%) come from regulated distribution network operators, which function as natural monopolies (2023: 94.4%). The largest customer is Elektrilevi OÜ, accounting for 67.5% of network service revenues in 2024, down from 91.1% in 2023. Elektrilevi is a distribution network company within the state-owned Eesti Energia AS group.

Elering's non-regulated activities primarily involve providing electricity and gas balancing services.

To maintain a stable electricity system frequency, the system must remain balanced at all times, meaning that production must equal consumption. To achieve this, all market participants must also be balanced, with most purchasing electricity balancing services from balance managers.

Elering, in turn, provides balancing services to these balance managers, ensuring system stabil-

ity. In 2024, Elering serves 18 electricity balance managers, compared to 19 in 2023.

The principles of balancing the gas system are similar to those of the electricity system, with one key difference: the gas system does not need to be balanced at all times. If gas consumption exceeds supply, system pressure decreases, and if supply exceeds consumption, pressure increases.

As the gas system operator, Elering is responsible for maintaining pressure within permitted limits. To achieve this, Elering buys and sells balancing gas to gas balance providers. In 2024, there are 12 balance providers involved in balancing gas transactions, compared to 11 in 2023.

The balancing service has an insignificant impact on Elering's profit, as its pricing is structured to ensure that the revenue generated only covers the costs required to provide the service.



## Financial results

### Key financial indicators

	2024	2023	2022	2021	2020
<b>Sales revenue (mil €)</b>	214,3	244,7	387,0	201,4	137,1
<b>Other operating income (mil €)</b>	11,6	10,1	11,1	6,7	5,3
<b>Operating expenses (mil €)</b>	208,2	226,5	378,2	199,1	109,8
<b>Operating profit (mil €)</b>	17,6	28,3	19,9	9,0	32,6
<b>Operating profit before depreciation (mil €)</b>	70,8	81,8	67,5	54,6	72,7
<b>Financial expenses (net) (mil €)</b>	-2,3	-2,0	2,4	2,3	2,3
<b>Income tax (mil €)</b>	-4,3	2,3	0,0	1,6	5,0
<b>Net profit (mil €)</b>	15,7	28,0	17,4	5,1	25,3
<b>Operating profit margin</b>	8,2%	11,6%	5,1%	4,5%	23,8%
<b>Operating profit margin before depreciation</b>	33,0%	33,4%	17,5%	27,1%	53,0%
<b>Net profit margin</b>	7,3%	11,4%	4,5%	2,5%	18,5%
<b>Return on equity</b>	3,8%	7,1%	4,5%	1,3%	6,5%
<b>Equity to assets ratio</b>	25,3%	28,2%	27,3%	32,3%	36,0%
<b>Net debt/EBITDA (mil €)</b>	-0,4	0,1	1,2	4,8	3,9
<b>Investments in fixed assets (mil €)</b>	233,1	183,6	118,8	78,8	85,0
<b>Dividends (mil €)</b>	20,0	13,5	0,0	10,0	25,6

*Operating profit before depreciation = operating profit + depreciation*

*Return on equity = net profit / average equity*

*Equity to assets = equity / total assets*

*Net debt = debts payable - cash and cash equivalents*

## Revenue

Revenue amounted to 225.9 million euros (2023: 254.8 million euros). The company's primary source of revenue was the sale of network services, which accounted for 57.9% or 124.1 million euros of total sales revenue (2023: 58.3% or 142.7 million euros).

Of the revenue from network transmission services, 68.8% came from electricity network transmission services, 22.6% from gas transmission network services, and 8.6% from other network services (2023: 64.7%, 10.1%, and 25.2%).

In 2022-2024, in coordination with the Competition Authority, electricity network losses not included in the tariff were covered from the accumulated capacity distribution fee, assuming that the remaining capacity distribution fee would be sufficient to finance cross-border investments.

In total, 91.4% of network service revenue was regulated by network tariffs (2023: 74.8%).

Between 60% and 86% of transmission revenues for both electricity and gas are earned from October to May.

In 2024, gas service revenues saw a significant increase compared to 2023, while electricity network service revenues declined by 7.6%. The gas network service price adjustments, which took effect on December 4, 2023, led to an almost twofold increase in gas network service sales revenue. Additionally, the rise in gas consumption contributed to this growth, with volumes increasing by 8.5%, from 3.4 TWh to 3.7 TWh.

As of January 1, 2024, new electricity network fee price packages, which include a partial or full fixed fee component, came into effect. This change

helps mitigate the risk associated with declining transmission volumes. However, since customers could select price packages on short notice during the transition period, this had a negative impact on annual network service revenues. Despite this, electricity transmission volumes remained at the 2023 level, reaching approximately 7 TWh.

Balancing and regulation service revenues declined by 10.8%, or 9.8 million euros, totalling 81.2 million euros (2023: 91.1 million euros). At the same time, balancing service revenues also decreased, accompanied by a corresponding reduction in balancing service-related expenses.

## Costs

Total operating expenses amounted to 208.2 million euros (2023: 226.5 million euros). The decline in balancing service sales was accompanied by a corresponding reduction in purchasing costs for balancing services. Energy purchasing costs for balancing services and brokerage costs for regulation services decreased by 8.7%, or 7.2 million euros (in 2023, they had decreased by 54.5% or 109.3 million euros).

As in 2023, electricity and gas network losses continued to decline in 2024. While the primary factor in 2023 was a decrease in prices, the reduction in electricity network losses in 2024 was mainly driven by a 74.2% decrease in volume. Overall, network loss costs fell by 23.8%, with 95.2% of this reduction attributed to lower electricity network losses.

Labor costs increased by 12.5%, or 1.8 million euros, in 2024, reaching 16.9 million euros (in 2023, the increase was 11.0%, or 1.7 million euros, totalling 15.1 million euros). The rise in salary costs was due to both an increase in the number of employees and higher compensation levels.

Depreciation and amortization expenses were 0.6% lower than in the same period last year, amounting to 53.1 million euros. This decrease is mainly due to a review of the remaining useful lives of assets, which contributed approximately 1 million euros (2023: an increase of 12.1%, or 5.8 million euros, with total depreciation of 53.4 million euros).

The operating profit for the reporting year was 17,6 million euros (2023: 28.3 million euros).

In 2024, the company earned net financial income of 2.3 million euros as a result of continued favourable interest market conditions, exceeding the 2023 figure of 2.0 million euros.

In 2024, the company distributed 20.0 million euros in dividends to its owners, resulting in an income tax expense of 4.3 million euros. In comparison, dividends paid in 2023 totalled 13.5 million euros, with an associated income tax expense of 2.3 million euros.

The net profit for the reporting year amounted to 15.7 million euros (2023: 28.0 million euros).

## Investments

The company's investments are categorized into conventional and cross-border investments.

Conventional investments primarily focus on replacing depreciated components of the electricity and gas networks. The annual volume of replacement investments typically ranges between 15 and 50 million euros. In 2024, replacement investments amounted to 47.5 million euros (2023: 42.3 million euros).

As in 2023, a key focus for 2024 is investments related to synchronization with the Continental European frequency band to ensure readiness for synchronization in February 2025.

In addition to regular investments, Elering has launched an intensive extraordinary investment program aimed at strengthening connections.

Million euros	Total investment	<= 2024	2025-2029	Investment
<b>Estonia-Latvia 3rd power line</b>	82	82	0	2011-2021
<b>Synchronization</b>	323	282	41	2018-2029
<b>Estonian-Finnish gas connection</b>	136	136	0	2013-2024
<b>Estonian-Latvian gas connection</b>	44	44	0	2015-2024
<b>GIPL</b>	2	0	2	2025
<b>Estlink 3</b>	658	0	206	2023-2035
<b>Estonia-Latvia 4 line</b>	729	0	287	2024-2035
<b>RRF</b>	128	71	57	2022-2026
<b>Total</b>	<b>2 102</b>	<b>616</b>	<b>592</b>	

## Financing

The company has financed its investments through European Union funds, loans, and bonds. In May 2023, it fully redeemed its is-

sued bonds, totalling 225 million euros. As of the balance sheet date, the company's interest-bearing liabilities are as follows:

Million euros	2024	2023
<b>Long-term bank loans with a depreciable portion at an average interest rate of 4.27% (2023: 3.57%)</b>	10,6	10,6
<b>Outstanding interest liabilities</b>	0,5	0,7
<b>Total short-term interest-bearing debt</b>	<b>11,1</b>	<b>11,3</b>
<b>Long-term bank loans with an average effective interest rate of 4.4% (2023: 0.95%)</b>	55,6	66,2
<b>Total long-term interest-bearing liabilities</b>	<b>55,6</b>	<b>66,2</b>
<b>Total interest-bearing debt obligations</b>	<b>66,7</b>	<b>77,5</b>

Elering issued Eurobonds with a face value of 225 million euros, which were listed on the London Stock Exchange. The bonds had a maturity date of May 3, 2023, and carried a coupon interest rate of 0.875%. They were redeemed on schedule.

Bank loans were obtained from the European Investment Bank and the Nordic Investment Bank. As of December 31, 2024, the outstanding principal balances are 56.6 million euros and 9.6 million euros, respectively (2023: 63.8

million euros and 13.0 million euros). Both loans are amortizing, with the final repayment to the European Investment Bank scheduled for 2033 and to the Nordic Investment Bank for 2032.

In addition to interest-bearing liabilities, Elering also finances investments through sources that do not incur interest costs. The primary source is the European Union's non-repayable aid. Elering has entered into

financing agreements with the European Climate, Infrastructure, and Environment Executive Agency (CINEA) to fund the following projects:

- a. The electricity transmission line between Estonia and Latvia;
- b. The submarine gas pipeline connecting the Estonian and Finnish gas networks, along with the associated infrastructure;

- c. The reinforcement of the connection between the Estonian and Latvian gas networks;
- d. Investments necessary for synchronization.

Summary of the estimated EU and recovery instrument sources for major cross-border investments:

In millions of euros	Total EU aid receipts	Receipt of EU aid, <=2024	Receipt of EU aid, 2025-2029
<b>Total</b>	422,3	275,7	146,6

Another source of financing that does not incur interest costs is congestion income. This arises when price differences occur between different price areas (countries) in the power exchange, and the resulting revenues are allocated by the power exchange to the respective transmission system operators. Under European Union regulations, these funds must primarily be used to enhance cross-border transmission capacities.

As of the end of 2024, Elering has accumulated 535.0 million euros in congestion income, of which 336.7 million euros remain uncommitted as of the reporting date (454.8 million euros as of the end of 2023, with 338.9 million euros uncommitted as of December 31, 2023). Assets financed through both EU aid and congestion income are excluded from the calculation of regulated assets, meaning their capital costs are not reflected in network tariffs.