



CONSOLIDATED ANNUAL REPORT 2020



OÜ Utilitas

Consolidated
Annual Report
2020

Address

Maakri 19/1
10145 Tallinn
Harju County
Republic of Estonia

Registry code

12205523

Telephone

+372 642 4071

Principal area of activity

Production and sale of electricity and thermal energy

Auditor

AS PricewaterhouseCoopers

Beginning and end of financial year:

01.01.2020 – 31.12.2020

This version of annual 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 the annual report takes precedence over this translation.



CONTENTS

MANAGEMENT REPORT	
UTILITAS	4
Utilitas in facts and figures	6
Operating environment	12
Social trends	12
Principles and goals of energy policy	16
Social responsibility	20
Corporate structure and management	24
MANAGEMENT REPORT FOR 2020	26
Overview of business results	28
Financial results	30
Investments	31
SERVICE RESPONSIBILITY	34
Quality and continuity	36
Customer view	41
ENVIRONMENTAL IMPACT	44
Environmental impact and environmental management principles	46
Use of biomass	48
Production of renewable energy	52
Reduction of climate impact and carbon neutrality	54
Improvement of efficiency	60
Reduction of water use	62
Air emissions	62
Raising environmental awareness of customers	63
EMPLOYEES	64
Overview of staff and employee relations	66
Occupational safety and health	68
Employee engagement	70
Diversity and equal treatment	70
Training and development	71
SOCIAL ROLE	72
Relations with residents	74
Community relations and support activities	75
Contribution to the development of the sector	76
Cooperation with educational establishments	77
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated balance sheet	80
Consolidated income statement	81
Consolidated cash flow statement	82
Consolidated statement of changes in equity	83
Notes to the consolidated financial statements	84
INDEPENDENT AUDITOR'S REPORT	106
SIGNATURES OF THE MANAGEMENT BOARD TO THE 2020 CONSOLIDATED ANNUAL REPORT	109



UTILITAS





UTILITAS IN FACTS AND FIGURES

Principal activities of the Utilitas energy group include the production of heat and electricity as well as the provision of district heating and cooling services. We provide solutions which are suitable for our customers and the environment all over Estonia, producing and distributing energy with highest possible efficiency and utilising to the largest extent possible renewable and local sources of energy.

As of 31 December 2020, the Group consists of the parent company OÜ Utilitas, and of AS Utilitas Tallinn and AS Utilitas Eesti, which provide district heating and cooling services and of OÜ Utilitas Tallinna Elektriijaam, which produces electricity and heat in Tallinn. OÜ Utilitas holds 100% of the shares of these companies.



■ Utilitas is the largest renewable energy producer and district heating service provider in Estonia

Results for 2020



1,807 GWh

heat consumed by customers

(2019: 1,899 GWh)



792 MWh

cooling consumed by customers



1,728 GWh

heat produced

(2019: 1,816 GWh)



394 GWh

electricity produced

(2019: 344 GWh)



1,584 GWh

renewable energy produced

(2019: 1,400 GWh)



75%

share of renewable energy in the production portfolio

(2019: 65%)

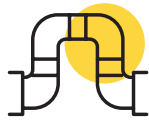


17.6% share of Utilitas in the total production of renewable electricity in Estonia (2019: 16%)

■ All district heating and cooling systems of Utilitas are efficient within the meaning of the EU Energy Efficiency Directive 2012/27/EU



■ **Utilitas operates in eight cities: Tallinn, Maardu, Keila, Rapla, Haapsalu, Kärdla, Jõgeva, Valga**



547 km

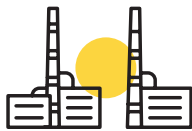
heat networks operated
(2019: over 530 km)

26 km

district heating pipelines renovated and built in 2020
(2019: 20)

59-95%

share of new or reconstructed network
(2019: 54-95%)



3

cogeneration plants
(2019: 3)



9

solar parks



58 MW

rated electrical capacity
(2019: 57)

26

boiler plants
(2019: 27)

1,200 MW

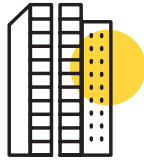
total heat capacity
(2019: 1,200)

■ Customers of Utilitas' district heating service include apartment associations, state and municipal institutions, and private companies



4,970

buildings heated
(2019: 4,931)



84

new connected
buildings in 2020
(2019: 114)



5,400,000 m²

heated net area of
business and public
buildings



174,000

heated
households
(2019: 170,000)



360,000

city residents
supplied with
environmentally
sustainable district
heating



The electricity
produced is sold
on the Nordic
countries' Nord Pool
power exchange

■ Business philosophy



Mission

Cleaner future

We reduce the environmental impact of energy consumption, by enabling convenient and affordable use of sustainably produced energy



Vision

To be a leader in the field of energy

Create the best practices and search for new solutions in order to achieve environmentally friendly and climate-neutral society



Values

- sustainable
- innovative
- convenient to use
- competitive

■ Organisation



257
employees
(2019: 249)

0
occupational
accidents
(2019: 1)

15
average length of
employment (in
years)

■ Financial indicators



127 million euros
operating revenue
(2019: 135)

22 million euros
net profit
(2019: 22)

30 million euros
investments
(2019: 40)

386 million euros
total assets
(2019: 352)

■ Membership in organisations



The Estonian Renewable Energy Association



The Estonian Power and Heat Association

**EESTI JÕUJAAMADE
JA KAUGKÜTTE ÜHING**



Green Tiger

Rohetiiger



The Responsible Business Forum of Estonia

Vastutustundliku
Ettevõtluse Foorum



OPERATING ENVIRONMENT

SOCIAL TRENDS

■ Trend 1: global warming in Estonia and elsewhere in the world



Climate change is a serious concern for Europeans and the world as a whole. According to the survey published in September 2017, 92% of the EU citizens consider climate change a significant problem.

Over the last century, the average air temperature on our planet has increased approximately by one degree. Warming has been especially fast over the last 40 years. The 18 warmest years since 1880, when global temperature has been measured this way, have occurred within the last 20 years. The frequency and intensity of extreme meteorological phenomena have increased. The same trend can also be seen in Estonia, where 2019 and 2020 have been the warmest throughout the measurement history. Estonia is located on the Northern hemisphere, where warming is even faster than in the world on average.

2019 and 2020 were the warmest years in Estonia through ages

In Europe, for example, it has had the following consequences:

- extreme heat waves during four years out of the last five;
- severe drought in different parts of Europe;
- floods, especially in Central and Eastern Europe.

Extreme climate-related consequences (e.g. forest fires, sudden floods, typhoons and hurricanes) cause massive destruction and death as well as economic loss. For example, in 2017 the economic loss caused by weather-related catastrophes all over the world amounted to 283 billion euros.

This was mostly caused by an increase in human-induced emissions of greenhouse gases. At the Paris climate conference held in December 2015, the representatives of 195 countries adopted a legally binding global agreement for slowing down climate warming. According to the agreement, the long-term goal is to hold the increase in the global average temperature to well below 2 °C (the actual need is even to below 1.5 °C), compared to the pre-industrial period.

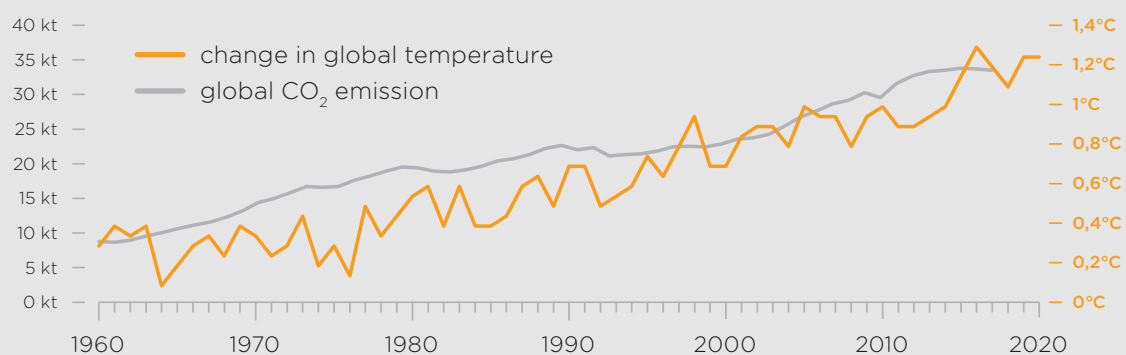


Figure 1. Temperature change in Celsius degrees compared to the average in the period from 1850 to 1900 and global CO₂ emission, kt

Trend 2: urbanisation



Continuing urbanisation is one of the strongest global trends and, according to forecasts, in 2050, more than 2/3 of the planet’s population will live in cities. In Estonia, the share of people living in cities is smaller than that in the European Union on average. As of 2019, 69% of the Estonian population lived in urban and small urban settlement areas. According to the forecasts, the share of people living in cities in Estonia may increase approximately to 80% by 2050.

**Forecast:
in 2050, 80%
of the residents
of Estonia will
live in cities**

The number of residents of Tallinn has increased over the last ten years (2011-2020) by 30,000 people. If at the moment a bit more than one-half of the people of Estonia live in Harju and Tartu Counties, then, according to the forecast, by 2040 this indicator will have increased to at least 65%.

According to the data of the International Energy Agency, already in 2013 cities consumed most of the primary energy (64%) used all over the world and accounted for the majority of energy-related carbon emissions (70%). Thermal energy holds the largest share in the energy balance of both Estonia and Europe as a whole - therefore it is crucial to provide a sustainable solution to the energy supply of cities in order to achieve the global climate and energy policy goals.

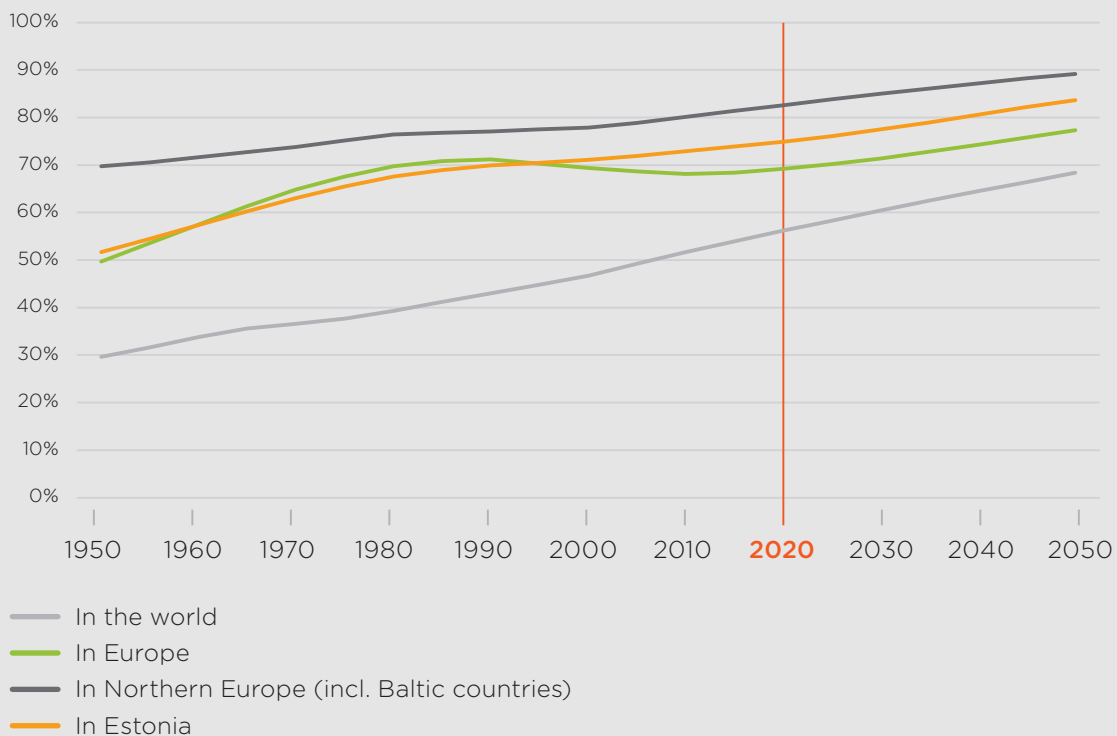


Figure 2. Share of people living in urban areas in total population - change over the last fifty years and forecast until 2050¹

¹ <https://ourworldindata.org/urbanization>

■ Trend 3: increase in intermittent energy production capacities

Using renewable energy sources increases the share of uncontrollable production capacities (solar parks, wind power generators, etc.) in the production of electricity and heat. Therefore, it is more and more important that the energy system could, at any time, ensure energy supply that is both environmentally sustainable and reasonably priced. There is plenty of energy on a hot summer day, but energy systems are designed for peak capacities, considering the highest consumption in cold times when wind is not blowing and sun is not shining.

The difference between the summer and winter load in the heat network is tenfold and in the electricity network threefold. The chart below reveals that there can be sufficient wind and solar energy in summer in order to cover the heat demand of the district heating network. In winter heating period, however, these capacities are not sufficient and it is strictly necessary to preserve the production capacities related to district heating. Assessment of the energy quantities consumed over the year

District heating provides uninterrupted energy supply throughout the year

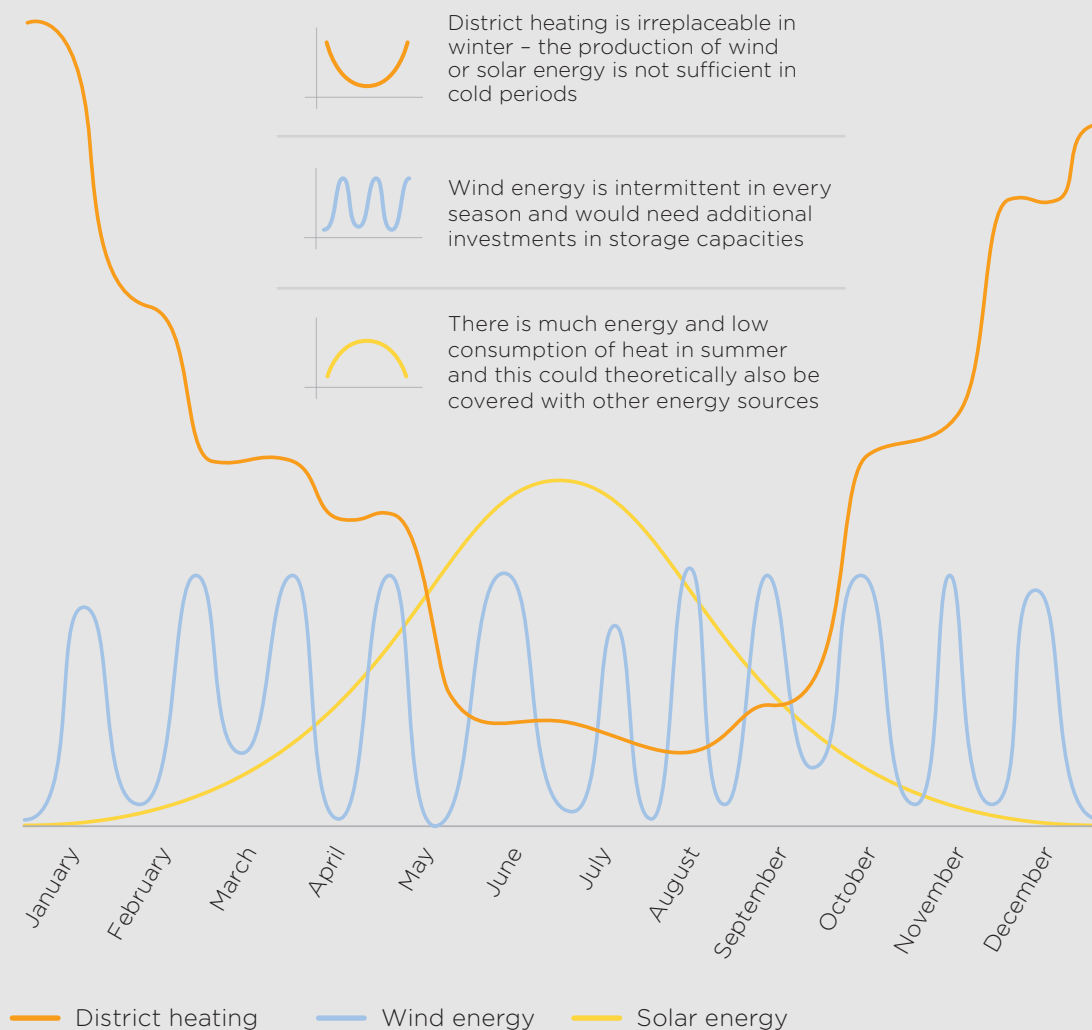


Figure 3. District heating capacity chart compared to solar and wind energy capacity curves

does not provide a whole picture in our climatic zone, the needs must be covered at any time. In order to cover the peaks of energy consumption, it is necessary to establish production capacities and ensure that they are in working condition. Uninterrupted energy supply is ensured mainly by controllable production capacities and district heating provides an irreplaceable opportunity therefor.

In addition, district heating supports the electricity system, reducing the need for investing in increasing the peak capacity of electricity production and capacity of the electricity system. The figure below illustrates the district heating and electricity capacity of Estonia on an hourly basis. It also sets out the capacity chart of the electricity system which is required if no district heating exists and all the heat is produced with heat pumps, using electricity. In order to produce heat needed in the coldest period would require roughly twice as high electric capacity. This illustrates vividly that district heating has a very important role in energy supply and, instead of producing more heat from electricity in the future, electric capacity should instead be used, for example, for satisfying the needs of electromobility.

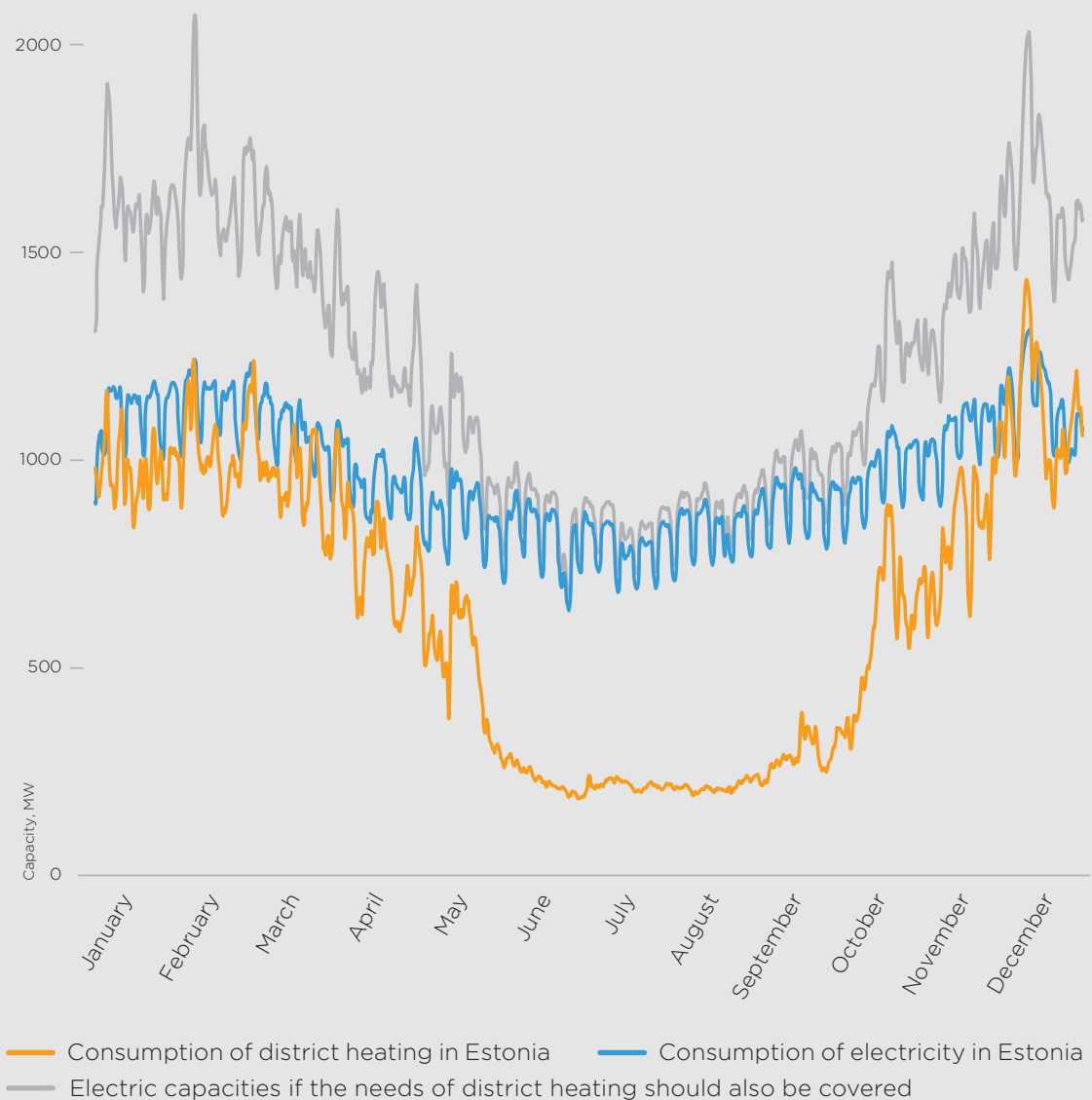


Figure 4. Calculated need for electric capacities in Estonia in 2020 in the absence of district heating. Network losses have been added to the electricity consumption and, upon producing heat from electricity, the efficiency of the heat pump has been estimated based on the ambient air temperature and estimated coefficient of performance (COP), MW

PRINCIPLES AND GOALS OF ENERGY POLICY

■ In the European Union



The European Union regards the introduction of renewable sources as the main issue of energy policy, which helps reduce dependence on energy supplied by non-EU countries, restrict greenhouse gas emissions and make energy price independent of the price of fossil fuels. The cross-EU goal is to reduce greenhouse gas emissions by 2030 by at least 40% and by 2050 by up to 95%, compared to 1990. In December 2020, the European Commission agreed on the need to review these goals and develop a new action plan in order to reduce greenhouse gas emissions by 2030 by at least 55%, compared to 1990.

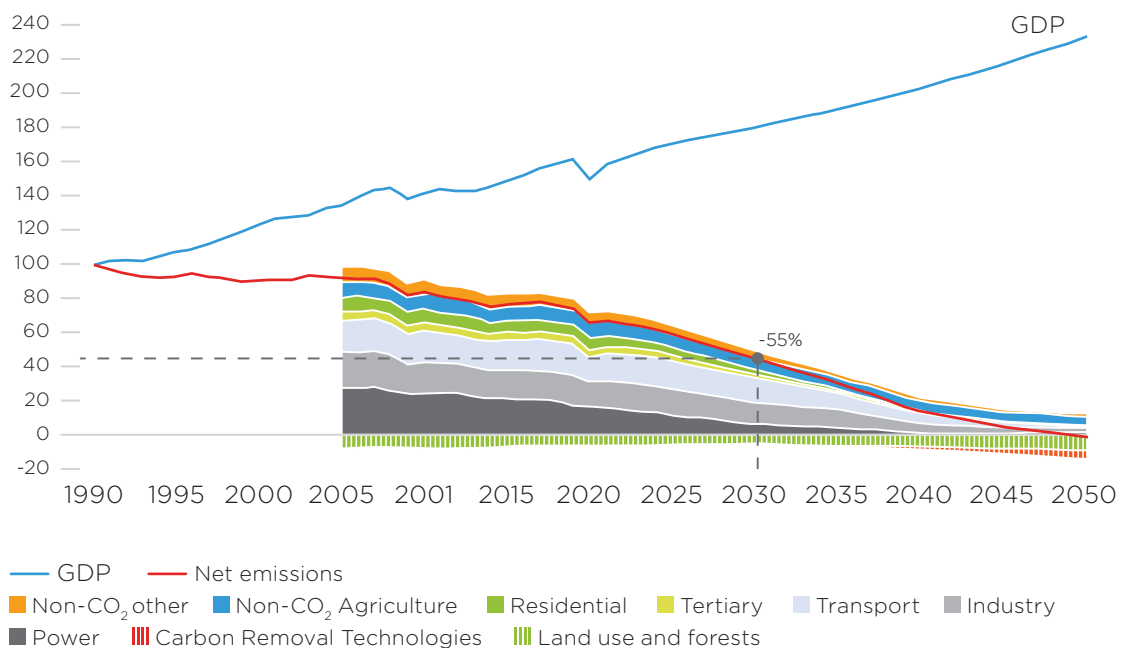
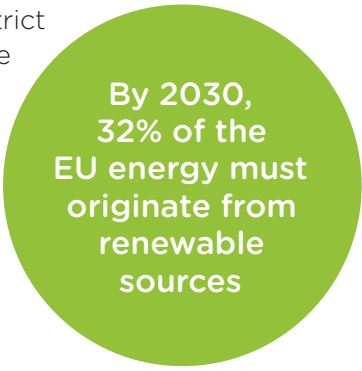


Figure 5. Pathway towards climate neutrality as proposed by the European Commission, incl. for the purpose of reducing greenhouse gas emissions by 2030 by at least 55%, compared to 1990 (expresses the change in greenhouse gas emissions and in the gross domestic product (GDP), compared to 1990)

In 2018, the EU updated within the ‘Clean Energy Package’ EU Energy Efficiency Directive (2012/27/EU) and Renewable Energy Directive (recast 2018/2001/EU). Pursuant to the new goals provided for therein, by 2030 at least 32% of the energy used in the European Union must originate from renewable energy sources and energy efficiency must be increased by at least 32.5%.

Both Directives have separately pointed out the role of efficient district heating and district cooling systems in achieving these goals and the need for adopting measures in order to take maximum advantage of this potential in all Member States.

Regulation (EU) 2020/852 of the European Parliament and of the Council (of 18 June 2020) established a framework to facilitate sustainable investment, i.e. 'the Taxonomy Regulation'. This Regulation helps establish clarity on which activities qualify as 'green' or 'sustainable' and allows to improve the investment process into sustainable activities.



According to the new system, activities can qualify as environmentally sustainable only if they contribute substantially to climate change mitigation or adaptation and to the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, or the protection and restoration of biodiversity and ecosystems.

EU Energy Efficiency Directive (2012/27/EU) defines efficient district heating and district cooling system as the one using at least 50% renewable energy, 50% waste heat, 75% cogenerated heat or 50% of a combination of such energy and heat.



Recognition. The Efficient District Heating and Efficient District Cooling label has been awarded to all district heating and district cooling systems of Utilitas. The label certifies that these systems are in compliance with the efficiency criteria set out in the Energy Efficiency Directive and thus help in combating with climate change.

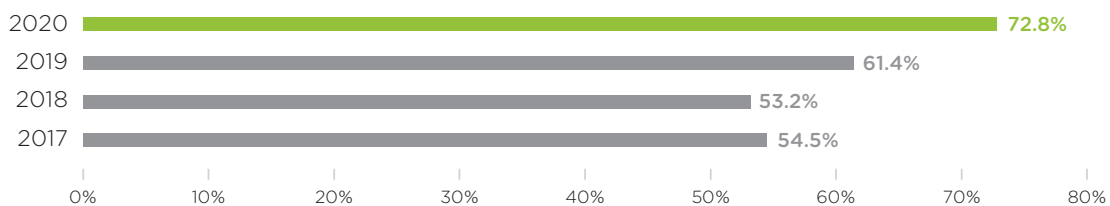


Figure 6. Share of cogenerated heat in the district heating network of Tallinn

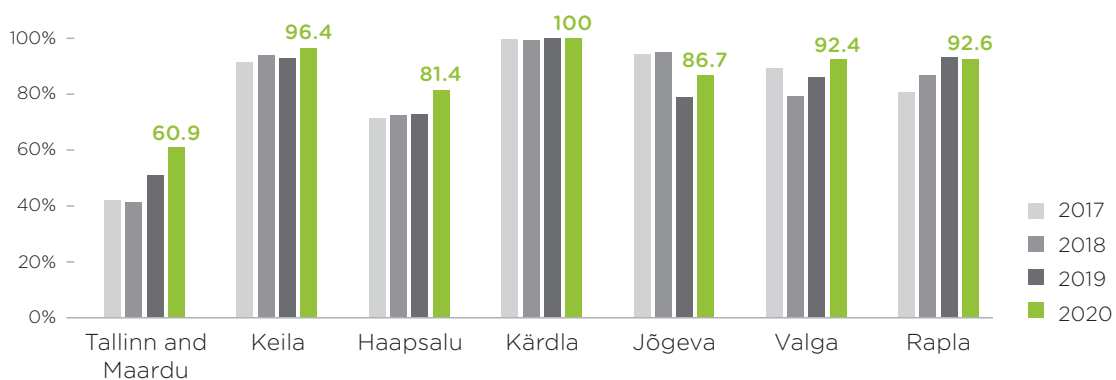


Figure 7. Share of renewable energy in the heat sold by Utilitas, broken down by areas

■ Estonian energy and climate goals



Estonian energy production is amongst the most carbon-intensive in Europe

Although Estonia has achieved the climate goals for 2020 as concerns the share of renewable energy in the final consumption, the local carbon emission per person and GDP unit is still one of the largest in the European Union just like greenhouse gas emissions from the energy sector. As the overall goal of climate regulation is to reduce greenhouse gases, it is clear that, despite achieving the goal as regards the percentage of renewable energy share, decar-

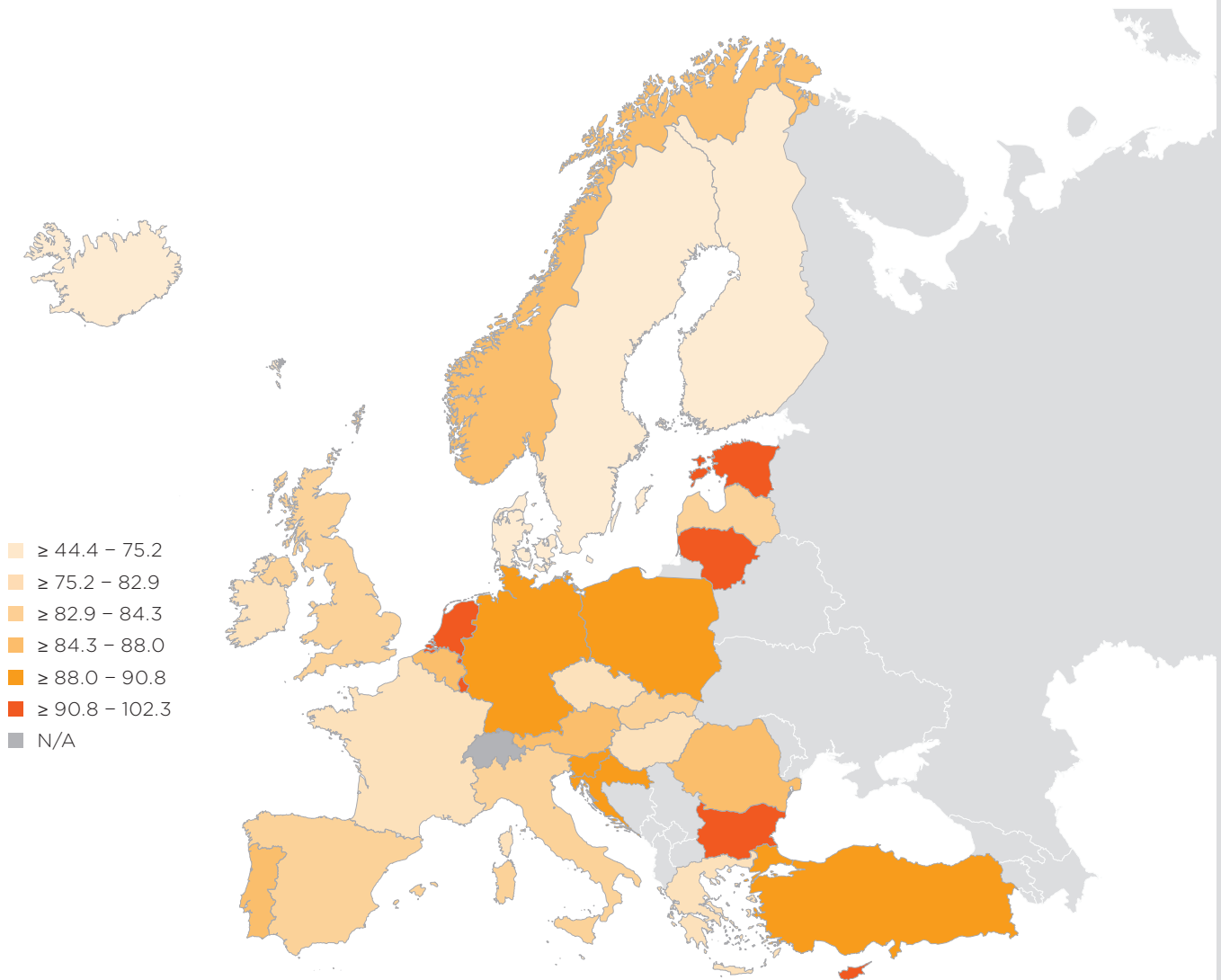


Figure 8. Carbon intensity of energy consumption in European countries in 2018, compared to the level of 2000 (the share that the tCO₂ equivalent emitted per unit of energy consumed in 2018 accounts for in the volume of 2000, 2000=100)

bonisation of the economy must continue in order for Estonia to no longer be among the countries with the largest CO₂ footprint in Europe and to comply with increasingly ambitious climate goals. The main source of greenhouse gases in Estonia is the combustion of fuels in the production of heat and electricity. In 2019, this accounted for 46.8% of the total greenhouse gas emissions.

The obligations and goals assumed by EU political agreements also serve as a basis for Estonian climate and energy goals that are set out in two main documents:

- The main goal of the Estonia’s 2030 National Energy and Climate Plan (NECP) is to reduce greenhouse gas emissions in Estonia by 2050 by 80% (incl. by 70% by 2030). Pursuant to the NECP, the share of renewable energy in the total final energy consumption must be at least 42% in 2030 (incl. 63% of the thermal energy consumed). In accordance with the Plan, energy efficiency must be increased, primary energy must be consumed more efficiently and energy security must be ensured, using local fuels as much as possible.
- The National Development Plan of the Energy Sector (until 2030) (NDPES) prescribes that the reduction of greenhouse gas emissions in the energy sector is at least 70% by 2030. In accordance with the Plan, 80% of the heat produced in Estonia is produced based on renewable energy sources.

Local, national or international climate goals cannot be achieved without a strong contribution of the district heating sector. Utilitas as the largest district heating provider and renewable energy producer in Estonia has a large role to perform.

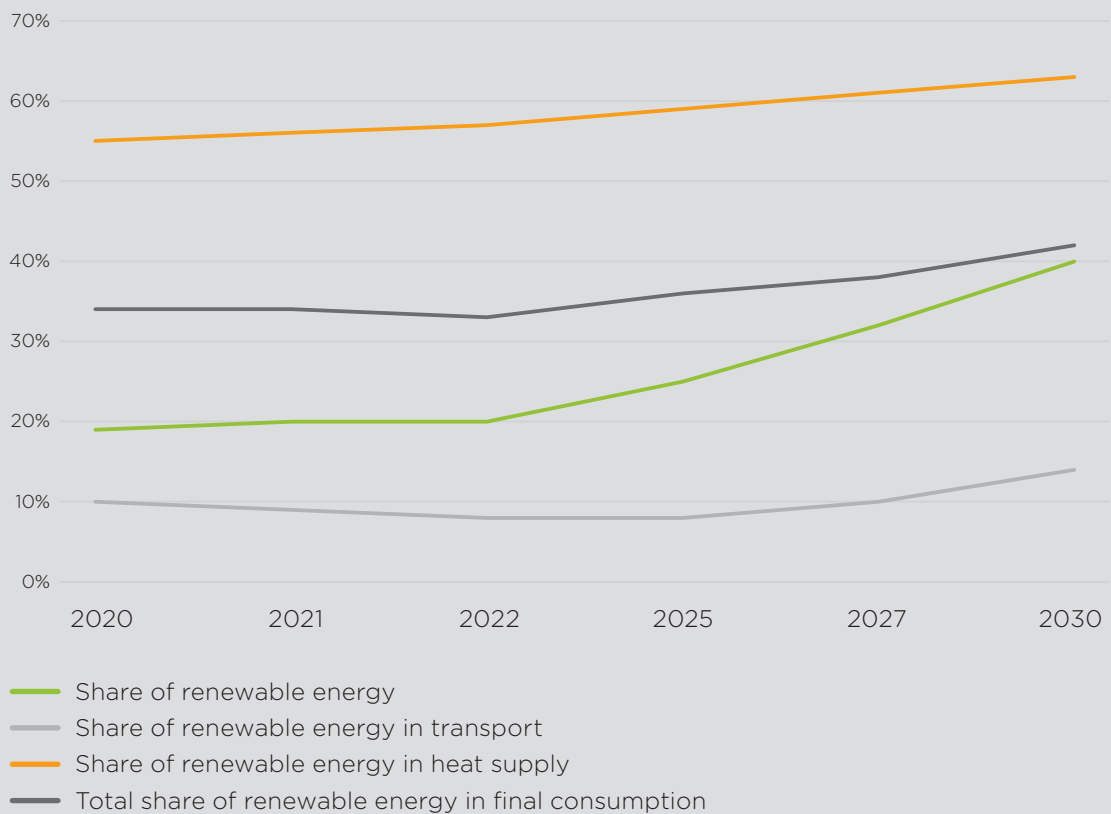


Figure 9. Share of Estonian renewable energy in the final energy consumption in general and in terms of sectors. The indicators of 2020 are based on forecasts. Statistical quantities of renewable energy sold to other Member States within the framework of statistics trading must be subtracted from the forecasts

SOCIAL RESPONSIBILITY

More than one-third of the Estonian district heating customers are connected to the networks of Utilitas and, thus, Utilitas has an important role in directing the national development of district heating. As an example and provider of a vital service, Utilitas has the following role and responsibility in the society:

- provide its customers with high quality security of supply and reliability
- act in an environmentally sustainable manner and reduce its environmental impact
- promote energy saving in the society
- offer a safe and pleasant working environment
- contribute to a future generation of thermal engineers
- act with integrity, ethically and transparently
- support sector-related initiatives and communities where the company operates

This report provides an overview of the activities of Utilitas in all of the foregoing aspects. For 2021 Utilitas has set the aim to evaluate its environmental and social impact holistically and to further develop ESG reporting principles and goals.

In its activities, Utilitas as the largest district heating company and renewable energy producer in Estonia also keeps in mind the Sustainable Development Goals (SDGs) of the United Nations (UN). This global collection of 17 universal goals and 169 targets calls on to end poverty, combat climate changes and inequality, and ensure a good quality of life for all people.

This report covers the activities of Utilitas in achieving nine SDGs, on which it has primarily focused, considering the area of activity of the company.



UN SDGs. At the Sustainable Development Summit held at the UN headquarters in New York on 25 September 2015, the 193 member states of the United Nations adopted the SDGs, which will have to be achieved by 2030 (therefore also known as the 2030 Agenda) in order to ensure sustainable society. In addition to the states, corporate businesses all over the world also follow these 17 goals, helping achieve the global goals most related to their business activities.

Utilitas also follows the principles that are related to SDGs number 3 (employee health), 5 and 10 (equal treatment at workplace), and 16 (honest and ethical management).

As an illustration, icons of priority SDGs for Utilitas have been used in various parts of the report in order to refer to the company's contribution to the achievement of the related social goals.

Priority SDGs and targets of Utilitas, which are more closely related to the activities of the company

Keywords how Utilitas helps achieve these goals



GOAL:

Ensure access to affordable, reliable, sustainable and modern energy for all

Affordable and Clean Energy

- 7.1. By 2030, ensure access to affordable, reliable, sustainable and modern energy for all
- 7.2. By 2030, increase substantially the share of renewable energy in the global energy mix
- 7.3. By 2030, double the global rate of improvement in energy efficiency

- Production of renewable energy, increase of production efficiency, energy efficient activities
- Raising awareness of consumers and creating opportunities for increasing energy efficiency
- Ensuring continuity of energy supply at a reasonable price



GOAL:

Take urgent action to combat climate change and its impacts

Climate Action

- 13.1. Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries
- 13.2. Integrate climate change measures into national policies, strategies and planning
- 13.3. Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning

- Operation and development of efficient district heating and cooling networks
- Production of renewable energy of a smaller carbon footprint than that of fossil energy
- Cooperation with local governments, customers and educational establishments in order to reduce the climate impact of energy production and use



GOAL:

Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

Life On Land

- 15.1. By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands in line with obligations under international agreements
- 15.2. By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally

- Use of sustainable biomass in energy production

Priority SDGs and targets of Utilitas, which are more closely related to the activities of the company

Keywords how Utilitas helps achieve these goals



GOAL:
Make cities and human settlements inclusive, safe, resilient and sustainable

Sustainable Cities and Communities

- 11.3. By 2030, enhance inclusive and sustainable urbanisation
- 11.6. By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management
- 11.b. By 2020, substantially increase the number of cities and human settlements adopting and implementing integrated policies and plans toward inclusion, resource efficiency, mitigation and adaptation to climate change as well as resilience to disasters

- Production and distribution of resource-efficient renewable energy of a smaller carbon footprint than that of fossil energy for heating buildings in cities and communities
- Reduction of air emissions



GOAL:
Ensure sustainable consumption and production patterns

Responsible Consumption and Production

- 12.2. By 2030, achieve the sustainable management and efficient use of natural resources
- 12.6. Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle
- 12.8. By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature

- Resource-efficient production
- Environmental impact and sustainability-related disclosures
- Raising awareness of sustainable energy in the society
- Sustainable water use in the district heating and cooling system
- Cooperation with public water supply and sewerage companies



GOAL:
Ensure availability and sustainable management of water and sanitation for all

Clean Water and Sanitation

- 6.4. By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater

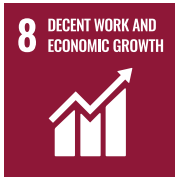


GOAL:
Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation

Industry, Innovation and Infrastructure

- 9.1. Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human well-being, with a focus on affordable and fair access for all
- 9.4. By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes

- Investments in the production of energy with minimal environmental impact
- Upgrading the district heating network to increase reliability and reduce network losses



GOAL:

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Priority SDGs and targets of Utilitas, which are more closely related to the activities of the company

Keywords how Utilitas helps achieve these goals

Decent Work and Economic Growth

- 8.2. Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high value-added and labour-intensive sectors
- 8.4. Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-Year Framework Programmes on Sustainable Consumption and Production
- 8.8. Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment

- Improving work for creating higher value-added, efficient use of resources
- Large-scale investments in reconstructing district heating network and in renewable energy
- Providing the economy with environmentally friendly energy solutions
- Ensuring safety and fair treatment at workplace



GOAL:

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

Quality Education

- 4.3. By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university
- 4.4. By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship

- Popularisation of the speciality of thermal engineers and cooperation with educational establishments in order to ensure a future generation of employees

CORPORATE STRUCTURE AND MANAGEMENT

As of 31 December 2020, the Group consists of the parent company OÜ Utilitas, and of AS Utilitas Tallinn and AS Utilitas Eesti, which provide district heating and cooling service, and of OÜ Utilitas Tallinna Elektriijaam, which produces electricity and heat in Tallinn.

OÜ Utilitas holds 100% of the shares of the Group companies. These companies have been registered and operate in Estonia. OÜ Utilitas has a management board consisting of one member and a supervisory board consisting of three members.

In November 2018, a leading international infrastructure fund with long-term strategy, European Diversified Infrastructure Fund II (hereinafter EDIF II), managed by First Sentier Investors, became one of the owners of the company. The indirect owners of the company are EDIF II (85%) and the companies of the members of the management team of OÜ Utilitas (15%). The direct 100% parent company of OÜ Utilitas is joint holding company First State Core S.à r.l.

MEMBERS OF THE MANAGEMENT BOARDS OF THE UTILITAS GROUP:



MEMBERS OF THE SUPERVISORY BOARD OF OÜ UTILITAS:

- Kristjan Rahu** - Chairman of the Supervisory Board
- Andreas Greim** - Member of the Supervisory Board
- Gregor Kurth** - Member of the Supervisory Board

The following Committees also form part of the management structure: the Audit Committee, whose duty is risk assessment, the Nomination and Remuneration Committee as well as the ESG Committee for aligning responsible management principles.

■ Honest and open management



Utilitas is a group with a simple organisational structure, characterised by management setting an example with honest management principles, little hierarchy, clarity of formal instructions, trust and consensual decision-making in the management. This is exemplified by the core value of the Group: achieve the best outcomes as a result of dedicated cooperation between proficient people.

Zero tolerance towards unethical or dishonest behaviour constitutes integral part of the organisational culture.

Utilitas' open and transparent operating principles are based on:

- **Group-wide values and key principles**, which were jointly evaluated and established in 2020;
- **weekly management meetings** with the participation of key management of all group companies;
- **a quarterly disclosure of results** concerning business activities and results, trends in the field and plans of the company;
- **agreed principles concerning main issues**, such as general work guidelines, procedure for gifts, IT security rules, and management culture in compliance with the ISO standards;
- **digitalisation**, which ensures traceability of information in document management, accounting and reporting;
- **organisation of procurements for purchases** in order to compare competing tenders.

■ Risk management

As a provider of a vital service, Utilitas must perform regular risk analyses and, pursuant to the Emergency Act and regulations of local governments, has developed plans on how to restore the operation of the companies should the risk scenarios materialise.

Utilitas has detailed action plans in place to also ensure continued provision of district heating service in the case of technical failures, extreme weather conditions or interruptions in the electricity or fuel supply and has also appointed employees and members of the management board who are in charge of that.

This has been described in more detail in the 'Quality and continuity' chapter.

In addition to operational risks, the Group also prepares a risk register which identifies strategic and financial risks as well as the risks related to the quality of the service, organisational culture, reputation of the employer, conflict of interests and frauds, compliance with regulations, management capability, occupational safety and impact arising from climate changes as well as activities to minimise the impacts of those risks.

The main risk management measures have been described in the corresponding chapters of the report.

In 2020,
group vision,
mission and
values were
harmonised



MANAGEMENT REPORT FOR 2020



OVERVIEW OF BUSINESS RESULTS

Utilitas is the largest renewable energy producer in Estonia. In 2020, Utilitas produced 2,124 GWh of heat and electricity. Green energy accounted for 1,584 GWh, i.e. 75% of the total production, increasing over the year by 13% particularly thanks to the first full year of operation of Mustamäe cogeneration plant, but also due to the high availability of Vão 1 and Vão 2 cogeneration plants. The share of the renewable electricity produced in the power plants of Utilitas constituted 17.6% of the total renewable electricity production in Estonia in 2020.

In 2020, Utilitas produced 2,124 GWh of energy, of which 75% was green energy

Customers of Utilitas consumed 1,807 GWh of heat in 2020, which was 5% less than the year before despite the fact that the number of customers increased. The reduction of consumption in hotels and other public buildings due to COVID-19 had a certain impact on the consumption, but energy consumption is more and more affected by warm weather.

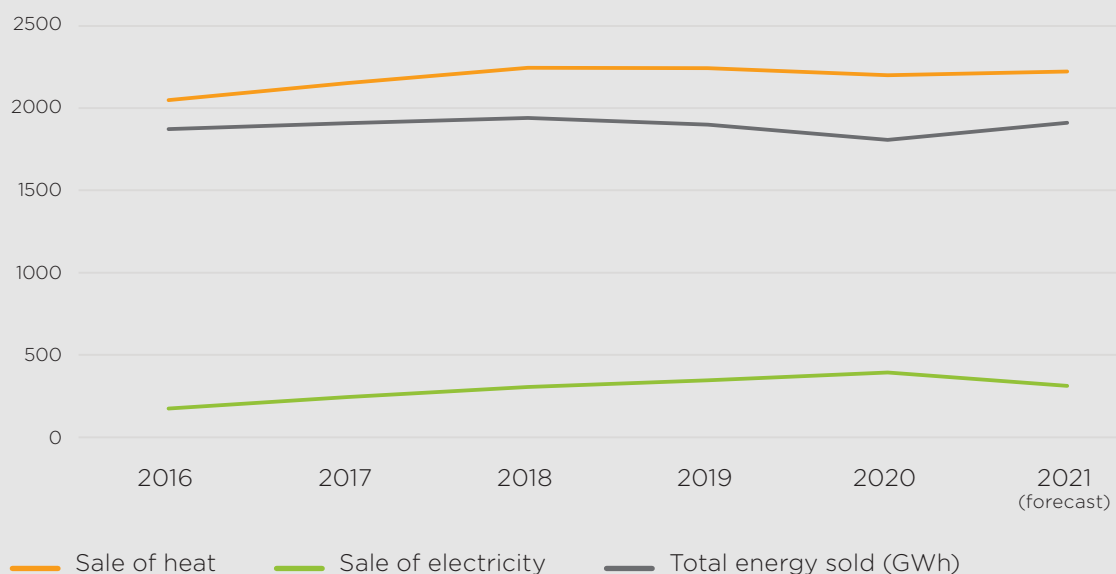


Figure 10. Sale of electricity and heat by Utilitas

In 2020, a total of 84 new buildings all over Estonia with total capacity of 33 MW were connected to the district heating networks of Utilitas: 25 buildings were transferred from alternative heating solutions and 59 buildings were new buildings. The impact of the coronavirus pandemic could clearly be felt here since a year before the corresponding figures had been record-breaking: 114 buildings and 54 MW. The aim of Utilitas is to provide all buildings located close to the existing network with an opportunity to be connected to an environmentally sustainable energy system and to connect annually at least 80 buildings with total capacity of 40 MW. As of the end of the year, Utilitas supplied 4,970 buildings, incl. 174,000 households, all over Estonia with district heating.

Keywords and activities for 2020:

1. Adaptation to coronavirus conditions

The first keywords for 2020 are, without doubt, adapting to coronavirus conditions and changing the organisation of work in order to ensure the continuity of district heating as a state-regulated vital service as well as the sustainability of the company in a broader sense.

When the coronavirus situation escalated in Estonia in March 2020, the employees of Utilitas moved to home offices as much as it was possible and the positions requiring physical presence were provided with sufficient personal protective equipment and the 2 + 2 principles were followed as much as possible. Although there have also been some single cases of the illness among employees of Utilitas, the company has still been successful in avoiding the emergence of any major outbreaks among the staff and, as a whole, the company coped well in the crisis conditions of 2020.

The biggest challenge was to ensure the arrival of skilled foreign workers necessary for more complicated technical maintenance and repair work in Estonia, but in cooperation with foreign partners and state agencies this could be organised to the necessary extent - all workers participating in repair and maintenance work were subjected to mass testing, the company strictly checked the use of personal protective equipment and followed the recommendations made by the Health Board.

2. Record-warm year

The year 2020 also goes down in history for its record-warm air temperature. In Estonia, it was the warmest year since the start of measurements and the average temperature was 2.4 °C above the long-term average. In none of the months of 2020, the average temperature in Estonia was below zero degrees and it can be said that in 2020 there was no winter.

The volume of heat sold through district heating networks declined in 2020 by 5% (2019: 2.2%). In addition to the warm weather, the sales volume also reduced due to the coronavirus crisis, which was especially noticeable in early spring in 2020 particularly in the case of corporate customers and public buildings (shopping centres and water parks, hotels, restaurants, schools and local government buildings), which were closed and constitute, as a whole, about 30% of sales volume of the district heating service of Utilitas.

Despite the decrease in the sales volumes, in 2020 the heat price could still be reduced for customers by 3.5% (2019: 0.9%) as an average over the year thanks to the investments made in new production capacities and district heating networks. For comparison, the average salary in Estonia increased in 2020, despite the COVID-19 crisis, by 2.9% (2019: 7.4%). The cost of district heating service in household budgets continues decreasing.

3. Record-low electricity prices

2020 is also characterised by unusually low electricity prices and increased volatility. In addition to warm weather and the decreased energy demand due to COVID-19, favourable weather conditions for the production of hydroelectricity and wind electricity in the Nord Pool price area also had an additional impact, which also reached Estonia through the electricity connections established with Scandinavian countries.

In 2020, the average annual electricity price in Estonia fell by 27% to 33.7 €/MWh (2019: 45.9 €/MWh). The situation was especially drastic in the first half-year when the average electricity price was even 28 €/MWh. In some hours with good wind conditions in 2020, the Estonian price area also saw, for the first time, negative electricity prices.

In the production portfolio of Utilitas, 2020 was the first full year of operation for Mustamäe cogeneration plant (with electric capacity of 10 MW). With the addition of 270 GWh of heat and electricity produced from domestic renewable sources, the volume of electricity production of the Group increased by 14% over the year but the revenue from the sale of electricity reduced by 15%.

FINANCIAL RESULTS

The Group's key financial figures and ratios	2020	2019
Total assets (in EUR thousand)	386,292	351,670
Loan liabilities (in EUR thousand)	229,701	204,701
Current ratio (times) = Current assets / Current liabilities	3.89	1.86
Quick ratio (times) = (Current assets - Inventories) / Current liabilities	3.64	1.67
Liquidity ratio (times) = Cash and cash equivalents / Current liabilities	2.35	0.77
Debt to equity ratio (D/E)	2.79	3.12
<hr/>		
Total revenue (in EUR thousand)	127,313	134,619
Net profit (in EUR thousand)	21,770	21,852
Return on assets (ROA) = Net profit / Total assets (average)	5.9%	6.4%
Fixed assets turnover (times) = Revenue / Fixed assets (average)	0.40	0.45
Total assets turnover (times) = Revenue / Total assets (average)	0.35	0.39

INVESTMENTS

Efficient district heating and cooling perform an important role in achieving the goals of climate neutrality established in Estonia, the European Union and worldwide in the next few decades. Being guided by the trends of the energy sector, Utilitas continues developing the Group companies and searching for new investment opportunities, focusing on renewable energy and energy efficiency projects in Estonia and neighbouring countries.

To reach the goals, it is necessary to establish new production capacities and connections. To achieve the ambitious goals of energy and climate policy, it is, however, indispensable to develop, in addition to the contribution of the private sector, specific national and local government measures with the help of which the goals can be reached. The payback period of the investments in production equipment and networks is long and making large-scale investments requires stable regulations.

Provision of reliable and sustainable district heating service requires large-scale investments in production equipment and in replacing and upgrading networks. In 2020, the Group companies invested a total of 30 million euros. The main focus of the investments was on reconstruction of district heating networks.

The investments made by the Group in 2020 were below planned levels because the development of new connections and district cooling was postponed due to the uncertainty arising from COVID-19.

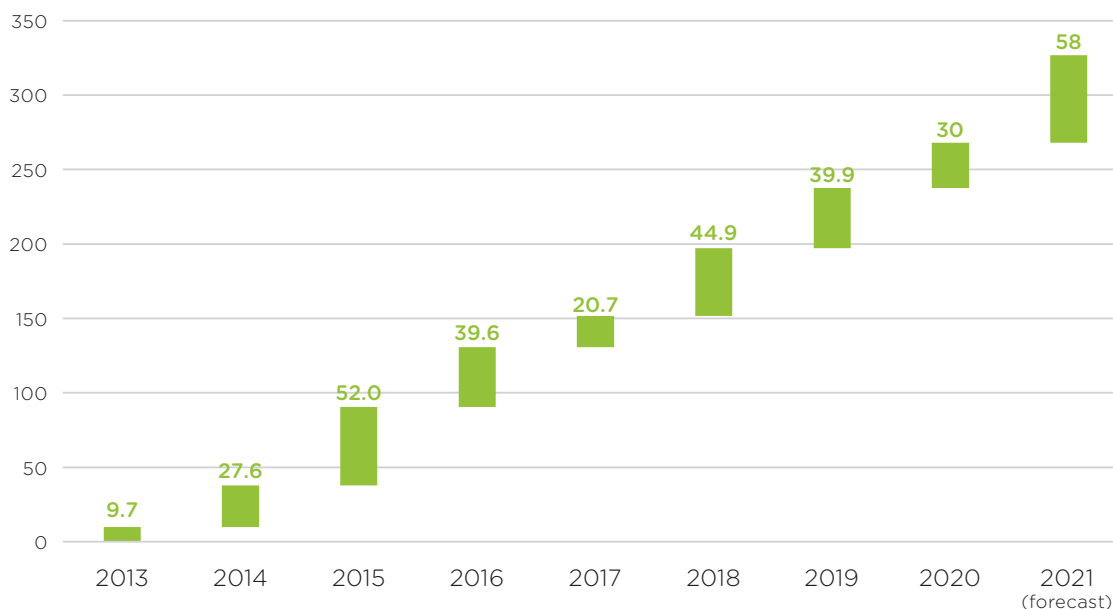
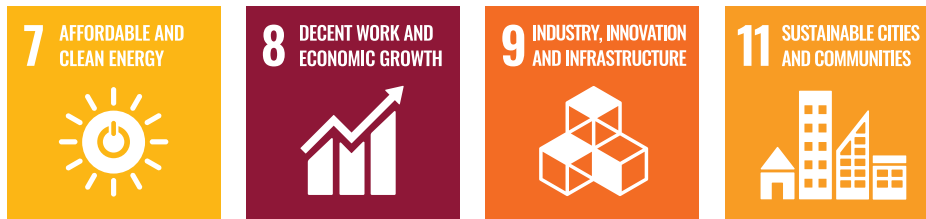


Figure 11: Volume of investments made by Utilitas from 2013 to 2021 (planned), EUR mln

■ Main investments in 2020



- Despite difficult conditions, Utilitas was able to achieve the long-term network reconstruction goal as well as perform necessary repair and maintenance works and make the investments necessary for ensuring reliability of the production assets. 26 kilometres of heat pipelines were renovated and built all over Estonia (2019: 20 km), in which 23 million euros were invested (2019: 15 million). Grants received from the Environmental Investment Centre were used to renovate 6.4 km of district heating networks.
- For the purpose of better utilisation of residual heat, an investment was made in the condensate heat pump of Mustamäe cogeneration plant and from now on Kristiine flue gas scrubber condensate can be used as additional water of the network.
- Solar power plants with total capacity of 300 kW were established in Kristiine, Ülemiste, Jõgeva, Keila, Rapla and Valga.
- An agreement was made for the acquisition of a wind park development project in Lithuania and preparations are made for the implementation of several wind and solar energy projects in Estonia as well as in neighboring countries.
- An investment of 1.6 million euros was made into a fuel sampling robot which automatically takes four different samples from each truck that delivers fuel to Vão cogeneration plants and thus improves significantly the accuracy of the measurement results of the moisture and energy content of fuel. The investment also had a positive impact on occupational safety as employees no longer have to take samples from truck loads manually in cold and slippery weather.

In 2021, Utilitas plans to undertake the largest volume of investments throughout its history in the amount of 58 million euros. The goal for 2021 is to continue the long-term network reconstruction plan and reconstruct about 20 kilometres of old networks and establish 9 km of new connections for a total investment of about 30 million euros. A major development step will be made in district cooling to which Ülemiste Smart City area will be connected for a total investment of 6 million euros. 18 million euros have been planned for the development of wind energy projects.

In addition at least 50 million euros are invested into the acquisition of minority shareholding in AS Tallinna Vesi.





SERVICE
RESPONSIBILITY



QUALITY AND CONTINUITY



Ensuring availability of service to customers and consumers is a major everyday responsibility and quality indicator for the energy sector as a whole. It is generally a combination of connection to the energy network, reliability of energy production and distribution as well as a reasonable price of the service. 70% of Utilitas' customers also consider the environmental footprint of energy as an important factor.

As a provider of a vital service defined in the Emergency Act, the main social role of Utilitas is to ensure the security of heat supply. The quality of the service, frequency of interruptions in the service, temperature, volumes and response time have been strictly regulated by laws and regulations. All group companies have introduced principles of the ISO 9001 quality management standard.

As a provider of a vital service, the role of Utilitas is to ensure the security of heat supply to its customers



Context. The biggest challenge at our latitude is to satisfy the need for energy consumption in winter when the load on electricity and heat networks and production equipment is the heaviest. District heating is an excellent option for covering the heating need of urban buildings. District heating network allows to use the best heat production technologies from fuels that are otherwise difficult to use, such as wood chips or household waste, as well as utilisation of the residual heat of cogeneration plants. District heating also has an important role in ensuring the reliability of electricity networks – upon using district heating, there is no need to load the electricity network for heating buildings, as a result of which the need for investing in electricity production equipment and networks will reduce significantly.

The expectations of customers and consumers for uninterrupted energy supply are on a constant increase. Interruptions in heat supply on colder winter days may cause big social problems. Uninterrupted heat supply is also important for the preservation of the condition of the pipeline. Disruptions with the operation of production equipment and network pumps in winter months could lead, in the worst-case scenario, to freezing of the pipelines.

Utilitas ensures the security of supply with the following solutions

Contingency plan

Utilitas has detailed action plans in place to also ensure continued provision of district heating service in the case of technical failures, extreme weather conditions or interruptions in the electricity or fuel supply and has also appointed employees and members of the management board who are responsible for these matters. In the case of interruptions, the heating company must restore the service first of all for hospitals, social, accommodation and educational establishments.

Sufficient reserves

In accordance with the requirements, large district heating boiler plants are provided with option to use reserve fuel for at least 72 hours and additional water for at least 24 hours.

Existence of autonomous electricity production capability

Utilitas can operate larger production units and pump water around in the district heating network even when there is an interruption in the general electricity grid.

Use of reserve boilers

If a risk of interruption in heat supply emerges and the consumption increases, the reserve boiler plants operating on natural gas are put into service.

Technical working order

Production equipment must function reliably. Utilitas prefers preventive maintenance to emergency repairs in the case of production units as well as the network.

Repairs of boiler plants and networks

In order to ensure the security of supply, it is indispensable to perform regular maintenance and repairs of boiler plants and the network, and replace these, if necessary. The aim set by Utilitas is to replace the old network in its entirety by 2035, which means on average 14-15 km a year.

Human factor

The aim of Utilitas is to ensure the quality of work of operators, employees are encouraged to develop the reliability of the system, incidents are analysed.

As a provider of a vital service, Utilitas must perform regular risk analyses and, pursuant to the Emergency Act and regulations of local governments, develop plans on how to restore the operation of the networks in the case of interruptions. Pursuant to regulation of Tallinn City Council, interruption in the district heating supply service may last no longer than 24 hours, during which the heating company must restore the service – Utilitas has accomplished this aim consistently.

Continuity is illustrated by the availability indicator of cogeneration plants, i.e. the share of working time without any interruptions in the operation of the plants (the time spent on regular maintenance of equipment is not taken into consideration in the calculation). In 2020, the reliability of Vão 1 cogeneration plant, which operated at base load, was 99.8% (2019: 99.6%).

The cogeneration plants operating at base load have a very important balancing role to perform in the world, where more and more investments are made in wind and solar energy, as cogeneration plants also provide electricity and heat when there is no wind or sunshine. The annual energy production capacity factor of solar parks is generally at the rate of 10-15% and that of wind parks at the rate of 30-50% of the nominal capacity. Today, however, there is no sufficient storage capacity in order to store wind and solar energy and consume it later as and when necessary. This also causes a large price volatility and in 2020 we saw negative electricity prices for the first time in Estonia. However, there were also electricity prices reaching 200 €/MWh in windless and cloudy days. The advantages of a cogeneration plant are high reliability (i.e. it can be certain that energy reaches from the plant to the consumer when they need it) and a stable price all the year round regardless of the weather – this is of vital importance, considering the whole system in its entirety.



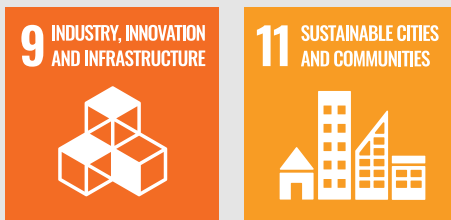
Good example. In order to ensure the security of district heating supply, the networks of Utilitas have been provided with reserve fuels tanks and production equipment – these are the measures not usually used in heating solutions of individual buildings. In addition, the heat pipelines of the city form a circle, i.e. buildings at one end of the heat network of Tallinn can be supplied with heat from the production equipment located at the other end of the city.

Completed in 2019, Mustamäe cogeneration plant of Utilitas can also be put into operation in the case of an extensive interruption in electricity supply and it can be operated independently of the operation of the electricity network, ensuring continuity of district heating as a vital service for residents of Tallinn. In 2021, Vão cogeneration plants will also be provided with a reserve generator so that the plants could also be put into operation in the case of major failures in the electricity network.



Good example. Ensuring continuity was also one of the main challenges in 2020 and 2021, when the company had to cope with managing the risks arising from the outbreak of the virus. Utilitas transferred as many employees as possible to remote work and monitored that personal protective equipment is ensured for the positions requiring physical presence and that as little work as possible is performed in common rooms. The capability for virtual remote control of plants was also developed in the new situation more than before.

■ Development Plan of Integrated District Heating Network of Tallinn Until 2030



In 2020, the Development Plan of Integrated District Heating Network of Tallinn was completed in cooperation between scientists of Tallinn University of Technology (TalTech) and specialists of Utilitas. Its aim was to map possible trends in the heat supply of Tallinn for the period of 2020-2030 and define the role of AS Utilitas Tallinn in the performance thereof. Both the City of Tallinn and AS Utilitas Tallinn can plan their activities on the basis of the Development Plan.

- A significant result, which was pointed out, was that the network must be reconstructed at an accelerated pace in order to ensure the security of supply as well as reduce heat losses and the environmental footprint.
 - As at the end of 2020, Tallinn had 470 km of district heating network, of which 58% (2019: 461 km and 54%, respectively) are new or reconstructed.
 - However, there are about 200 km of non-pre-insulated network with large heat losses, which have been established before 1995. The average age of this part of the network is 40 years, although these pipes were initially designed to last for up to 25 years.
- The recommendation made as a result of the analysis was to accelerate the network replacement programme, according to which the non-pre-insulated network established before 1995 had to be replaced in its entirety by 2035.

The replacement of old pipelines in their entirety allows the heat and leak losses to be reduced, leading to a decrease in the consumption of primary energy and a significant increase in the security of supply. The network to be reconstructed annually is about 14 km. 2020 was the first year of the aforementioned 15-year investment programme and 15 km of district heating network were reconstructed in Tallinn.

By 2035, all the old network in Tallinn must be replaced, i.e. about 14 km a year

The aim in 2021 is to continue the implementation of the investment plan. Under reconstruction network sections in Tallinn are mainly located in Väike-Õismäe, Uus Maailm, Kitseküla and Kassisaba. As an important new area, work will start for connecting Ülemiste Smart City area to both district heating and cooling network. About 6 km of non-pre-insulated district heating network will be replaced in network areas of AS Utilitas Eesti and thus the share of renovated networks will increase from the 58-95% levels of 2020 (depending on the city) to the 62-97% level by the end of 2021.

As of the end of 2020, the heat networks managed over all the operating areas of Utilitas totalled 547 km, of which 60% accounted for new or reconstructed networks. Similarly to Tallinn, the aim is to also reconstruct all the networks managed by Utilitas elsewhere in Estonia by 2035.



Tallinn has acceded to the European Covenant of Mayors, whose climate goals include reduction of CO₂ emissions by at least 40% by 2030, and Utilitas sees an opportunity to make the district heating system carbon neutral in its entirety by 2030 in order to contribute to the achievement of the goals of Tallinn.

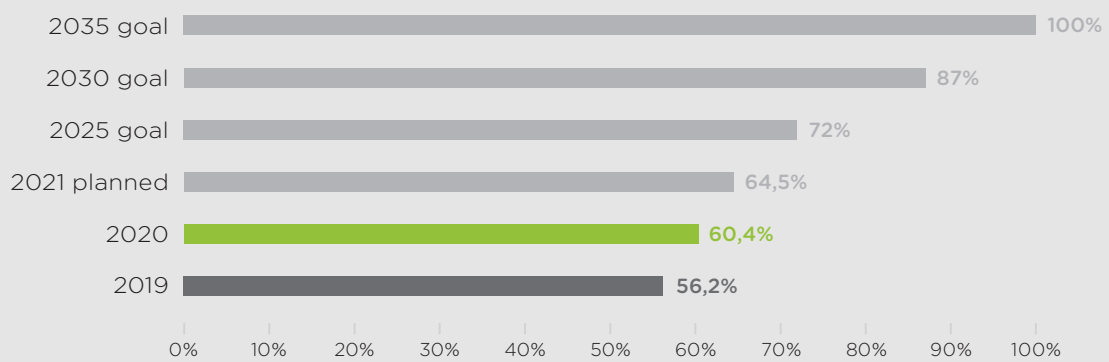


Figure 12. Share of reconstructed district heating networks, incl. goals, of the Utilitas Group

CUSTOMER VIEW

Utilitas provides district heating service in eight cities of Estonia: Tallinn, Valga, Jõgeva, Haapsalu, Kärđla, Keila, Maardu and Rapla, supplying 360,000 residents with district heating. Customers of our district heating service include apartment associations, state and municipal agencies, and private companies.



Figure 13. Customers of Utilitas

Environmentally sustainable district heating is available to customers in the quantity and at the time needed. Thanks to the modern district heating system, customers need not worry about district heating service because homes are securely supplied with heat and need no other additional heating solutions. District heating service is with great security of supply and safe to use.

An important component of a sustainable energy solution is a reasonable price. District heating pricing is transparent and the heat tariffs are approved in accordance with the District Heating Act by the Competition Authority. As of March 2021, the approved reference prices in all the district heating areas operated by Utilitas are below the average in Estonia, the network areas of the lowest prices being Valga, Keila, Tallinn, Haapsalu and Jõgeva.

Large-scale investments and ongoing development activities have also allowed the prices of heat to be kept stable in the conditions of the overall rise in prices. Since 2012, the average gross wages in Estonia have increased 63% (from 887 euros to 1,448 euros in 2020) and the consumer price index has increased by 12.7%. At the same time the average heat price in the network of Utilitas in Tallinn has for example fallen by 25% from 65.2 euros to 48.5 euros per megawatt-hour, the decline in real prices has thus been altogether 34%.

The customer survey conducted in 2020 showed that the most important aspects for district heating customers are reasonable price, security of supply and convenience

The proportion of heating expenses in the household budget has thus decreased over time. Use of domestic renewable energy allows the prices to be kept stable and the decreasing need for importing fuels increases the energy security of the state, which is one of the main goals in the Estonia's 2030 National Energy and Climate Plan.

District heating pricing is also significantly affected by new connectees: the more consumers there are in a district heating network, the more efficiently the network can be operated as a whole and the smaller the amount of the invoice payable by each individual customer for heat is, because investments and fixed expenses are divided between a larger number of consumers and this ensures affordable price for consumers in a situation where due to housing stock renovation and global warming the heat volumes are constantly decreasing.

97% of the customers are satisfied with the service provided by Utilitas and the Net Promoter Score (NPS) 13 is higher than the average among infrastructure companies

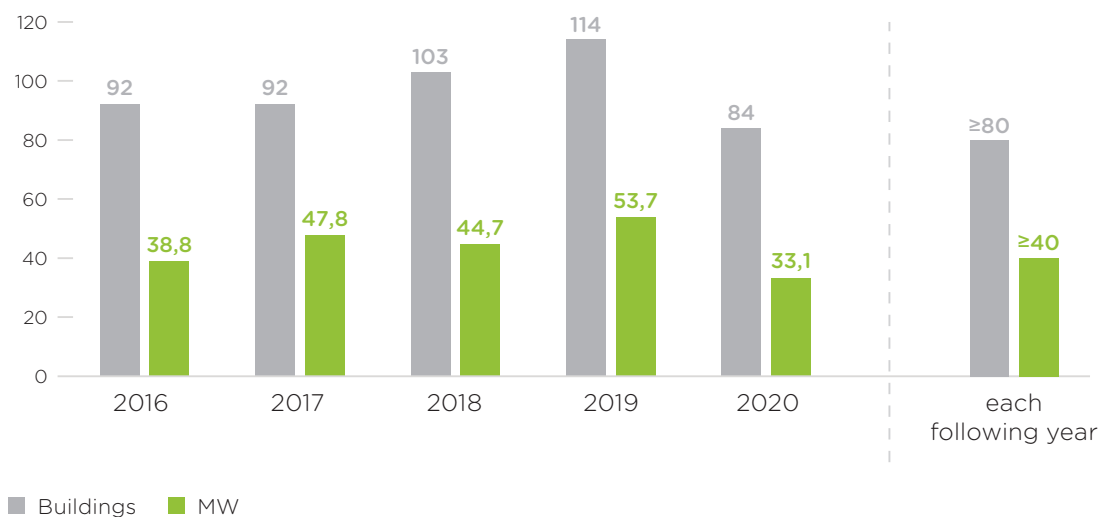


Figure 14. New connections per year

The significant decrease in the use of primary energy in the district heating sector in the last decade has also been considered in the energy efficiency calculations of renovated buildings. This way, the regulation that entered into force since 2019 has reduced the weighting factor for efficient district heating and established, for the first time, a weighting factor for district cooling, allowing these solutions to be used in constructing nearly zero-energy buildings. Thus, district heating and cooling have a leading role in planning an environmentally sustainable building with highest possible energy class.





ENVIRONMENTAL IMPACT



ENVIRONMENTAL IMPACT AND ENVIRONMENTAL MANAGEMENT PRINCIPLES



The aim and duty of Utilitas is to provide hundreds of thousands of people with affordable and environmentally sustainable energy on a daily basis. We do that efficiently, using renewable local fuels and the best technology.

■ Context and relevance

Global climate warming and the goals of reducing greenhouse gas emissions and increasing the share of renewable energy and energy efficiency at the international and Estonian level are the keywords that characterise and direct the development of the energy sector. Utilitas as the largest district heating company in Estonia acknowledges its important role and responsibility in this field.

Knowledgeable management of environmental impact is important for Utilitas. In addition to global trends and regulatory developments, the expectations of Estonian citizens are also constantly increasing. According to the survey conducted among customers and private consumers of Utilitas in December 2020:

- 73% of the customers assessed the CO₂ footprint of building's energy use as rather important or very important;
- 67% of the private consumers assessed the CO₂ footprint of building's energy use as rather important or very important;
- the achievement of carbon neutrality was important for 68% of customers and 67% of private consumers.

■ Environmental impact aspects

Utilitas considers it important to use energy sources with low primary energy content with as high energy efficiency as possible.

The main environmental aspects of Utilitas are the use of biomass in energy production and climate impact. Utilitas as a large-scale user of woody biomass acknowledges possible risks related thereto and the complexity of exact identification of impacts in preserving

The main environmental aspects of Utilitas are the use of biomass, climate impact, air emissions, waste management and consumption of water



biodiversity and combating climate change. In addition to sustainable forest management, the environmental aspects important for Utilitas are related to air emissions, waste management and consumption of water.

■ Environmental management principles

Utilitas considers systemic management of all these environmental impacts necessary, due to which all the subsidiaries of the Group use the ISO 14001:2015 environmental management system standard.

Utilitas follows two main energy policy trends – energy conservation and environmental protection. This means, above all, reduction in primary energy use, energy losses and greenhouse gas emissions, transition to renewable energy sources and reduction in air pollution.

In its activities, Utilitas adheres to the following environmental management goals and principles:

- comply with the environmental requirements arising from laws and regulations;
- help preserve natural resources through reducing the consumption of water, electricity and fuels as well as using them reasonably;
- foster the use of renewable fuels in order to reduce carbon emission;
- share information about its activities with external stakeholders;
- promote energy-saving and environmental sustainability among its customers.

USE OF BIOMASS



Use of low-value wood of local origin in the production of heat and electricity in order to replace fossil fuels is very important in reducing carbon intensity of the energy sector and the whole economy in general. At the European Union level, the carbon emission of wood energy is deemed equal to zero.

Pursuant to the 'Clean Planet for all' analysis (November 2018) constituting one of the pillars of the climate policy of the European Commission, sustainable biomass has an important role in achieving climate neutrality now as well as in the future. In 2017, biomass was the largest renewable energy source in Europe, providing 6% of the total electricity production in Europe and 24% of the total industrial production of heat. In the Estonian context, biomass replaces oil shale in electricity production and in heat production primarily natural gas, but also shale oil and heavy fuel oil.

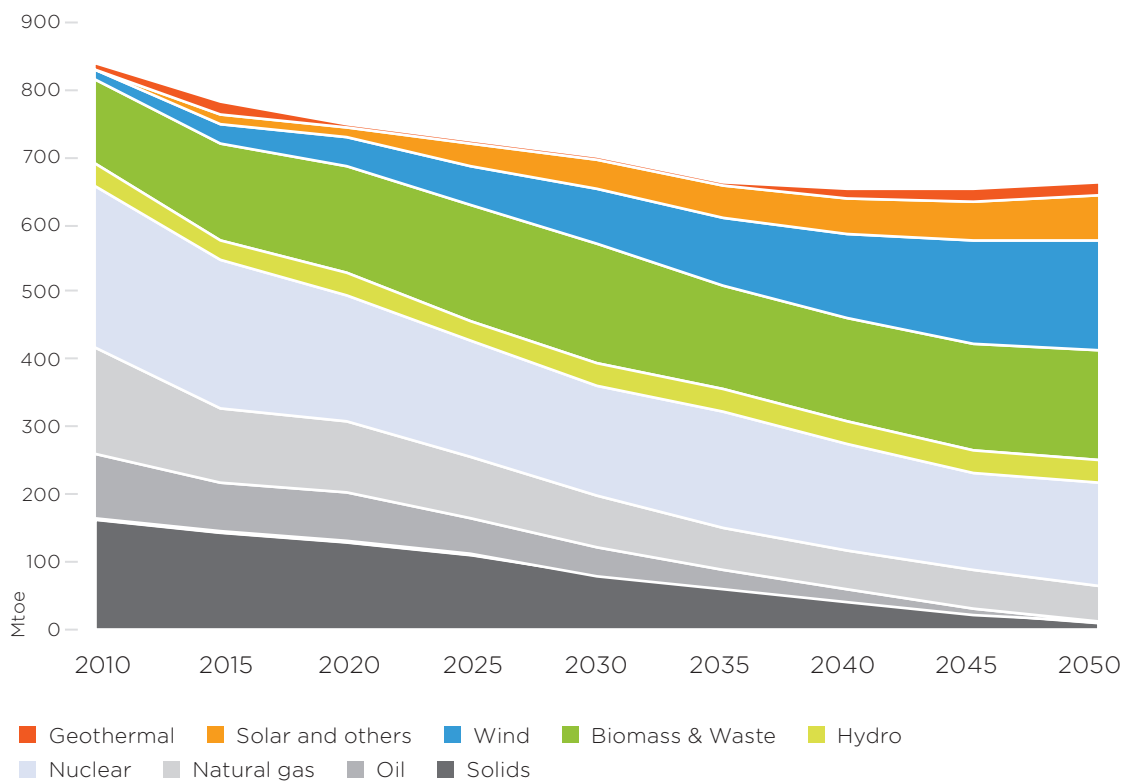


Figure 15. Primary energy production volumes and forecast in Europe broken down by energy sources (source: Eurostat (2010, 2015), PRIMES)

Although the data of the aforementioned analysis reveal that the annual forest increment in the European Union as a whole is positive, the report emphasises that the amount of sustainable biomass is not unlimited. The wider aspects to be considered upon using biomass include the role of forest as a carbon bank, the use of biomass in other sectors of the economy, and biological diversity. Pursuant to the report, production of durable products from wood obtained from sustainably managed forests (and use of related low-value secondary wood in energy industry) is positive for the environment as the use of wood for example in construction materials reduces, on one side, the production of construction materials from fossil sources and, in addition, binds carbon in a specific wood construction material for a longer period of time than this could be possible in nature. The use of low-value residual wood (branches, tree tops, brushwood and timber industry residues) in the energy sector also makes it possible to reduce the need for producing energy from fossil sources.

The analysis acknowledges the important role of forests in biological diversity, pointing out the need for finding a balance between the use of biomass and preservation of biodiversity, but also emphasising that an alternative in the case of a two-degree global warming is a change in the climatic zone on 13% of the mainland area and related loss of habitats for animal and plant species as a risk for biodiversity.

Majority of the Utilitas' clients have a positive attitude towards the use of renewable energy: 84% of customers and 82% of private consumers responded "very/rather positive" to question "What is your attitude towards the use of domestic renewable fuel?"

Recently, however, the society and media have more and more actively called into question previous political decisions and support schemes and have started to draw attention to possible risks related to the production of energy from wood. This is an important and sensitive issue, and changes in the current principles and policies cannot be excluded.

At the beginning of 2021, the Joint Research Centre published the report 'The use of woody biomass for energy production in the EU'², which is the most recent central and integral summary of the impacts of energetic use of wood. It incorporates the best knowledge of the scientific world gained from hundreds of sources until 2020 and forms positions on the basis thereof.

- The conclusion reached in the report is that the growth in the demand for energy wood may affect forest management practices and intensity to a certain extent, which may, in turn, lead to undesirable consequences in the carbon reserves and carbon sequestration capacity of forests or adverse changes in the overall biodiversity of forests.
- According to the report, energy produced from wood still allows problems related to climate change and biodiversity to be partially solved, but the wood used to this end must originate from sustainably managed forests and secondary woody biomass (timber industry residues, residual wood), which does not find an alternative economically reasonable enhancement opportunity, or logging residues originating from forest industry, which would otherwise stay in forest, decay there fast and release absorbed carbon into the atmosphere.
- The report refers to the fact that wood-based bioenergy can be part of a solution to two global crises (climate crisis and loss of biodiversity), but only if the production of biomass has been sustainable, energy is produced from wood residues, and the energy production process is efficient.
- The report also points out that the use of such low-value timber in local high-efficiency plants and thereby replacing fossil energy sources, is a reasonable activity, and rather criticises current policies of the European Union, which promote export of energetic wood and its use in inefficient (about 30-40%) energy production.

The raw material used by Utilitas is biomass of the aforementioned origin, which has been collected within a reasonable radius from cogeneration plants and has no alternative use. Of all the alternative manners of use of biomass in the energy sector, cogeneration is the most environmentally sustainable as unlike the home stoves or oil shale boilers (where biomass is co-combusted) with 30-40% efficiency, the cogeneration efficiency in the case of favourable conditions is up to 100% and thus maximum possible quantity of energy is obtained from one unit of biomass.

As the biomass used by Utilitas is of local origin, the main prerequisites for its sustainability are the overall sustainability of Estonian forestry, i.e. the standards regulating forest management and the practices used in forestry. In the nearest decades the field of forestry will be affected very much by the Estonian Forestry Development Programme until 2030, which is currently under development. Due to the complex-

² <https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/use-woody-biomass-energy-production-eu>



ity of the topic and partial disagreements, there have been significant delays in the process of the Development Programme. Hopefully a result will be achieved in the nearest future, which satisfies the interests of different angles (environmental protection, economic, energy security and social expectations) and ensures long-term sustainability of Estonian forests.

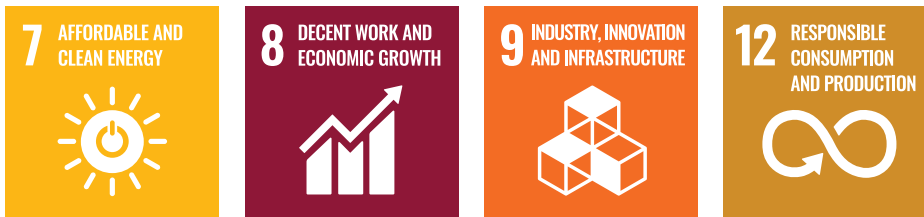


Explanation. Woody biomass can be regarded as renewable if within a given territory, e.g. in one country, the biomass harvest less than the increment or roughly within the limits of the increment and provided that this does not give rise to other undesirable impacts, such as reduction in biodiversity.

Based on the above, Utilitas keeps itself updated with scientific and political developments as well as with social expectations. Up-to-date and science-based information helps the company deal with the impacts of its activities and make long-term strategic plans.

PRODUCTION OF RENEWABLE ENERGY

■ Increasing the share of renewable energy



Utilitas is the largest renewable energy producer in Estonia. In 2020, Utilitas produced 1,584 GWh of heat and energy from renewable sources, which was 13% more compared to the previous year and accounted for 75% of the total production. The share of Utilitas in the total production of renewable electricity in Estonia amounted to 17.6% in 2020.

Utilitas is also the largest district heating company in Estonia, connecting approximately one-third of all district heating customers. In 2020, the share of renewable energy in the district heating networks of Utilitas was 61% to 100% (the average in Estonia is about 50%).

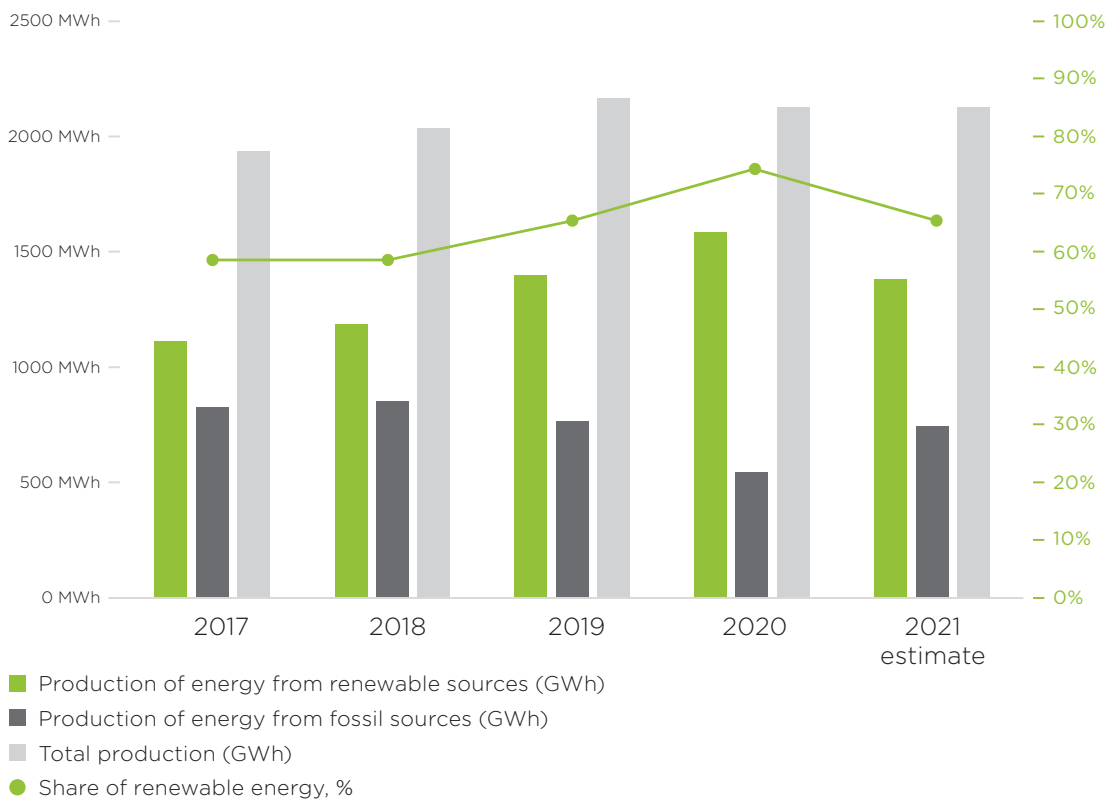


Figure 16. Volume (GWh) and share (%) of energy produced by Utilitas from renewable and fossil sources (electricity and heat in total)

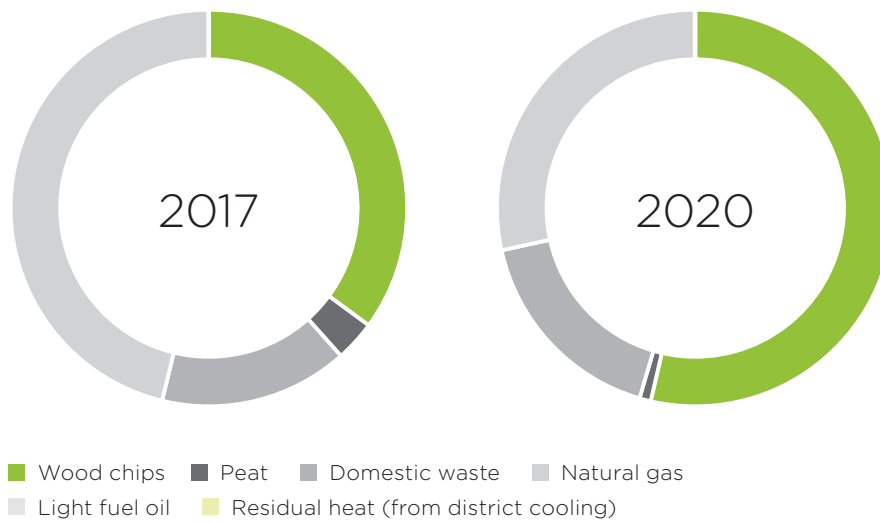


Figure 17. Share (%) of the sources of production of the energy (electricity and heat in total) sold by Utilitas (incl. the inputs used for producing the energy produced and purchased by Utilitas)

The increased share of renewable energy in 2020 was supported by extraordinarily warm weather, which reduced the need for covering the peak loads of heat with fossil fuels. Mustamäe cogeneration plant (10 MW electric capacity), produced a total of 270 GWh of heat and electricity from domestic renewable sources in the first full year of operation and thereby also increased the overall production of renewable energy considerably.

2021 marks 12 years since Vão 1 cogeneration plant was put into operation and this also brings along the expiry of renewable energy support and a change in the supply rankings of Tallinn district heating network. This, in turn, causes reduction in the production volumes of the plant because heat can no longer be sold in summer months and the production of electricity without heat load is not possible.

Global and national energy sector development plans prescribe transition to renewable energy at an increasingly accelerating pace. Consumption of heat holds the highest share in the total energy consumption in Estonia and is thus of higher ranking than electricity consumption and transportation sector.

To perform its role and increase the share of renewable energy, in the period from 2022 to 2023, Utilitas plans additional efficiency investments in the existing cogeneration plants, using for example heat pump technology, storage opportunities, etc.

Large-scale transition to renewable energy-based district heating network is not possible without additional investments in production – Utilitas sees a great potential in a sea water-based heat pump, which is nowadays successfully used for example in Stockholm. It is also worthwhile to study the opportunities of using waste water heat in Tallinn. The use of various residual heat sources (e.g. residual heat coming from data centres) also leads to large energy saving, but unfortunately there are few such sources. As before, peak load in cold winter weather should probably also in the future be covered with gas, but it is possible to replace fossil fuels with biomethane here.

Besides the planned investments in district heating network and production, the additional goal is to establish new solar and wind energy capacities of at least 250 MW by 2025.

REDUCTION OF CLIMATE IMPACT AND CARBON NEUTRALITY



Context. 2020 was the warmest year in Estonian climate history: January and February were record-breaking warm, November was the warmest in all of Estonian climate history, and December was one of the warmest since 1961. In none of the months of 2020, the average monthly temperature in Estonia was below zero degrees. It can be said that in 2020 there was no winter.



More and more countries and companies all over the world are establishing or have already established goals for achieving carbon neutrality and it is rapidly becoming the new normality. For example, Tallinn has acceded to the European Covenant of Mayors for the purpose of making the city carbon neutral by 2050. Likewise, one of the largest goals of Utilitas for 2021 is to draw up an investment and development plan in order to achieve by 2030 carbon neutrality of the district heating and cooling networks operated by the company. According to the customer survey conducted by Utilitas, 68% of the Utilitas' customers considered the achievement of carbon neutrality important.

Transition to carbon neutrality is no longer caused merely by an increasing concern of citizens, companies or countries about the future of the natural environment and mankind, but also in economic sense it is no longer possible to be sustainable in the medium term without taking firm measures for reducing carbon emissions.

In 2019 and 2020, the price of carbon emission allowances has remained at the level of 25 euros per tonne, compared to the historical price of less than 10 euros per tonne. In Q1 of 2021, the price broke new records and exceeded for the first time the level of 40 euros per tonne. In the Estonian context, this has sharply reduced the production of electricity from oil shale and it has become more and more clear that the increasingly strict environmental policy and related pricing of carbon emissions lead to withdrawal of fossil fuels from the market already on economic grounds only. Thus, the price of heat in district heating networks which are operating on fossil fuels will also become more expensive and transition to renewable energy solutions is very important both in reducing the environmental footprint and ensuring competitiveness of district heating.

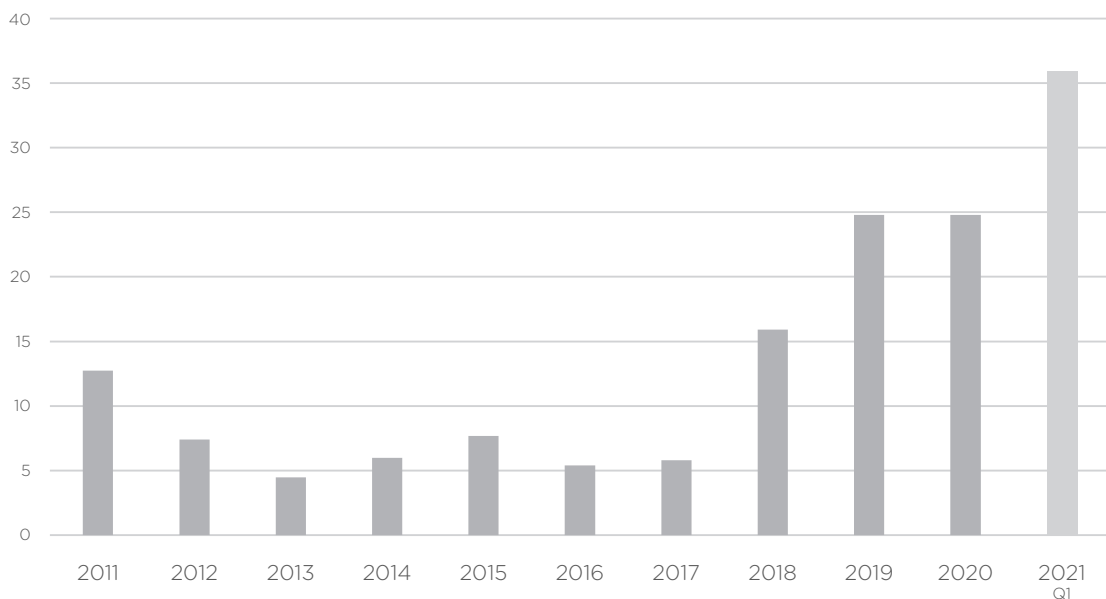


Figure 18. Change in the price of carbon emission allowances, ECX EU, annual average price (EUR/tonne) 2011-2020 ³



Cogeneration of heat and electricity and use of renewable fuels in district heating allows a significant reduction in the emission of greenhouse gases and therethrough helps slow down climate warming.

District heating has a significant role in reducing the carbon footprint of energy use:

- A building which consumes heat produced from renewable energy sources promotes climate-friendly energy production and helps reduce the emission of carbon emissions into the atmosphere.
- Production of electricity in cogeneration plants established next to district heating networks decreases the need for producing electricity from oil shale, replacement of fossil fuels with renewable sources reduces the emission of greenhouse gases, and use of efficient district heating instead of electricity spent on heating buildings (incl. electricity used for operating heat pumps) decreases the consumption of electricity.

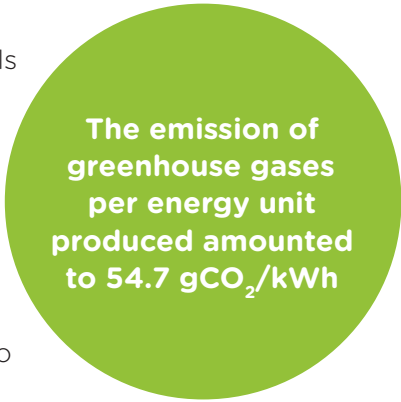
³ https://www.quandl.com/data/CHRIS/ICE_C1-ECX-EUA-Futures-Continuous-Contract-1-C1-Front-Month

In order to better understand the climate impacts arising from the activities of Utilitas and plan necessary mitigating steps, the carbon footprint of the Group for 2020 was calculated within scope 1 and 2 (scope 3 calculations will be made during 2021 and will be published later). This means that calculations were made in respect of the greenhouse gas emissions arising from the activities over which Utilitas has substantial control.

The analysis of scope 1 and 2 involved:

- Direct emissions (scope 1). The combustion of fuels used for the production of energy and fuels used in the vehicles that belong to the Group.
- Indirect emissions (scope 2). Arising from the use of purchased electricity and thermal energy in companies of the Group.

In 2020, the carbon footprint of Utilitas Group within scope 1-2 amounted to 116,675 tonnes of CO₂-eq. The emission per energy unit produced amounted to 54.7 gCO₂/kWh in 2020.



Emissions in 2020, tonnes of CO₂-eq

Scope 1	116,672
Fuels combusted upon energy production (for more detailed breakdown, see Figure 19)	116,198
Car fuels	389
Refrigerants	86
Scope 2	2
Electricity purchased	0
Thermal energy purchased	2
Total scope 1 and 2	116,675

Almost 100% of the total emissions of scope 1 and 2 originated from scope 1 (116,672 t of CO₂-eq) and arose mostly from emissions of fuels combusted for the production of energy. The greenhouse gas emission arising from the combustion of fuels of the cars in the possession of Utilitas amounted to 389 tonnes of CO₂-eq.

Of the fuels combusted, the combustion of natural gas accounted for the largest share (88% of all the greenhouse gas emissions from the combustion of fuels) in terms of climate impact - 102,512 t of CO₂-eq (Figure 19). The shares of greenhouse gases from the combustion of other non-renewable fuels remained below 10% of the carbon footprint of fuel combustion.

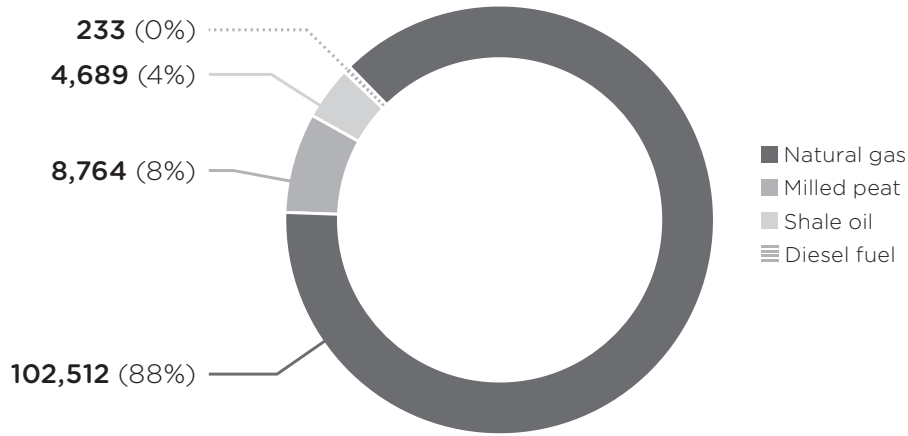


Figure 19. Greenhouse gas emissions arisen upon combustion of fuels used for the production of energy (tonnes of CO₂-eq).

All the electricity purchased by Utilitas Group in 2020 originated from renewable sources and was covered by certificates of origin. Therefore, the estimated climate impact arising from purchase of electricity of scope 2 is 0. Consumption of thermal energy on office premises is related to indirect emissions of scope 2 - 2 tonnes of CO₂-eq. This arose from the consumption of the thermal energy purchased/mediated for the district heating network (Iru power plant and thermal energy produced from natural gas).



Methodology. The carbon footprint of Utilitas was calculated in accordance with the internationally recognised and most commonly used greenhouse gas reporting standard ‘GHG Protocol Corporate Accounting and Reporting Standard’.

The standard covers the assessment of the emissions of seven greenhouse gases: carbon dioxide (CO₂), methane (CH₄), nitrogen dioxide (N₂O), hydrofluorocarbons (HFC), perfluorocarbons (PFC), sulphur hexafluoride (SF₆) and nitrogen trifluoride (NF₃). The calculation method divides the greenhouse gas emissions associated with the activities of the organisation into three scopes:

Scope 1

Direct emissions from sources owned or controlled by the company

Scope 2

Indirect emissions from purchased energy

Scope 3

All other indirect emissions occurring in the value chain of the company as a consequence of the company’s activities both upstream and downstream

■ Production of electricity from renewable sources replaces production of energy from fossil fuels

In 2020, the renewable electricity production of Utilitas increased – the total quantity of electricity produced from renewable sources amounted to 388 GWh. The renewable energy produced in the cogeneration plants and solar parks of Utilitas replaces the electricity of uncertified origin originating from different sources (both fossil and renewable sources), i.e. residual mix, in the Estonian electricity network. In 2019, the share of the consumption of electricity not covered by guarantees of origin in Estonia was 95.09% and the CO₂-content in residual mix amounted to 757.71 g/kWh.⁴

Thanks to the fact that in 2020 Utilitas produced into the network 388 GWh of renewable electricity whose carbon emission is deemed equal to zero in accordance with the sustainable biomass criterion of the Directive of the European Parliament and of the Council⁵, electricity with a large carbon footprint was not produced and the quantity of CO₂ not emitted into the air amounted to approximately 294,000 tonnes⁶. If the renewable electricity produced by Utilitas were used to replace only electricity produced from oil shale, where the CO₂ content of 1 MWh of electricity is ~ 1 t of CO₂/MWh, the quantity of carbon not emitted into the air would have increased even more in 2020 – as a maximum to 390,000 tonnes.

The renewable electricity produced by Utilitas replaces the production of fossil energy and helped avoid carbon emissions of 294,000 tonnes in 2020

■ The share of renewable energy in the production of heat is increasing and forcing out fossil sources

As a result of the investments made by Utilitas in recent years, the heat supplied by the Group to customers of its district heating areas is largely produced from local renewable fuels or by using the residual heat of cogeneration.

Historically, heat was produced in district heating primarily from natural gas (with carbon content of 201 g/kWh) and transition to renewable sources has thus also reduced the CO₂ emission resulting from the production of heat. For example, if all the heat sold in the networks of Utilitas had been produced from natural gas, in 2019 the CO₂ emission would have been 244,000 tonnes higher and in 2020 it would have been 222,000 tonnes higher. To cover peak loads, however, it is still necessary to use fossil fuels.

If Utilitas had produced heat from natural gas instead of renewable sources then the carbon emission would have been 222,000 tonnes

⁴ <https://elering.ee/segajaak>

⁵ Directive (EU) 2018/2001 of the European Parliament and of the Council

⁶ As by the time this annual report is published there are no reference data available about the CO₂ content in Estonian residual mix in 2020, then the calculations are based on the data of 2019.

CO ₂ emissions	2020
Scope 1 and 2 emissions of Utilitas, tonnes of CO ₂ -eq	116,675

CO ₂ saving	2020
The CO ₂ quantity not emitted due to the production of renewable electricity by Utilitas (if the electricity in the Estonian network were to be replaced on the residual mix principle), tonnes of CO ₂ -eq	294,000
The CO ₂ quantity not emitted due to the production of district heating by Utilitas (if the same quantity had been produced from natural gas), tonnes of CO ₂ -eq	222,000



Good example. As one step towards carbon neutrality, since May 2020 the use of milled peat in energy production was discontinued both on environmental considerations and for economic reasons. In 2017 Utilitas produced 26.5 GWh of energy from peat but in 2020 the same figure was only 7.3 GWh. Since 2021, the electricity production of the Group is only from renewable sources. It is still necessary to use fuel oil as starting fuel in minimal volume and mix peat with biomass for the sake of the technical condition of boilers.

■ District cooling has a smaller climate impact than a local solution

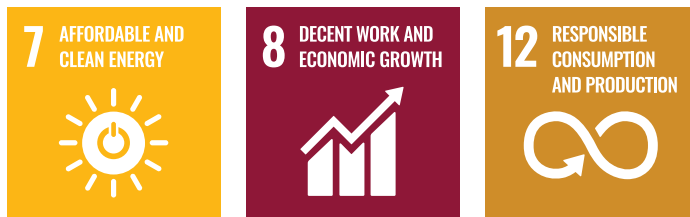
As a new service, in 2019 Utilitas put into operation the first district cooling network. Similarly to district heating, the central production of cooling allows higher efficiency and the use of the best available technology and vacates the area, which would otherwise be needed for installing cooling equipment, in the buildings that consume cooling. In addition, the need for regular maintenance of the cooling system of a building in the case of a district cooling solution is much smaller than in the case of local equipment. The service is mainly geared for commercial properties and is widespread in the neighboring countries of Finland and in Sweden and it is thought that this solution should substantially contribute to solving the energy supply problems in the European Union as a whole.

The use of district cooling helps reduce the quantity of F-gases needed in cooling equipment (which are very strong greenhouse gases and whose impact on climate warming is hundreds or even thousands of times higher than that of CO₂) and thereby mitigates climate change.

By 2030, Utilitas plans to increase the district cooling capacity from the current 2.1 MW to 60 MW.

In addition to the district cooling plant in Tselluloos quarter, Utilitas identified the district cooling potential of Ülemiste City. In December 2020, a Memorandum of Understanding was signed with real estate developers of Ülemiste area, in which the parties agreed on connecting the present and future buildings of Ülemiste City as a whole to a combined district heating and district cooling solution. In addition, negotiations have started with new customers in the city centre area and also in the Old Town in Toompea.

IMPROVEMENT OF EFFICIENCY



One of the priorities of Utilitas is to achieve as efficient energy production as possible and transport this to consumers. In addition overall, efficiency must be increased and the environmental footprint of support activities (such as offices and vehicle fleet) must be reduced.

■ Efficiency of distribution network

Efficiency of heat distribution can be increased by reducing the temperature of district heating network water. This enables to decrease heat losses in the district heating network and the efficiency of flue gas condensers and cogeneration plants improves. In addition, it becomes possible to let energy and residual heat of lower-temperature heat carriers into the network. Lower temperature makes the production of heat with heat pumps more efficient and creates better opportunities for using heat storage units.

Lower temperature of the heat carrier and smaller heat losses ensure more stable inflow temperature in the whole pipeline of the network, due to which the thermal stresses on district heating pipes are lower. Lower temperature of a heat carrier as well as related lower thermal stresses allow plastic pipes to be used more, instead of historically preferred metals, such as steel and copper, in order for the district heating network to withstand high temperature and related thermal stresses.

Lower temperature also allows pipeline insulation quality to be preserved – higher temperature leads to a deterioration in insulation properties. Lower thermal stresses also reduce the risk of leaks, and related fixed and maintenance expenses are also lower.

Lower water temperature reduces the risk that a drop in pressure could lead to water coming to the boil in the district heating pipeline and give rise to a two-phase flow that causes cavities in flowing, i.e. cavitation, and poses a threat to the security of supply.

The goal set in all district heating networks of Utilitas for 2020 was to lower the 12-month average return water temperature to below 45 °C in at least 75% of the buildings. In Tallinn network, this was achieved in 83% of the buildings and, in the district heating networks of AS Utilitas Eesti, in 75.8% of the buildings. For most of the year, the district heating network is characterised by its low temperature. If the temperature were to be lowered even more, problems would arise with the Legionella bacterium in domestic water pipelines and, to avoid that, water should be heated up locally. However, this would mean that consumers should make unnecessary additional investments.



Good example. For the purpose of better utilisation of the residual heat, in 2020 an investment was made in the condensate heat pump of Mustamäe cogeneration plant and from now on Kristiine flue gas scrubber condensate can be used as additional water of the network.



Glimpse into the future. Utilitas plans to help its customers replace old and depreciated heat substations, which may significantly reduce heat losses and thus also heat demand of buildings.

■ Production efficiency

As wood chip resources are limited, it is of utmost importance to use only highly efficient solutions, which preclude waste of the primary energy that the fuel contains. The Utilitas' model, which is based on local renewable fuel and advanced district heating system, allows unique efficiency in the use of resources. Production efficiency reaches approximately 100%. Of this, a cogeneration plant with a flue gas scrubber produces 30% in the form of electricity and 70% in the form of heat, and a boiler plant provided with a flue gas scrubber produces only heat. Such an efficiency is considerably higher than that of power plants not connected to the district heating network and operating on the condensation regime, where the efficiency is only 35-40%.

The efficiency of cogeneration plants with a flue gas scrubber may reach up to 100%



Definition. Efficiency means the annual sum of electricity and mechanical energy production and useful heat output divided by the fuel energy used for the production of this energy. Efficiency is calculated on the basis of the lower net calorific value of the fuel.

In addition to increasing efficiency, flue gas scrubbers also remove solid particles as well as gaseous compounds from air pollutants (by absorbing or dissolving the gases within the flue gases, e.g. SO₂, HCl, depending on the pH value of the solvent). One of the main reasons for the decrease in the SO₂ quantities set out in the 'Air emissions' chapter is also the addition of flue gas scrubbers to the plants.

REDUCTION OF WATER USE



One of the important goals of Utilitas is to constantly improve the efficiency of water use. For example, the volume of heat network of Tallinn is ~ 100,000 m³, which is, figuratively speaking, equal to 500 olympic swimming pools. Modernisation of the district heating network will result in the reduction of both heat and water losses, and this is an important step in reducing the environmental footprint of water use. In addition, a lot of work must be done to lower the temperature and pressure of the network water, which also allows the water and energy losses of the system to be reduced. The aim of Utilitas is to increase cooperation and search for synergies together with the water companies operating in the same cities, for example through coordinated network investments.

AIR EMISSIONS



To achieve the goal of sustainable cities, it is of utmost importance to ensure clear urban air. In 2018, 36% of the emissions of main fine particles (PM10), which have a direct impact on urban air, originated from non-industrial combustion (mainly combustion of wood in households), 28% from combustion in energy industry (mainly combustion of oil shale) and 17% from combustion in industry.

The electrostatic precipitators used in the cogeneration plants of Utilitas are very efficient flue gas cleaners, e.g. the results of tests performed by Bureau Veritas in Mustamäe cogeneration plant indicated that the concentration of main particles in the emission was four times less than the limit value. Unlike in the case of local solutions, strict requirements have been established for the permitted levels of fine particles in the case of central production equipment used in district heating and, thus, the use of district heating instead of the combustion of wood in households significantly reduces the emissions of fine particles in cities.

The standards established for large and medium combustion plants have become stricter over time. For example, the reduction in the maximum limit on nitrogen oxides (NO_x) from 300 micrograms per cubic metre to 225 µg/m³ gave rise to the need for making additional investments. To this end, selective non-catalytic reduction (SNCR)

technology was installed in Vão 1 cogeneration plant. In 2020, Utilitas invested additional 2 million euros in the electrostatic precipitators for exhaust gases (in Vão 1 and Vão 2 cogeneration plants) and in monitoring.

As the rules for monitoring pollutants have become stricter, investments have been made to online monitoring equipment, which help obtain information about air pollutants in real time.

RAISING ENVIRONMENTAL AWARENESS OF CUSTOMERS



Environmentally sustainable management of the energy sector can only be achieved in cooperation with customers. During 2019-2020 Estonians also started to increasingly acknowledge the negative impacts of anthropogenic climate change and the need for rapid changes in this field. More and more district heating consumers take an interest in the sources of energy production – pursuant to the survey conducted by Utilitas, more than two-thirds of customers and private consumers value as small carbon footprint of energy use of a building as possible.

- Utilitas considers it necessary to introduce district heating as an environmentally sustainable solution through awareness campaigns and direct customer communication. The website of Utilitas displays the CO₂ calculator, where the customer can get to know from which fuels the heat consumed has been produced and what its CO₂ specific emission is compared to alternative solutions. As the next step, it has been planned to integrate the calculator into the self-service portal in order to inform customers and end users of the actual carbon footprint of the energy supplied to them.
- Innovations in the energy sector are related to a more wide-spread implementation of digital solutions. The meters of all Utilitas' customers have been connected to a remote reading system, which provides an overview of the operation of their heat substations and network. On the basis of an analysis of these data, it is possible to increase the efficiency of the network and production in cooperation with owners of buildings. This allows, for example, the return temperature of network water to be reduced through regular maintenance and optimal set-up of heat substations which, in turn, reduces heat losses in the network.



EMPLOYEES



OVERVIEW OF STAFF AND EMPLOYEE RELATIONS

Energy sector is one of the highest value-added sectors in Estonia and development of the company provides opportunities for the creation of new jobs.

Wider implementation of digitalisation makes it possible to increase the value-added even more and automation creates needs for new kind of competences. The use of local wood chips for energy production also helps create jobs in rural areas.

The aim of Utilitas is to ensure that employees are well cared for by creating a safe working environment and providing people with the best self-realisation opportunities at work.



Utilitas is valued as an employer among current employees as well as on the labour market more broadly. Employees have worked for the Group companies for an average of 15 years. In the annual study of the most desired employers conducted by CVKeskus.ee, the largest job portal in Estonia, Utilitas achieved the high 15th place (2019: 14th place).

The companies of Utilitas are characterised by low employee turnover and the desire to establish long-term labour relations, due to which the main focus is on the retention and development of employees. The high average length of employment has removed the need for regular large-scale recruitment of new employees. However, the high average age of employees requires plans for finding a next generation of employees in the near future. Thus the focus of Utilitas has most recently been on ensuring a future generation of employees in the long term. Group companies are working systematically in order to popularise the speciality of thermal engineers, support their studies and build reputation among students,

Utilitas is characterised by low employee turnover and long-term labour relations

In 2020, five trainees underwent their internships in Utilitas (2019: 5).



Employee-related issues in 2020 were certainly characterised by a new kind of situation caused by the spread of the coronavirus both in terms of the organisation of work and the health of employees. The forced transition to remote work in the companies of Utilitas was smooth. In addition to office employees, some of the production staff could also stay at home and come to workplace only if absolutely necessary. Workrooms and rest areas underwent reorganisations in order to reduce human contacts.

NUMBER OF STAFF IN THE GROUP COMPANIES



Figure 20. Number and diversity of staff in Utilitas

OCCUPATIONAL SAFETY AND HEALTH



Occupational safety is a priority for Utilitas and one of the main goals pursued. In 2019, the ISO 45001 Occupational Health and Safety Management Systems Certification was issued to all the subsidiaries of the Group.

The goal of Utilitas is accident-free working environment. In 2020, no occupational accidents occurred to employees or subcontractors of Utilitas.

Utilitas complies with all the statutory requirements for occupational safety and health as well as good industry practice (working environment council, regular risk analysis, raising the awareness of employees and subcontractors, case studies and improvement of procedures).

In 2020, no occupational accidents occurred

	2016	2017	2018	2019	2020
Number of occupational accidents with employees	0	1	3	1	0
Number of fatal occupational accidents with employees	0	0	0	0	0
Number of occupational accidents with subcontractors	0	0	0	0	0
Number of fatal occupational accidents with subcontractors	0	0	0	0	0

Figure 21. Number of occupational accidents with employees and subcontractors of Utilitas



EMPLOYEE ENGAGEMENT

Utilitas values the independence and freedom of its specialists to decide on their work methods – this is based on great mutual trust and on employees with an ambition for personal development. The management culture of the organisation values humane, respectful and inclusive communication.

The purpose of internal communication is to raise employees’ awareness of the activities and goals of the Group as well as to support the creation of a pleasant working environment. Since 2020, the Group has organised information days three times a year for all employees where the Group introduces its main trends and employees can have a say and ask questions. The information days were attended by more employees than before because due to the spread of the coronavirus they were held virtually.

The Group companies hold regular personal performance appraisal interviews with employees, focusing on the goals and values of each employee. Employees can submit their proposals concerning the company anonymously in the intranet.



DIVERSITY AND EQUAL TREATMENT



Although due to the specificity of the field Utilitas has more male employees, the staff is quite diverse as regards its composition by age as well as nationality.

One of the issues concerning the diversity of staff in Utilitas is related to language skills. Creation of a more uniform environment among the staff consisting of employees whose native language is Estonian or Russian is useful for developing organisational culture and sense of unity as well as for ensuring occupational safety. Due to the situation caused by the spread of the coronavirus, the Estonian language courses at B1

level, which had been planned for 2020, could not be carried out and we will continue with the courses as soon as possible.

Another aspect of diversity to which more attention inevitably needs to be devoted in the nearest future is finding a suitable balance in the age-specific composition of the staff – recruiting young people and providing them with development opportunities as well as valuing at the same time the contribution made by experienced employees.

TRAINING AND DEVELOPMENT



Every employee is responsible for their development in the company. To support the development of employees Utilitas has provided financial resources and availability of needed time. Training needs are found out on an ongoing basis and in the course of personal performance appraisal interviews. Training events are divided between the fields of management, technical knowledge as well as skills, self-management and general education. Every employee can attend necessary trainings arising from their position and engineering profession level requirements.

Due to the spread of the coronavirus, less training events took place in 2020 than planned. The main focus was on internal training events held in the form of e-training. The fields covered included safety training events and language learning, but also the development of employees in psychosocial issues and issues related to teamwork and technical skills. Together with the growing importance of issues concerning sustainability and environmental impact, the Group considers it important to pay attention to raising employees' awareness of these issues.



SOCIAL ROLE

ROTERMANN CITY

Rotermann

APRANGA
AWC
MADEUS

ROTERMANN CITY





RELATIONS WITH RESIDENTS

11 SUSTAINABLE CITIES AND COMMUNITIES



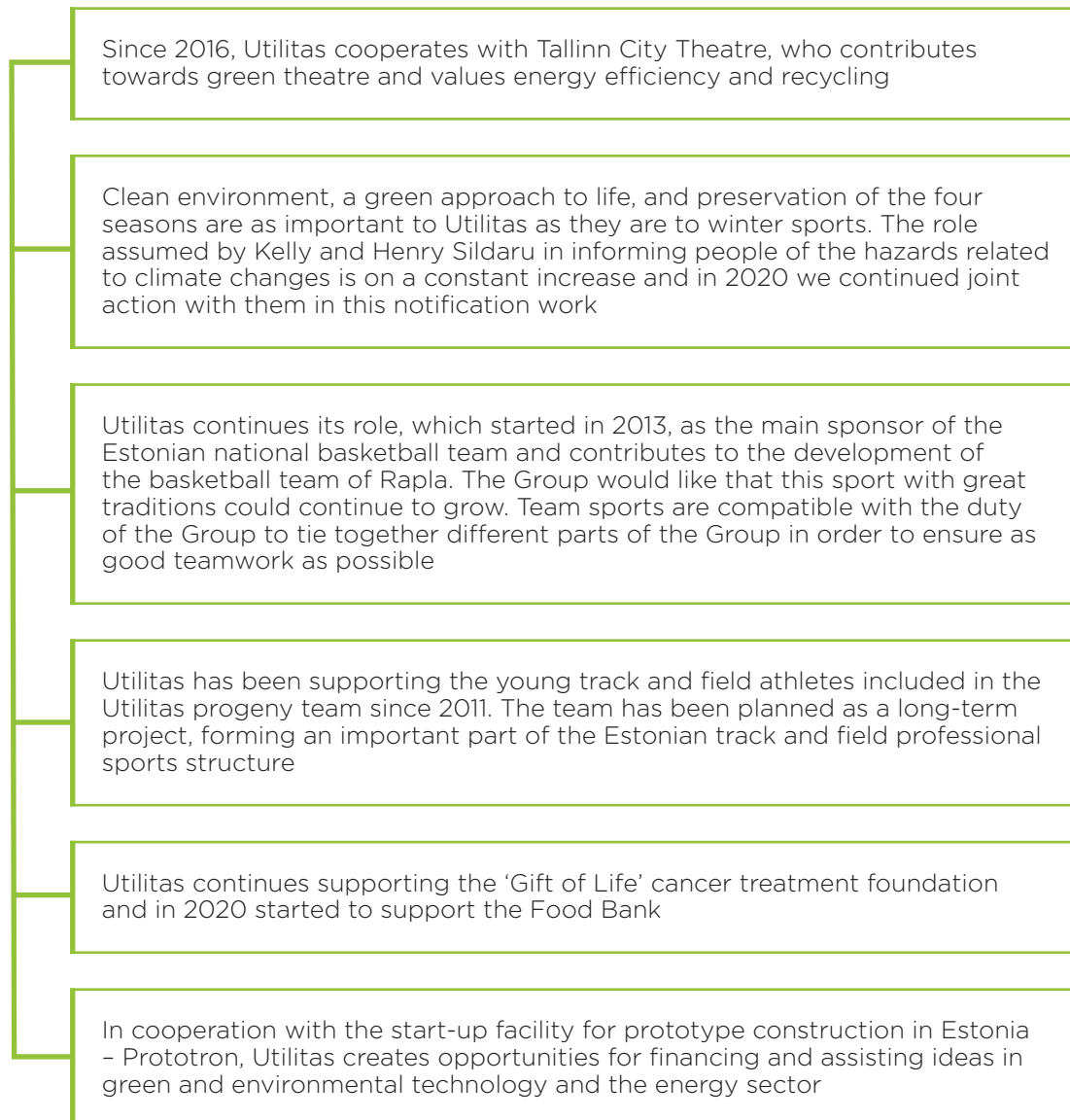
The cogeneration plants and boiler plants of Utilitas are mainly located in high-density residential districts. The Group organises tours for stakeholders on its production sites in order to give a closer overview of the background of the energy sector. Utilitas also organises Open Door Days where anyone interested is welcome to look around in the district heating world. As energy production may involve odour, dust, noise, transportation related disturbances or other nuisances, the company pays most attention

to preventive work in order to exclude hazard risks from the outset. Utilitas understands its responsibility to local communities and seeks to provide necessary information, ask feedback and promptly resolve any issues.

COMMUNITY RELATIONS AND SUPPORT ACTIVITIES

The sponsorship policy of Utilitas is built on the core values of the Group. The Group cooperates with local and national partners who also value environmentally sustainable approach to life, pay attention to reducing the environmental impact, support and develop the local living environment or create innovative solutions.

With such partners, Utilitas can better inform the public about the role of green energy in the preservation of the environment. The cooperation projects focus particularly on the areas where Utilitas also provides services.



CONTRIBUTION TO THE DEVELOPMENT OF THE SECTOR



Utilitas cooperates with associations and organisations that contribute to environmental protection and sustainable management and help develop the energy sector. Utilitas is a member of the following networks:



The Estonian Renewable Energy Association (EREA) unites Estonian organisations active in the field of renewable energy under one roof with the mission to advance and develop the field.



The Estonian Power and Heat Association is Estonia's biggest and oldest organisation representing and acting in the common interest of energy and heat companies.



Green Tiger (Rohetiiger) is a collaboration platform which is designed to boost environmental awareness and create a basis for a balanced economy, just as Tiger Leap jump-started the development of our technology sector.



The Responsible Business Forum (Vastutustundliku Ettevõtluse Foorum) comprises companies that value responsible business practices in order to ensure the sustainability of their company, and also that of the society and the country at large. In 2020, Utilitas joined the Responsible Business Forum, signing also the network's call to action for complying with the principles set out there:


CALL TO ACTION FROM RESPONSIBLE BUSINESS FORUM

Responsible business is the natural and voluntary integration of the economic, environmental and social dimension of a company with the company's day-to-day operations, management and business strategy.

PROMISE FOR A BETTER TOMORROW

- We create added value through entrepreneurship for our employees, partners, community and the society.
- We formulate clear principles of responsibility in our company and ensure consistent implementation thereof in Estonia and on other markets where we operate.
- With our ethical business activities, we make our contribution to the development of the business environment.
- We monitor compliance with the principles of equal treatment in our companies.
- We share our knowledge and experience in order to raise awareness of the importance of responsible business in the society.
- In our business activities, we prevent and minimise possible damage to the living environment and communities.

We perform regular monitoring of the implementation of the principles of this agreement in our companies and do the foregoing at all levels of the company and throughout its development.



COOPERATION WITH EDUCATIONAL ESTABLISHMENTS



A future generation of engineers in the energy sector is very important and, due to the rapid development of new renewable energy technologies, good education and extensive knowledge are extremely necessary. Similarly to the sector as a whole, popularisation of the speciality of thermal engineering also constitutes a big challenge for Utilitas, especially taking into consideration that the Group has to compete with the attractive information technology sector for students of similar interests. The popularity of the energy sector may grow in the nearest future thanks to the growth in the importance of environmental and renewable energy issues in the society – these issues are a matter of concern for young people.

It is important for Utilitas to support the desire of talented young people to make a career in the field of energy in order for the energy sector to be able to better cope with complicated challenges.

Utilitas is engaged in long-term cooperation with TalTech in order to ensure the continuity of engineering education in Estonia:

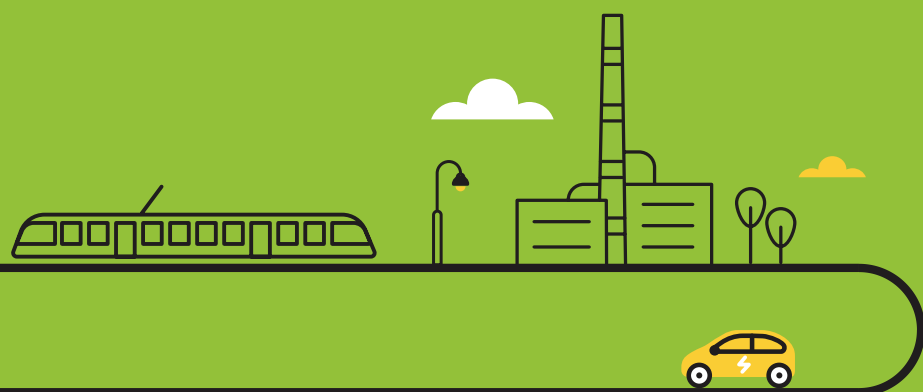
- the representatives of Utilitas participate in programme councils;
- the Group companies offer traineeship positions for young people in order for them to acquire technical and professional skills;
- the TalTech Mektory Innovation and Business Centre accommodates the heating laboratory of Utilitas in order to introduce the basic principles of energy supply in cities to students as well as other groups who visit the laboratory;
- to motivate successful students of the School of Engineering, Utilitas grants Clean Energy scholarships to Bachelor and Master level students.

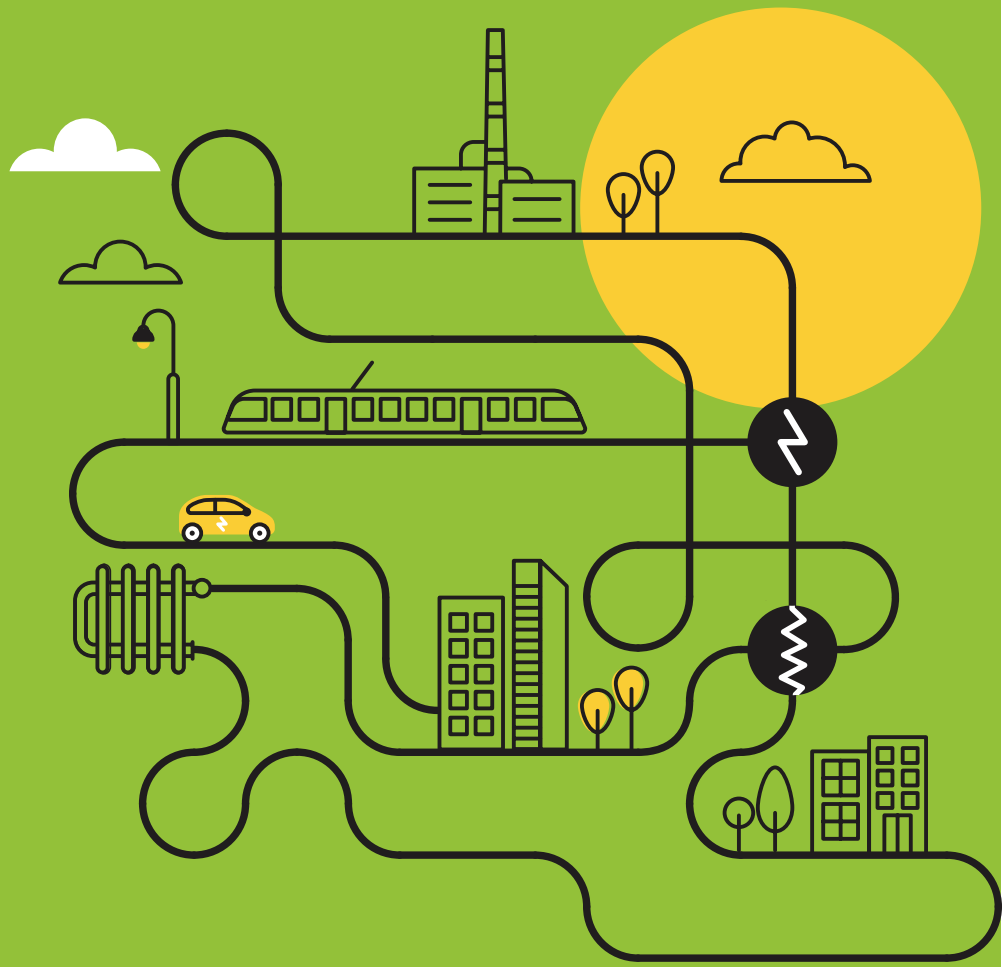
The cooperation provides Utilitas with access to scientific expertise and research of TalTech and students with access to practical knowledge and data of Utilitas.

As the popularity of engineering education is based on strong and interesting teaching of STEM subjects in general education schools, Utilitas continues cooperation with the Youth to School educational programme, paying special attention to engaging young mathematics and physics teachers in this programme.

**The goal
of Utilitas is
to popularise
the speciality
of thermal
engineering**

CONSOLIDATED FINANCIAL STATEMENTS





CONSOLIDATED BALANCE SHEET

IN EUR THOUSAND	Note	31.12.2020	31.12.2019
ASSETS			
Current assets			
Cash and cash equivalents	2	39,711	17,395
Receivables and prepayments	3	21,731	20,378
Inventories	4	4,245	4,371
TOTAL CURRENT ASSETS		65,687	42,144
Non-current assets			
Other non-current financial investments		692	0
Non-current receivables and prepayments	3	31	108
Property, plant and equipment	6, 7	305,083	293,921
Intangible assets	7, 8	14,799	15,497
TOTAL NON-CURRENT ASSETS		320,605	309,526
TOTAL ASSETS		386,292	351,670
LIABILITIES AND EQUITY			
Current liabilities			
Finance leases	7, 9	1,393	1,121
Payables and prepayments	10	15,478	21,525
TOTAL CURRENT LIABILITIES		16,871	22,646
Non-current liabilities			
Borrowings	9	229,701	204,701
Finance lease	7, 9	37,385	38,748
Payables and prepayments	10	64	74
Provisions	11	224	224
TOTAL NON-CURRENT LIABILITIES		267,374	243,747
TOTAL LIABILITIES		284,245	266,393
Equity			
Share capital	12	7,650	7,650
Retained earnings		94,397	77,627
TOTAL EQUITY		102,047	85,277
TOTAL LIABILITIES AND EQUITY		386,292	351,670

The Notes on pages 84 to 105 form an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

IN EUR THOUSAND	Note	2020	2019
Revenue			
Sales revenue	13	124,836	131,520
Other income	14	2,477	3,099
TOTAL REVENUE		127,313	134,619
Cost of goods and services sold			
Cost of goods and services sold	15	-58,556	-70,468
Other operating expenses	16	-2,957	-2,925
Payroll expense	17	-10,423	-9,337
Depreciation, amortisation and impairment	6, 8	-18,424	-16,087
Other expenses		-16	-12
Operating profit		36,937	35,790
Financial income and expenses			
Interest expense	9	-14,241	-13,192
Other financial income and expenses		-112	-95
TOTAL FINANCIAL INCOME AND EXPENSES		-14,353	-13,287
Profit before tax		22,584	22,503
Income tax	12	-814	-651
NET PROFIT FOR THE PERIOD		21,770	21,852

The Notes on pages 84 to 105 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

IN EUR THOUSAND	Note	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		36,937	35,790
Adjustments:			
Depreciation and impairment losses of property, plant and equipment and intangible assets	6, 8	18,424	16,087
Profit (loss) from sale of non-current assets	6	-6	-25
Change in receivables and prepayments related to operating activities	3	-2,389	6,726
Change in inventories	4	125	-361
Change in payables and prepayments related to operating activities	10	-3,547	-4,857
Interest paid	9	-15,165	-13,875
Income tax paid	12	-814	-651
Total cash flow from operating activities		33,565	38,834
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets	6, 8	-29,330	-34,959
Proceeds from sale of property, plant and equipment and intangible assets	6	6	25
Purchase of other financial investments		-692	0
Proceeds from repayment of loans granted	3, 20	0	40
Interest received		3	3
Total cash flow from investing activities		-30,013	-34,891
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans received	9	25,000	0
Payment of finance lease liabilities	9	-1,121	-879
Other payments from financing activities		-115	-98
Dividends paid	12	-5,000	-4,000
Total cash flow from financing activities		18,764	-4,977
TOTAL CASH FLOWS		22,316	-1,034
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	2	17,395	18,429
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2	39,711	17,395

The Notes on pages 84 to 105 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

IN EUR THOUSAND	Share capital	Retained earnings	Total
Balance as at 31 December 2018	7,650	59,775	67,425
Dividends paid	0	-4,000	-4,000
Net profit for the period	0	21,852	21,852
Balance as at 31 December 2019	7,650	77,627	85,277
Dividends paid	0	-5,000	-5,000
Net profit for the period	0	21,770	21,770
Balance as at 31 December 2020	7,650	94,397	102,047

Additional information regarding share capital and other owners' equity entries is disclosed in Note 12.

The Notes on pages 84 to 105 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

■ Note 1 Accounting policies used in the preparation of the consolidated financial statements

The 2020 consolidated financial statements of OÜ UTILITAS have been prepared in accordance with the generally accepted accounting principles in Estonia. The generally accepted accounting principles are prescribed by the Accounting Act of Estonia and supplemented by the guidelines issued by the Accounting Standards Board.

The consolidated report consists of the financial information of OÜ UTILITAS (hereinafter "Company") and its subsidiaries (hereinafter "Group"). The information about subsidiaries is disclosed in Note 5.

The consolidated financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

Consolidated financial statements are prepared in EUR thousands.

A. Preparation of the consolidated financial statements

Principles of consolidation

In the consolidated financial statements, the financial information of all subsidiaries under the control of the parent company have been combined line by line. Intragroup receivables and liabilities, transactions between group companies and the resulting unrealised gains and losses have been eliminated.

Where necessary, the accounting policies of the subsidiaries have been adjusted to ensure uniformity with the accounting policies adopted by the group.

Subsidiaries

Subsidiaries are all economic entities over which the parent company has control. A subsidiary is considered to be under the control of the parent company if the parent directly or indirectly possesses over 50% of the subsidiaries voting shares or is able to influence the operational and financial policy of the subsidiary by any other means.

Acquisition of subsidiary is accounted for in the consolidated financial statements by applying the purchase method (except for business combinations involving entities under common control that are recognised using the adjusted purchase method). According to the purchase method, the assets, liabilities and contingent liabilities of the acquired subsidiary (i.e. acquired net assets) are recognised at their fair values. The difference between the cost of acquisition and the fair value of the acquired net assets is recorded either as positive or negative goodwill (refer to accounting policy from section I).

From the acquisition date, the group's interest in the assets, liabilities and contingent liabilities of the acquired entity and the resulting goodwill are recognised in the consolidated balance sheet and the interest in the acquired entity's income and expenses is included in the consolidated income statement. Negative goodwill is recognised as income in the period.

If a subsidiary is disposed of during the accounting period, the income and expenses of the subsidiary disposed of are included in the consolidated income statement until the date of loss of control. The difference between the proceeds from the disposal and the carrying amount of the net assets of the subsidiary (including goodwill) as at the date of the disposal is recognised as a gain or loss on disposal of the subsidiary. If a part of a subsidiary is disposed of and the group's control over the entity falls below 50%, but influence over the entity does not completely disappear, the consolidation of the entity is ceased as at the date of the disposal and the remaining interest in the assets, liabilities

and goodwill of the subsidiary is recognised as an associate, a jointly controlled entity or other financial asset. The new cost of the remaining investment is its remaining carrying amount at the date of disposal.

Business combinations involving entities under common control

Business combinations involving entities under common control are accounted for using the adjusted purchase method under which the investment acquired in the other entity is recognised at the carrying amount of the net assets acquired (i.e. continuation of recognition of assets and liabilities that have been reported previously in the balance sheet of the acquired entity) and the difference between the cost and the carrying amount of the net assets acquired is recognised as an increase or decrease of the equity of the acquirer.

The unconsolidated primary financial statements of the Parent Company disclosed to the consolidated financial statements

According to the Accounting Act of Estonia, the Notes to the consolidated financial statements should include disclosures on the separate primary financial statements of the consolidating entity (parent company). The parent's primary financial statements have been prepared using the same accounting methods and measurement bases as for the preparation of the consolidated financial statements, except for investments in subsidiaries and associates that are carried at cost (less any impairment losses) in the separate primary financial statements of the parent company.

B. Financial assets

The Group has the following financial assets: cash and cash equivalents (refer to accounting policy from section C), trade receivables (refer to accounting policy from section D) and other receivables.

Regular purchases and sales of financial assets are recognised at the trade date (i.e. on the date that the group commits (for an example, enters into a contract) to purchase or sell a certain financial asset).

Cash and cash equivalents, trade and other receivables (accrued income, loans granted and other current and non-current receivables), except for receivables acquired for the purpose of selling, are carried at amortised cost. The amortised cost of current receivables generally equals their nominal value (less repayments and any impairment losses), therefore current receivables are carried in the balance sheet at their expected realisable value.

C. Cash and cash equivalents

In the statement of cash flows cash and cash equivalents include cash on hand and bank balances (except for overdraft), term deposits with original maturities of three months or less as well as investments in money market funds and other highly liquid funds that invest in instruments which individually meet the definition of cash and cash equivalents. Overdraft is included within current borrowings in the balance sheet.

D. Receivables and prepayments

Current receivables arising in the ordinary course of business are classified as trade receivables. Trade receivables are carried at amortised cost (i.e. original invoice amount less repayments and provisions made for impairment of these receivables).

Impairment of receivables is recognised when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. Evidence of potential impairment includes the bankruptcy or major financial difficulties of the debtor and non-adherence to payment dates. The impairment of the receivables that are individually significant (need for a write-down) is assessed individually for each customer, using the present value of expected future collectible amounts as the basis. Receivables, that are not individually significant or for which no objective evidence of impairment exists, are collectively assessed for impairment using previous years'

experience on uncollectible receivables. The amount of the allowance for doubtful receivables is the difference between the carrying amounts of these receivables and the present value of expected future cash flows discounted at the effective interest rate. The carrying amount of receivables is reduced by the amount of doubtful receivables and impairment losses are recognised as *Other operating expenses* in the income statement. If a receivable is deemed irrecoverable, the receivable and the impairment allowance are taken off the balance sheet. The collection of the receivables that have previously been written down is accounted for as a reversal of the cost of impairment of the receivables.

E. Inventories

Inventories are initially recognised at cost, which comprises of the purchase cost and other costs incurred in bringing the inventories to their present location and condition. Inventories are expensed using the FIFO method. OÜ Utilitas Tallinn Elektriijaam uses weighted average method for fuel inventories recognition. Inventories are measured in the balance sheet at the lower of cost and net realisable value. The write-down of inventories to the net realisable value is included in the income statement line Other operating expenses.

Intangible current assets

As an intangible asset, the Group recognised purchased but unused CO2 emissions.

F. Property, plant and equipment

An item of property, plant and equipment is an asset that is used in the group's operations with their expected useful lives over one year and with their cost in the range of EUR 700 up until EUR 10,000.

An item of property, plant and equipment is initially measured at cost, comprising its purchase price (incl. customs duties and other non-refundable taxes) and any costs directly attributable to its acquisition that are necessary to bring the asset to its operating condition and location. In case the construction of property, plant and equipment item takes longer period of time, borrowing costs are capitalized in the cost of the item of property, plant and equipment. The capitalisation of borrowing costs is stopped as the property, plant and equipment item is ready for its intended use or the construction is paused for a longer period of time.

An item of property, plant and equipment is subsequently carried in the balance sheet at its cost less any accumulated depreciation and any accumulated impairment losses. Items of property, plant and equipment acquired under finance leases are recorded similarly to owned assets.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repair and maintenance expenditure are recognised as a cost in the period in which the respective expense was made.

The straight-line method is used for depreciation of items of property, plant and equipment. The depreciation rates are set separately for each item of property, plant and equipment depending on their useful lives. For assets with significant residual value, only the depreciable amount, i.e. difference between cost and residual value is depreciated over the useful life of the asset. If an item of property, plant and equipment consists of identifiable components with different useful lives, these components are recognised as separate items of property, plant and equipment and separate depreciation rates are set for them depending on their estimated useful lives.

The depreciation rates are as follows for the groups of property, plant and equipment:

Buildings	2 - 10%	10 - 50 years
Heat pipelines	3 - 10%	10 - 30 years
Production plant and machinery	3 - 20%	5 - 35 years
Other machinery and equipment	10 - 33%	3 - 10 years
Other inventory and IT equipment	10 - 33%	3 - 25 years

Objects with unlimited expected useful life (land, art work, museum showpiece, books, etc.) are not depreciated.

Depreciation of an asset begins when it is available for use for the purpose intended by management and is ceased when the asset's residual value exceeds its carrying amount or when it is withdrawn from use. At each balance sheet date the appropriateness of the depreciation rates, the depreciation method and the residual value are reviewed.

If the recoverable amount of an item of property, plant and equipment (i.e. higher of its fair value less costs to sell and its value in use) is lower than the asset's carrying amount, an item of property, plant and equipment is written down to its recoverable amount (refer to accounting policy from section J).

Recognition of an item of property, plant and equipment is ceased at the date when the asset is sold or disposed or in a situation when it is expected that no future benefits from the asset will flow to the group. Gains and losses on disposing of items of property, plant and equipment are included in the income statement *Other income* or *Other operating expenses* lines.

G. Leases

During 2001, AS Utilitas Tallinn (the lessee) entered into a rental and operating contract for 30 years with AS Tallinna Soojus (the lessor) owned by City of Tallinn. With this contract, the lessee took over the complete property, which is required to be maintained and preserved, as well as returned at the end of the rental period. Assets associated with the finance lease, which under contract are designated as „Leasehold estate“, are shown within the Notes 6, 7 and 8. The lessee shall improve and substitute the assets, which are designated as "Leasehold estate" and depreciated throughout the rental period in accordance with their useful life. Investments in the substitution of assets designated in "Leasehold estate" are later compensated by the lessor in their residual value.

Rented assets acquired through financial lease are recorded in the balance sheet under *Finance lease*.

Other tangible assets associated with the financial lease, which AS Utilitas Tallinn acquires throughout the rental period, are to be compensated in case the ownership is transferred to the lessor at the end of the period in their residual value.

H. Intangible assets

Intangible assets (goodwill, patents, licenses, trademarks, software) are recognised in the balance sheet when the asset is controlled by the group, future economic benefits attributable to the asset will flow to the group and the cost of the asset can be measured reliably. An intangible asset is initially recognised at cost, comprising its purchase price and any costs directly attributable to the purchase. After initial recognition, an intangible asset is carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised using the straight-line method, using the estimated useful lives as the basis. The appropriateness of the amortisation periods and amortisation method is assessed at each balance sheet date. The annual amortisation rates for groups of intangible assets are as follows:

Goodwill	4.55%
Computer software, patents, licences, trademarks and other intangible assets	20-33%

Intangible assets are tested for impairment whenever there is any indication of impairment (refer to accounting policy from section J).

Goodwill

Goodwill represents the excess of the cost of a business combination over the fair value of the net assets acquired, reflecting that portion of the payment made for such assets of the investee, which cannot be individually identified and separately recognised. At the acquisition date, goodwill is recognised at cost as an intangible asset in the balance sheet.

Goodwill is subsequently amortized using a straight line method over the useful life of the acquired net assets.

Software

Computer software, which is not an integral part of the related hardware, is recognised as an intangible asset. Software development costs are included within intangible assets when they are directly related to the development of such software items that can be distinguished from one another, are controlled by the Group and from which the future economic benefits for a period longer than one year are expected to flow to the Group. Software development costs subject to capitalisation include labour costs and other expenses directly related to development. Capitalised software costs are amortised over the estimated useful life not exceeding 5 years. Regular software maintenance costs are recognised as expenses in the income statement.

Other intangible assets

Expenditures related to the patents, trademarks, licenses and certificates are capitalised when it is possible to evaluate the related future economic benefits. Other intangible assets are amortised on a straight-line basis over the estimated useful life of the asset not exceeding 5 years.

I. Impairment of assets

Intangible assets that have indefinite useful lives are tested annually for impairment by comparing their carrying amounts with their recoverable amounts.

Assets that are subject to depreciation and amortisation and assets with unlimited useful lives (land) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Under those circumstances, the recoverable amount is estimated and compared to the carrying amount.

An impairment loss is recognised in the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount of an asset is the higher of an asset’s fair value less costs to sell and value in use. For the purpose of assessing an impairment of an asset, assets are assessed either individually or grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit).

Impairment losses are recognised as cost in the reporting period.

At each following balance sheet date, assets that have been impaired are assessed to determine whether their recoverable amount has increased. If the impairment test indicates that the recoverable value of an asset or asset group (cash generating unit) has increased above its carrying amount, the previous impairment loss is reversed up to the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods, by applying normal depreciation rates and

methods to the asset or the asset group. Reversal of impairment losses are recognised in the income statement as a reduction of the impairment loss.

J. Finance and Operating leases

Leases of assets, which transfer substantially all the risks and rewards incidental to ownership to the lessee, are classified as finance leases. Other leases are classified as operating leases.

The Group as the lessee

Finance leases are recognised in the balance sheet as assets and liabilities at the lower of the fair value of the leased asset and the present value of minimum lease payments. Each lease payment is apportioned between the finance charges (interest expense) and reduction of the outstanding liability. The finance charge (interest expense) is charged to the income statement over the lease period so as to achieve a constant periodic rate of interest on the remaining balance of the liability. The assets acquired under finance lease are depreciated similarly to owned assets over the shorter of the useful life of the asset and the lease term. The costs identified as directly attributable to activities performed by the lessee for a finance lease are added to the amount recognised as an asset.

Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

K. Financial liabilities

All financial liabilities (trade payables, borrowings, accrued expenses, issued bonds and other current and non-current liabilities) are initially measured at cost, which includes all costs directly attributable to the purchase. They are subsequently measured at amortised cost (except for financial liabilities purchased to be resold and derivatives with negative fair values, which are recognised in their fair values).

The amortised cost of current financial liabilities generally equals their nominal value, therefore current financial liabilities are carried in the balance sheet at their redemption value. For determining the amortised cost of non-current financial liabilities, they are initially recognised at the fair value of the consideration received (less any transaction costs), calculating an interest expense on the liability in subsequent periods using the effective interest rate method.

A financial liability is classified as current when it is due to be settled within 12 months after the balance sheet date or the group does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Borrowings due to be settled within 12 months after the balance sheet date but that are refinanced as non-current after the balance sheet date but before the financial statements are authorised for issue are recognised as current liabilities. Borrowings that the lender has the right to recall at the balance sheet date as a consequence of a breach of contractual terms are also recognised as current liabilities.

L. Provisions and contingent liabilities

Present obligations arising from past events, which have occurred before the balance sheet date and whose timing or amount is uncertain, are recognised as provisions. Provisions are recognised based on management's estimates regarding the amount and timing of the expected outflows. The amount recognised as a provision shall be the best estimate of the management regarding the expenditure required to settle the present obligation at the balance sheet date or to transfer it to a third party.

If a provision is expected to be settled later than 12 months after the balance sheet date, it is recognised at the discounted value (at the present value of payments relating to the provision) unless the effect of discounting is immaterial.

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.

Provisions for environmental protection

Provisions for environmental protection are formed before the end of the financial year in case of environmental damage only if the claim for repair damage derives from contractual or regulatory obligations.

Pledges, guarantees and other obligations, whose settlements are not probable or the amount of which cannot be measured with sufficient reliability, but which under certain conditions may realise in future, are disclosed as contingent liabilities in the Notes to the financial statements.

M. Corporate income tax

According to the Income Tax Act applicable in Estonia, annual profits earned by entities are not taxed in Estonia. Corporate 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. In certain circumstances, it is possible to distribute dividends without any additional income tax expense. Starting from 2019, regular dividend payments will be subject to corporate income tax at the reduced rate of 14/86 to the extent of the average dividend distribution of three preceding years. The first year to be taken account was 2018. 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. The tax becomes due to the tax authorities on the 10th day of the month following the dividend payment.

Due to the nature of the taxation system, the companies registered in Estonia do not have any differences between the tax basis of assets and their carrying amount 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 balance sheet. The maximum income tax liability, which would accompany the distribution of group's retained earnings, is disclosed in Note 12 to the consolidated financial statements.

N. Revenue recognition

Revenue from the sale of goods is recognised at the fair value of the consideration received or receivable, taking into consideration all discounts and rebates. Revenue from the sale of goods is recognised when the group has transferred the significant risks and rewards incidental to ownership of the goods to the buyer, the outcome of the transaction (i.e. revenue and expenses relating to the transaction) can be estimated reliably and the receipt of payment from the transaction is probable.

Revenue from the sale of services is recognised after performing the servicing activity or when the servicing activity is provided over a longer period of time, according to the stage of completion method.

Sale of electrical and thermal energy and district cooling service

Revenue from sale of electrical and thermal energy and district cooling service is recognised on accrual basis based on the reading of meters.

Connection fees

Connection fees are recorded as revenue, when the service associated with connection has been provided (i.e. assets required for connection are built) and there remains no substantive risk to pay back those fees.

Other

Interest and dividend income is recognised when the right to receive the payment is certain and the amount of income can be measured reliably. Interest income is recognised using the asset's effective interest rate unless the receipt of interest is uncertain. In such cases, interest income is recognised on a cash basis. Dividend income is recognised when the right to receive payment is established by the owner.

■ Note 2 Cash and cash equivalents

IN EUR THOUSAND	31.12.2020	31.12.2019
Bank accounts	39,411	17,095
Term deposits (with maturities of less than 3 months)	300	300
TOTAL CASH AND CASH EQUIVALENTS	39,711	17,395

■ Note 3 Receivables and prepayments

Current receivables and prepayments

IN EUR THOUSAND	31.12.2020	31.12.2019
Trade receivables	21,073	19,588
Inc. Accounts receivables	21,083	19,621
Allowance for doubtful receivables	-10	-33
Prepaid taxes and receivables for reclaimed taxes	2	2
Other current receivables	197	126
Prepayments for services	459	662
TOTAL CURRENT RECEIVABLES AND PREPAYMENTS	21,731	20,378

Non-current receivables and prepayments

IN EUR THOUSAND	31.12.2020	31.12.2019
Non-current prepayments	31	108
TOTAL NON-CURRENT RECEIVABLES AND PREPAYMENTS	31	108

During the reporting period, allowance for doubtful receivables decreased EUR 14 thousand (2019: the reserve increased EUR 13 thousand, see Note 16). EUR 9 thousand was written-off (2019: EUR 11 thousand). During the reporting period, income from previously written-off receivables in the amount of EUR 5 thousand was recognised (2019: EUR 11 thousand; see Note 14).

■ Note 4 Inventories

IN EUR THOUSAND	31.12.2020	31.12.2019
Raw materials and consumables	1,665	1,692
Fuel	2,573	2,678
Prepayments for inventories	7	1
TOTAL INVENTORIES	4,245	4,371

During the reporting period, inventories were written-down in amount of EUR 7 thousand and discarded in amount of EUR 10 thousand or discarded. In 2019 no inventories were written-down or discarded.

■ Note 5 Subsidiaries

As at 31.12.2020 OÜ Utilitas owned shares of the following subsidiaries:

Subsidiary	Area of activity	Ownership 31.12.2020	Ownership 31.12.2019
OÜ Utilitas Tallinna Elekrijaam	Production and sale of thermal and electrical energy	100%	100%
AS Utilitas Tallinn	Production and sale of thermal energy	100%	100%
AS Utilitas Eesti	Production and sale of thermal energy	100%	100%

All subsidiaries are established and operate in Estonia.

■ Note 6 Property, plant and equipment

IN EUR THOUSAND	Buildings and land	Machinery and equipment	Other tangible assets	Construction in progress and prepayments	Total
Balance as at 31.12.2019					
Cost	206,184	156,389	1,516	11,200	375,289
Accumulated depreciation	-49,858	-30,728	-782	0	-81,368
CARRYING VALUE	156,326	125,661	734	11,200	293,921
Changes in the year 2020					
Acquisitions and improvements	75	48	190	28,051	28,364
Write-offs	-90	-67	0	0	-157
Reclassifications	26,967	3,355	0	-30,322	0
Depreciation	-9,700	-7,128	-217	0	-17,045
Balance as at 31.12.2020					
Cost	232,359	159,556	1,687	8,929	402,531
Accumulated depreciation	-58,781	-37,687	-980	0	-97,448
CARRYING VALUE	173,578	121,869	707	8,929	305,083

Non-current assets include the assets rented under the rental and operating contract with AS Tallinna Soojus together with their improvements and replacements in the amount of EUR 79,394 thousand (2019: EUR 69,032 thousand; see Note 7) and other material assets related to the assets under rental contract in the amount of EUR 92,544 thousand (2019: EUR 86,534 thousand), which AS Utilitas Tallinn acquires during the rental period and which, if the ownership is to be transferred, AS Tallinna Soojus will compensate in their residual value at the end of the rental period. At the end of the reporting period, property, plant and equipment additionally included unfinished buildings and equipment related to the lease and operator agreement in the amount of EUR 6,181 thousand (2019: EUR 10,576 thousand) which, if the ownership is transferred to the lessor at the end of the lease period, are subject to compensation in residual value by AS Tallinna Soojus.

Proceeds from sale of property, plant and equipment during the reporting period was in the amount of EUR 6 thousand (2016: EUR 25 thousand). Loss from write-offs of property, plant and equipment was EUR 157 thousand (2019: EUR 21 thousand).

■ Note 7 Finance lease

The Group as a lessee:

Assets leased under finance lease and their improvements and replacements by asset groups:

IN EUR THOUSAND	Tangible assets	Intangible assets	Total
Balance as at 31.12.2019			
Cost	98,027	276	98,303
Accumulated depreciation	-28,922	-229	-29,151
CARRYING VALUE	69,105	47	69,152
Changes in the year 2020			
Acquisitions, improvements and replacements	15,642	101	15,743
Write-offs	-21	0	-21
Depreciation	-5,232	-47	-5,279
Balance as at 31.12.2020			
Cost	113,005	333	113,338
Accumulated depreciation	-33,511	-232	-33,743
CARRYING VALUE	79,494	101	79 595

On 31 October 2001, AS Utilitas Tallinn (the lessee) entered into a rental and operating contract for 30 years with AS Tallinna Soojus (the lessor) owned by City of Tallinn.

AS Utilitas Tallinn conducts improvements and replacements for assets leased under the finance lease that are recognised as a part of the "Leasehold estate". As at the end of the reporting period 93% of assets leased under the rental and operating contract (31 December 2019: 90%) are improvements and replacements made by the lessee during the lease period, totalling EUR 71,089 thousand (31 December 2019: EUR 62,327 thousand). At the end of the lease period AS Tallinna Soojus will reimburse the investments in replacements of lease assets to the company in carrying value.

The carrying amount of leased assets subject to the rental and operating contract with AS Tallinna Soojus is divided as follows:

IN EUR THOUSAND	31.12.2020	31.12.2019
AS Tallinna Soojus (lessor) assets transferred upon the signing of rental and operating contract	5,406	6,752
Improvements during the rental period by AS Utilitas Tallinn (lessee)	7,839	8,524
Replacements during the rental period by AS Utilitas Tallinn (lessee)	66,250	53,803
CARRYING VALUE OF LEASED ASSETS	79,495	69,079

Contractual obligation from financial leasing

Present value of rental payments arising from the contract at the time of signing amounted to EUR 35,834 thousand and annual rental payment was EUR 2,684 thousand. In order to calculate the net present value of the rental payments, the preliminary projections included the consumer price index assumed to be 4.5% for the first 5 years, 3.5% for the next 5 years and for the last 20 years 3.1%. Rental payment instalments are adjusted once a year according to the change in consumer price index in the previous year. Difference resulting from initially assessed and actual consumer price index is recognised as income or expense for the period. Rental payments are made quarterly.

As at 31.12.2020 the financial lease liability amounted to EUR 38,778 thousand (31.12.2019: EUR 39,869 thousand; see Note 9). The effective interest rate of the liability (discount rate) is 9.6%.

As at 31.12.2020 vehicles are being leased under financial lease with the carrying amount of EUR 100 thousand (31.12.2019: EUR 73 thousand).

■ Note 8 Intangible assets

IN EUR THOUSAND	Goodwill	Other intangible assets	Total
Balance as at 31.12.2019			
Cost	22,839	1,282	24,121
Accumulated amortisation	-8,305	-319	-8,624
CARRYING VALUE	14,534	963	15,497
Changes in the year 2020			
Acquisitions and improvement	0	524	524
Amortisation	-1,038	-184	-1,222
Balance as at 31.12.2020			
Cost	22,839	1,760	24,599
Accumulated amortisation	-9,343	-457	-9,800
CARRYING VALUE	13,496	1,303	14,799

Intangible fixed assets include intangible assets leased under the rental and operating contract with AS Tallinna Soojus including their improvements and replacements in the carrying value of EUR 101 thousand (31.12.2019: EUR 47 thousand; see Note 7) and other intangible assets related to the lease with carrying value of EUR 999 thousand (2019: EUR 756 thousand), which Utilitas Tallinn AS acquires additionally during the lease period and which are transferred to the lessor at the end of the lease period for carrying value compensation by AS Tallinna Soojus.

■ Note 9 Borrowings

IN EUR THOUSAND	Current balance 31.12.2020	Non-current balance 31.12.2020	Maturity	Contractual interest rate
Loans from parent company	0	229,701	2,047	4.99%
Financial lease	1,393	37,385		
Inc. Rental and operating contract with AS Tallinna Soojus (see Note 7)	1,376	37,314	2,031	(discount rate) 9.60%
Other financial lease	17	71	2,025	6m EURIBOR + 1.30-1.35%
TOTAL	1,393	267,086		

IN EUR THOUSAND	Current balance 31.12.2019	Non-current balance 31.12.2019	Maturity	Contractual interest rate
Loans from parent company	0	204,701	2,047	4.99%
Financial lease	1,121	38,748		
Inc. Rental and operating contract with AS Tallinna Soojus (see Note 7)	1,108	38,690	2,031	(discount rate) 9.60%
Other financial lease	13	58	2,024	1.30%
TOTAL	1,121	243,449		

In order to reduce refinancing and interest rate risk, the previous 3-year residual maturity syndicated loans were refinanced in 2018 by the parent company of OÜ Utilitas with long-term (2047) and fixed rate (4.99%) loans. In the reporting period a loan was received from the parent company in amount of EUR 25 000 thousand.

The interest expense of the reporting period from loans received was EUR 10,646 thousand (2019: EUR 9,532 thousand), the interest expense of the financial lease was EUR 3,502 thousand (2019: EUR 3,602 thousand).

The Group has entered into a working capital loan agreement with SEB bank with a limit of EUR 15 million, interest expense on working capital loan commitment fees was EUR 93 thousand (2019: EUR 58).

All Group debt liabilities are in EUR. Information about collaterals of loan liabilities is disclosed in Note 18.

■ Note 10 Payables and prepayments

Current payables and prepayments

IN EUR THOUSAND	31.12.2020	31.12.2019
Payables to suppliers	11,119	16,598
Payables to employees	163	103
Tax Liabilities	2,000	1,441
Incl. VAT	1,467	872
Social tax	240	235
Air contamination tax	126	166
Personal income tax	129	119
Income tax of special cases	13	23
Unemployment insurance	14	12
Obligatory pension payments	9	9
Excise tax	2	5
Other payables	238	552
Interest payable (Note 20)	0	924
Current provisions	1,658	1,602
Prepayments received	300	305
TOTAL CURRENT PAYABLES AND PREPAYMENTS	15,478	21,525

Non-current payables and prepayments

IN EUR THOUSAND	31.12.2020	31.12.2019
Other payables	64	74
TOTAL NON-CURRENT PAYABLES AND PREPAYMENTS	64	74

■ Note 11 Non-current provisions

Provisions for possible environmental damage has been made in the amount of EUR 224 thousand (in 2019: EUR 224 thousand) and it is based on the rental and operating contract with AS Tallinna Soojus, which stipulates that AS Utilitas Tallinn will cover all environmental protection expenses in the amount up to EUR 64 thousand and 10% of the costs over that limit, but not more than EUR 128 thousand per contract year. The amounts are to be adjusted annually based on the development of the consumer price index.

As at the balance sheet date the group is not aware of any environmental protection related liabilities nor has it received any orders from institutions to compensate for environmental liability. Provisions for possible environmental damage have not been discounted, since the Management board assesses the discount to be immaterial for the financial statements.

■ Note 12 Share capital

	31.12.2020	31.12.2019
Share capital (EUR thousand)	7,650	7,650
Number of shares (pcs.)	1	1
Share value (EUR)	7,650,000	7,650,000

As at 31.12.2020 and 31.12.2019, the share capital of the parent company consisted of 1 share with the nominal value of EUR 7,650,000, which has been fully paid for.

In November 2018, a leading international infrastructure fund with long-term strategy, European Diversified Infrastructure Fund II (hereinafter EDIF II), managed by First Sentier Investors, became one of the owners of the company. The indirect owners of the company are EDIF II (85%) and the companies of the members of the management team of OÜ Utilitas (15%). The direct 100% parent company of OÜ Utilitas is joint holding company First State Core S.à r.l.

IN EUR THOUSAND	31.12.2020	31.12.2019
Retained earnings	94,397	77,627
Potential dividends	76,657	63,125
Possible income tax on potential dividends	17,740	14,502

In 2020, EUR 5,000 thousand were paid as dividends (in 2019: EUR 4,000 thousand) and this resulted in an income tax expense of EUR 814 thousand (in 2019: EUR 651 thousand). This will result in the possibility of taxing the dividends to be paid in 2021 at a lower tax rate of up to EUR 16,333 thousand.

■ Note 13 Sales revenue

IN EUR THOUSAND	2020	2019
Consolidated revenue by geographical region		
Estonia	124,836	131,520
TOTAL	124,836	131,520
Consolidated revenue by activity		
Production and sale of thermal and electrical energy	101,278	111,466
Renewable energy subsidies	20,554	17,208
Other revenue	3,004	2,846
TOTAL SALES REVENUE	124,836	131,520

Compared to 2019, the sales of heat energy decreased in the reporting year due to higher outdoor temperature and lower heat tariffs. New cogeneration plant in Mustamäe led to an increase in electricity production volumes, but reduced electricity demand due to the coronavirus and record warm weather led to a significant decline in electricity prices in the Nord Pool electricity market, as a result, the group's sales revenue as a whole decreased in 2020.

■ Note 14 Other income

IN EUR THOUSAND	2020	2019
Proceeds from sale of property, plant and equipment	6	25
Fines and penalties received	6	877
Irrecoverable receivables collected (see Note 3)	5	11
Sale of CO ₂ quotas	1,241	940
Government grants income	1,169	1,145
Other operating income	50	101
TOTAL OTHER INCOME	2,477	3,099

During the reporting period, sales of greenhouse gas emission units were carried out by OÜ Utilitas Tallinna Elekrijaam and AS Utilitas Eesti wherein the outstanding emission units of the current trading period were sold, totaling 45.1 tonnes, with an average price of EUR 27.52 per ton (2019: 43.4 thousand tonnes, with an average price of EUR 21.65 per ton).

In 2020, the SA Keskkonnainvesteeringute Keskus co-financed four investment projects of AS Utilitas Tallinn in the amount of EUR 551 thousand (2019: four investment projects in the amount of EUR 763 thousand) and five investment projects of AS Utilitas Eesti in the amount of EUR 618 thousand (in 2019, four investment projects in the amount of EUR 425 thousand and partially reimbursed the financing of 2018 amounting to EUR 43 thousand).

■ Note 15 Cost of goods and services sold

IN EUR THOUSAND	2020	2019
Raw materials and purchased energy	-49,093	-60,379
Energy, water and chemical expense	-2,955	-3,309
Repair and maintenance costs from the procurement procedure	-3,156	-2,932
Air pollution charge	-303	-489
Cost of CO ₂ emission quota	-1,056	-1,575
Building permit and estate tax	-443	-402
Other	-1,550	-1,382
TOTAL COST OF GOODS AND SERVICES SOLD	-58,556	-70,468

During the reporting period, AS Utilitas Tallinn purchased CO₂ emission allowance units in the amount of EUR 1,056 thousand (46 thousand tonnes) to cover the deficit of CO₂ emission allowances. In 2019, AS Utilitas Tallinn purchased EUR 1,575 thousand (70.6 thousand tonnes) of CO₂ emission allowance units.

■ Note 16 Other operating expenses

IN EUR THOUSAND	2020	2019
Office, administrative and maintenance costs	-1,101	-947
Research and development costs	-30	-1
External counsel	-368	-301
Property insurance costs	-328	-295
Allowance for doubtful receivables (see Note 3)	14	13
Other expenses	-1,144	-1,394
TOTAL OTHER OPERATING EXPENSES	-2,957	-2,925

■ Note 17 Payroll expense

IN EUR THOUSAND	2020	2019
Wages and salaries	-7,809	-6,999
Social security costs	-2,614	-2,338
TOTAL PAYROLL EXPENSE	-10,423	-9,337
Average number of employees in full time equivalent units	257	249
Employee working under an employment contract	248	240
Member of the management board and other control bodies	9	9

■ Note 18 Loan guarantees and pledged assets

Collaterals for the liabilities related to group's investment loans in the amount of EUR 229,701 thousand as at 31.12.2020 (as at 31.12.2019: EUR 204,701 thousand; see Note 9) are as follows:

1. Floating charge on the Groups non-fixed assets (movables) is in the amount of EUR 173.5 million. The group's assets, which are considered as movables are accounts receivables (see Note 3), inventory (see Note 4), property, plant and equipment except land and buildings (see Note 6).
2. Mortgages to properties in the amount of EUR 10 million with the book value of EUR 4.5 million (as at 31.12.2019: EUR 4.9 million; see Note 6) and building rights in the amount of EUR 150 million (balance sheet value not determined).
3. Shares of subsidiaries.

■ Note 19 Contingent liabilities

Potential liabilities related to tax audit

The tax authorities have the right to review a company's tax accounting for up to 5 years in Estonia after filing the tax returns and upon detecting errors, assign additional taxes, interest and fines.

The group's management estimates that there are no circumstances that might lead the tax authorities to assess additional taxes for the group.

■ Note 20 Transactions with related parties

Name of the parent company: First State Core S.à.r.l.

The country where the parent company is registered: Luxembourg

Name of Group that the parent company belongs to: First State Elio S.à.r.l

The country where the Group parent company is registered: Luxembourg

In preparing the consolidated financial statements for OÜ Utilitas, the following parties have been considered to be related parties:

1. Entities that control or have significant influence over the company;
2. Subsidiaries and affiliates (transactions with subsidiaries that are eliminated in the course of consolidation must not be disclosed in consolidated statements);
3. The management of the company or its parent company and private shareholders of the company, who control or have significant influence over the company, close family members of the persons mentioned above and the companies that all the persons mentioned above control or over which they have significant influence.

Payables to related parties

IN EUR THOUSAND	31.12.2020	31.12.2019
Current payables to parent company	0	924
Inc. Interest payable	0	924
Non-current payables to parent company	229,701	204,701
Inc. Loans received (see Note 9)	229,701	204,701

Purchases from related parties

IN EUR THOUSAND	2020	2019
Interest expense from loan received from parent company	10,646	10,215
Inc. Capitalised interest	0	683

There are no contractual obligations to acquire or sell from/to related parties.

In 2020 the remuneration of the members of the Management Board and Supervisory Board of all Group entities amounted to EUR 1,128 thousand plus social taxes (2019: EUR 1,245 thousand).

■ Note 21 Events after the balance sheet date

On February 3, 2021, the City of Tallinn and energy group Utilitas entered into an agreement to jointly acquire shares held by United Utilities Tallinn B.V. in Tallinna Vesi. The transaction was completed on March 31, 2021 and as a result, the City of Tallinn became the majority shareholder of AS Tallinna Vesi with 52.35 percent. Utilitas acquired 17.65 percent of the shares of AS Tallinna Vesi from United Utilities Tallinn B.V. and takes a leading role in coordinating the company's strategic activities. Shares which are purchased in a post-acquisition takeover bid are distributed between the City and Utilitas on a 50/50 basis, thereby increasing Utilitas' share to a maximum of 32.65%.

On March 10, 2021, Utilitas acquired a 50% shareholding in a wind farm development in the Ventspils region of Latvia. Project capacity is planned to be 58.8 MW and the completion date is at the end of 2022, after which the wind farm is expected to produce approximately 150 GWh of renewable electricity per year.

■ Note 22 Separate primary financial statements of the parent company

The primary financial statements of the parent company have been prepared using the same principles, which have been used in the preparation of the consolidated financial statements, except for investments in subsidiaries, which are measured at cost.

Unconsolidated balance sheet

IN EUR THOUSAND	31.12.2020	31.12.2019
ASSETS		
Current assets		
Cash and cash equivalents	689	1,540
Receivables and prepayments	1,671	1,935
TOTAL CURRENT ASSETS	2,360	3,475
Non-current assets		
Financial investments in subsidiaries	10,511	10,511
Other non-current financial investments	692	0
Loans granted	233,560	209,560
Property, plant and equipment	507	169
Intangible assets	49	0
Total non-current assets	245,319	220,240
TOTAL ASSETS	247,679	223,715
LIABILITIES AND EQUITY		
Current liabilities		
Payables and prepayments	2,402	2,483
Total current liabilities	2,402	2,483
Non-current liabilities		
Borrowings	229,701	204,701
Total non-current liabilities	229,701	204,701
TOTAL LIABILITIES	232,103	207,184
Equity		
Share capital	7,650	7,650
Retained earnings	7,926	8,881
TOTAL EQUITY	15,576	16,531
TOTAL LIABILITIES AND EQUITY	247,679	223,715

Unconsolidated income statement

IN EUR THOUSAND	2020	2019
Revenue		
Sales revenue	1,274	1,192

TOTAL REVENUE	1,274	1,192
Cost of goods and services sold	-121	-98
Other operating expenses	-659	-415
Payroll expense	-1,700	-1,250
Depreciation, amortisation and impairment	-12	-12
Other expenses	0	-1
Total operating loss	-1,218	-584
Financial income and expense		
Financial income and expense from investments into subsidiaries	5,000	4,000
Interest expense	-10,739	-10,274
Other financial income and expense	11,002	10,537
TOTAL FINANCIAL INCOME AND EXPENSE	5,263	4,263
Profit before tax	4,045	3,679
NET PROFIT FOR THE PERIOD	4,045	3,679

Unconsolidated cash flow statement

IN EUR THOUSAND	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	-1,218	-584
Adjustments:		
Depreciation and impairment losses of property, plant and equipment and intangible assets	12	12
Change in receivables and prepayments related to operating activities	-642	343
Change in liabilities and prepayments related to operating activities	989	400
Interest paid	-11,666	-10,277
Total cash flow from operating activities	-12,525	-10,106
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	-545	0
Purchase of other financial investments	-692	0
Loans granted	-30,000	-12,622
Proceeds from repayment of loans granted	6,000	12,622
Dividends received	5,000	4,000
Interest received	11,911	10,585
Total cash flow from investing activities	-8,326	14,585
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	25,000	0
Other payments from financing activities	0	-8
Dividends paid	-5,000	-4,000
Total cash flow from financing activities	20,000	-4,008
TOTAL CASH FLOWS	-851	471
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,540	1,069
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	689	1,540

Unconsolidated statement of changes in equity

IN EUR THOUSAND	Share capital	Retained earnings	Total
Balance as at 31.12.2019	7,650	8,881	16,531
Net profit for the period	0	4,045	4,045
Dividends paid	0	-5,000	-5,000
Balance as at 31.12.2020	7,650	7,926	15,576

Adjusted unconsolidated equity at 31.12.2020

Carrying amount of investments under control and significant influence		-10,511	-10,511
Value of investments under control and significant influence under the equity method		96,982	96,982
Adjusted unconsolidated equity at 31.12.2020	7,650	94,397	102,047



Independent Auditor's Report

To the Shareholder of Osaühing Utilitas

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Osaühing Utilitas and its subsidiaries (together "the Group") as at 31 December 2020, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with the Estonian financial reporting standard.

What we have audited

The Group's consolidated financial statements comprise:

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

Basis for opinion

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

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

Independence

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

Other information

The Management Board is responsible for the other information. The other information comprises the Management report (but does not include the consolidated financial statements and our auditor's report thereon).

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

AS PricewaterhouseCoopers
Pärnu mnt 15, 10141 Tallinn, Estonia; License No. 6; Registry code: 10142876
T: +372 614 1800, F: +372 614 1900, www.pwc.ee

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 consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Estonian financial reporting standard and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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.



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

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

AS PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Tiit Raimla'.

Tiit Raimla
Auditor's certificate no. 287

A handwritten signature in blue ink, appearing to read 'Oksana Popova'.

Oksana Popova
Auditor's certificate no. 633

19 April 2021
Tallinn, Estonia

Translation note:

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

SIGNATURES OF THE MANAGEMENT BOARD TO THE 2020 CONSOLIDATED ANNUAL REPORT

2020 Consolidated Annual Report of OÜ Utilitas was signed on 19 April 2021.



Priit Koit

Member of the Management Board



