



CONSOLIDATED ANNUAL REPORT 2021



OÜ Utilitas

Consolidated Annual Report 2021

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:

01.01.2021 – 31.12.2021

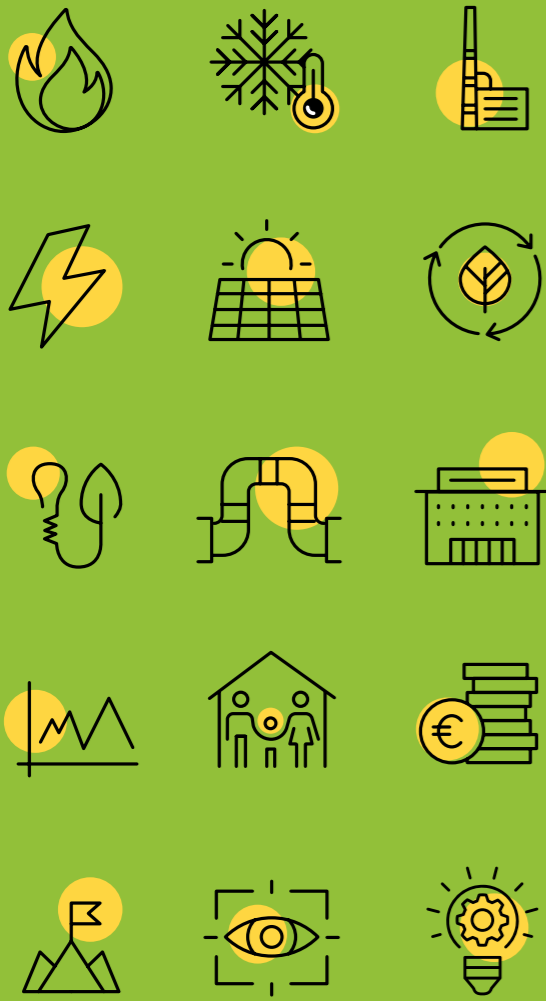
This version of annual report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language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



CONTENTS

UTILITAS MANAGEMENT REPORT	4
Utilitas in facts and figures	6
Message from the CEO	12
Operating environment	14
Global trends	14
Long term vision for Estonian electricity sector	23
Overview of business results	24
Keywords for 2021	24
Financial results	30
Investments	30
Corporate structure and management	32
SUSTAINABILITY IN UTILITAS	34
Contribution toward UN Sustainable Development Goals	36
Material sustainability areas and targets	37
Stakeholders of Utilitas	38
Overview of ESG PERFORMANCE in 2021	39
ENVIRONMENTAL IMPACT	40
Environmental impact and environmental management	42
Climate and emissions	44
Reduction of climate impact	44
Production of renewable energy	46
Air emissions	49
Resource use and efficiency	50
Efficiency of distribution network	50
Production efficiency	53
Reduction of water use	54
Biodiversity and ecosystems	55
SOCIAL IMPACT	58
Overview of employee relations	60
Workplace safety	62
Employee inclusion	63
Diversity and equal treatment	63
Training and development	64
Quality service for the clients	66
Quality and continuity	70
Community relations and support activities	74
GOVERNANCE	76
Responsible governance	78
Sustainability governance	78
Risk management	79
Financial risks management	80
Contribution to the development of the sector	83
Cooperation with educational establishments	84
CONSOLIDATED FINANCIAL STATEMENTS	86
Consolidated balance sheet	88
Consolidated income statement	89
Consolidated cash flow statement	90
Consolidated statement of changes in equity	91
Notes to the consolidated financial statements	92
Independent Auditor's Report	115
Signatures of the management board to the 2021 consolidated annual report ..	118

UTILITAS MANAGEMENT REPORT














UTILITAS IN FACTS AND FIGURES

Utilitas is the leading producer of renewable heat and electricity, as well as provider of district heating and cooling services across Estonia. We provide solutions which are suitable for our customers and the environment, 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 2021, the Group consists of parent company OÜ Utilitas, district heating and cooling services providers AS Utilitas Tallinn (100%) and AS Utilitas Eesti (100%), renewable heat and electricity producer OÜ Utilitas Tallinna Elektriijaam (100%), OÜ Tuulepealne maa (100%), which owns ready-to-build wind park developments in Estonia, OÜ Utilitas Wind (50%), which develops renewable energy projects in Estonian and neighbouring countries, as well as AS Tallinna Vesi (20.4%), the largest water and wastewater utility in Estonia.

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

Results for 2021

 <p>2,139 GWh heat consumed by customers (2020: 1,807 GWh)</p>	 <p>1,366 MWh cooling consumed by customers (2020: 792 MWh)</p>	 <p>1,993 GWh heat produced (2020: 1,729 GWh)</p>
 <p>333 GWh electricity produced (2020: 394 GWh)</p>	 <p>1,526 GWh renewable energy produced (2020: 1,585 GWh)</p>	 <p>65% share of renewable energy in the production portfolio (2020: 74%)</p>
 <p>74 gCO₂/kWh district heating and cooling network emissions (2020: 60gCO₂/KWh)</p>	 <p>183 thousand tons total amount of CO₂ emissions (2020: 129 thousand tons)</p>	 <p>173 thousand tons avoided emissions by customers (2020: 205 thousand tons)</p>

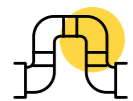


13% share of Utilitas in the total production of renewable electricity in Estonia (2020: 17%)

■ 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 across Estonia: Tallinn, Maardu, Keila, Rapla, Haapsalu, Kärđla, Jõgeva, Valga**



556 km
district heating networks operated
(2020: over 547 km)

28 km
district heating pipelines renovated and built in 2021
(2020: 30)

62-97%
share of new or reconstructed network
(2020: 59-95%)



3
cogeneration plants
(2020: 3)

26
boiler plants
(2020: 26)



9
solar parks

59 MW
wind parks under construction

47 MW
wind parks in ready to build stage

1,000+ MW
planned capacity of Saare-Liivi offshore wind development



58 MW
rated electrical capacity
(2020: 58)

1,200 MW
total heat capacity
(2020: 1,200)

100%
clients with remote meters
(2020: 100%)

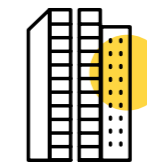
100%
biomass from certified sources ((FSC/PEFC/SBP certified)

99.99%
availability of district heating service for customers in 2021

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



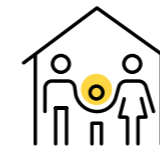
5,100
buildings heated
(2020: 5,008)



102
new connected buildings in 2021
(2020: 84)



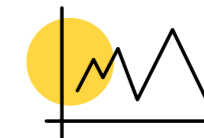
18.2 Mm²
heated net area of buildings



177,000
heated households
(2020: 174,000)



375,000
city residents supplied with environmentally sustainable district heating
(2020: 360,000)



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



261
employees
(2020: 257)

0
occupational
accidents
(2020: 0)

16
average length
of employment
(in years)
(2020: 15)

3.5%
employee voluntary
turnover rate
(2020: 2.8%)

■ Financial indicators



486 million euros
total assets
(2020: 386)

117 million euros
investments
(2020: 30)

161 million euros
operating revenue
(2020: 127)

28 million euros
net profit
(2020: 22)

■ Membership in organisations



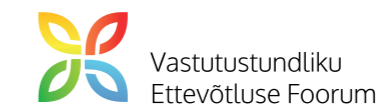
The Estonian Renewable Energy Association



The Estonian Power and Heat Association



Green Tiger



The Responsible Business Forum of Estonia

MESSAGE FROM THE CEO

When designing and building a sustainable energy system, three challenges need to be addressed: energy security, sustainability, and affordability. In 2021 we witnessed developments with a considerable impact on each of these, requiring full focus from the entire Utilitas team. Based on the platform that Utilitas has built over the years and with an outstanding team effort we have been able to cope with the immediate challenges, as well as to take decisive steps toward our future.

The last two years will be remembered for the extraordinary circumstances related to COVID-19 pandemic. We have been faced with operational challenges driven by the need to minimize potential spread of virus, while ensuring uninterrupted provision of services. We have implemented new work routines, as well as applied modern digital solutions to tackle the challenge. And we have been able to do that successfully, offering highly reliable service with 99.99% availability to our district heating customers in 2021.

Utilitas has been on a path to decrease reliance on imported fuels, as well as its carbon footprint for already more than a decade. Compared to 2008, we have achieved 64% reduction in our carbon footprint. We have also increased the share of renewable energy in our production to 65% and have become the largest producer of renewable energy in Estonia when accounting for heat and electricity combined.

Our carbon footprint is low compared to averages in the industry. But in order to face the challenges posed by global warming, we cannot stop here. Planning for the future, we set out in 2021 to develop carbon neutrality strategy for Utilitas. The result of the process, strategy code-named "From Low to Zero Carbon" foresees carbon neutrality in district heating and cooling networks and reaching 100% energy production from renewable sources by 2030 at the latest. To support the ambition, an investment plan exceeding 500 million euros, was developed. Utilitas runs modern networks with low supply temperatures throughout most of the year. The plan to fully replace the remaining sections of the network allows us to further increase reliability of the network, as well as to reduce the supply temperatures even further. Operating low temperature district heating networks widens the potential sources of supply to new technologies such as heat pumps and waste heat that cannot be efficiently used in high temperature networks.

Demand sparked by global recovery from COVID-19, as well as shortages of supply due to growing signs of geopolitical tensions, caused substantial change in energy prices. The increase in the price of electricity and fuels, in particular during the second half of the year, was in stark contrast with the historically low levels seen in 2020. Replacing imported fossil fuels in our portfolio with local and renewable alternatives as set out in the carbon neutrality strategy will also contribute to long-term competitive price levels of energy supplied. Russia launching an attack on Ukraine in 2022 has further pushed up natural gas prices as well as raised acute questions regarding energy security due to import dependence of fossil fuels in Europe. Thus it is vital for Estonia and its neighbours connected to NordPool to rise to the challenge and add new power and heat generation capacities to the system as soon as possible. A rapid transformation to a carbon neutral future will enable not only to have a clean and environmentally friendly energy system but also to enhance energy security by relying on local and renewable sources as well as improve affordability of energy for all.



District heating that is based on renewables and waste heat is the best solution for heating buildings in urban areas. 102 new customers connected to the district heating networks of Utilitas in 2021 is a solid testimony to that. Increased recognition of the benefits of efficient district heating and cooling systems in European and Estonian energy policies and legislation is another. Exploring and exploiting opportunities from close co-operation with other utilities and sectors - sector coupling - strengthens this position further. Cogeneration of heat and power is widely utilized in Estonian district heating sector, joint development of district heating and cooling for commercial customers is increasingly popular, and district heating can be seen as a storage for excess power from renewable sources, to name a few. In 2021, Utilitas acquired a 20.4% holding in the largest water utility in Estonia, Tallinna Vesi. Close co-operation between utilities operating in the same area facilitates co-ordination in network operation and renovation to minimize disturbance to the residents, and creates opportunities to increase use and production of green energy. In order to support the carbon neutrality ambitions of Utilitas and further contribute to the energy transformation in the region, Utilitas established in 2021 a platform for developing wind generation capacities via group companies Utilitas Wind and Tuulepealne Maa.



2021 marked record year for investments in Utilitas with 117 million euros invested. Tackling the three challenges of sustainable energy supply requires substantial further investments in 2022 as well as in the coming years. With our committed team and in close co-operation with our customers we can jointly walk the path towards the future with clean energy.

Priit Koit,
Member of the Management Board, CEO of Utilitas Group

OPERATING ENVIRONMENT

GLOBAL TRENDS

1 Climate change and biodiversity loss

Despite the ever-increasing number of scientists, countries and institutions acknowledging the need to tackle climate change, CO₂ emissions bounced back to pre-pandemic levels in 2021 despite a 5% emission drop in 2020 induced by economic slowdown due to the COVID-19 related lock-downs²⁶. Since the beginning of the industrial era (1850), human activities have raised atmospheric concentrations of CO₂ by nearly 49% to around 418 parts per million. This is more than what had happened naturally over the preceding 20,000 year period when the increase was from 185 ppm to 280 ppm²⁷. Increasing greenhouse gas concentration is closely linked to already 1°C temperature increase since 1880 and the trend is accelerating with nineteen of the hottest years globally having occurred since 2000.



Gases that trap heat in the atmosphere are called greenhouse gases and include:

- Carbon dioxide (CO₂) which enters the atmosphere through burning fossil fuels, solid waste, trees and other biological materials, and also as a result of certain chemical reactions (e.g., manufacture of cement).
- Methane (CH₄): Methane is emitted during the production and transport of coal, natural gas, and oil. Methane emissions also result from livestock and other agricultural practices, land use and by the decay of organic waste. The comparative impact of CH₄ is 80 times greater in 20-year period and 25 times greater than CO₂ over a 100-year period²⁸.
- Nitrous oxide (N₂O) and fluorinated gases: Nitrous oxide is emitted during agricultural, land use, industrial activities, combustion of fossil fuels and solid waste, as well as during treatment of wastewater. Hydrofluorocarbons are powerful greenhouse gases that are emitted from a variety of industrial processes.

26 <https://www.iea.org/reports/global-energy-review-2021/co2-emissions>
 27 <https://climate.nasa.gov/>
 28 <https://www.epa.gov/ghgemissions/overview-greenhouse-gases#CH4-reference>

2020 was the warmest year on record and 2021 ranked amongst top seven warmest years on record for surface temperatures and warmest year on record for ocean heat content²⁹. 2021 saw the warmest northern-hemisphere (including in Estonia) summer on record, along with extreme heatwaves, wildfires, and rainfall events. The world witnessed again a number of extreme weather events in 2021³⁰:

2021 was the warmest summer on record in Estonia

- In the last week of June, an extreme heatwave devastated parts of North-America with temperatures exceeding 40 degrees Celsius for weeks. The heat resulted in hospitalisations across the US and Canada, and was linked to at least several hundred extra deaths. Infrastructure was also damaged with power cables and road surfaces melting in the extreme conditions.
- In Europe, torrential rainfall in July 2021 triggered severe flooding that resulted in devastating losses in local areas, particularly in western Germany. In the affected regions, the rainfall was the highest in over a hundred years with flash floods that swept away countless buildings and severely damaged infrastructure, such as railway lines, roads, and bridges. It also killed more than 220 people. Overall the resulting financial losses have been estimate at 46 billion euros³¹.
- Unprecedented wildfires across the world. Australia battled its largest bushfire on record, while parts of the Arctic, the Amazon and central Asia have also experienced unusually severe blazes.

According to insurance company Munich Re storms, floods, wildfires, earthquakes, and other extreme weather events destroyed assets totalling \$280 billion in 2021, in comparison to \$210 billion in 2020 and \$166 billion in 2019.

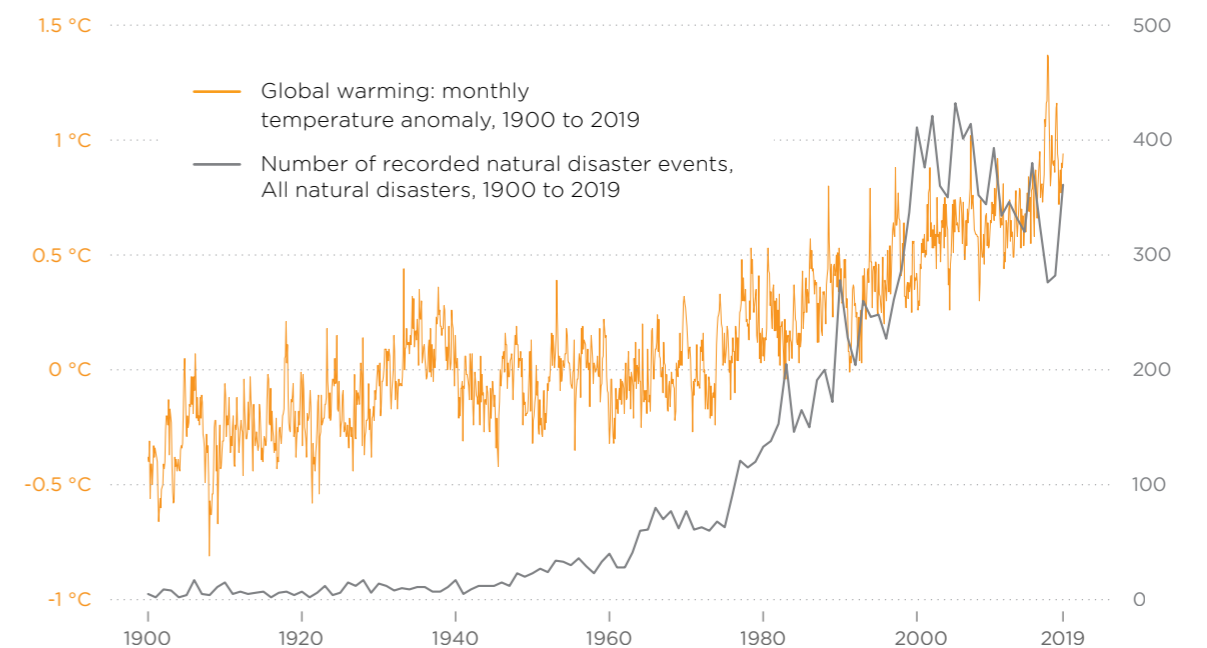


Figure 1. Temperature change in Celsius degrees compared to number of recorded natural disasters

29 <https://www.carbonbrief.org/state-of-the-climate-how-the-world-warmed-in-2021>
 30 <https://www.carbonbrief.org/pacific-north-west-heatwave-shows-climate-is-heading-into-uncharted-territory>
 31 <https://www.insurancebusinessmag.com/au/news/natural-catastrophe/munich-re-natural-disasters-losses-soar-in-2021-321577.aspx>

EU Commission study reveals that 93% of Europeans see climate change as a serious problem³². According to the World Economic Forum Global Risk Report 2021 the top risks facing the world are extreme weather, climate action failure and human induced environmental damage³³. The situation is critical as more and more countries in Europe and around the world are already feeling the impacts of climate change – from longer periods of drought to more and fiercer storms, heat waves and wildfires. These threats are directly linked to a second challenge: biodiversity loss and ecosystem degradation³⁴.

According to background information of the European Commission to support the European Green Deal biodiversity loss and ecosystem collapse is one of the biggest threats facing humanity in the next decade. The world already lost an estimated 3.5-18.5 trillion euros per year in ecosystem services from 1997 to 2011, and an estimated 5.5-10.5 trillion euros per year from land degradation. Biodiversity underpins EU and global food security. Biodiversity loss risks puts our food systems and nutrition at risk by reducing crop yields and fish catches, increasing economic losses from flooding and other disasters, as well as the loss of potential new sources of medicine.

Tackling climate change and biodiversity loss is thus of utmost importance to the Estonia, EU and the world with the energy sector playing an important role in meeting the challenge.

2 Urbanisation and sector coupling

In 2021 an estimated 56% of global population lived in cities which account for more than 80% of global GDP³⁵. In Estonia, Tallinn accounted for 33% of population and 55% of the country's GDP in 2020³⁶.

80% of energy is consumed within cities, and that consumption is responsible for 60% of anthropogenic carbon dioxide (CO₂) emissions³⁷. Energy consumption for heating and cooling is responsible for a significant share of the GHG emissions in industrialised countries and is one of the most important energy end-uses in the EU. In 2015, around half of the final energy demand in the EU was used for heating and cooling.

Bloomberg New Energy Finance sees potential to achieve up to 83% GHG emission reduction below 1990 levels by 2050 across transport, buildings, industry and power due to sector coupling primarily in cities³⁸. The EU also sees a vital role in enhancing sector coupling which involves the increased integration of energy end-use and supply sectors with one another. This can improve the efficiency and flexibility of the energy system as well as its reliability and reduce the costs of decarbonisation³⁹.

Sector coupling has major potential in reducing CO₂ emissions

32 https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

33 <https://www.weforum.org/reports/the-global-risks-report-2021>

34 <https://ec.europa.eu/research-and-innovation/en/horizon-magazine/climate-change-and-biodiversity-loss-should-be-tackled-together#:~:text=In%20a%20two%2Dway%20process,and%20increasing%20vulnerability%20to%20it>

35 <https://www.worldbank.org/en/topic/urbandevelopment/overview#1>

36 [https://andmed.stat.ee/et/stat/majandus__rahvamajanduse-arvepidamine__sisemajanduse-koguprodukt-\(skp\)__regionaalne-sisemajanduse-koguprodukt/RAA0050/table/tableViewLayout2](https://andmed.stat.ee/et/stat/majandus__rahvamajanduse-arvepidamine__sisemajanduse-koguprodukt-(skp)__regionaalne-sisemajanduse-koguprodukt/RAA0050/table/tableViewLayout2)

37 <https://www.sciencedirect.com/science/article/pii/S266679242100038X>

38 <https://www.eaton.com/content/dam/eaton/company/news-insights/energy-transition/documents/bnef-sector-coupling-report-master-200127-executive-summary.pdf>

39 [https://www.europarl.europa.eu/RegData/etudes/STUD/2018/626091/IPOL_STU\(2018\)626091_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2018/626091/IPOL_STU(2018)626091_EN.pdf)

Lightbulb icon: Sector coupling involves the increased integration of energy end-use and supply sectors with one another. This can improve the efficiency and flexibility of the energy system as well as its reliability and adequacy. Additionally, sector coupling can reduce the costs of decarbonisation.

Enduse sector coupling involves the electrification of energy demand while reinforcing the interaction between electricity supply and end-use. Cross-vector coupling involves the integrated use of different energy infrastructures and vectors, in particular electricity, heat and gas, either on the supply side, e.g. through conversion of (surplus) electricity to hydrogen, or at the demand side, e.g. by using residual heat from power generation or industrial processes for district heating.⁴⁰

District heating complements the end-use sector coupling strategy as one of the main solutions for decarbonising heat demand in buildings in Europe, and there is significant potential for sector coupling strategies. Further gains can be achieved with the development of combined cooling with heat and power sector. District heating can also use multiple renewable energy sources such as biomass, waste heat and solar thermal. Heat pumps and renewable energy based district heating with a CHP installation are complementary, as the former should preferably operate during periods of low electricity prices, while the latter should operate during high-price periods. The opportunity exists to connect large scale heat pumps to heat distribution grids, which would advance decarbonisation through electrification, and provide further system flexibility and coupling between the electricity and heat sectors⁴¹.

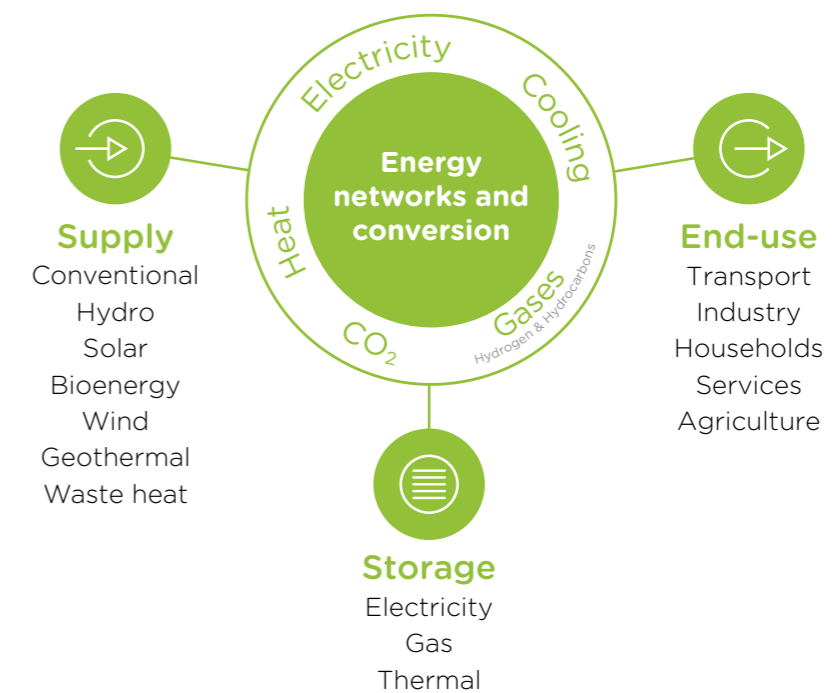


Figure 2. Coupling of the energy system sectors

40 [https://www.europarl.europa.eu/RegData/etudes/STUD/2018/626091/IPOL_STU\(2018\)626091_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2018/626091/IPOL_STU(2018)626091_EN.pdf)

41 [https://www.europarl.europa.eu/RegData/etudes/STUD/2018/626091/IPOL_STU\(2018\)626091_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2018/626091/IPOL_STU(2018)626091_EN.pdf)

3 Planning for the road to net zero

2021 witnessed a proliferation of countries, cities and regions pledging to net zero climate targets. After US (responsible for 13.5% of global emissions) elections in early 2021, the country shortly announced its desire to fight climate change and achieve a target of halving of carbon emissions by 2030 in a notable change of policy. China (responsible for 30.6% of global emissions) announced plans to peak emissions by 2030 and thereafter achieve climate neutrality by 2060. The EU (6.8%) has committed to carbon neutrality by 2050, as has Estonia (0.03% of global emission).

The EU has committed to carbon neutrality by 2050

In addition to national governments, Race to Zero is a UN-backed global campaign rallying non-state actors – including companies, cities, regions, financial and educational institutions – to take rigorous and immediate action to halve global emissions by 2030. It mobilizes a coalition of leading net zero initiatives, representing 67 regions, more than a 1,000 cities and educational institutions, 5,000 companies, 400 financial institutions and over 3,000 hospitals. Tallinn has also announced plans to reduce carbon emissions by 40% by 2030 (against 2007 level) in line with commitments under the Covenant of Mayors pact and achieve climate neutrality by 2050.

Meeting the challenges of global warming and biodiversity loss as well as ensuring sustainable development of urban environments requires substantial investment in the upcoming decades. The EU Green Deal foresees up to a trillion euros of investments over 7 years which averages to ca 140 billion euros p.a. Whilst that is a substantial commitment, it should be noted that in the context of EU's annual GDP of roughly 14 trillion euros it amounts to around 1% per annum, by contrast EU subsidies to fossil fuels amounted to 0.4% of GDP in 2019⁴². Thus the narrative that the transition towards a carbon neutral future is prohibitively expensive and requires unimaginable investments only supports the interests of the fossil fuel industries.

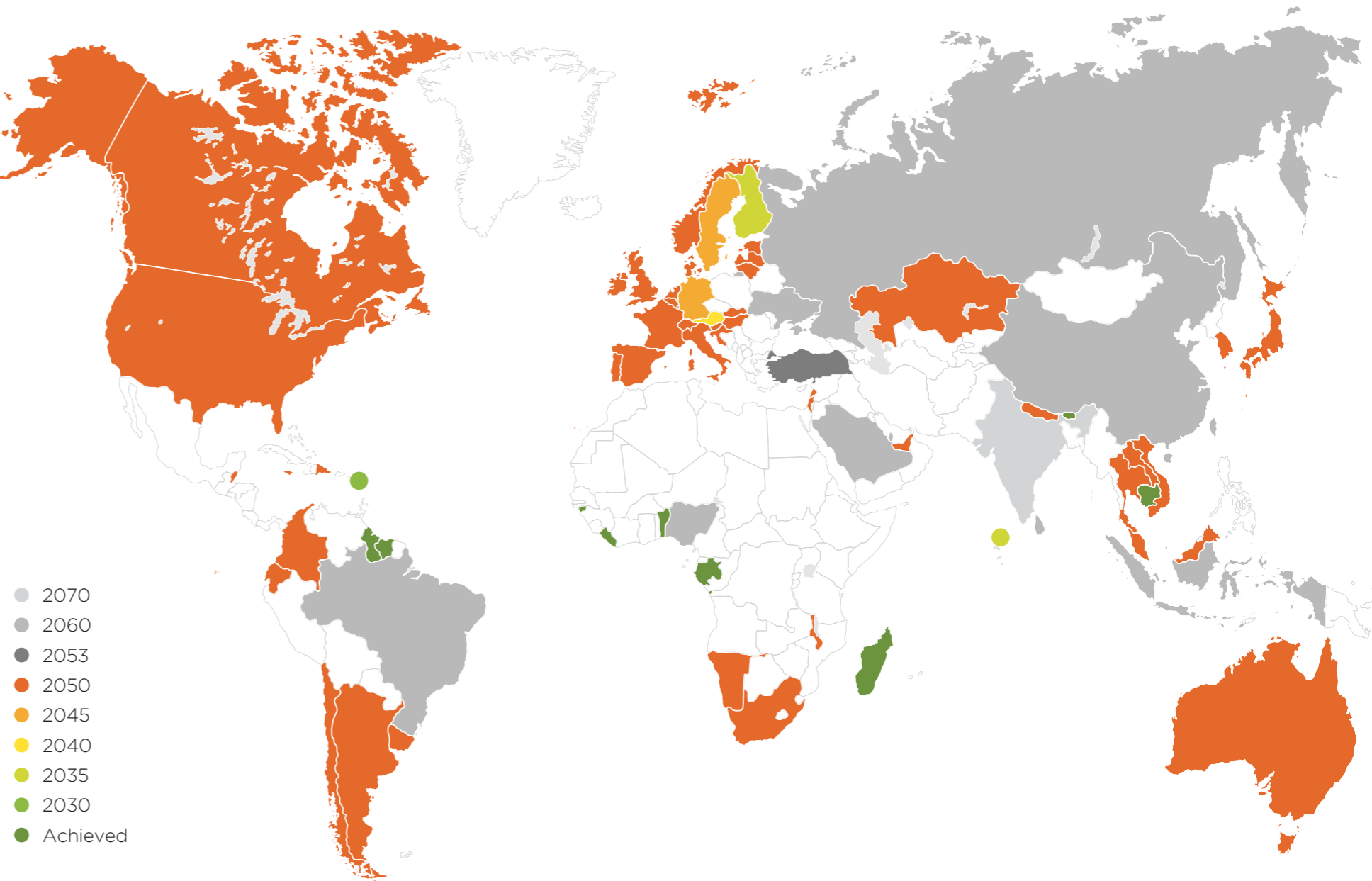


Figure 3. Countries with laws, policy documents or concrete timed pledges for carbon neutrality by target year

■ Developments of energy policies:

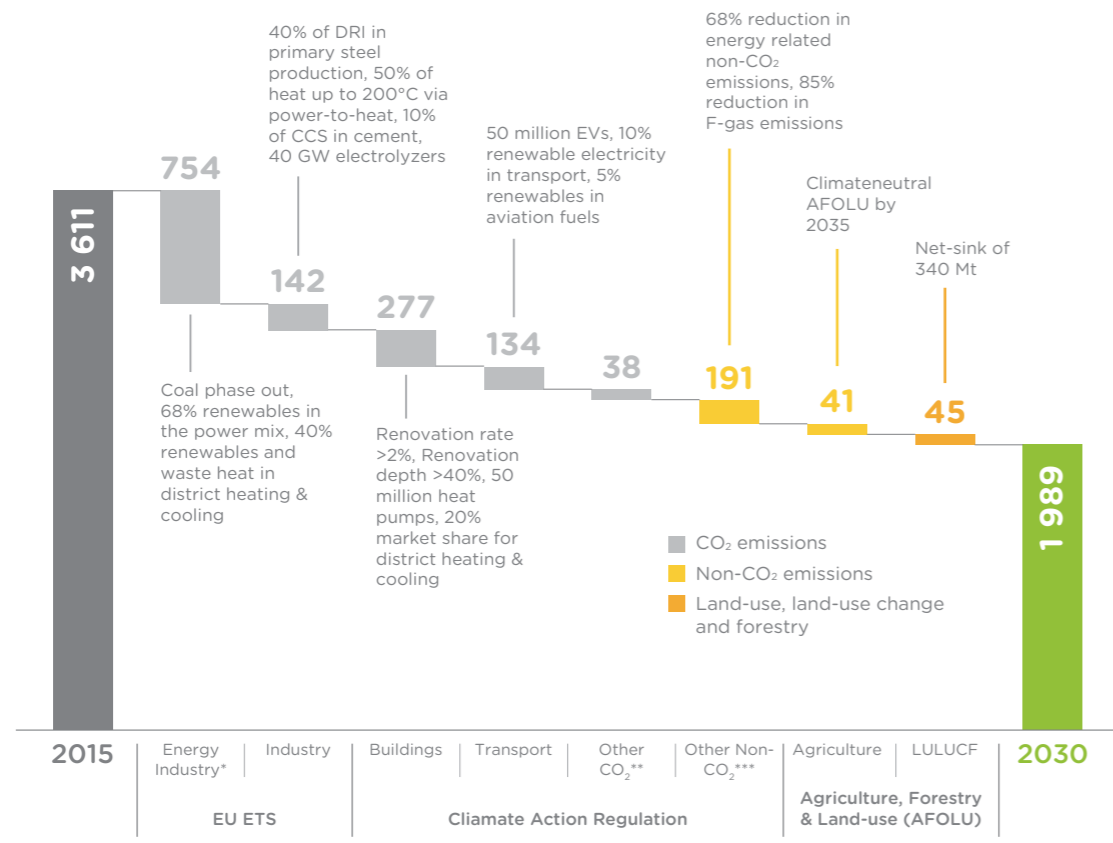
EU level

Energy sector is at the centre of the green transition as currently 75% of EU emissions are derived from the energy sector⁴³. Reducing greenhouse gas emissions by at least 55% by 2030 requires higher shares of renewable energy and greater energy efficiency in an integrated energy system. The transformation is expected to generate investment and encourage innovation, address energy poverty and reduce dependency on energy imports and strengthen security of supply.

42 https://ec.europa.eu/energy/sites/default/files/annex_to_the_state_of_the_energy_union_report_on_energy_subsidies_in_the_eu.pdf

43 <https://www.cleanenergywire.org/factsheets/covering-eus-fit-55-package-climate-and-energy-laws>

Reduction in GHG emissions in MtCO₂-eq in a net-55% scenario with an ambitious sinks target, 2015-2030, by sector



Source: Agora Energiewende (2021) based on the MIX and LULUCF+ Scenarios of the European Commission Impact Assessment for 2030 Climate Target Plan. *** 340 Mt is based on the COM LULUCF+ Scenario. The net-sink in the MIX scenario is 295Mt.

Figure 4. Reduction in GHG emissions in MtCO₂-eq in a net-55% scenario with an ambitious sinks target, 2015-2030, by sector

In 2019 the EU overhauled its energy policy framework to help move away from fossil fuels towards cleaner energy – and, more specifically, to deliver on the EU’s Paris Agreement commitments for reducing greenhouse gas emissions. The agreement on this new energy rulebook – called the Clean energy for all Europeans package – marked a significant step towards implementing the energy union strategy which focuses on five dimensions: decarbonisation, including renewables, energy efficiency, the internal energy market, security of supply and research, innovation and competitiveness.

The ‘Fit for 55’ package was presented by the European Commission on 14 July 2021. The package of legislative proposals aims to align the EU’s climate and energy policy framework with its new economy-wide climate target for 2030 of reducing net greenhouse gas emissions by at least

55% compared to 1990 and becoming climate neutral by 2050. This is an improvement over its previous commitment to reduce GHG emissions by 40% by 2030 and 95% by 2050. Renewables in the EU energy mix accounted for 19.7% in 2019 and were planned to increase to 32% by 2030 but this figure has also been revised to 40%⁴⁴.

44 <https://data.consilium.europa.eu/doc/document/ST-13977-2021-INIT/en/pdf>

The 14 July Fit for 55 package includes nine proposals to reform EU climate and energy laws, including: The EU ETS Directive, Revision of the LULUCF Regulation, Revision of the Climate Action Regulation, The Renewable Energy Directive and The Energy Efficiency Directive.

Further, the proposal for a new social climate fund and the EU Forest Strategy were additions to the initial list of initiatives for summer 2021. The following initiatives were adopted and communicated on 15 December 2021:

- Reducing methane emissions in the energy sector
- Revision of the energy performance of Buildings Directive (EPBD)
- Revision of the Third Energy Package for gas (Directive 2009/73/EU and Regulation 715/2009/EU) to regulate competitive decarbonised gas markets

In the field of district heating and cooling, most importantly, the proposal for the amendment of Energy Efficiency Directive (EED) envisages that in order to implement national comprehensive assessments, Member States should encourage the assessments of the potential for high-efficiency cogeneration and efficient district heating and cooling in regional and local level. According to the proposal, efficient district heating and cooling system criterias are updated with increasing target levels for the use of renewable energy, waste and/or cogenerated heat. The proposal also calls, National Regulatory Authorities, transmission and distribution system operators to apply the ‘Energy Efficiency First’ principle and remove all regulatory, technical and nonregulatory measures for energy efficiency improvements and encourage high-efficiency cogeneration to be sited close to areas of heat demand by reducing the connection and use-of-system charges.

At the same time, the proposal for the amendment to the Renewable Energy Directive (RED) envisages that Member States must take measures to ensure that energy from biomass is produced in a way that minimizes undue distortive effects on the biomass raw material market and harmful impacts on biodiversity. From 31 December 2026 Member States shall grant no support to the production of electricity from forest biomass in electricity-only-installations. Such regulations acknowledge the fact that compared to electricity-only-installations, combined heat and power plants connected to district heating networks produce 2.5-3 times more energy from the same amount of fuel, and should therefore be favoured.

Estonia

In line with the EU green policies, Estonia has set a goal to achieve neutrality of greenhouse gas emissions by 2050. By 2030, Estonia wants to reduce its carbon dioxide emissions by 70% compared to 1990 levels. This means significant changes in almost all areas of life, including energy, the transport sector, energy consumption in buildings and waste management. Estonia is in process of analyzing and adapting required implementation measures and regulatory changes.

To coordinate the implementation of the green transition in Estonia, the Government of the Republic formed the Green Policy Steering Committee on 8 July 2021. Further, on 18 October, an expert group composed of entrepreneurs, researchers, innovation leaders and professionals in other fields was set up within the Steering Committee for Green Policy to make proposals to the government on the socially responsible implementation of climate policy.

Green Policy Steering Committee was formed by the Government

In 2020, the European Union provided adopted a stimulus package worth 2 trillion euros. It consists of the EU's long-term budget for 2021 to 2027 of 1.2 trillion euros topped up by 800 billion euros through NextGenerationEU, a temporary instrument to power the recovery. It is noteworthy that 30% of this package is intended for the fight against climate change to support the path to carbon neutrality by 2050. The NextGeneration EU program includes more than 800 billion euros temporary recovery instrument to help repair the immediate economic and social damage brought about by the coronavirus pandemic. The aim is to mitigate the economic and social impact of the coronavirus pandemic and make European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions. Member States are working on their recovery and resilience plans to access the funds under the Recovery and Resilience Facility.

Estonia stands to receive around 880 to 1,110 million euros from the NextGenerationEU budget and foresees the following key areas to use the funds⁴⁵:



Figure 5. Anticipated funding to Estonia from the Recovery and Resilience Facility budget

45 <https://www.rahandusministeerium.ee/et/uudised/eesti-pea-miljardine-taaskaivitamise-kava-laks-avalikule-konsultatsioonile>

LONG TERM VISION FOR ESTONIAN ELECTRICITY SECTOR

Since 2012 Utilitas together with Estonian Renewable Energy Association has published Renewable Energy Roadmap for Estonia indicating possibilities for transitioning to 100% renewable energy by 2030. Last year as a member of non-profit association Rohetiiger, Utilitas actively participated in the development of a roadmap for Estonian energy sector showing possibilities for even more rapid energy sector transformation.

Utilitas supports the ambitious electricity production scenario in Rohetiiger and accelerated installation of new renewable energy generation capacities. Assuming that state and local municipalities accelerate the planning and development activities and licensing and permitting procedures, volume of installed onshore wind could be tripled in 3 years compared to the current level and 2.7 GW of offshore wind capacity installed in 5 years. Such additional generation capacity allows Estonia to become net exporter of electricity, as well as contribute to reaching net zero targets in heat and transport sector as well.

In addition, solar generation capacity will continue to be added in the market. Electricity production will be complemented with storage facilities, including batteries, pumped hydro storages, hydrogen or synthetic fuels which allow consumption in hours where there is no wind or solar energy available.

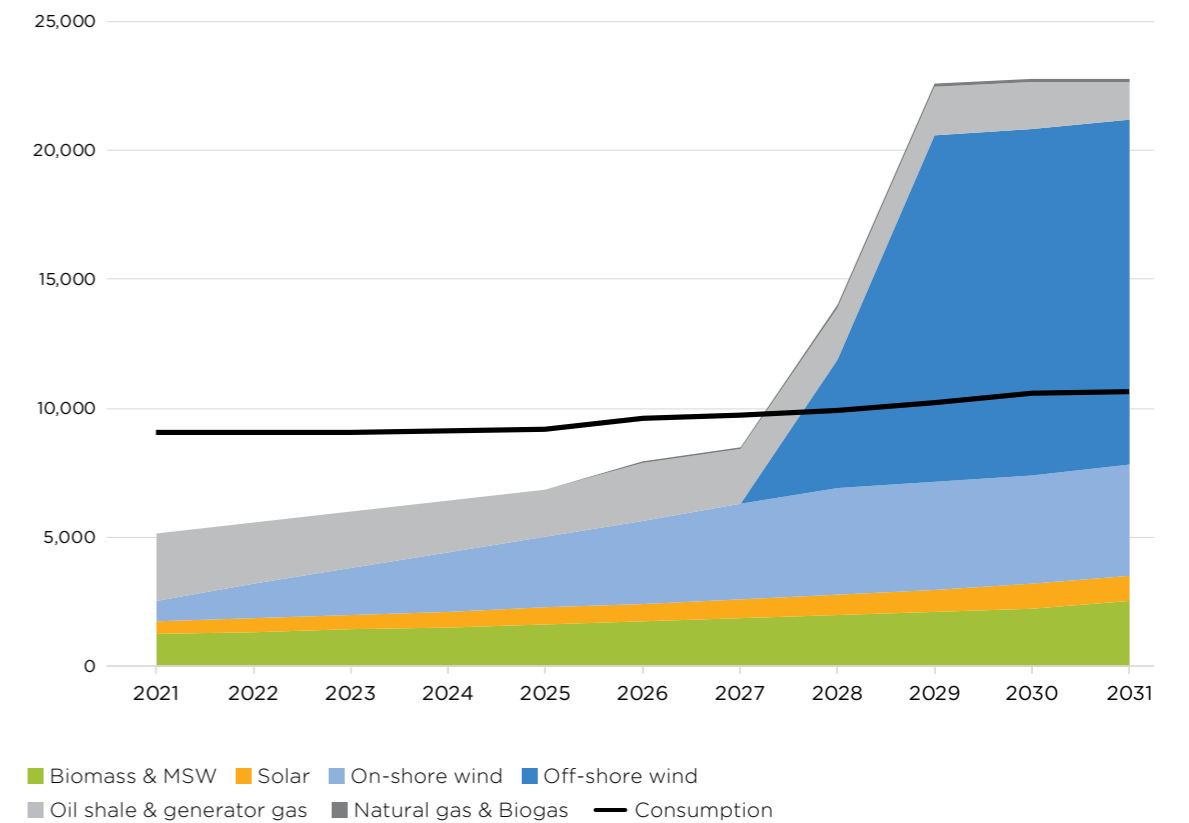


Figure 6. Electricity production in Estonia, GWh; Rohetiiger ambitious scenario

OVERVIEW OF BUSINESS RESULTS

Utilitas is the largest renewable energy producer in Estonia as well as largest district heating operator in the country connecting around a third of the Estonian district heating customers. Utilitas heats 18.2Mm² of buildings across Estonia via 556 km of district heating networks, providing over 2.1 TWh of heat to c.177k households as well as municipal and corporate customers. Utilitas supplied in addition 333 GWh of renewable electricity in 2021 which accounted for ca 13% of the renewable electricity production in Estonia.

In 2021, a total of 102 (2020: 84) new buildings all over Estonia with total capacity of 48 MW (2020: 33 MW) were connected to the district heating networks of Utilitas. Utilitas continued to offer a highly reliable service with 99.99% availability of district heating service for customers in 2021. 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. As of the end of the year, Utilitas supplied 5,100 (2020: 5,008 buildings), incl. 177,000 households, all over Estonia with district heating.

After a record warm 2020, 2021 was the coldest year since 2012 and consequently Utilitas produced 10% more heat and electricity in comparison to 2020 for a total of 2.3 TWh. This included 1.5 TWh of renewable energy or 65% of total, a decline from the 74% achieved in 2020 primarily due to weather impact as higher peak heat demand in 2021 required greater use of non-renewable sources.

Utilitas heat networks' renovations and expansion reached 27.7 km in 2021 (30.3 km in 2020). Network renovation and expansion enables to connect new customers seeking a climate-friendly and competitive heating solution as well as reduce network losses - network losses were reduced to 12.7% in 2021 (14.3% in 2020).

KEYWORDS FOR 2021

1 Volatile energy prices

Energy prices witnessed a number of unexpected developments in 2021 in stark contrast to the previous year. In 2020 average electricity prices in the Nord Pool Estonia price area dropped 27% YoY and were amongst the lowest in history due to a combination of decreased demand from COVID-19, favorable weather conditions for hydro- and wind electricity and record warm weather. After a GDP drop of 5.9% in 2020, the economy bounced back with GDP growth in the EU of 4.6% in 2021 which consequently also increased energy demand. Colder winter weather in combination with poor wind conditions, lowest Nordic hydro reservoir levels in decades as well as maintenance of major electricity plants across Europe all contributed to price pressures for electricity.

Consequently, in Nord Pool Estonia region, full year average electricity price amounted to 87 €/MWh (+155% vs 2020). CO₂ quota prices and natural gas prices also started increasing rapidly, especially in the second half of 2021: EU ETS carbon prices⁴⁶ increased nearly 2.5x during the year from 33 €/ton in January up to 80 €/ton by year end; Dutch TTF natural gas prices increased nearly 6x in the same period - from around 16 €/MWh to more than 90 €/MWh.

The gas price trends in particular were exacerbated by the increasing tensions between Ukraine and Russia and the latter's decision to reduce gas flow to Europe during high-demand winter season. In 2021, the European Union imported 155 billion cubic meters of natural gas from Russia, accounting for around 45% of EU gas imports and close to 40% of its total gas consumption. Reducing EU's dependence on Russian gas is now a strategic priority for the European Union.

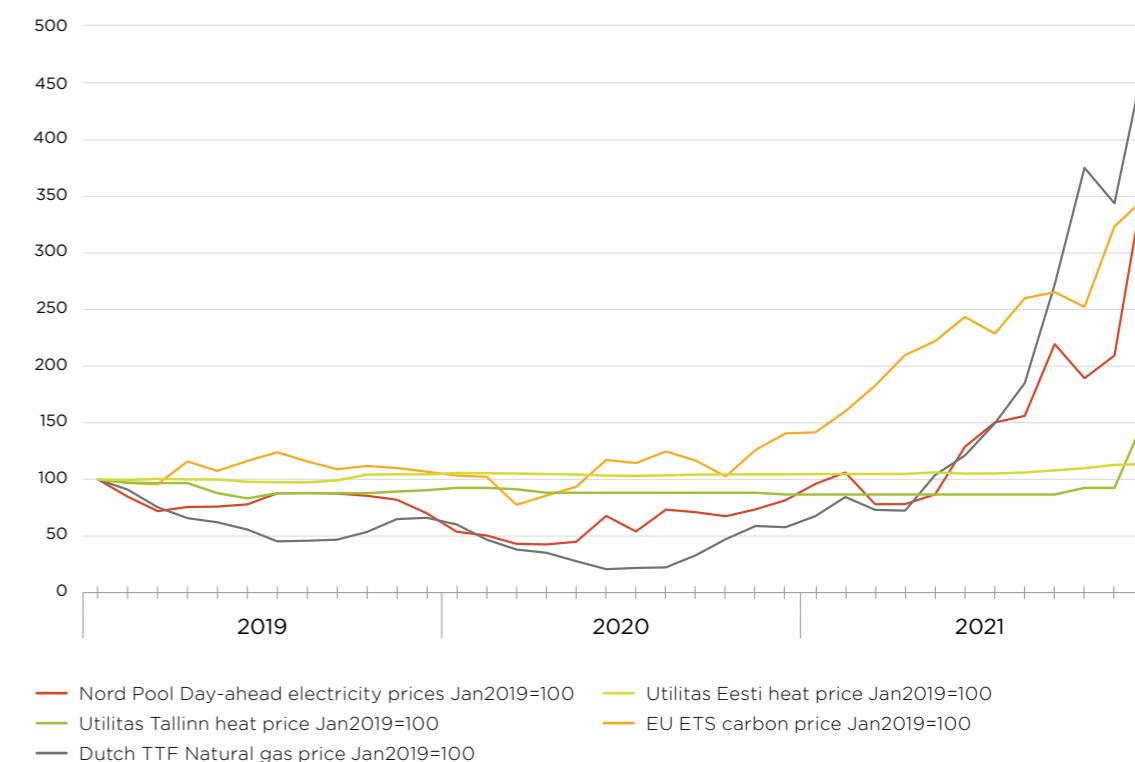


Figure 7. Price developments 2019-2021

High gas prices also pushed up district heating prices across Estonia. Utilitas managed to keep heat tariffs at relatively stable levels for most of the year and average heat tariffs in all networks were 9% higher in 2021 vs 2020. But the rapid increase in natural gas prices also forced Utilitas to increase tariffs at the end of the year by around 64% on average from January 2021 levels. Whilst the price increase was high, the overall tariff level remained around 2 times lower in comparison to natural gas based alternative networks (see section "Fair and transparent energy price" for more). In order to ensure sustainable, secure and affordable energy supply to its clients, Utilitas during 2021 developed a long-term investment plan to reach carbon neutrality by 2030 (see section "Development of Utilitas Carbon Neutrality plan") which will also drive down the heat prices by relying on local and renewable alternatives.

⁴⁶ <https://ember-climate.org/data/carbon-price-viewer>



Courtesy of Vestas Wind Systems A/S

2 Development of wind parks across Baltics

In the beginning of 2021 Utilitas Wind acquired the biggest wind park development in Latvia, in the Targale region near Ventpils (TCK SIA). 14 Vestas wind turbines with a turbine capacity of 4.2 MW (total 58.8 MW) will be installed in the wind park during 2022. The estimated annual production of the wind park will be 155 GWh of electricity per year, which is enough to satisfy the energy needs of more than 50 thousand households and doubles the wind energy production in Latvia. The tip height of each turbine will reach 152 meters. The innovative turbine blades will be equipped with the trailing-edge serration technology, reducing the total noise levels of the blades. Additionally, turbines will be equipped with icing sensors and light detectors to minimise any interference with the nearby community.

Targale wind park: completion autumn 2022, annual production volume 155 GWh equal to annual need of 50,000 households

During 2021 Utilitas also acquired Saarde and Aseri wind park developments which upon completion will enable to cover the electricity needs of envisaged large-scale heat pumps of the Utilitas carbon neutrality plan with a local and renewable source and thereby keep the prices predictable and stable. Installation of a total of 11 wind turbines with a capacity of 47 MW is expected in 2022-2024, producing annually and produce annually around 160 GWh of renewable electricity, thereby increasing annual wind energy production in Estonia by ca 20% in comparison to current levels.

Notable offshore development was also initiated by Utilitas Wind during 2021 for the construction of a wind park in the Gulf of Riga (Saare-Liivi development). The Consumer Protection and Technical Regulatory Authority (TTJA) initiated a building permit procurement for the environmental impact assessment for the application to establish an offshore wind farm in the Gulf of Riga. The Environmental Impact Assessment studies are launching in 2022.

Next to its existing cogeneration plants in Vão limestone quarry, Utilitas is taking steps to expand its solar capacity by about 20 MW which is expected to come online in 2024 and produce annually around 25 GWh of solar power.



Utilitas launched an innovative hydrogen project which has received a positive investment support decision in the amount of five million euros from the Environmental Investment Centre and the Ministry of Economic Affairs and Communications to co-finance the construction of a green hydrogen complete chain. Stargate Hydrogen Solutions, a company providing green hydrogen solutions, is also participating in the project as a technical consultant. Green hydrogen will be introduced in public transport and the project must be completed by the end of November 2024. The project will reduce annual greenhouse gas emissions by 1,700 tonnes of CO₂ equivalent and the annual production of green hydrogen that will be used in public transport will exceed 36 tonnes. Primary aim from Utilitas side is to gain experience and foothold in the nascent hydrogen market and support sector coupling and innovation.



3 Acquisition of shareholding in Tallinna Vesi

Utilitas together with the Tallinn City Government jointly acquired shares in Tallinna Vesi, the largest water utility company in Estonia providing drinking water and wastewater disposal services in Tallinn and several neighbouring municipalities. Following the acquisition of shares from United Utilities, a mandatory tender offer process was launched which increased the shareholding of the City of Tallinn to 55% and the share of Utilitas to 20.4%. The shares of Tallinna Vesi remain listed on the Nasdaq Baltic Stock Exchange with 24.6% free float.



Tallinna Vesi serves one third of the Estonian population and owns all relevant assets including 1,139 km of water networks and 18 water-pumping stations, the Ülemiste Water Treatment Plant and the Paljassaare Wastewater Treatment Plant.

Tallinna Vesi complements the existing operations of Utilitas in a number of ways. Utilitas and Tallinna Vesi are both regulated utilities and providers of essential services in the same city; as such the district heating and water/sewage networks are to a large extent overlapping and by enhanced coordination of construction works the replacement investments can be organised in a more efficient and cost-effective manner with less disturbances to local residents. There is also potential to use excess heat from wastewater treatment in district heating as a renewable source of energy contributing to the shared carbon neutrality ambitions. Utilitas actively participates in the strategic decisions of Tallinna Vesi and holds 3 out of 9 Supervisory Board seats, including chairman position.

4 Development of Utilitas Carbon Neutrality Plan

In order to meet the challenges and mitigate the impacts of climate change and ensure long-term sustainability of its operations, as well as enhance energy security and affordability by replacing imported fossil fuels in full with reliable local renewable sources, Utilitas during 2021 developed its own carbon neutrality strategy, entitled “From Low to Zero Carbon”.

Most of Utilitas heat production currently comes from biomass CHPs, which also produce renewable electricity. In addition, Utilitas produces electricity from its solar parks. Renewable electricity gives additional benefits to all energy consumers in Estonia by replacing fossil fuels in the grid.

In 2008, Utilitas used 88% (incl Utilitas Tallinn 100%) fossil fuels in its district heating networks, as a result of concentrated investments significant reduction of fossil fuel dependence has been achieved in the past 13 years already:

- 64% reduction of carbon intensity since 2008 as a result of investment in new renewables based on CHP technology, renovation of existing district heating networks and installation of remotely readable meters to all customers which enables real-time automatic management of networks that enhances efficiency
- Total capex over this period invested by Utilitas of over 400 million euros

Carbon neutrality in district heating and cooling networks and production of energy 100% from renewable sources by 2030

For delivering on the carbon neutrality ambition, Utilitas has developed an investment plan for 2021-2030. Total anticipated capex need is in excess of 500 million euros with majority of investments focused on achievement of energy efficiency and reduction of carbon emissions, primarily via:

- Development of new renewable energy capacities and transforming the heat sources of all Utilitas operated district heating networks to fully renewable alternatives.
- The reconstruction and refurbishment of the district heating network pipes as this help to increase network efficiency, security of supply and improve the resilience of the networks.
 - Refurbishment of the district heating network pipes helps to develop the district heating networks towards decreasingly low temperature district heating networks, which enables to utilize new technologies such as waste- and seawater heat pumps and waste heat into the district heating system.
- Deepening sector coupling and taking advantage of new technologies and innovation.
- The connection of new and existing buildings which today use other heat sources (primarily natural gas) to district heating networks, in order to reduce the environmental impact of the communities as well as improve their energy security by replacing natural gas with a local alternative with lower price.

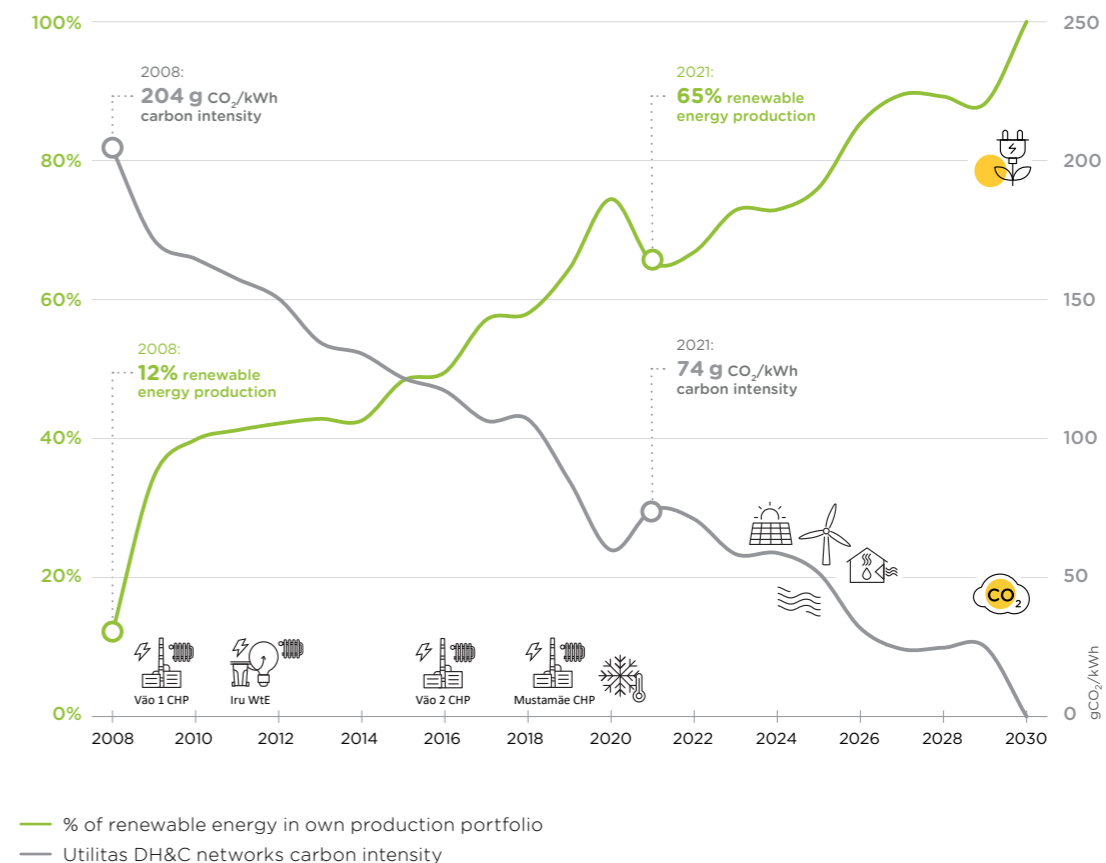


Figure 8. Utilitas Carbon Neutrality Plan targets

The performance of the Utilitas carbon neutrality plan is measured and reported annually. Carbon intensity of heat and district cooling supplied in Utilitas operated networks (KPI 1⁴⁷) is the key measure of Utilitas’s performance towards decarbonization by 2030 and captures the impact on total heating and cooling networks emissions from the perspective of our end clients. The 2030 sustainability performance target (SPT 1) is to reduce the carbon intensity of heating and cooling supplied in networks to 0 gCO₂/kWh by 2030.

In addition to supplying carbon neutral heat to its customers, generation of energy (electricity, heat and cooling) from renewable sources, particularly from biomass, solar and heat pumps is also core to Utilitas business strategy and is expressed as KPI 2⁴⁸, which captures the renewable energy share in the Utilitas own energy production mix. The 2030 sustainability performance target (SPT 2) is to increase the renewable energy share in Utilitas own energy production mix up to 100% by 2030.

47 KPI 1 = (Scope 1 and 2 emissions from Utilitas + operational emissions from purchased heat)/total produced and purchased heat and district cooling; gCO₂/kWh

48 KPI 2 = (Utilitas heat, electricity and cooling production from renewable sources - electricity consumption of energy production)/(total heat, electricity and cooling production - electricity consumed for energy production)*100; %

FINANCIAL RESULTS

The Group's key financial figures and ratios	2021	2020
Total assets (in EUR thousand)	486,507	386,292
Loan liabilities (in EUR thousand)	277,701	229,701
Current ratio (times) = Current assets / Current liabilities	1.46	3.89
Quick ratio (times) = (Current assets - Inventories) / Current liabilities	1.39	3.64
Liquidity ratio (times) = Cash and cash equivalents / Current liabilities	0.41	2.35
Debt to equity ratio (D/E)	2.88	2.79
<hr/>		
Total revenue (in EUR thousand)	160,892	127,313
Net profit (in EUR thousand)	28,301	21,770
Return on assets (ROA) = Net profit / Total assets (average)	6.5%	5.9%
Fixed assets turnover (times) = Revenue / Fixed assets (average)	0.44	0.40
Total assets turnover (times) = Revenue / Total assets (average)	0.37	0.35

INVESTMENTS

Transition towards a carbon neutral future requires sizeable investments and active contribution by energy sector companies. Efficient district heating and cooling perform an important role in achieving the goals of climate neutrality. Utilitas platform has been highly focused on renewable energy opportunities for additional production volumes as well as enhancing the resilience of existing operations via investments into the district heating networks as well as other initiatives for supporting the security of supply. The payback period for large-scale infrastructure investments in production equipment and networks is long and requires stable and predictable regulatory environment. In 2021 the Group companies invested a total of 117 million euros (2020: 30 million euros). Dividends amounted to 5 million euros (2020: 5 million euros) as Utilitas' policy is to pay a stable and sustainable dividend to its shareholders. The main focus of investments

was on reconstruction of district heating networks and expansion into wind as well as water utility sector:

- Investments related to operations of district heating networks and related production assets amounted to 38.5 million euros (28.5 million euros in 2020), including
 - Third year of long-term network replacement plan, 2021 network capex was in total 27.7 km (30.3 km in 2020), close to all-time high.
 - Connecting 102 new buildings to district heating networks (84 in 2020)
 - District Cooling investments in order to connect Ülemiste City office area
- Acquisition of 20.4% shareholding in Tallinna Vesi for 58.6 million euros
- Investments into wind projects amounted to 19.1 million euros (0.7 million euros in 2020)

All time high investment level in 2021 of 117 million euros

Utilitas platform is planning over 80 million euros of investments in 2022. Key focus areas for 2022:

- Continuation of district heating network renovation and expansion capex plans (27 km)
- 2nd Stage Flue Gas Condenser investments in CHPs during 2022 which are expected to increase renewable heat output by ca 120 GWh and thereby reducing natural gas need by up to 20% in Tallinn
- Large-scale solar (21 MW) development launching with expected completion in 2023. Construction permit received, planned participation in 2022 feed-in-premium auction.
- Short-term heat storage project was delayed in 2021 due to ongoing discussions with the regulator on the topic as well as exploration of potential state grants to support with the implementation, expected relaunch of planning in 2022-2023
- Completion of Targale wind park in Latvia by Q4, 2022
- Start of construction for two wind parks (Saarde and Aseri) in Estonia in 2022-2023
- Continuing with development of other early stage wind projects under Utilitas Wind

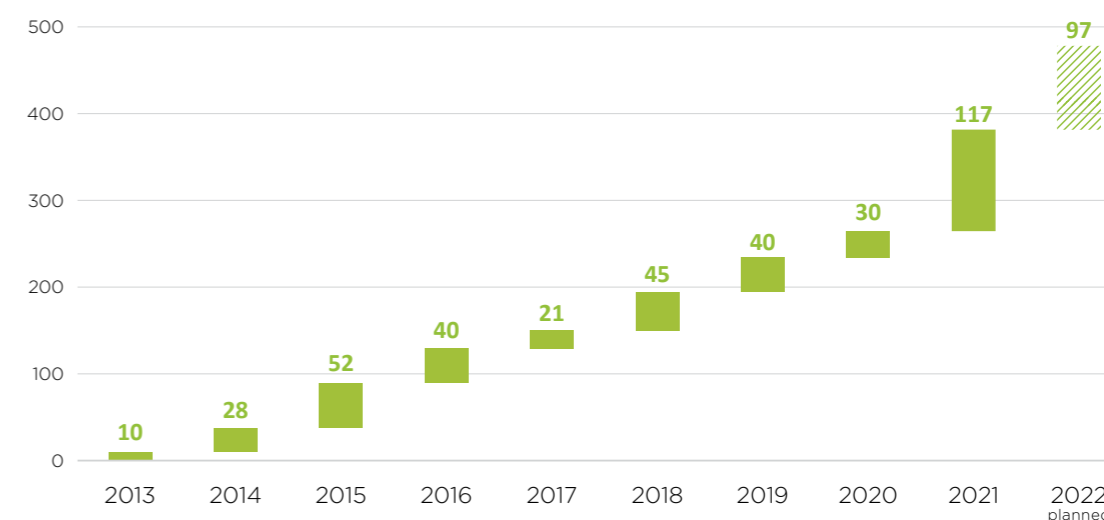


Figure 9: Volume of investments made by Utilitas from 2013 to 2022 (planned), EUR mln

CORPORATE STRUCTURE AND MANAGEMENT

The direct 100% parent company of OÜ Utilitas is joint holding company FS Core Utilities S.à r.l, which is owned 85% by European Diversified Infrastructure Fund II (EDIF II) (85%) and 15% by members of the management team of Utilitas. EDIF II is a leading international infrastructure fund with long-term strategy and is managed by Igneo Infrastructure Partners (direct infrastructure management unit of First Sentier Investors Group).

Structure for managing wind projects was optimized in December 2021. Since then, these projects are managed by OÜ Tuulepealne Maa and OÜ Utilitas Wind. Tuulepealne Maa manages two ready-to-build wind park projects in Estonia. Utilitas Wind manages Targale (59 MW) wind park in Latvia that is expected to be completed in 2022, as well as early-stage wind opportunities in the region.

Shares in AS Tallinna Vesi were acquired together with Tallinn City Government in 2021.

OÜ Utilitas supervisory board consists of three members:

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

Following Committees also form part of the management structure:

- Audit Committee
- Nomination and Remuneration Committee
- ESG Committee

As of 31 December 2021, the Group structure and members of the management boards is as follows:

OÜ UTILITAS – parent company

Priit Koit – Group CEO

■ AS Utilitas Tallinn (100%) and AS Utilitas Eesti (100%)

district heating and cooling service in Tallinn and 7 other cities over Estonia

Robert Kitt – Chairman of the Management Board (from 15 March 2021)

Janek Trumsi – Member of the Management Board

Aulis Meitus – Member of the Management Board

■ OÜ Utilitas Tallinna Elektri jaam (100%)

electricity and heat production

Andres Taukar – Chairman of the Management Board

Andrus Tamm – Member of the Management Board

Üllar Metsküla – Member of the Management Board

Andrei Melnik – Member of the Management Board

■ OÜ Tuulepealne Maa (100%)

wind park developments in Estonia

Rene Tammist – Member of the Management Board

Andrus Zavadskis – Member of the Management Board

■ OÜ Utilitas Wind (50%)

wind park development related joint holding company

Rene Tammist – Member of the Management Board

Priit Brus – Member of the Management Board

• OÜ Vihtra Tuulepark (100%)

wind park development in Estonia

• OÜ Irbeni (100%)

land right management

• TCK SIA (98%)

Targale wind park development

• UAB Telšiu vėjo parkas (20%)

wind park development in Lithuania

■ AS Tallinna Vesi (20.36%)

drinking water and wastewater treatment and supply service. 3 out of 9 Supervisory Board seats are held by Utilitas, including Chairman position.

SUSTAINABILITY IN UTILITAS

More than one-third of the Estonian district heating customers are connected to the networks of Utilitas. Also, Utilitas produces renewable electricity and provides district cooling. As a provider of a vital services, we recognize our role in the society and commit to act responsibly. Our goal is to contribute towards a sustainable economy by generating value that does not come at the significant expense of others but as the opposite involves the interests of all different stakeholders into decision making.

Utilitas core activities have impact on people, environment, and society, and thus we have a moral responsibility to manage these impacts with care. In addition, ensuring uninterrupted supply of services and adapting to rapidly changing operating environment and market trends is a basis for our long-lasting business success.



CONTRIBUTION TOWARD UN SUSTAINABLE DEVELOPMENT GOALS

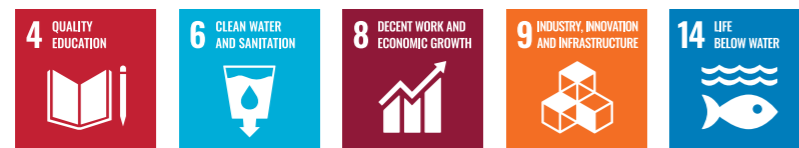
To place Utilitas business operations in a wider context and help the society meet its goals and eradicate wider problems linked to sustainability, screening of the Group key activities have been aligned with the United Nations Sustainable Development Goals (SDG). These goals are brought out throughout the report to show the wider purpose that each sustainability topic managed by Utilitas contributes towards.

Our highest impact is to SDG-s:



Being the largest district heating company and renewable energy producer in Estonia makes us responsible for providing access to energy in an environmentally friendly way, today and in the future.

Whilst contributing to SDG-s:



Our daily operations and processes follow principles and include initiatives which make impact to moving towards these global goals on local level – mostly related to resource efficiency and employment.

But adhering also to principles of SDG-s:



We aim to ensure responsible business operations today and in the future – hence, our responsibility is to take good care of people and stakeholders around us.

MATERIAL SUSTAINABILITY AREAS AND TARGETS

Impact areas and sustainability topics relevant for Utilitas have been identified through the review of material ESG aspects. This included mapping relevant societal megatrends, political and regulatory developments, and societal challenges together with good industry practice and standards. As a result of such screening, seven priority ESG and sustainability areas in environmental, social, and governance dimensions have been formulated.

Targets and key performance indicators are set to each priority area in order to evaluate the sustainability management performance and progress of Utilitas. These are followed by precise activities to initiate the mitigation of negative impacts and increase positive impacts. This forms the strategic ESG and sustainability framework of Utilitas.



STAKEHOLDERS OF UTILITAS

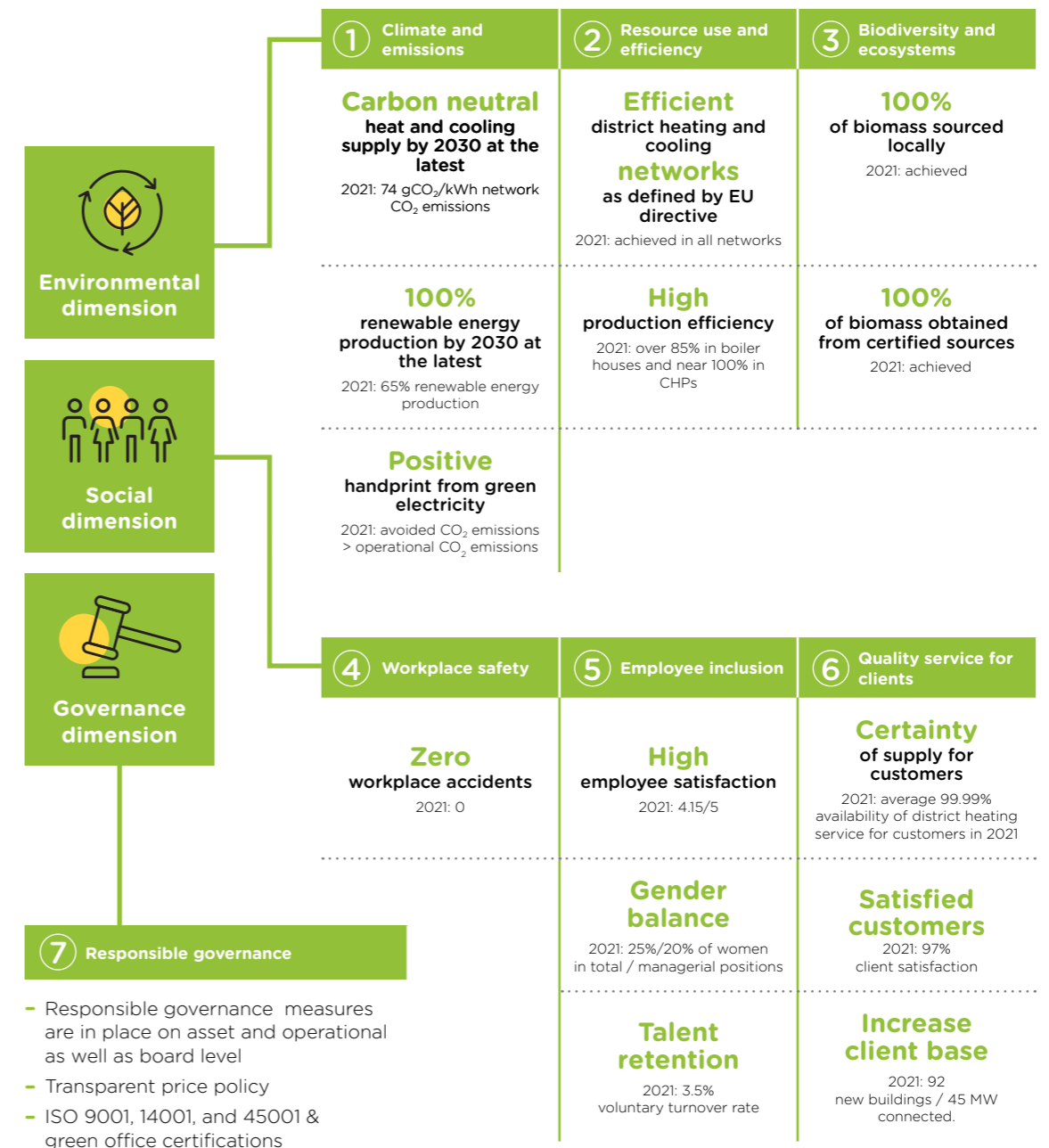
Utilitas engages stakeholders as an ongoing process to update its plans in accordance with everchanging stakeholder expectations. Different major internal and external stakeholder groups have been mapped together with identified ways of engagement practices.

Major stakeholder groups	Major expectations towards us
Consumers of heat, electricity and cooling	<ul style="list-style-type: none"> Reasonable price Security of supply Convenience Small carbon footprint
Investors, financiers	<ul style="list-style-type: none"> Sustainable and responsible governance Stable and predictable financial performance Productive, sustainable, environmentally friendly and innovative company
Public sector incl municipalities and regulator, industry, sustainability and civic associations, local communities, research institutions and experts.	<ul style="list-style-type: none"> Affordable and fair prices for consumers Sustainable and responsible governance Climate change mitigation and adaptation Partnership and cooperation Operational safety Contribution to national targets in energy sector Innovative leader in terms of sustainability and awareness in energy sector
Real-estate developers, construction companies, building managers, suppliers and subcontractors	<ul style="list-style-type: none"> Partnership and cooperation Reasonable energy price Security of supply Provision of environmentally friendly and sustainable energy Small carbon footprint Technically competent partnership Fair and equal treatment Long term business relations
Employees	<ul style="list-style-type: none"> Good working conditions, motivation of employees Fair wages Safe working environment Stable and responsible employer with good reputation
Society and media	<ul style="list-style-type: none"> Open for cooperation Good reputation Opinion leader in energy sector

OVERVIEW OF ESG PERFORMANCE IN 2021

Utilitas has put in place number of key performance indicators for priority ESG and sustainability areas. The graph below gives an overview of the progress against set strategic targets in 2021.

Utilitas is on track with its ESG strategy. Utilitas considers four of these indicators strategically as the most important ones: climate emissions, renewable energy production, workplace safety, and certainty of energy supply for clients.



ENVIRONMENTAL IMPACT



ENVIRONMENTAL IMPACT AND ENVIRONMENTAL MANAGEMENT

■ 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.

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 and the achievement of carbon neutrality was important for 68% of customers.

Utilitas considers it crucial to use energy sources with low primary energy content with as high energy efficiency as possible. Important environmental aspects of Utilitas are climate impact and use of biomass in energy production. Utilitas as a large-scale user of waste wood acknowledges possible risks related to the impacts in preserving biodiversity and climate change. Material environmental aspects are reviewed annually in accordance with the environmental management system set in the company.

■ 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. In addition, Utilitas follows green office principles in its offices in Tallinn. All management systems are being kept up to date by recertification.

Two main energy policy trends are being followed – 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.

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



The main environmental objectives of Utilitas, which are integrated into the environmental management system, are to:

- comply with the environmental requirements arising from laws and regulations;
- help preserve natural resources through reducing the consumption of water, electricity and fuels;
- use environmentally friendly and energy-efficient solutions in operations;
- foster the use of renewable fuels in order to reduce carbon emissions;
- be transparent in its activities with external stakeholders;
- promote energy efficiency and environmental sustainability among employees and customers.



Head of Environment and Sustainability role was created at group key management level in order to increase the focus on environmental sustainability in the company. The goal is to further align the practices of all group companies in an integrated system for all operational sites of Utilitas. Renewing the handbook for ISO 9001, 14001 and 45001 in 2021 was the first step in facilitating this alignment.

CLIMATE AND EMISSIONS



REDUCTION OF CLIMATE IMPACT

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 due to economic sense. The climate ambitions of Estonia, the City of Tallinn and Utilitas are interlinked.



Tallinn is the European Green Capital 2023, and the city has an ambition to become climate neutral by 2050. In connection with this Tallinn Sustainable Energy and Climate Action Plan 2030 has been developed that sets a specific action plan for fulfilling this commitment. It includes goals both for climate change mitigation and adaptation. 40% of the city's greenhouse gas (GHG) emissions is set to be decreased by the year 2030 together with actions for adapting to the changes and risks posed by climate change. One of the key components of achieving this plan is GHG reduction measures in the energy sector. In connection with district heating system this is going to be implemented by:

- expanding areas connected to district heating;
- integrating innovative district cooling possibilities with the district heating network;
- improving energy efficiency of the district heating network by renovating older pipelines;
- raising energy generation in district heating from biomass and non-recyclable waste;

Utilitas supports all aspects of this plan and plays a vital role in achieving the climate impact goals set. Utilitas' own ambitious goal is to make the district heating systems carbon neutral in its entirety by 2030, see section "Development of Utilitas Carbon Neutrality plan" for details. Actions for contributing towards green transition are already in motion.



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 to reduce the emission of carbon emissions into the atmosphere.
- Production of electricity in cogeneration plants decreases the need for producing electricity from fossil fuels.
- Energy efficient district heating substitutes the need of electricity to be spent on heating buildings and therefore decreases the consumption and need of producing electricity.

Utilitas has already in 2008-2021 remarkably (by 64%) decreased the carbon intensity in its DH networks by investing approximately 400 million euros.

Utilitas continues to monitor and calculate its total carbon emissions according to GHG Protocol Corporate Accounting and Reporting Standard for Scope 1, 2 and 3. Utilitas most material carbon emissions consist of direct emissions defined as scope 1, indirect emissions of scope 2 and operational scope 3 emissions.

Utilitas carbon footprint

Scope 1 emissions originating from the usage of fossil fuels for the production of heat, mainly covering peak loads in cold periods (operational Scope 1 emissions). Small amount of CO₂ is emitted by the company cars and freezing agents and energy consumed in the offices (other scope 1 and scope 2 emissions).

t CO ₂ eq	2020	2021
Scope 1 operational	117,038	174,829
Scope 1 other and Scope 2	478	359
Scope 3 operational	11,631	7,484
TOTAL	129,148	182,672

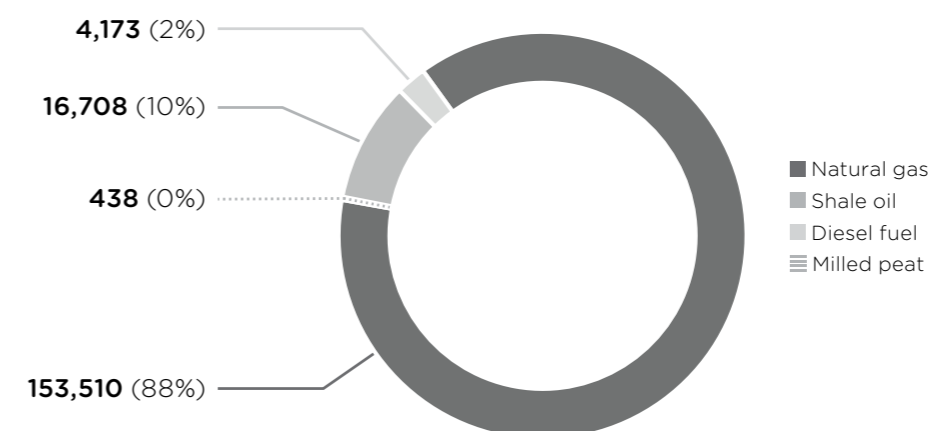


Figure 10. Scope 1 Greenhouse gas emissions from the combustion of fuels used in the production of energy (tonnes of CO₂-eq).

Scope 3 operational emissions are associated with the purchased heat in Tallinn DH-network²⁶, in the longer term as everyone heads towards carbon neutrality the scope 3 emissions should fall to zero as well.

Utilitas CO₂ emissions are already at a very low level of <75 gCO₂/kWh, in addition Utilitas monitors the climate positive effect from the renewable electricity production each year. Positive effect from the electricity production compared with the Estonian electricity residual mix²⁷ was approximately 173 ktons of CO₂eq in 2021 (205 ktons in 2020) which is in same magnitude as Utilitas' emissions.

PRODUCTION OF RENEWABLE ENERGY

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 thus has higher impact than electricity consumption and transportation sector.

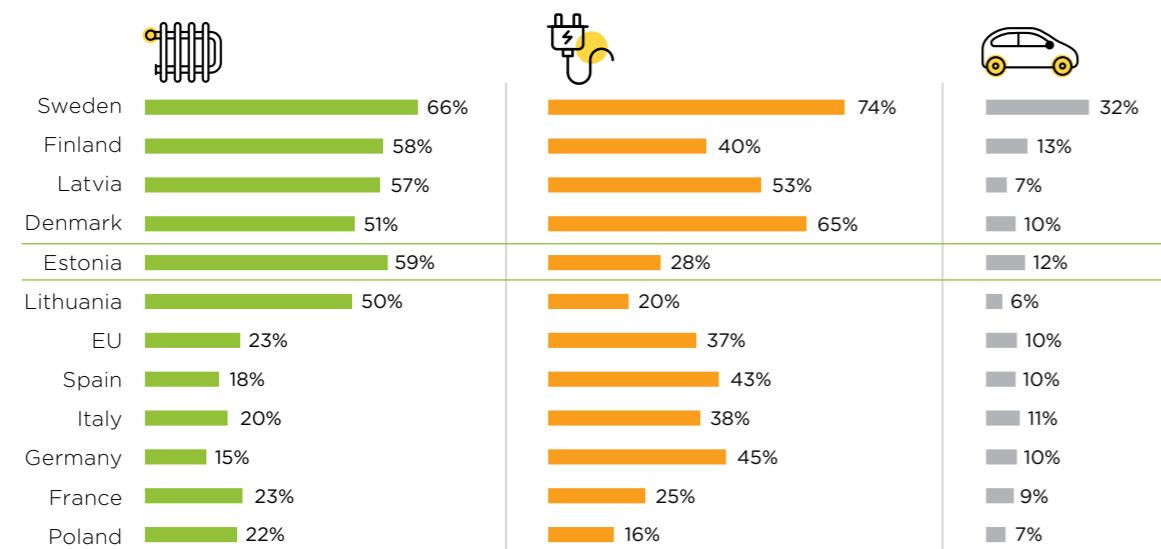


Figure 11. Share of renewables by energy consumption (2020)

²⁶ In addition to its own production, Utilitas purchases heat from Iru Waste to Energy plant and Adven gas fueled boiler plant in the Tallinn heat network. Other scope 3 emissions come from the value chain emissions of fuels used by Utilitas and use of materials in construction and maintenance of infrastructure. Other Scope 3 other emissions have not been calculated for 2021 as this figure is updated biannually; Heat from Iru Waste to Energy (Iru WtE) plant is considered as waste heat for Tallinn DH-network according to the European standard EN 15316-4-5:2017 and is therefore considered with zero CO₂ emissions. Iru WtE is a waste treatment facility that is not included in the EU ETS system as well. Waste treatment in the WtE plant has lower carbon footprint than waste landfilling and in the absence of the WtE plant heat for DH-customers should be produced from other sources.

²⁷ Residual mix refers to a set of electricity for which the origin is not verified with a certificate of origin. From June 2020, the official residual mix of Estonia has been calculated by Grexel Systems Ltd on behalf of AIB, assisted by Ostfoldforskning and Ecoinvent. The CO₂ amount in Estonian residual mix in 2020 was 546,9 gCO₂/kWh. If there will be more renewable electricity in the market, the residual mix becomes less carbon intensive and thus the carbon handprint of Utilitas will be reduced.

District heating is best option for covering the heating need of urban buildings. It 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.

Utilitas is the largest renewable energy producer in Estonia. In 2021, Utilitas produced 1,526 GWh of heat and electricity from renewable sources, which was at the same level to the previous year and accounted for 65% of the total production. The share of Utilitas in the total production of renewable electricity in Estonia amounted to 13% in 2021.

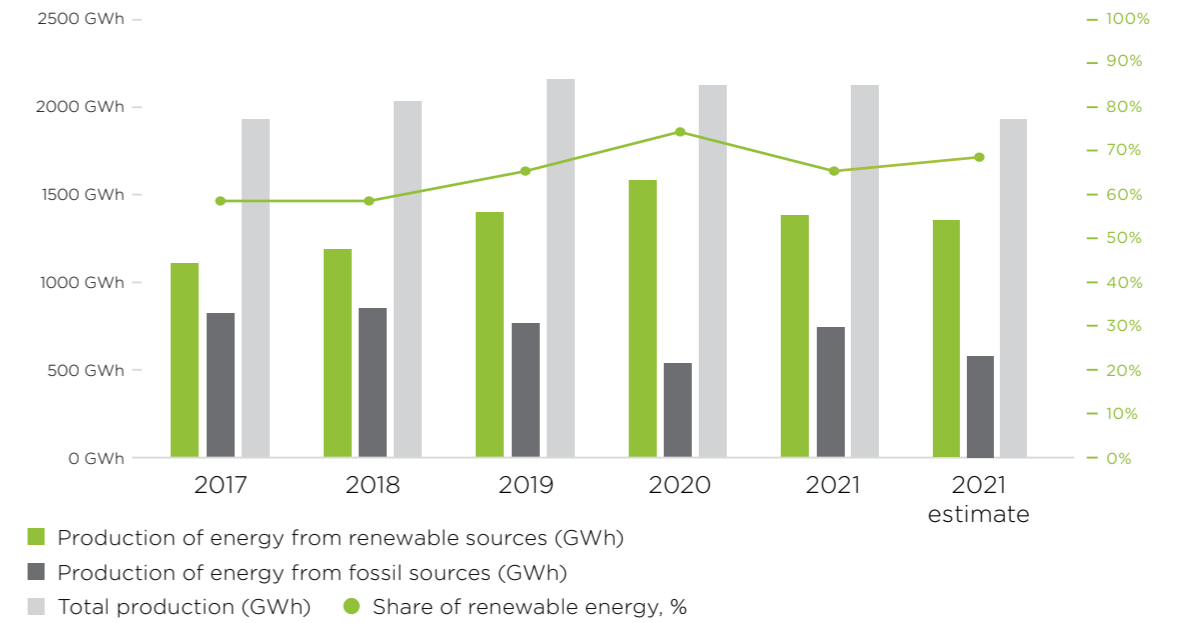


Figure 12. Volume (GWh) and share (%) of energy produced by Utilitas from renewable and fossil sources (electricity and heat in total)

Utilitas is also the largest district heating company in Estonia, connecting approximately one-third of all district heating customers. In 2021, the share of co-generated/renewable energy in the district heating networks of Utilitas was 65% to 100% (the average in Estonia is about 50%).

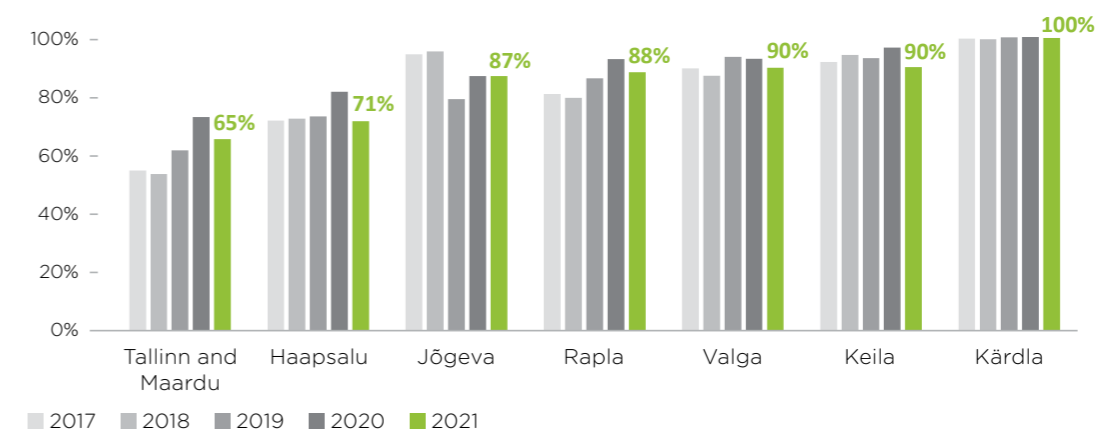


Figure 13. Share of renewable and waste heat in the heat sold by Utilitas, broken down by areas

Waste- and seawater heat pumps together with wind and solar energy production projects are planned to meet the renewable energy production target. In addition, further efficiency investments are planned in existing cogeneration plants.

Last year was characterised by contrasting weather patterns with the hottest summer in history but winter being one of the coldest in recent years. Therefore, the usage of fossil fuels had to be increased to compensate higher energy demand in the winter. Increasing temperatures in summer also increased electricity consumption, as more cooling systems were used. This also raises the importance of developing sustainable cooling systems. These systems help alleviate health problems linked to extreme heat periods in a sustainable and energy efficient way.

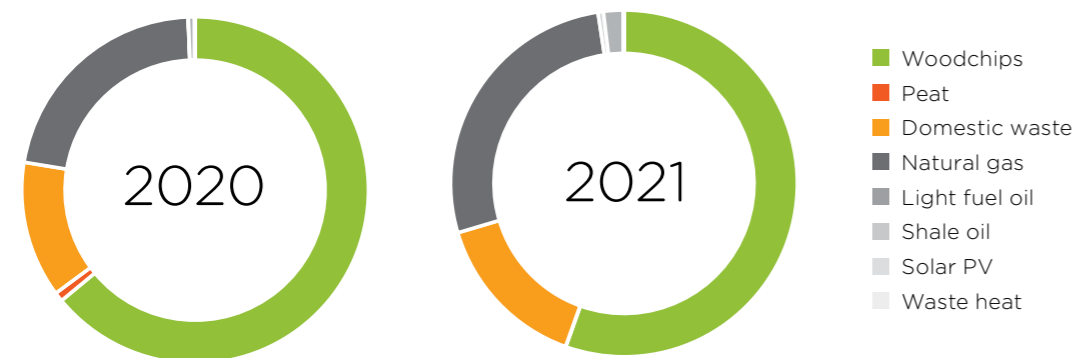


Figure 14. Share (%) of the sources of production of the energy (electricity and heat in total) sold by Utilitas (incl. the inputs used for producing the energy produced and purchased by Utilitas)

Joint venture Utilitas Wind was established in 2021 together with UG Investments to develop non-combustible renewable projects in the region. In connection with this, different projects got started (see section “Development of wind parks across Baltics”).

DISTRICT COOLING

District cooling market in Northern Europe has significant potential for development. Solutions based on a cold-water pipeline system, primarily targeting non-residential buildings as an economic and environmentally friendly alternative to air conditioners.

Supported by EU and national policies as efficient district cooling is identified as one of the solutions to help fulfil energy efficiency targets - support measures for district cooling in Estonia are primarily from using lowest primary energy conversion factors for new buildings (0.2 for efficient district cooling vs 2 for electricity)

The district cooling network in Tallinn is still in its early stages with Utilitas as the front-runner. The aim of Utilitas is to create a network connecting the entire city centre area as one of the key pillars in Utilitas’ sector coupling ambition since there are strong synergies with the district heating network that allows full solution to clients for both winter and summer periods. In 2021 Utilitas invested 3.3 million euros into the development of district cooling operations, primarily into connecting the Ülemiste City office area.

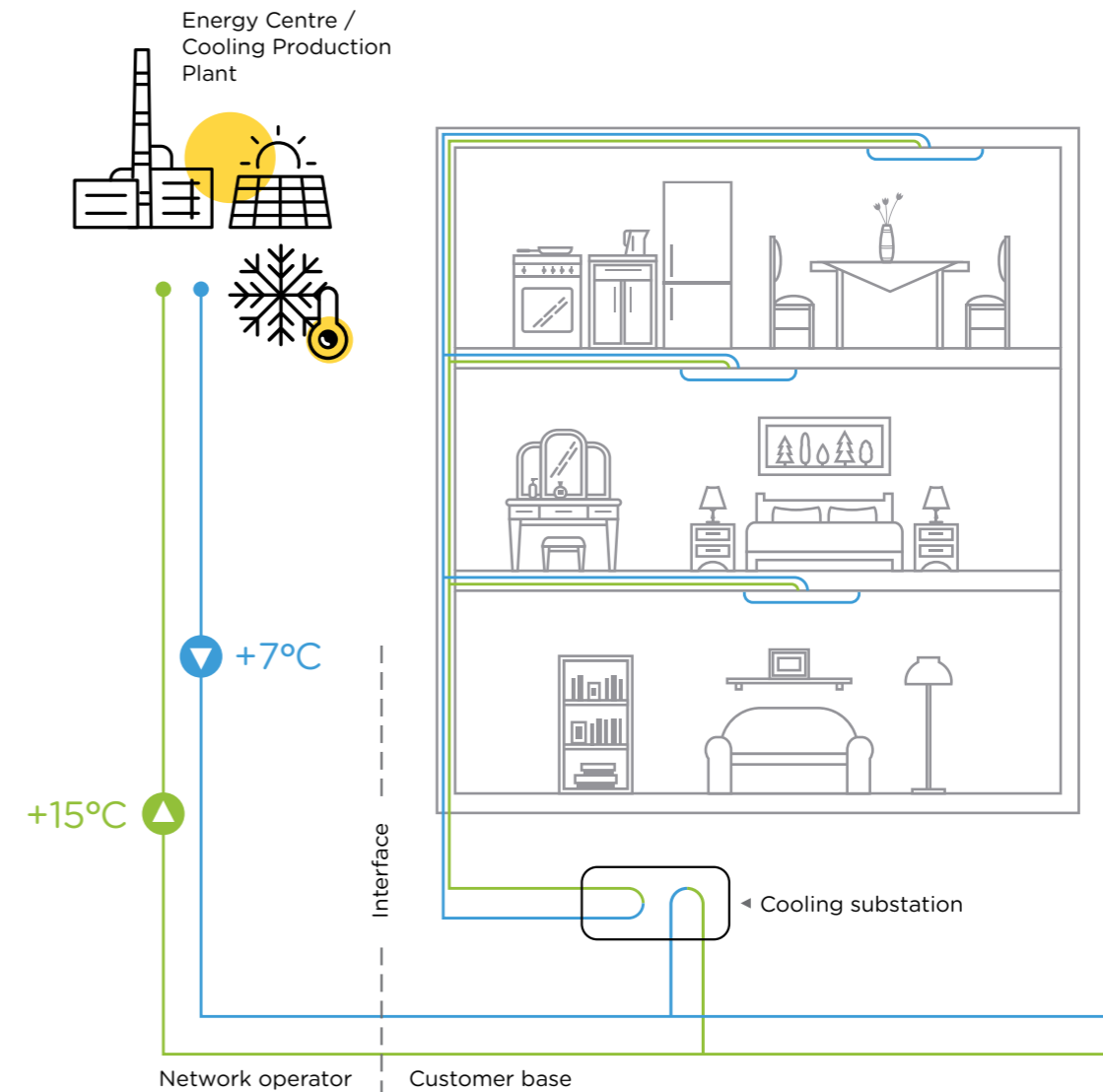


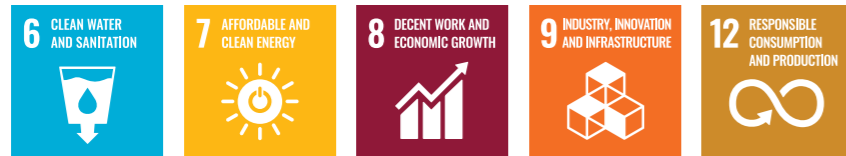
Figure 15. The district cooling network.

AIR EMISSIONS

To achieve the goal of sustainable cities, it is of utmost importance to ensure clear urban air. All of Utilitas’ plants are covered by pollution permits and use best available technology to reduce air pollution as much as possible. Utilitas is compliant with the requirements of their environmental permits with emissions either at or below permit limits.

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.

RESOURCE USE AND EFFICIENCY



One of the priorities of Utilitas is to achieve as efficient energy production and distribution as possible for all consumers.

EFFICIENCY OF DISTRIBUTION NETWORK

Supply and return temperatures are the main characteristics of the district heating network. In the adjacent chart both supply and return temperatures in district heating network are measured hourly in every production facility and weighted with the heat energy output of that facility. In 2019-2021 the average supply temperature in Utilitas Tallinn network has been -80°C which corresponds to modern network parameters.

Efficiency of heat distribution can mainly be increased by reducing the temperature of water in district heating network. However, very low temperatures in returning water can cause problems with bacteria build up in pipelines so an optimum state must be achieved. Lower water temperatures:

- Decrease heat losses in the district heating network;
- Make flue gas condensers and CHPs more efficient and allow use of heat pumps;
- Create better opportunities for using heat storage units;
- Improve thermal stability in the distribution network which reduces stress on the pipelines. This in turn reduces the risk of leaks and maintenance costs. Also the usage of plastic pipes instead of high footprint steel and copper is made possible;
- Improve the security of supply as the risks of water starting to boil when network pressure drops is reduced. Boiling water in the pipeline creates two-phase flow that causes flow cavities.

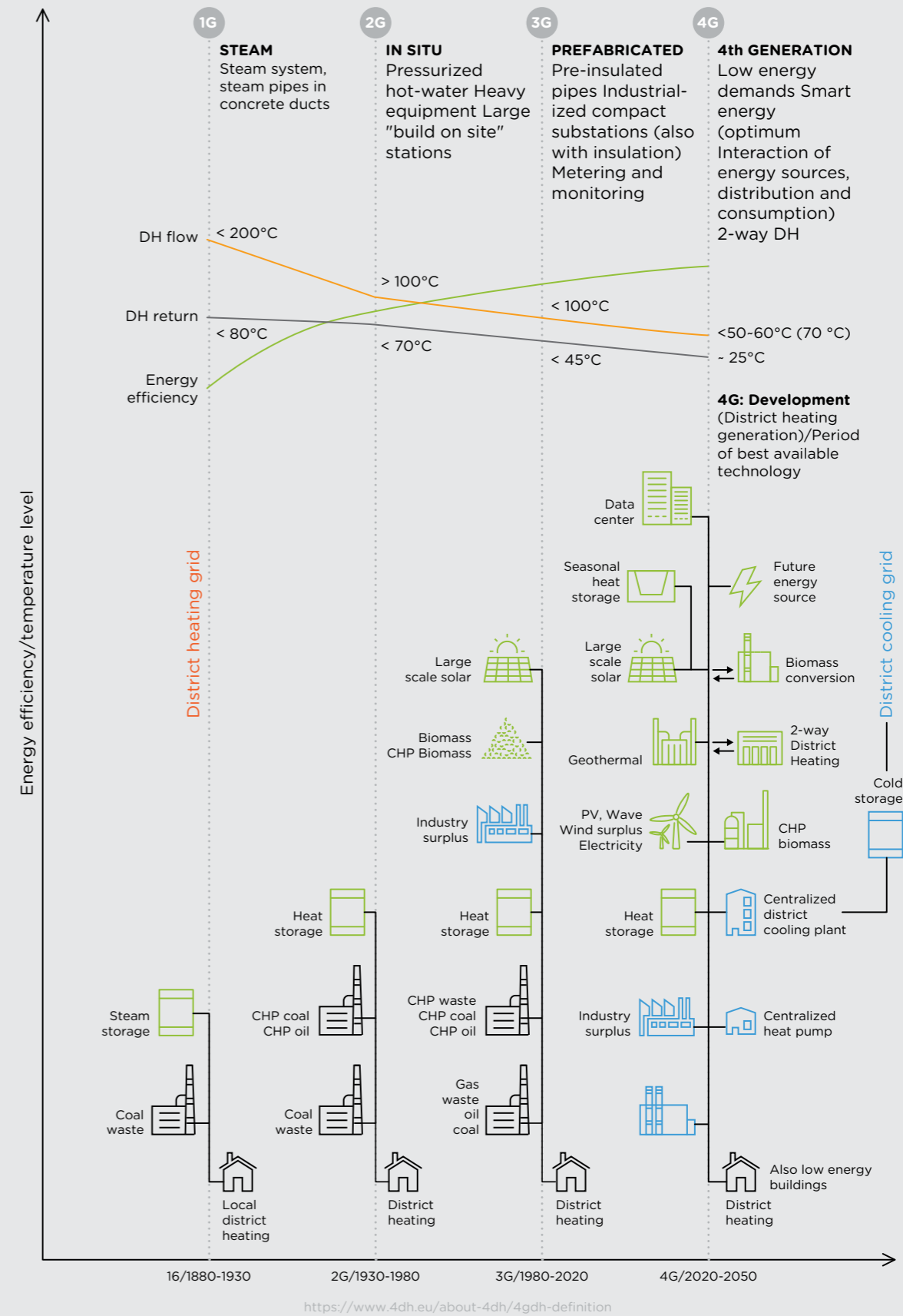


Figure 16. Development (District Heating generation) / Period of best available technology

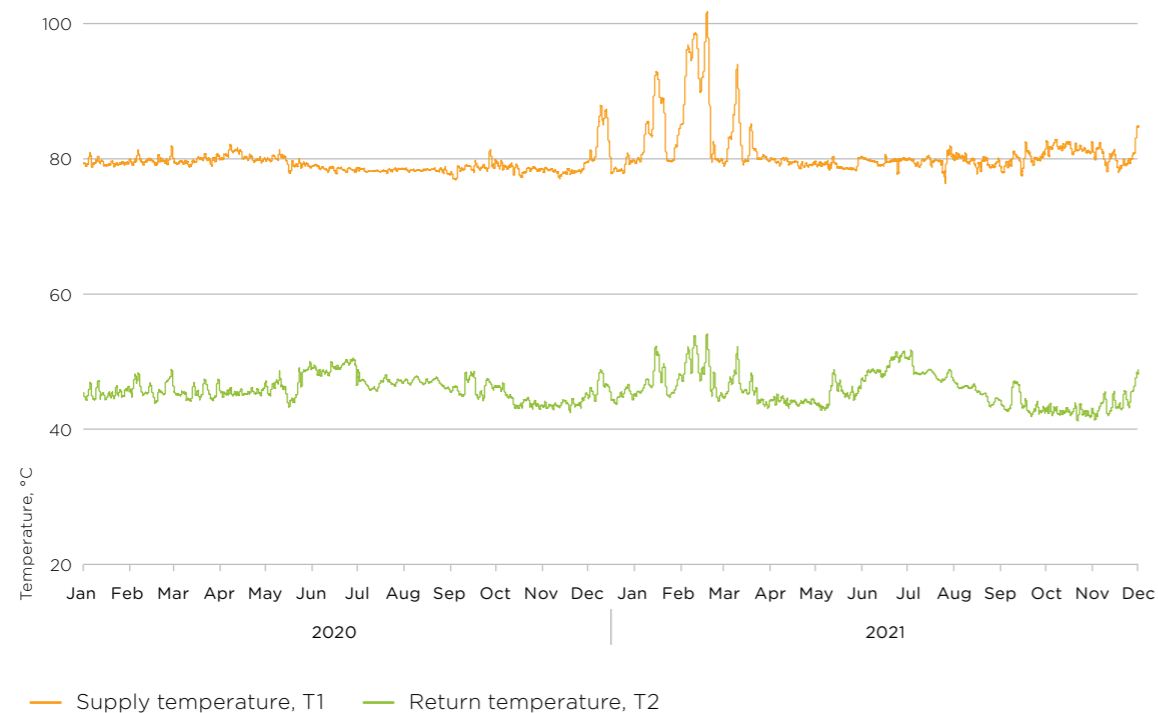


Figure 17. Network supply and return temperatures in Utilitas Tallinn network

Utilitas' target is to reduce maximum temperature of outflow water and not to exceed 100 °C. In addition targeted return water temperature should be below 45 °C for min 75% of connected buildings, this target was also achieved in 2021.

It is also important to consider the spread between supply and return temperatures (Δt) that indicates how much heat energy is transferred to the buildings and consumed in the network. Higher spread means that buildings are more energy efficient, so less energy overall is needed in the system and primary energy usage is minimized, which is why it is important to renovate buildings, heating systems and substations in houses. Utilitas aims to support this development by offering substation replacement advice and financing to their clients.

There is potential to use excess heat from wastewater treatment in district heating as a renewable source of energy. Opportunities for this are actively sought together with AS Tallinna Vesi who manages wastewater in Tallinn

PRODUCTION EFFICIENCY

As woodchip 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. Utilitas uses local renewable fuel and advanced district heating system which allows unique efficiency in resource use. 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 2.5-3x higher than in power plants not connected to the district heating network and operating on the condensation regime, where the efficiency is only 35-40%.

In 2022-2023 Utilitas is investing close to 20 million euros into 2nd stage flue gas condensers at all three CHPs which extract heat from flue gases and increase efficiency even further (and reduce the need for natural gas production and therefore carbon emissions).

Utilitas target is to maximize production efficiency. With flue gas scrubber the efficiency in cogeneration plant can reach around 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 based on 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). 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.



Automatic fuel sample system got up and running in Vão stations starting from 2021. This now excludes the need for employees to manually analyse the energy volume of each load that comes to the station. New method is more precise, reduces staff workload and errors which in turn helps to gain a better overview of the fuel characteristics, calculating fairer prices and increasing production efficiencies.



REDUCTION OF WATER USE

One of the important goals of Utilitas is to constantly improve the efficiency of water use. The volume of heat network of Tallinn is ~ 100,000 m³. 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. Utilitas tracks water quality on a monthly basis for boiler feedwater, district heating water and make-up water and the water quality has been within the expected limits.

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.

Utilitas acquired a 20.4% shareholding in AS Tallinna Vesi and has partnered with majority shareholder the City of Tallinn in 2021. This further promotes cooperation to initiate projects that will make water usage more efficient in Tallinn.

Utilitas target is to achieve network water change rate of 1 time per year by 2035 and positive trend can be observed - 1.7 (2019), 1.6 (2020), 1.6 (2021).

Utilitas target is to minimize network water change rate

Wooden construction materials and products replace fossil based alternatives

BIODIVERSITY AND ECOSYSTEMS



Estonia situates at the northern border of temperate forest zone where there is abundant biomass availability compared to other European countries. Forests cover over 50% of the territory of Estonia and it is an important local renewable resource that has always played a pivotal role in the country's economy. Residues and wastes coming from the forestry sector can be used for generating energy and electricity to maximise efficient use of this valuable resource. Forests are sustainably managed in Estonia as the maximum sustainable harvest is 14.4 Mm³ from which theoretically about 2.7 Mm³ of harvesting potential is unutilised based on 2020 harvesting volumes. This is expected to increase

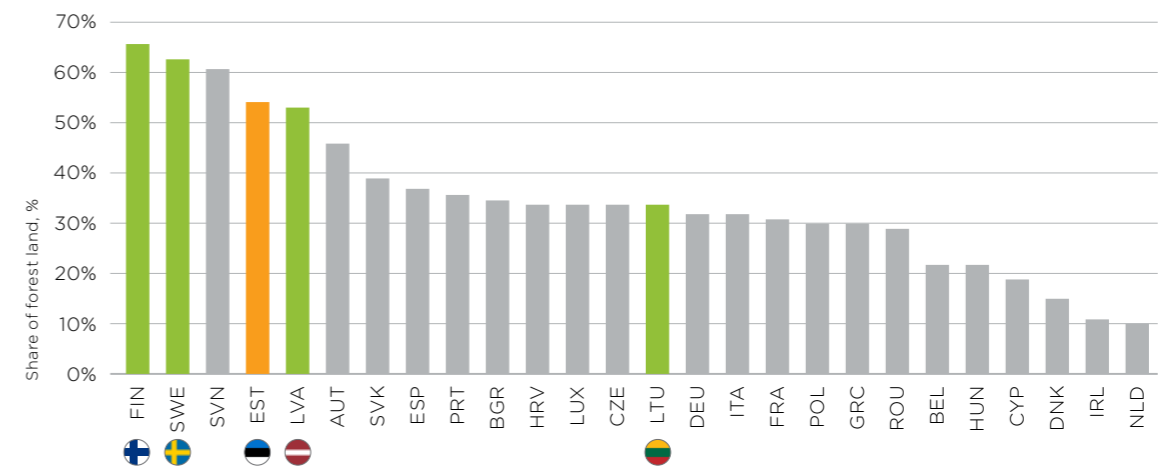


Figure 18. Forest coverage in Europe

further in the future as local biomass demand stays lower than the sustainable harvesting limit. In 2020, 19.8 TWh of solid biofuels were used in primary energy production - 41% of this was used as an input in CHPs and boiler houses, 34% used for exports and 23% used by households as fuel.

Wood as an energy source for heat and electricity production has an important role to play in Europe's plan to becoming climate neutral. 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

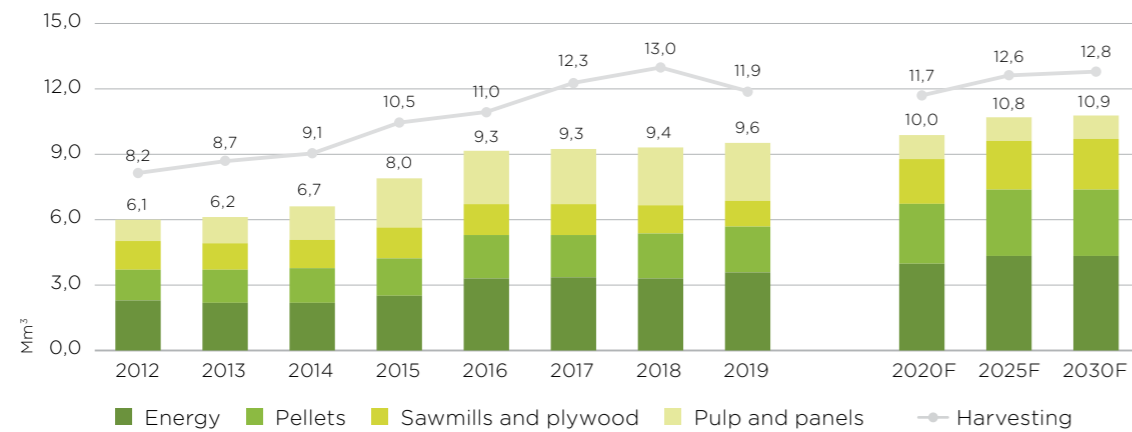


Figure 19. Biomass demand and harvesting in Estonia

producing energy from fossil sources its carbon emissions are deemed equal to zero at the European Union level. In the context of Estonia, biomass replaces primarily oil shale in electricity production and natural gas, shale oil and heavy fuel oil in heat production.

However, using biomass to generate heat and energy can also have its downsides if not done properly in a sustainable way. The society and media have more actively started questioning previous political decisions and support schemes as possible risks related to using energy from wood are being brought up. This is a sensitive topic as for different stakeholders there are a lot of various important aspects surrounding it. Utilitas supports constructive public discussion and welcomes improvements in the criteria, so that risks from biomass use can be lowered.

Utilitas is continuously updated with scientific and political developments, as well as social expectations:

- Estonian standards that regulate forestry management and practices are followed. In the nearest decades the sector will be much affected by the Estonian Forestry Development Programme until 2030, which is currently under development. Due to the complexity of the topic and partial disagreements, there have been significant delays in the process of the Development Programme. Hopefully it will be finalised soon, in a manner that satisfies interests from different stakeholders (environmental protection, economic, energy security and social expectations) and ensures long-term sustainability of Estonian forests.
- European Union Renewable Energy Directive is under revision by the Council and the European Parliament. It is expected to be adopted by the end of 2022. Utilitas is closely following developments and processes surrounding it. This legislation will define conditions of wood as a renewable energy source and the Group aims to be 100% aligned with it. Criteria for creating clarity in the market is welcomed so that Utilitas can contribute to a sustainable future and plan further green investments. Supplier principles were updated in 2021 to prepare for additional legal requirements, but these conditions are not yet fixed by regulators.
- Last client survey carried out in 2020 showed that most of Utilitas' clients support the use of renewable energy: 84% of customers and 82% of private consumers responded positively to the question "What is your attitude towards the use of domestic renewable fuel?"


External experts conducted a study in 2021 to analyse wood burning environmental sustainability for Utilitas. The Group supports following sustainability key points that were mapped in own operations and business relations:

- Forest management in a renewable way, meaning that biomass harvesting does not surpass the increment;
- Keeping balance between biomass use and biodiversity preservation;
- Local wood use to promote local economy, material security and lower environmental impacts connected to transport;
- Use of low-value wood (residues and waste from other sectors) is used for energy production as having little or no use in other sectors;
- High efficiency of resource use.

Raw material used by Utilitas is collected within a reasonable radius from production plants and has no more efficient alternative use. Of all the alternative ways of using biomass in the energy sector, cogeneration is the most environmentally sustainable. Unlike using home stoves or oil shale boilers (where biomass is co-combusted) with 30-50% efficiency, cogeneration efficiency is up to 100% and thus maximum possible quantity of energy is obtained from one unit of biomass.

Using biomass in Combined Heat and Power plants is around 2.5-3 times more efficient in comparison to electricity only installations

Utilitas is a believer in the principles of circular economy. For instance, old Christmas trees are recovered for energy every year around January to prevent the accumulation of old Christmas trees in courtyards and next to waste bins. This will also reduce the amount of biomass usually needed for energy production. Utilitas waste mostly consist of non-dangerous ash coming from biomass incineration. All such wastes are covered by environmental permits and are therefore monitored in a controlled manner. In support of the principles of circular economy, ash, to a possible extent, is handed over to our partners who use it for fertilizing. Municipal waste generated by offices is sorted to promote recycling.

 In 2021 a new certification requirement was introduced into the woodchip tenders and as a result 100% of Utilitas wood suppliers are covered by FSC or PEFC certificates and it is of local origin. Suppliers are obliged to provide evidence that wood is coming from sites where:

- All forest protection requirements are followed;
- Forest renewal measures are in effect;
- It is not a protected area.

SOCIAL IMPACT



OVERVIEW OF 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 best self-realisation opportunities at work. Utilitas is a valued employer among current employees as well as on the labour market more broadly. This is exemplified by low voluntary employee turnover level of 3.5% in 2021 (2.8% in 2020) as well as long average tenor of employees (16 years in 2021).

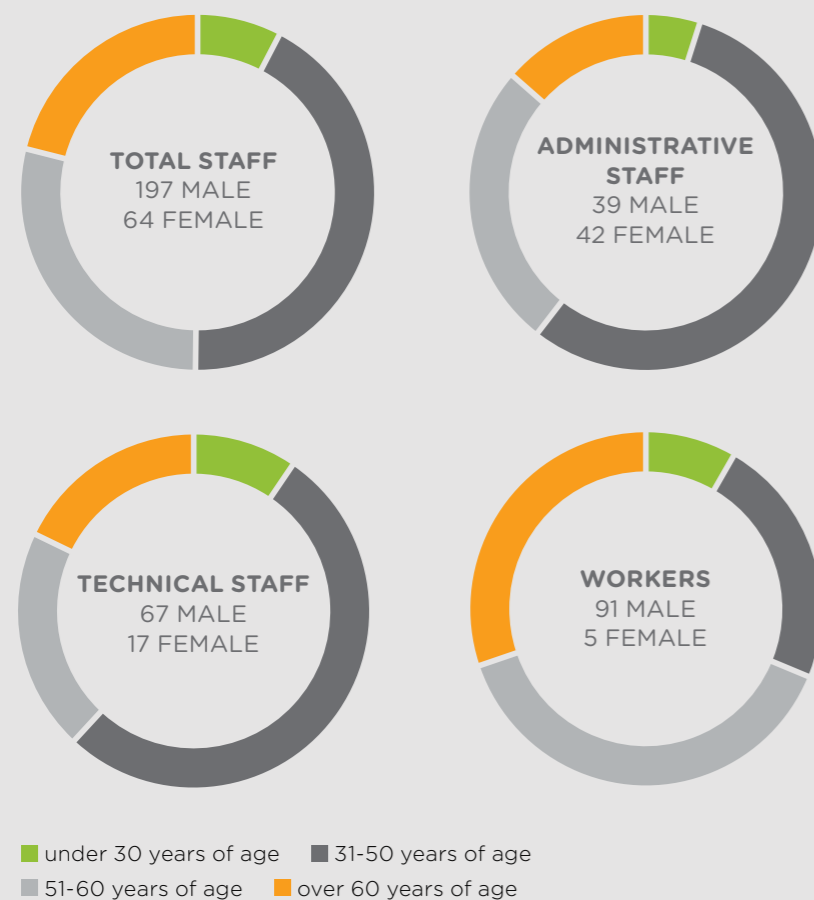


Figure 20. Employee breakdown by age and gender



The relatively high average age of employees requires plans for ensuring growth of a next generation of employees. Group companies are working systematically in order to popularise the speciality of thermal engineers, support their studies and build reputation among students. In 2021, 9 trainees underwent their internships in Utilitas (2020:5).

Supporting flexible working conditions continued in 2021 to lower risks of Covid-19 infection amongst employees. Remote work was encouraged for employees whose tasks could be done at home. When the infection rates in society decreased, team building events and workshops took place to get people together again and unite the staff. Strategy Day took place in September where 100 employees participated to discuss future plans for Utilitas.



One of the biggest projects last year was the modernization of employee working conditions and implementing green office principles. Offices in Vão and Mustamäe cogeneration plants got renovated. Utilitas office in Tallinn moved to a new location on Maakri street. The new building is more accessible and has a green office certificate and is an open style office that supports employee cooperation. Office in Vão also received green office certificate.



Relocation of head offices in 2021 winning Best Green Office in Estonia Award

WORKPLACE SAFETY



Safety is a priority for Utilitas and is managed by certified ISO 45001 Occupational Health and Safety Management System in all subsidiaries of the Group. The goal is to have an accident-free working environment which was achieved in 2021.

Utilitas complies with all the statutory requirements for occupational health and safety as well as good industry practice. Working environment councils with safety officers are present to conduct regular risk analysis for eliminating hazards and raising employee awareness on safe working methods. Occupational accidents if happened are all investigated to improve procedures and reduce risks. Safety instructions are present that include waste management, working at heights, fire safety, working with asbestos and other chemicals. All employees receive instructions on how to apply safe work practices including correct use of equipment.

Safety requirements also apply to contractual partners and are stated in procurement contracts. No occupational accidents have been registered among subcontracts in recent years.

22 management safety walks were carried out in 2021 (15 in 2020) and 36 near misses (31 in 2020) were registered. 1 incident with subcontractor was registered.

Employee feedback survey carried out in 2021 showed that employees feel safe when doing work tasks and think that enough attention is given to work safety and employee health. The average rating regarding health and safety topics was 4.6/5.



Recent initiatives for promoting occupational health and safety:

- All employees have possibility for receiving health related compensations;
- One month long charity project was made to also promote healthy lifestyles inside the company. About 140 employees joined the challenge and walked over 30 million steps, exceeding the goal that was set by three times. Every 1000 steps walked contributed 1 euro towards donations;
- Vaccination against Covid-19 is supported. Approximately 90% of employees are vaccinated against the virus;
- Mental health trainings were conducted for employees to support them in changed working conditions caused by Covid-19 and risk analysis got also updated to include psychosocial risks that have become very topical;
- Safety related training program is under a renewal process in order to move it to a virtual learning platform where teaching materials are also in video format.

	2017	2018	2019	2020	2021
Occupational accidents with employees (fatal accidents)	1 (0)	3 (0)	1 (0)	0 (0)	0 (0)

EMPLOYEE INCLUSION



Utilitas values the independence and freedom of specialists to decide on their work methods - this is based on 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 employee awareness on 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. Main trends are shared in these events, all employees can share thoughts and ask questions. Focus has been put on also organizing events that unite employees of Utilitas.

Utilitas employee satisfaction score is **4.15/5**

The Group companies also hold regular personal performance appraisal interviews with employees separately to focus on the goals and values of each individual. Employees can also submit their proposals or complaints concerning the company anonymously in the intranet.



New initiatives for increasing employee engagement and well-being:

- New employees were interviewed in 2021 and in connection with this, a new integration program was created for new employees which will be fully implemented this year;
- Uniform employee value proposition got implemented throughout the company;
- Workshops were held for all management position employees to engage them into decisions regarding remuneration and development plans regarding leadership. Activities mapped are going to be implemented in 2022 to unify and improve the management culture of Utilitas.

DIVERSITY AND EQUAL TREATMENT

Due to sector specificity Utilitas team has overall more male employees, but the staff is quite diverse regarding age and nationality.

In line with good practice, both male and female representatives participate in job interviews. In addition, more women got included and employed to management positions in 2021 in order to reflect the diversity situation present amongst all employees.

Proportion of women among all employees is 25% and 20% in first-line manager positions in Utilitas (as of 31.12.2021).

One of the issues linked to staff diversity is related to language skills. Creation of a more uniform environment among the staff whose native language is not Estonian is useful for developing organisational culture and sense of unity as well as for ensuring occupational safety. Due to the spread of Covid-19, the Estonian (B1 level) language courses planned were postponed in 2021 as the participants in majority would have been frontline workers providing vital services. Courses will be continued in 2022, once the infection situation is better and additional health risks to employees is lower.

Another aspect of diversity to which more attention is devoted is finding a

suitable balance in age-specific composition of the staff - recruiting young people and providing them with development opportunities as well as valuing the contribution made by experienced employees. In 2021 the average age of employees was 49 years and amongst new recruits 36 years.

23 new recruitments in 2021 with focus of attracting younger specialists



■ <30 years of age
■ 31 - 50 years of age

Figure 21. New recruitments 2021

TRAINING AND DEVELOPMENT

Utilitas highly values personal initiative regarding development and supports employees by providing financial resources and availability of needed time for it. Training needs are found out on an ongoing basis together with the employees by discussing them in 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.

All new employees receive introductory guidance from the quality and environmental manager and human resources manager including:

- Company Structure;
- Management System Documentation;
- Environment and Safety;
- Utilitas Management Policy and Objectives;
- General Fire and Safety Documentation;
- Addressing Environmental Aspects;
- Emergency Situations and Response;
- Legislation regulating Occupational Health and Safety.

This is followed by further role specific training by the Head of Department which includes:

- The preparation and implementation of a vocational training plan (internal training);
- Occupational Safety Training (e.g. risk factors, risk analysis, use of personal protective equipment);
- Instruction on the basis of documents (e.g. occupational safety instructions, equipment safety



- instructions);
- Safety Requirements;
- Introduction of the facility's Fire Safety Instructions and Emergency Plan.

Staff receive refresher training on occupational safety instructions and risk assessments are reintroduced to employees every three or five years, respectively. Where there are changes or amendments to these, employees will get the refresher training within one month of issue of the updated document at the latest.

■ Management of Contractors

It is the responsibility of the management team of each subsidiaries to manage contractors in accordance with Utilitas procedures. All contractors receive a site induction, including details of processes, working practices and procedures e.g. working at height. The contractor is responsible for ensuring their employees are competent and have the necessary training to carry out the task and are required to adhere to the standards required by Utilitas.

Contractors operate under a permit to work system and Utilitas specialists monitor the performance and safety behaviour of contractors. Occupational safety inspections of subcontractors are undertaken by Utilitas and any deficiencies are registered in inspection reports. Annual summaries are prepared by the Utilitas specialist for the contractor and this information can also be used for further evaluation of subcontractors, if required. Subcontractor accidents are recorded in the Utilitas Environmental Management System and included in reporting.

QUALITY SERVICE FOR THE CLIENTS



Customer view

Utilitas provides district heating service in eight cities of Estonia: Tallinn, Valga, Jõgeva, Haapsalu, Kärdla, Keila, Maardu and Rapla, supplying c. 375k residents with district heating. Customers of our district heating service include apartment associations, state and municipal agencies, and private companies.



Figure 22. Customers of Utilitas

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

Development of client focus was one of the priorities in 2021 in order to increase joining of new clients who wish to be more sustainable and lower their risks coming from gas dependence. Inner capabilities have been increased in order to proactively connect as many buildings with Utilitas network as possible when renovating older pipelines near the particular areas. This helps to bring a more reliable and cheaper service also to local residents who currently are not Utilitas' clients.

Cooperation with customers to reduce the environmental impacts

Environmentally sustainable management of the energy sector can only be achieved in cooperation with customers. Local residents have fortunately also started to increasingly acknowledge the negative impacts of anthropogenic climate change and the need for rapid changes in this field. Increasing number of district heating consumers take an interest in the sources of energy production and want to lower the environmental impact that they are connected to.

Utilitas considers it necessary to introduce district heating as an environmentally sustainable solution through awareness campaigns and direct customer communication. Innovations in the energy sector are related to a more wide-spread implementation of digital solutions. The meters of Utilitas' customers have been connected to a remote

reading system, which provides an overview of the operation of their heat substations and network. Based on analysing this data, it is possible to increase the efficiency of the network and production in cooperation with building owners.

100% of Utilitas clients are equipped with remote monitoring meters which is a strong foundation for next developments:

100% of Utilitas clients are equipped with remote meters

- Opportunity to increase efficiencies of client substations to reduce client's heat expenses as well as overall network efficiency and reduction of heat losses;
- Better modelling of demand patterns to optimize management of network heat supply;
- Investments into modern substations to reduce peak energy demands of buildings which in turn enable to optimise energy production mixes;
- Clear overview of detailed consumption and energy production statistics for clients;
- Introduction of new smart solutions for clients with 24/7 data availability - better demand management enables to reduce peak demands by up to 20%. This is equivalent to about 150 MW of installed capacity that does not have to be developed if peaks are lowered.



In order to enhance customer experience and provide relevant real time information of clients' heat statistics as well as carbon footprint, an important development in 2021 was the launching of client self-service environment. Clients can now see the actual carbon footprint of energy supplied to them and from which fuel source heat was produced, as well as heat consumptions statistics together with comparison to other similar buildings. This helps to identify inefficient client substations and provides simple opportunities for energy saving by replacing or renovating the inefficient clients substations. Utilitas is developing a program to enable clients to replace outdated substations with modern solutions.



SELF SERVICE INTERFACE

UTILITAS

Vali hoone: **Korruselamu** | Vali aasta: **Kõik**

Hoone tüüp: **Korruselamu** | Kõnetav pind (m²): **-** | Suletud netopind (m²): **1260** | Hoone kütmise: **Jah** | Tarbevee soojendamise: **Jah**

Tegelik energiatarbimine (MWh)*

Aasta	jaan	feb	märts	aprill	mai	juuni	juuli	august	sept	okt	nov	det	Kokku
2018	151,72	161,30	155,46	95,62	34,69	23,87	20,16	21,20	28,32	94,49	119,71	159,81	1066,35
2019	174,94	137,03	137,77	96,91	51,85	22,29	22,32	22,63	39,05	91,78	120,76	124,35	1031,68
2020	126,32	128,56	126,29	99,89	55,96	23,01	23,28	22,75	25,34	78,57	109,13	148,03	967,13
2021	159,50	154,17	136,86	110,22	48,68	21,96	19,42	23,62	54,74	88,58	126,97	165,16	1109,88
2022	144,35	125,74	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	270,09

Tegelik energiatarbimine ruutmeetri kohta ehk erikulu (kWh/m²) *

Hoone hinnapiirkonna CO₂ heitetus ja hoone soojusenergia tarbimise CO₂ heitkogus

Aasta	Hoone soojusenergia tarbimise CO ₂ heitkogus	Hoone hinnapiirkonna CO ₂ eriheitetus
2018	141	0,132
2019	107	0,103
2020	70	0,073
2021	98	0,088

Hoone hinnapiirkonna soojuse tootmise jaotus kütuseliigiti

Aasta	Puiduhake, %	Olmeprügi, %	Heitsoojus, %	Maagaas, %	Põlevkiviõli, %	Kerge kütteeõli, %	Turvas, %
2018	35%	14%	49%				
2019	44%	15%	39%				
2020	54%	17%	28%				
2021	45%	19%	34%				

Fair and transparent energy price

A key element of a sustainable energy solution is affordability. District heating pricing is transparent and the heat tariffs are approved in accordance with the District Heating Act by the Competition Authority.

The end of 2021 saw unprecedented increases in energy prices. Despite the nearly 6 times price increases for natural gas through 2021, the heat tariffs in Utilitas networks at year end remained up to 2-3 times lower in comparison to networks which have not made the switch to renewables and rely fully on natural gas. It can be observed that the heat price levels are directly correlated with the level of the switch to renewables whereas network density and age also plays an important role.

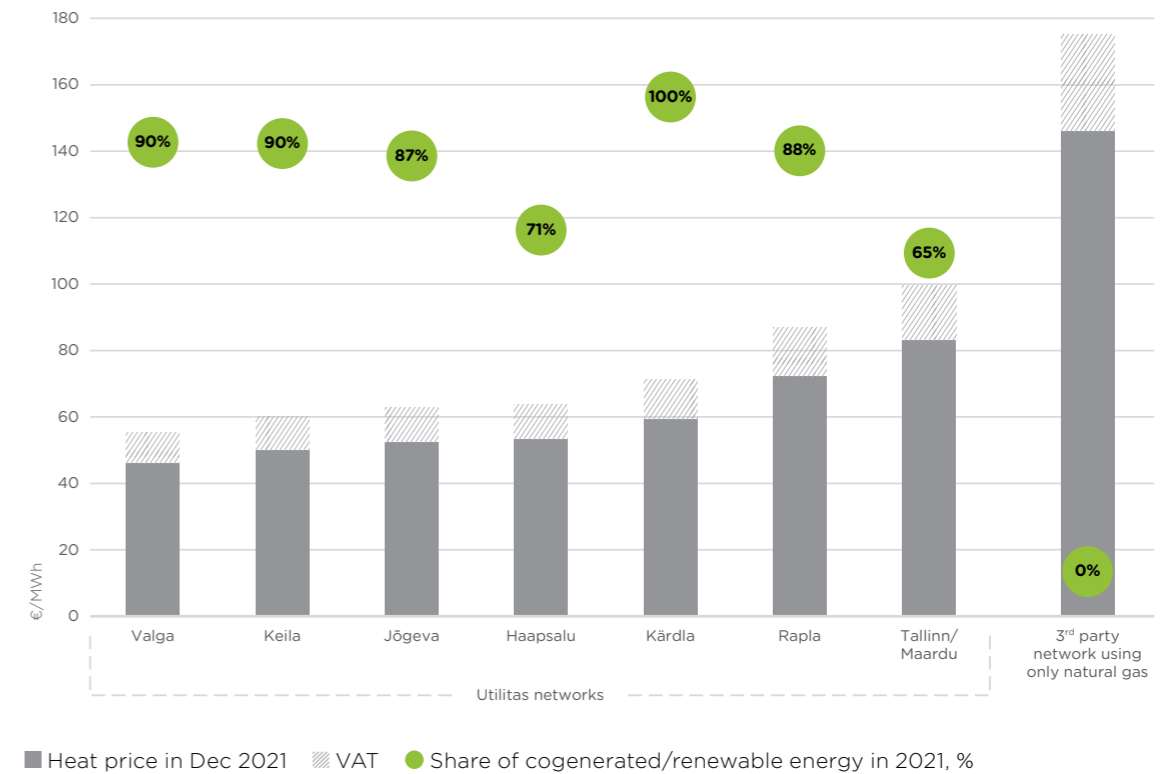


Figure 23. Heat tariffs in Utilitas networks as of 31.12.2021 and comparison to natural gas based network tariff

The state during 2021 and 2022 introduced measures which compensate high energy prices for local residents. But in the longer term we cannot rely or expect state interventions to ensure affordable price levels for clients and hence it is vital to transform the networks to renewable sources as soon as possible. Connection to sustainable district heating also reduces supply risks and price volatility. However, transitioning to a sustainable energy system is a long journey. Last year and the beginning of 2022 assured that Utilitas is on the right path and urgent long-term sustainable investments are crucial for increasing energy security and stable price together with environmental protection. Invasion of Ukraine even more highlighted energy dependency risks in relation to Russia. The energy sector is facing challenging times and needs to urgently shift from Russian gas to sustainable yet secure energy solutions.

Maximizing the usage of renewable heat sources ensures lower heat prices for customers

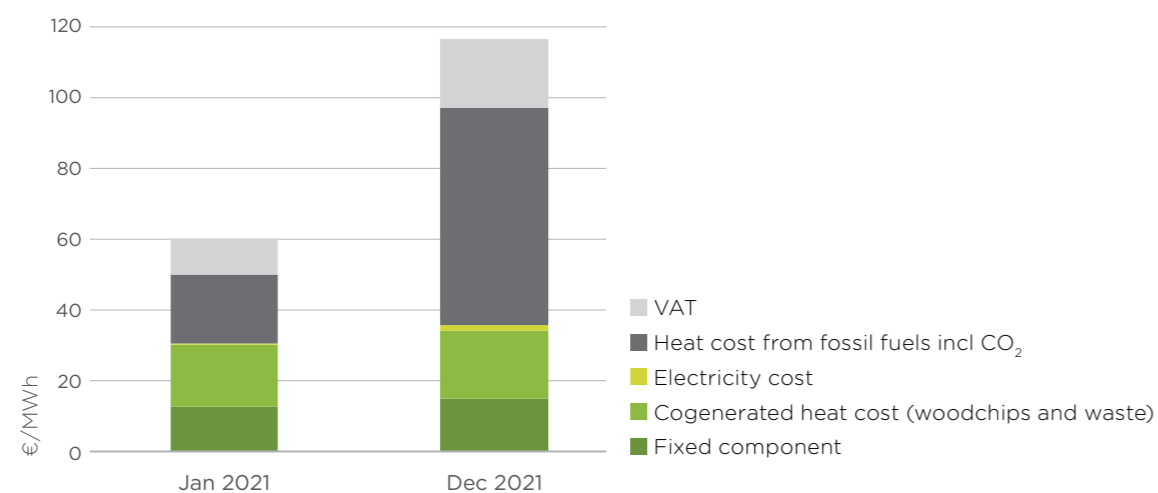


Figure 24. Development of Utilitas Tallinn heat price in 2021

The chart clearly illustrates the reasons for the heat tariff increases during 2021 with the example of Tallinn which saw the highest price increase in 2021 – effectively the fossil fuel related price component was at year end higher than the previous total price paid by residents (including VAT). The second biggest heat tariff component is VAT and fixed costs are the smallest component (which covers salaries, depreciation charges and justified profitability). By replacing fossil fuels with local renewable sources there is very clear potential to also ensure lower prices to clients in the future.

QUALITY AND CONTINUITY

Ensuring availability of continuous service to customers is a major everyday responsibility for the energy sector as a whole. It is a combination of secure and reliable supply with a reasonable price.

The expectations of consumers for undisrupted energy supply is constantly increasing as the demand and dependence on energy is ever-increasing. The biggest challenge is to satisfy increased need for energy in winter when the load on electricity and heat networks and production equipment is the heaviest. December 2021 saw extremely cold temperatures of below -20 degrees Celsius in Estonia and Utilitas managed to continue uninterrupted heat supply in these challenging circumstances. Interruptions in heat supply on colder winter days may cause big social problems but also damage the network system, as in the worst-case scenario, the pipelines could freeze and burst. During winter period, energy from local biomass is currently supported by fossil fuels to keep up with the demand.

District heating also has an important role in ensuring the reliability of electricity networks – by using district heating, there is no need to additionally load the electricity network for the heating of buildings via electric radiators. As a result the need for investing into electricity production equipment and networks is significantly reduced.

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 is strictly regulated by laws and regulations. Utilitas must perform regular risk analyses and 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 consistently. All group district heating companies have also introduced principles of the ISO 9001 quality management standard which are regularly audited. In addition, external certification of the Environmental Management Systems is considered good industry practice, which can help reduce potential risks and improve performance.

Operation and maintenance of assets is handled by a combination of in house operations personnel and external specialist sub contractors. Day to day operations, 24 hour a day asset monitoring and general maintenance is carried out internally whilst heavy maintenance and specialist activities are undertaken by specialist contractors. Each item of equipment has its own maintenance and replacement programme which is tracked by the teams at a plant level.

■ Utilitas ensures security of supply with the following solutions:

- Contingency plan

Detailed action plans are in place to ensure continued provision of district heating service in the case of technical failures, extreme weather conditions or interruptions in the electricity or fuel supply. Plans are in place to replace natural gas with alternative fuels in case of problems with gas supply and or excessive prices. Employees and members of the management board have been appointed who are responsible for carrying out action plans if an emergency occurs. In case of interruptions Utilitas 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 capable of using 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 an interruption risk 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. Regular maintenance of boiler plants and repairs in network system is done to reduce the need for emergency repairs.

Maintenance management follows the principles of:

- preventative approach (inspections in line with equipment/supplier recommendations);
- corrective approach (repair of equipment to reduce unplanned downtime) and;
- predictive approach (use of diagnostics, vibration measurement through specialist partners).

Utilitas has a Computerised Maintenance Management System called Minimo, which is used to track and record maintenance activities down to individual component level. The business also has a number of service contracts for equipment for which regular

maintenance is required. These agreements include agreed response times during which the service provider must address the defect and repairs.

■ Human factor

Qualifications of operators and employees is always kept up to date by training programs. System reliability weak points and incidents are continuously being analysed together.

All Utilitas operated CHPs achieved above 98% availability in 2021 with operating efficiencies close to 100%

■ Uninterrupted Supply

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).

Networks of Utilitas are provided with reserve fuel tanks and production equipment – these are measures not usually used in heating solutions of individual buildings. In addition, heat pipelines in Tallinn form a connected circle in the city, meaning that buildings at one end of the heat network can be supplied with heat from production equipment located at the other end of the city.

Utilitas Mustamäe cogeneration plant that was completed in 2019 can be put into operation in the case of an extensive interruption in electricity supply and it can be operated independently without the need of being connected to the electricity network. Installation of a backup generator at Vão stations is also in process and it is important for additionally reducing energy supply interruption risks in situations of electricity network failures.

Cogeneration plants operating at base load also have a very important balancing role in energy security as they operate at base load and also provide electricity and heat when there is no wind or sunshine. Advantages of a cogeneration plant is that it provides

controllable heat and electricity output which promotes price stability and a continuous flow throughout the year.

Average 99.99% availability of district heating service for customers in 2021



Ensuring continuity has been one of the main challenges in recent years, as the company has had to cope with managing the risks arising from the coronavirus outbreak and in 2022 also the war in Ukraine. All principles and hybrid working conditions that got introduced in 2020 continue and no major outbreaks have happened among the staff, continuous supply of energy has been ensured. After the sharp gas and energy price increase in the end of last year, quick solutions have been investigated for replacing gas. Incineration analyses with shale oil were made to determine technical readiness of using it as an alternative fuel source. The conclusion was that using oil shale is possible, but it increases greenhouse gas emissions. On the other hand, its supply is of local origin and more secure. The process for analysing scenarios of how fast and when the transition from gas to oil shale or any other fossil fuel can be undertaken is continuously being worked on as the market conditions change. In the longer term the carbon neutrality investment plan will phase out fossil fuel completely and it is vital to proceed with these investments at an accelerated pace in co-operation with all stakeholders.



■ Supporting the 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. Both the City of Tallinn and AS Utilitas Tallinn can plan their activities on the basis of this plan.

One focus point of this development plan is to reconstruct the district network system at an accelerated pace in order to ensure the energy supply security as well as reduce heat losses and negative impact on the environment. The recommendation made as a result of the analysis was to replace the old network that was built before 1995 in its entirety by 2035. Utilitas aims to complete this goal, which means that on average 14-15 km of network must be replaced each year.



By the end of 2021, Tallinn had 478 km of district heating network from which 62% is new or reconstructed (2020: 470km and 58%; 2019: 461 km and 54%). Goal: 100% by 2035

Utilitas expanded this goal to reconstruct all heat networks managed by Utilitas all over Estonia by 2035. By the end of 2021, networks managed by Utilitas was 556 km from which 64% was reconstructed or new (2020: 547 km and 60%)

Utilitas heat network renovation and expansion reached 28 km in 2021 (30 km in 2020). Construction works were done outside the heating season to have a minimum disturbance for clients. Works were conducted in seven cities across Estonia and these improved the energy supply security and lowered environmental impacts of approximately 600 customers. Biggest project in 2021 was in Väike-Õismäe, Tallinn, where

over 15 km of pipeline was replaced during the last two years. The switch of Ülemiste City area from natural gas to district heating was initiated and 1.3 km of district heating and cooling pipelines were constructed for this. Among others new connections were Radisson Blu Sky Hotel, Avala business quarter, four Lidl grocery stores, Espak store in Rapla, Keila railway station, Kärda sports centre and many different residential areas that are now better secured and with a lower environmental footprint.

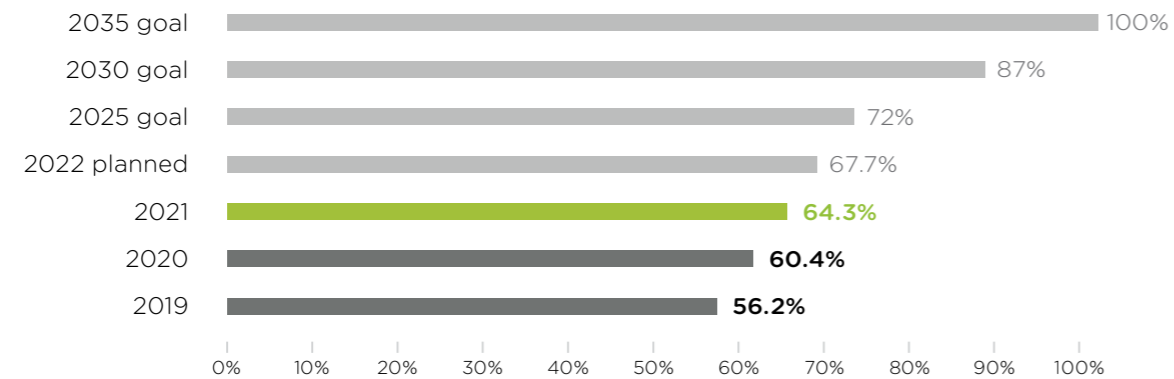


Figure 25. Share of reconstructed district heating networks, incl. goals, of the Utilitas Group

COMMUNITY RELATIONS AND SUPPORT ACTIVITIES

Utilitas' energy production units are mainly located near high density residential areas. We fully understand our's responsibility to local communities and seek to provide safety, necessary information, get feedback and promptly resolve any issues. In order to give closer view of the energy sector operations and to ensure transparent communication Utilitas organizes Site Tours and Open Door Days on its production sites. But due to COVID-19 visits were put on hold in 2021.

As energy production may involve odour, dust, noise, transportation related disturbances of other nuisances, the company gives high attention to preventive work in order to exclude hazard risks that can highly influence surrounding areas and people. No significant complaints or accidents regarding nearby areas were registered in 2021.



With Utilitas acquiring ownership in AS Tallinna Vesi and being involved in the company management since last year, construction works related to water and district heating underground networks can be better coordinated. This means that overlapping areas where both works are needed can be done together and therefore people living nearby do not have to be disturbed twice.



In cooperation with sponsorship partners, Utilitas has better possibilities to inform the residents about the importance of renewables and clean energy and the necessity of reducing energy consumption related to buildings.

Utilitas' sponsorship policy is built on the core values of the Group. We welcome mutually beneficial sponsorships that enrich residents' lives, contribute to environmental sustainability, or create innovative solutions. Utilitas primarily supports the projects connected to its business regions, and long-term sponsorships are preferred for corporate consistency.

Since 2013 Utilitas has had successful cooperation with one of the popular Estonian team sports, basketball. As the main sponsor of the Estonian national basketball team and the name sponsor of the Rapla team, we contribute to the constant growth of this sport with the great traditions that connect people and communities and benefit a healthy lifestyle.

Since 2016, Utilitas cooperates with Tallinn City Theatre, which is embracing environmentally friendly management and contributes toward the environmentally sustainable concept of "Green Theatre".

Since 2011, Utilitas has contributed to supporting the development of young track and field athletes included in the Utilitas progeny team. The team is planned as a long-term project which forms an integral part of the achievement sport structure of Estonian athletics.

Another young athlete, Henry Sildaru, is also one of the Utilitas' sponsored partners, whose passion for freestyle skiing brings us together and helps draw attention to the climate changes that affect the seasons, including winter conditions.

Utilitas continues supporting the 'Gift of Life' cancer treatment foundation and other charities.

In cooperation with Prototron, the start-up facility for prototype construction, Utilitas creates opportunities for financing and assisting ideas in green and environmental technology and the energy sector.

GOVERNANCE



RESPONSIBLE GOVERNANCE



Utilitas promotes a simple organisational structure throughout the company that is characterised by honest management principles, leadership, little hierarchy, clear and simple work instructions, trust and consensual decision-making in the management. This is exemplified by the core value of the Group - achieve best outcomes as a result of dedicated cooperation between proficient people.

Zero tolerance towards unethical or dishonest behaviour is set in the organisation. Utilitas regularly performs tenders for its purchases and investments in order to ensure best terms but also to minimize any potential corruption risks.

Open and transparent operation principles in the Group are based on:

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

SUSTAINABILITY GOVERNANCE

Responsibility for Environment, Health and Safety (EHS) matters lie with the management team of each Utilitas subsidiary, the Utilitas Environmental Manager and the subsidiary Quality and Environmental departments. Quality and environmental departments report to the Environmental Manager.

Utilitas has established periodic management board reviews, during which the current state of the long and short-term business objectives is reviewed by reflecting key operational performance indicators. Previously made reviews are looked over by considering changes in external and internal activities, relevance of management principles, resource adequacy, non-compliances, potential risks, improvement opportunities, occupational health and safety items and an overview of the environmental council. Key operational performance indicators tracked can somewhat vary between business units due to the

different activities conducted within each unit. Comprehensive EHS procedures are in place that include internal and external audits.

Board members conduct regular visits to departments and units to get direct overviews on how measures and procedures are applied.

Utilitas has certified standards in place among all subsidiaries to ensure sustainable business practices in each topic:

- Environmental Management system ISO 14 001;
- Occupational Health and Safety Management system ISO 45 001;
- Quality Management system ISO 9 001.

Key operational performance indicators regularly tracked by Utilitas include

- Production Efficiency (%)
- Electricity own Consumption (kWh/MWh)
- Water Consumption (% of Network Volume and mo)
- Planning and Unplanned Interruptions (Number and Duration)
- Emissions Compliance
- Water Quality
- Network Performance (Temperature and Hydraulics)
- Heat Losses (GWh and %) Average Network Age (Years)
- Complaints
- New Connections (MW and Number of Buildings/Connections)
- Disconnections (MW and Number of Buildings/Connections)
- CO2 Emissions (tonnes per annum)

RISK MANAGEMENT

As a provider of a vital service, Utilitas must perform regular risk analyses to follow the Emergency Act and regulations of local governments. Detailed action plans have been developed on how to restore the operation of companies if risk scenarios should materialise. These include measures on continuously providing district heating service in the case of technical failures, extreme weather conditions or interruptions in the electricity or fuel supply. Employees and members of the management board have been appointed who are responsible for carrying out these plans if necessary. This topic has been described in more detail in the 'Quality and continuity' chapter in this report.

FINANCIAL RISKS MANAGEMENT

In its daily activities, the Group needs to consider various financial risks. The key risks include market risk (including interest rate risk and foreign exchange risk), liquidity risk and credit risk.

Interest risk

Interest risk arises from interest rate changes in the financial markets because of which it may be necessary to revalue the Group's financial assets and take into consideration higher financing costs in the future. In order to reduce interest rate risk, Utilitas finances its activities with long-term (maturity in 2047) and fixed rate (4.99%) loans.

Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group's foreign exchange risk is related to purchases done. Majority of Group's purchases are made in euros. Because of the minimal proportion of transactions in foreign currencies the Group has not taken any special activities to reduce this risk.

Credit risk

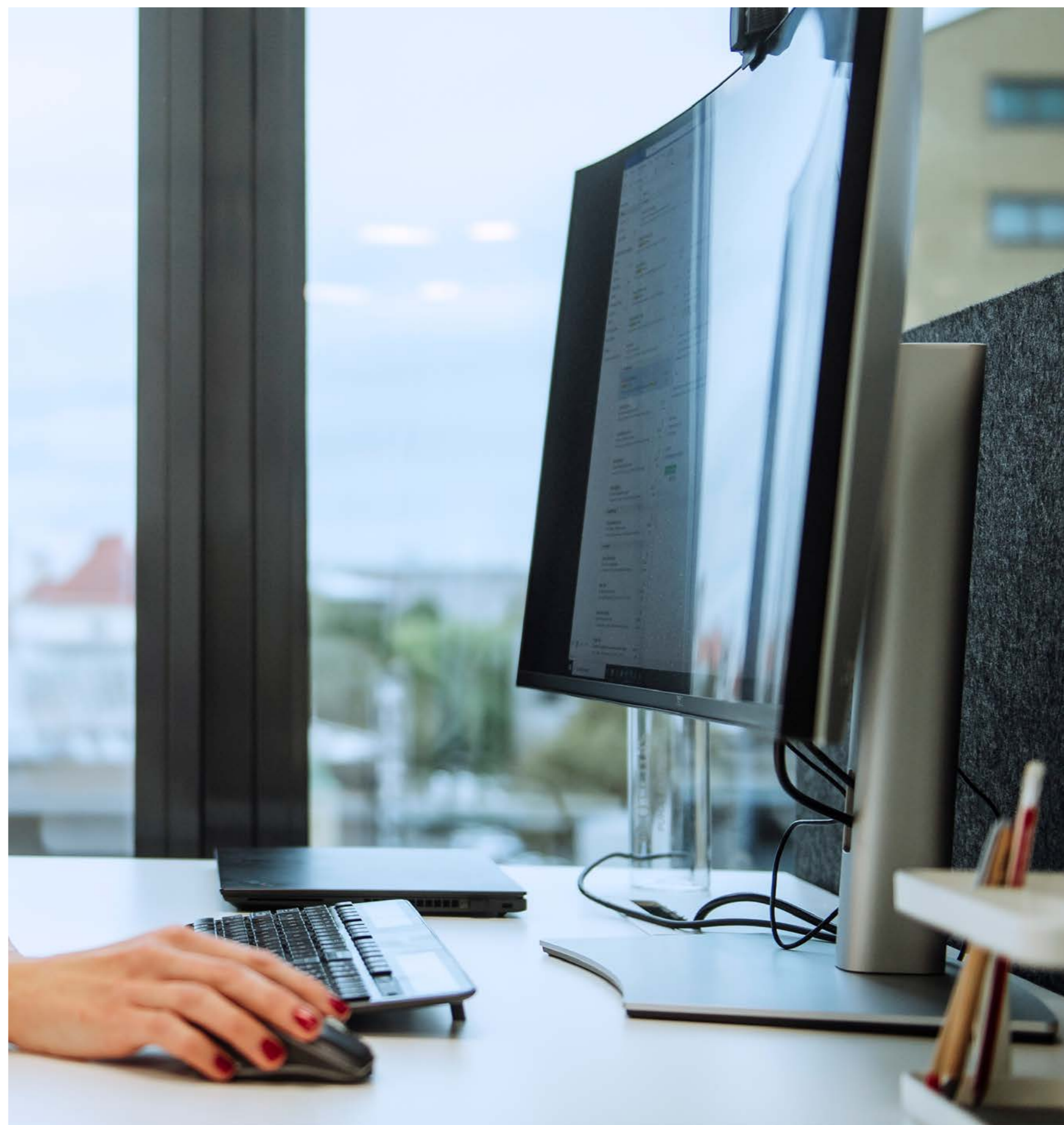
Credit risk relates to a potential damage which would occur if the parties to a contract are unable to fulfill their contractual obligations. Sales of products and services are done in compliance with internal procedures. To reduce credit risk related to accounts receivable the customers payment discipline is consistently observed. Customers who have exceeded the payment deadlines are handled personally in order to find solutions. Write-offs levels for bad debts are minimal.

According to the Group's risk management policies the short-term cash resources can be deposited only in accounts, overnight deposits and fixed term deposits opened in respectable credit institutions. As of December 31, 2021, the Group did not have any fixed term deposits (31.12.2020: EUR 300 thousand).

As at balance sheet date, the loans granted to joint ventures amounted to EUR 11,000 thousand (31.12.2020: there were no loans granted), as the Group has a solid overview and co-operation with the joint ventures then no additional collateral for the loans is required. As of 31 December 2021 and 31 December 2020, there were no loans granted to unrelated parties.

Liquidity risk

Liquidity risk is the risk that the company is unable to fulfill its financial obligations due to insufficient cash funds. This risk realizes if the company does not have enough funds to serve its loans, to fulfill its working capital needs and to perform necessary investments. As at 31 December 2021, the Group's current ratio was 1.46 (31.12.2020: 3.89). In addition to available cash balances and in order to ensure additional liquidity and manage cash flow seasonality, the Group has concluded an overdraft agreement with SEB bank in the total amount of EUR 15,000 thousand. In liquidity risk management the Group has taken a prudent view, maintaining sufficient cash balances in order to be able to fulfill its contractual obligations at every moment of time. Continuous cash flow forecasting and control are essential tools in the day-to-day liquidity risk management of the Group.



ESG risks relevant for Utilitas and measures for mitigating them:

Type of risk	Risks	How we mitigate the risk
Environmental	<ul style="list-style-type: none"> Climate change related risks Ability to develop and execute ESG and carbon neutrality strategies Lack of raw materials incl fuels Aging of operational assets, unplanned interruptions of DH networks or energy production facilities; tendering 	<ul style="list-style-type: none"> Performing regular risk analysis; increasing resilience of the energy production and delivering systems Due to increased CO₂ and natural gas prices the need to complete the full switch to renewables is increasingly urgent Keeping the reputation as a reliable partner Continuous monitoring of environmental performance, investments into assets, good cooperation with the regulatory authority
Social	<ul style="list-style-type: none"> Decrease in customer satisfaction Workplace accidents of employees and contractors Ability to keep being an attractive employer for current and potential employees (including university graduates), aging workforce 	<ul style="list-style-type: none"> Client engagement studies including questions as to how can we improve the service offering; Utilitas is also focused on having a positive and socially responsible reputation by promoting renewable energy and clean environment as well as contributing to local initiatives Working Environment council in place, regular risk assessments and awareness raising, analysis of any accidents and modification of rules if possible/necessary Engagement surveys and internship programs, employer branding, automatization, attractive remuneration packages
Governance	<ul style="list-style-type: none"> Financial risks incl credit risk and liquidity risk Ability to comply with environmental rules and regulations; public perception of environmental issues and Utilitas Cyber- terrorism, cyber security risks Unfavorable changes in regulations/legislations 	<ul style="list-style-type: none"> Open and active dialogue with financiers Developing internal know-how and including experts if necessary Dedication of in-house resources and engaging IT consultants; IT audit Active participation in any regulative/ political discussions. Active membership in sector associations

In addition to monitoring direct 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 change as well as activities to minimise the impacts of those risks. Measures for preventing potential negative outcomes together with mitigating negative impacts are set and regularly reviewed. By carrying out efficient risk management, the likelihood and impact of negative outcomes is decreased. The main risk management measures have been described in the corresponding chapters of the report.

CONTRIBUTION TO THE DEVELOPMENT OF THE SECTOR

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



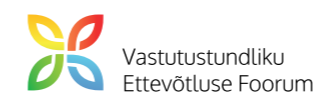
The Estonian Renewable Energy Association (EREA) unites Estonian organisations active in the field of renewable energy under one roof with the mission to advance and develop the field.



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 Leapjump started the development of Estonia's 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. Utilitas has signed the initiative principles to promise building a better tomorrow.

COOPERATION WITH EDUCATIONAL ESTABLISHMENTS

A future generation of engineers in the energy sector is very important due to the rapid development of new renewable energy technologies. Good education and extensive knowledge are paramount for carrying out major energy shifts needed. Similarly to the sector as a whole, the popularisation of thermal engineering speciality also constitutes a big challenge for Utilitas. New generation of workforce is needed as current employees age and labour shortages increase in Estonia. Therefore, the Group has to compete with other business sectors that are attractive to students. Fortunately, the popularity of the energy sector might grow in the future as environmental issues are gaining importance in the society and especially amongst young people.

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

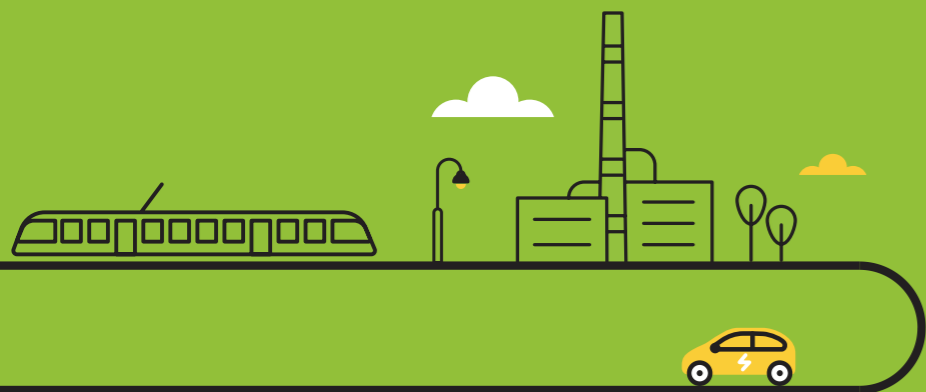
It is also important for Utilitas to support talented young people that have already chosen to pursue a career in the field of energy. Therefore, Utilitas is engaged in long-term cooperation with TalTech in order to ensure the continuity of engineering education in Estonia:

- Representatives of Utilitas participate in programme councils;
- Group companies take part in career events and offer paid traineeship positions for young people to facilitate learning of practical skills needed for becoming professional;
- 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 are interested;
- To motivate successful students of the School of Engineering, Utilitas grants Clean Energy scholarships.
- Three stipendiums were given to Bachelor and two to Master level students in 2021.

As the popularity of engineering education starts from strong and interesting teaching of STEM subjects in general education schools, Utilitas continues to cooperate with the Youth to School educational programme. In this program, special attention is given to engage young mathematics and physics teachers. In addition, Utilitas site tours are made for students to arouse interest. Unfortunately, these were postponed in 2021 due to COVID-19 but will be continued once the infection situation gets better.



CONSOLIDATED FINANCIAL STATEMENTS



CONSOLIDATED BALANCE SHEET

IN EUR THOUSAND	Note	31.12.2021	31.12.2020
ASSETS			
Current assets			
Cash and cash equivalents	2	19,331	39,711
Receivables and prepayments	3	46,351	21,731
Inventories	4	3,146	4,245
TOTAL CURRENT ASSETS		68,828	65,687
Non-current assets			
Other non-current financial investments		0	692
Investments in associates	6	58,643	0
Non-current receivables and prepayments	3	11,028	31
Property, plant and equipment	7, 8	325,585	305,083
Intangible assets	8, 9	22,423	14,799
TOTAL NON-CURRENT ASSETS		417,679	320,605
TOTAL ASSETS		486,507	386,292
LIABILITIES AND EQUITY			
Current liabilities			
Finance leases	8, 10	1,795	1,393
Payables and prepayments	11	45,396	15,478
TOTAL CURRENT LIABILITIES		47,191	16,871
Non-current liabilities			
Borrowings	10	277,701	229,701
Finance lease	8, 10	36,033	37,385
Payables and prepayments	11	0	64
Provisions	12	234	224
TOTAL NON-CURRENT LIABILITIES		313,968	267,374
TOTAL LIABILITIES		361,159	284,245
Equity			
Share capital	13	7,650	7,650
Retained earnings		117,698	94,397
TOTAL EQUITY		125,348	102,047
TOTAL LIABILITIES AND EQUITY		486,507	386,292

The Notes on pages 92 to 114 form an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

IN EUR THOUSAND	Note	2021	2020
Revenue			
Sales revenue	14	159,912	124,836
Other income	15	980	2,477
TOTAL REVENUE		160,892	127,313
Cost of goods and services sold			
Cost of goods and services sold	16	-83,909	-58,556
Other operating expenses	17	-3,611	-2,957
Payroll expense	18	-11,619	-10,423
Depreciation, amortisation and impairment	7, 9	-19,781	-18,424
Other expenses		-23	-16
Operating profit		41,949	36,937
Financial income and expenses			
Share of net profit of associates accounted for using the equity method	6	1,734	0
Interest expense	10	-16,058	-14,241
Other financial income and expenses		1,164	-112
TOTAL FINANCIAL INCOME AND EXPENSES		-13,160	-14,353
Profit before tax		28,789	22,584
Income tax	13	-488	-814
NET PROFIT FOR THE PERIOD		28,301	21,770

The Notes on pages 92 to 114 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

IN EUR THOUSAND	Note	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		41,949	36,937
Adjustments:			
Depreciation and impairment losses of property, plant and equipment and intangible assets	7, 9	19,781	18,424
Profit (loss) from sale of non-current assets	7	0	-6
Change in receivables and prepayments related to operating activities	3	-24,855	-2,389
Change in inventories	4	1,100	125
Change in payables and prepayments related to operating activities	11	28,082	-3,547
Interest paid	10	-14,835	-15,165
Income tax paid	13	-488	-814
Total cash flow from operating activities		50,734	33,565
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets	7, 9	-37,158	-29,330
Proceeds from sale of property, plant and equipment and intangible assets	7	110	6
Acquisition of investments in subsidiaries	5	-8,435	0
Acquisition of investments in associates	6	-58,566	0
Purchase of other financial investments		-13	-692
Loans granted	3, 21	-11,028	0
Interest received		4	3
Dividends received	6	2,647	0
Total cash flow from investing activities		-112,439	-30,013
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans received	10	48,000	25,000
Payment of finance lease liabilities	10	-1,575	-1,121
Other payments from financing activities		-100	-115
Dividends paid	13	-5,000	-5,000
Total cash flow from financing activities		41,325	18,764
TOTAL CASH FLOWS		-20,380	22,316
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	2	39,711	17,395
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2	19,331	39,711

The Notes on pages 92 to 114 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 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
Dividends paid	0	-5,000	-5,000
Net profit for the period	0	28,301	28,301
Balance as at 31 December 2021	7,650	117,698	125,348

Additional information regarding share capital and other owners' equity entries is disclosed in Note 13.

The Notes on pages 92 to 114 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 2021 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.

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.

On the acquisition of the company, if the acquirer did not acquire a business, the transaction has to be accounted for as an asset acquisition. For the recognition of the acquisition (the purchase), the cost of the acquisition is to be allocated to the individual identifiable assets (and liabilities) on the basis of their relative fair values at the date of purchase. The transaction does not give rise to goodwill.

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.

Associates

An associate is an undertaking over which the Group has significant influence, but that it does not control. Generally significant influence is assumed to exist if the Group owns 20%-50% of voting shares or units of the undertaking.

Investments in associates are recognised in consolidated financial statements in equity method; according to this, the initial investment is adjusted with the profit/loss received from the undertaking and received dividends. Unrealised gains occurred in transactions with the associate are eliminated in proportion to the holding in the undertaking. Unrealised gains are also eliminated, except in case when the loss is caused because of impairment loss. In case the company's holding in the loss of the associate recognised by equity method is equal or exceeds the carrying amount of the associate, the carrying amount of the investment is reduced to zero and further losses are recognized outside the balance sheet. In case the undertaking has guaranteed or is obliged to satisfy the liabilities of the affiliate, the respective liability and the loss in the equity method is recognized in the balance sheet. If necessary, the accounting policies of the associate are adjusted so that they comply with the Group accounting policies.

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 Elektriiaam 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.

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 I).

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 7, 8 and 9. 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, building rights, connection agreements) 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, building rights, connection agreements 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 I).

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.

Building rights, connection agreements

Building rights are amortised from the receipt of permission for the start of construction works. Before the completion of the assets, the amortisation expense on building rights is recognised as part of the cost of the assets. Building rights are amortised on a straight-line basis until the expiry of the rights of superficies.

Connection contracts are amortised from the date of completion of construction of the respective asset. The connection contract is amortised on a straight-line basis until the expiry of the rights of superficies.

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 13 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	31.12.2021	31.12.2020
Bank accounts	19,331	39,411
Term deposits (with maturities of less than 3 months)	0	300
TOTAL CASH AND CASH EQUIVALENTS	19,331	39,711

■ Note 3 Receivables and prepayments

Current receivables and prepayments

IN EUR THOUSAND	31.12.2021	31.12.2020
Trade receivables	44,303	21,073
Inc. Accounts receivables	44,309	21,083
Allowance for doubtful receivables	-6	-10
Prepaid taxes and receivables for reclaimed taxes	3	2
Other current receivables	51	197
Receivables from related parties (Note 21)	1,284	0
Prepayments for services	710	459
TOTAL CURRENT RECEIVABLES AND PREPAYMENTS	46,351	21,731

During the reporting period, allowance for doubtful receivables decreased EUR 4 thousand (2020: the reserve decreased EUR 14 thousand; see Note 17). In 2021 no receivables were written-off (2020: EUR 9 thousand). During the reporting period, income from previously written-off receivables in the amount of EUR 11 thousand was recognised (2020: EUR 5 thousand; see Note 15).

Non-current receivables and prepayments

IN EUR THOUSAND	31.12.2021	31.12.2020
Non-current prepayments	28	31
Loans granted	11,000	0
TOTAL NON-CURRENT RECEIVABLES AND PREPAYMENTS	11,028	31

Utilitas OÜ provided a shareholder loan amounting to EUR 11,000 thousand to Utilitas Wind OÜ with a fixed interest rate of 5,5% per annum and repayment term of 7 years (see Note 21).

■ Note 4 Inventories

IN EUR THOUSAND	31.12.2021	31.12.2020
Raw materials and consumables	1,598	1,665
Fuel	1,530	2,573
Prepayments for inventories	18	7
TOTAL INVENTORIES	3,146	4,245

During the reporting period, inventories were discarded in amount of EUR 12 thousand (2020: in amount of EUR 10 thousand). In 2021 no inventories were written down (2020: in amount of EUR 7 thousand EUR).

■ Note 5 Subsidiaries

As at 31.12.2021 OÜ Utilitas owned shares of the following subsidiaries:

Subsidiary	Area of activity	Ownership 31.12.2021	Ownership 31.12.2020
OÜ Utilitas Tallinna Elektriijaam	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%
OÜ Tuulepealne Maa	Development of wind parks	100%	0%

All subsidiaries are established and operate in Estonia.

In April 2021, Utilitas acquired a 100% holding in Tuulepealne Maa OÜ which develops Saarde and Aseri wind parks in Estonia. At the date of acquisition, the company did not have any substantive processes and did not produce any outputs (wind energy). Accordingly, the transaction did not constitute acquisition of a business and thus is accounted for not as a business combination but as an asset acquisition. In the course of the acquisition, intangible assets in the form of building rights and connection agreements were accounted for in the amount of 8,492 thousand euros (see Note 9) and property, plant and equipment in the amount of 166 thousand euros (see Note 7).

■ Note 6 Associates

In February 2021, Utilitas together with UG Investments OÜ established a joint venture Utilitas Wind OÜ to acquire and develop non-combustible renewable projects in Estonia and other Baltic countries. The investment has been classified as associated company as shareholders have shared joint control over the company.

IN EUR THOUSAND	31.12.2021
Establishment expenses	5
Contribution to share capital*	990
Reporting period's loss calculated under the equity method	-275
Investment in associate at the end of the year	720

*In December 2021, as part of the restructuring and streamlining of wind assets, total of 990 thousand euros worth of wind projects were transferred as a non monetary share capital contribution.

Financial information about the associate Utilitas Wind OÜ (reflecting 100% of the associate):

IN EUR THOUSAND	31.12.2021
Current assets	5,974
Non-current assets	37,738
Current liabilities	4,003
Non-current liabilities	37,936
Owners' equity	1,772
Revenue	14
Net profit (loss)	-559

During 1st half of 2021, Utilitas OÜ acquired ownership of 20,36% interest in Tallinna Vesi AS which is the largest water utility company in Estonia providing drinking water and wastewater disposal services in Tallinn and neighboring municipalities.

IN EUR THOUSAND	31.12.2021
Purchase price	58,561
Dividends received	-2,647
Reporting period's profit calculated under the equity method	2,009
Investment in associate at the end of the year	57,923

Financial information about the associate Tallinna Vesi AS (reflecting 100% of the associate):

IN EUR THOUSAND	31.12.2021
Current assets	43,898
Non-current assets	212,275
Current liabilities	15,490
Non-current liabilities	88,022
Owners' equity	152,661
Revenue (01.04.2021-31.12.2021)	41,510
Net profit (loss) (01.04.2021-31.12.2021)	13,246

Note 7 Property, plant and equipment

IN EUR THOUSAND	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Payments on account and tangible assets in the course of construction	Total
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
Changes in the year 2021					
Acquisitions and improvements	128	785	664	38,075	39,652
Acquired through business combinations (Note 5)	0	0	0	166	166
Write-offs	-59	-79	-10	0	-148
Sales	-101	-187	-7	-491	-786
Reclassifications	28,395	4,573	0	-32,968	0
Other reclassification	0	-15	0	0	-15
Depreciation	-10,701	-7,396	-270	0	-18,367
Balance as at 31.12.2021					
Cost	259,319	164,082	2,303	13,711	439,415
Accumulated depreciation	-68,079	-44,532	-1,219	0	-113,830
CARRYING VALUE	191,240	119,550	1,084	13,711	325,585

Non-current assets include the assets rented under the rental and operating contract of AS Utilitas Tallinn with AS Tallinna Soojus in the amount of EUR 196,803 thousand (2020: EUR 178,199 thousand). The balance sheet value of the assets taken over initially from AS Tallinna Soojus upon the signing of the rental and operating contract amounted to EUR 4,108 thousand as of 31.12.2021 (2020: EUR 5,406 thousand), the rest is comprised of the residual value of the investments which have been undertaken by AS Utilitas Tallinn since inception of the rental and operating contract. AS Utilitas Tallinn has performed and will continue performing investments to replace the rented assets as well as construct additional non-current assets, which AS Tallinna Soojus will need to compensate in their residual value at the end of the rental period in case the ownership of the assets goes over to AS Tallinna Soojus.

Proceeds from sale of property, plant and equipment during the reporting period was in the amount of EUR 786 thousand (2020: EUR 6 thousand). Loss from write-offs of property, plant and equipment was EUR 148 thousand (2020: EUR 157 thousand).

Note 8 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 31.12.2020			
Cost	113,005,	333	113,338
Accumulated depreciation	-33,511	-232	-33,743
CARRYING VALUE	79,494	101	79,595
Changes in the year 2021			
Acquisitions, improvements and replacements	15,876	0	15,876
Write-offs	-52	0	-52
Depreciation	-5,819	-40	-5,859
Balance as at 31.12.2021			
Cost	127,115	246	127,361
Accumulated depreciation	-37,616	-185	-37,801
CARRYING VALUE	89,499	61	89,560

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 residual value of assets leased under the rental and operating contract amounted to EUR 88,836 thousand (31.12.2020 EUR 79,394 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	31.12.2021	31.12.2020
AS Tallinna Soojus (lessor) assets transferred upon the signing of rental and operating contract	4,108	5,406
Improvements during the rental period by AS Utilitas Tallinn (lessee)	7,226	7,839
Replacements during the rental period by AS Utilitas Tallinn (lessee)	77,563	66,250
CARRYING VALUE OF LEASED ASSETS	88,897	79,495

In addition non-current assets include other fixed assets related to the rental and operating contract with AS Tallinna Soojus in the amount of EUR 100,208 thousand (31.12.2020 EUR 92,544 thousand) which AS Utilitas Tallinn has additionally acquired during the rental period and which AS Tallinna Soojus will need to compensate in their residual value at the end of the rental period in case the ownership is transferred to the lessor at the end of the lease 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 7,759 thousand (2020: EUR 6,181 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

Contractual obligation from financial leasing

Present value of rental payments arising from the rental and operating contract with AS Tallinna Soojus amounted to EUR 37,314 thousand as of 31.12.2021 (31.12.2020: EUR 38,690 thousand). See note 10.

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 31.12.2021 the financial lease liability amounted to EUR 37,828 thousand (31.12.2020: EUR 78,778 thousand; see Note 10).

As at 31.12.2021 vehicles are being leased under financial lease with the carrying amount of EUR 663 thousand (31.12.2020: EUR 100 thousand).

Note 9 Intangible assets

IN EUR THOUSAND	Goodwill	Building rights and connection agreements	Other intangible assets	Total
Balance as at 31.12.2020				
Cost	22,839	0	1,760	24,599
Accumulated depreciation	-9,343	0	-457	-9,800
CARRYING VALUE	13,496	0	1,303	14,799
Changes in the year 2021				
Acquisitions and improvements	0	0	580	580
Acquired through business combinations (Note 5)		8,492	0	8,492
Other reclassification	0	-182	0	-182
Depreciation	-1,038	0	-228	-1,266
Balance as at 31.12.2021				
Cost	22,839	8,492	2,252	33,583
Accumulated depreciation	-10,381	-182	-597	-11,160
CARRYING VALUE	12,458	8,310	1,655	22,423

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 61 thousand (31.12.2020: EUR 101 thousand; see Note 8).

Note 10 Borrowings

IN EUR THOUSAND	Current balance 31.12.2021	Non-current balance 31.12.2021	Maturity	Contractual interest rate
Loans from parent company (Note 21)	0	277,701	2047	4.99%
Financial lease	1,795	36,033		
Inc. Rental and operating contract with AS Tallinna Soojus (Note 8)	1,675	35,639	2031	(discount rate) 9,60%
Other financial lease	120	394	2026	6 kuu euribor+ 1,30-1,35%
TOTAL	1,795	313,734		

IN EUR THOUSAND	Current balance 31.12.2020	Non-current balance 31.12.2020	Maturity	Contractual interest rate
Loans from parent company (Note 21)	0	229,701	2047	4.99%
Financial lease	1,393	37,385		
Inc. Rental and operating contract with AS Tallinna Soojus (Note 8)	1,376	37,314	2031	(discount rate) 9,60%
Other financial lease	17	71	2025	6 kuu euribor+ 1,30-1,35%
TOTAL	1,393	267,086		

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 additional loans were received from the parent company in the total amount of EUR 48,000 thousand.

The interest expense of the reporting period from loans received was EUR 12,646 thousand (2020: EUR 10,646 thousand) (see Note 21), the interest expense of the financial lease was EUR 3,319 thousand (2020: EUR 3,502 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 91 thousand (2020: EUR 93 thousand) and interest expense on working capital loan was 2 thousand (2020: EUR 0).

All Group debt liabilities are in EUR. Information about collaterals of loan liabilities is disclosed in Note 19.

■ Note 11 Payables and prepayments

Current payables and prepayments

IN EUR THOUSAND	31.12.2021	31.12.2020
Payables to suppliers	29,553	11,119
Payables to employees	159	163
Tax Liabilities	5,650	2,000
Incl. VAT	4,973	1,467
Social tax	293	240
Air contamination tax	180	126
Personal income tax	158	129
Income tax of special cases	16	13
Unemployment insurance	17	14
Obligatory pension payments	10	9
Excise tax	3	2
Other payables	245	238
Interest payable (Note 21)	1,223	0
Current provisions	1,660	1,658
Reserve for CO ₂ emission allowances (Note 16)	6,598	0
Prepayments received	308	300
TOTAL CURRENT PAYABLES AND PREPAYMENTS	45,396	15,478

Non-current payables and prepayments

IN EUR THOUSAND	31.12.2021	31.12.2020
Other payables	0	64
TOTAL NON-CURRENT PAYABLES AND PREPAYMENTS	0	64

■ Note 12 Non-current provisions

Provisions for possible environmental damage has been made in the amount of EUR 234 thousand (in 2020: EUR 224 thousand) and it is based on the rental and operating contract with AS Tallinna Soojus, which stipulates that all environmental damages which arose before the signing of the operating and rental agreement are covered by AS Tallinna Soojus and whereas AS Utilitas Tallinn will only 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 13 Share capital

	31.12.2021	31.12.2020
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 31.12.2021 and 31.12.2020, 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 FS Core Utilities S.à r.l.

IN EUR THOUSAND	31.12.2021	31.12.2020
Retained earnings	117,698	94,397
Potential dividends	94,567	76,657
Possible income tax on potential dividends	23,131	17,740

In 2021, EUR 5,000 thousand were paid as dividends (in 2020: EUR 5,000 thousand) and this resulted in an income tax expense of EUR 488 thousand (in 2020: EUR 814 thousand). This will result in the possibility of taxing the dividends to be paid in 2022 at a lower tax rate of up to EUR 4,000 thousand.

■ Note 14 Sales revenue

IN EUR THOUSAND	2021	2020
Consolidated revenue by geographical region		
Estonia	159,912	124,836
TOTAL	159,912	124,836
Consolidated revenue by activity		
Production and sale of thermal and electrical energy	142,680	101,278
Renewable energy subsidies	13,541	20,554
Other revenue	3,691	3,004
TOTAL SALES REVENUE	159,912	124,836

Compared to 2020, the sales of heat energy increased in the reporting year due to lower outdoor temperatures. Due to expiry of Vao1 combined heat and power plant's 12 year renewable electricity support scheme in 2021, the renewable energy subsidies declined overall in comparison to 2020.

■ Note 15 Other income

IN EUR THOUSAND	2021	2020
Profit from sale of property, plant and equipment	0	6
Fines and penalties received	8	6
Irrecoverable receivables collected (Note 3)	11	5
Sale of CO ₂ quotas	155	1,241
Government grants income	797	1,169
Other operating income	9	50
TOTAL OTHER INCOME	980	2,477

During the reporting period, sales of greenhouse gas emission units were carried out wherein the outstanding emission units of the current trading period were sold, totaling 3.5 thousand tonnes, with an average price of EUR 44.18 per ton (2020: 45.1 thousand tonnes, with an average price of EUR 27.52 per ton).

In 2021, the SA Keskkonnainvesteeringute Keskus co-financed three investment projects of AS Utilitas Tallinn in the amount of EUR 188 thousand (2020: four investment projects in the amount of EUR 551 thousand) and five investment projects of AS Utilitas Eesti in the amount of EUR 609 thousand (in 2020, four investment projects in the amount of EUR 618 thousand).

■ Note 16 Cost of goods and services sold

IN EUR THOUSAND	2021	2020
Raw materials and purchased energy	-68,408	-49,093
Energy, water and chemical expense	-2,942	-2,955
Repair and maintenance costs	-3,343	-3,156
Air pollution charge	-483	-303
Cost of CO ₂ emission quota	-6,598	-1,056
Building permit and estate tax	-443	-443
Other	-1,692	-1,550
TOTAL COST OF GOODS AND SERVICES SOLD	-83,909	-58,556

During the reporting period, AS Utilitas Tallinn formed a reserve in the amount of EUR 6,598 thousand to cover the deficit of CO₂ emission allowances (81.6 thousand tonnes with a price of EUR 80.9 per ton; see Note 11). In 2020, AS Utilitas Tallinn purchased EUR 1,056 thousand (46.0 thousand tonnes) of CO₂ emission allowance units.

■ Note 17 Other operating expenses

IN EUR THOUSAND	2021	2020
Office, administrative and maintenance costs	-1,295	-1,101
Research and development costs	-26	-30
External counsel	-502	-368
Property insurance costs	-336	-328
Allowance for doubtful receivables (Note 3)	4	14
Other expenses	-1,456	-1,144
TOTAL OTHER OPERATING EXPENSES	-3,611	-2,957

■ Note 18 Payroll expense

IN EUR THOUSAND	2021	2020
Wages and salaries	-8,706	-7,809
Social security costs	-2,913	-2,614
TOTAL PAYROLL EXPENSE	-11,619	-10,423
Average number of employees in full time equivalent units	261	257
Employee working under an employment contract	252	248
Member of the management board and other control bodies	9	9

■ Note 19 Loan guarantees, pledged assets and guarantees given

Collaterals for the liabilities related to group's investment loans in the amount of EUR 277,701 thousand as at 31.12.2021 (as at 31.12.2020: EUR 229,701 thousand; see Note 10) 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 7).
2. Mortgages to properties in the amount of EUR 10 million with the book value of EUR 4.4 million (as at 31.12.2020: EUR 4.5 million; see Note 7) and building rights in the amount of EUR 150 million (balance sheet value not determined).
3. Shares of subsidiaries.

In April 2021 Utilitas OÜ provided a guarantee for the benefit of Utilitas Wind OÜ, the guarantee amount being 11,350 thousand EUR. The guarantee interest is 12% per annum (see Note 21).

■ Note 20 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 21 Transactions with related parties

Name of the parent company: FS Core Utilities S.à.r.l.

The country where the parent company is registered: Luxembourg

Name of Group that the parent company belongs to: FS 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.

Receivables from related parties

IN EUR THOUSAND	31.12.2021	31.12.2020
Current receivables from associates (Note 3)	1,284	0
Inc. Interest receivables	1,260	0
Non-current receivables from associates (Note 3)	11,000	0
Inc. Loans granted	11,000	0

Sales to related parties

IN EUR THOUSAND	2021	2020
Goods and services sold to associates	44	0
Interest income on loans to associates	432	0
Interest income on guarantees given to associates	828	0

Payables to related parties

IN EUR THOUSAND	31.12.2021	31.12.2020
Current payables to parent company (Note 11)	1,223	0
Inc. Interest payable	1,223	0
Current payables to associates	127	0
Non-current payables to parent company	277,701	229,701
Inc. Loans received (see Note 9)	277,701	229,701

Purchases from related parties

IN EUR THOUSAND	2021	2020
Interest expense from loan received from parent company	12,646	10,646
Goods and services purchased from associates	973	0

There are no contractual obligations to acquire or sell from/to related parties. Additional information regarding provision of a guarantee for the benefit of related parties is disclosed in Note 19.

In 2021 the remuneration of the members of the Management Board and Supervisory Board of all Group entities amounted to EUR 1,355 thousand plus social taxes (2020: EUR 1,128 thousand).

Upon termination of a contract with certain members of the executive and senior management team, depending on the reasons for termination of the contract, the Group may have an obligation to pay compensation in the amount of 6 months' remuneration.

Note 22 Events after the balance sheet date

Russian invasion on Ukraine, which started on the 24th of February 2022, directly and indirectly affects companies operating in Estonia. It has become increasingly difficult to import certain raw materials from Russia and Ukraine as there has been a disruption of supply lines. These events have increased commodity and energy prices. The uncertainty of the situation remains high and is forcing companies to adapt their activities accordingly. The focus of Utilitas Group is to ensure the uninterrupted supply of services also during challenging conditions.

Note 23 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	31.12.2021	31.12.2020
ASSETS		
Current assets		
Cash and cash equivalents	7,561	689
Receivables and prepayments	7,339	1,671
TOTAL CURRENT ASSETS	14,900	2,360
Non-current assets		
Financial investments in subsidiaries	18,843	10,511
Investments in associates	58,643	0
Other non-current financial investments	0	692
Loans granted	205,480	233,560
Property, plant and equipment	665	507
Intangible assets	83	49
Total non-current assets	283,714	245,319
TOTAL ASSETS	298,614	247,679
LIABILITIES AND EQUITY		
Current liabilities		
Finance leases	28	0
Payables and prepayments	7,229	2,402
Total current liabilities	7,257	2,402
Non-current liabilities		
Borrowings	277,701	229,701
Finance leases	95	0
Total non-current liabilities	277,796	229,701
TOTAL LIABILITIES	285,053	232,103
Equity		
Share capital	7,650	7,650
Retained earnings	5,911	7,926
TOTAL EQUITY	13,561	15,576
TOTAL LIABILITIES AND EQUITY	298,614	247,679

Unconsolidated income statement

IN EUR THOUSAND	2021	2020
Revenue		
Sales revenue	1,801	1,274
TOTAL REVENUE	1,801	1,274
Cost of goods and services sold	-467	-121
Other operating expenses	-1,015	-659
Payroll expense	-2,137	-1,700
Depreciation, amortisation and impairment	-65	-12
Total operating loss	-1,883	-1,218
Financial income and expenses		
Financial income and expenses from investments in subsidiaries and associates	4,734	5,000
Interest expense	-12,740	-10,739
Other financial income and expenses	12,874	11,002
TOTAL FINANCIAL INCOME AND EXPENSES	4,868	5,263
Profit before tax	2,985	4,045
NET PROFIT FOR THE PERIOD	2,985	4,045

Unconsolidated cash flow statement

IN EUR THOUSAND	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	-1,883	-1,218
Adjustments:		
Depreciation and impairment losses of property, plant and equipment and intangible assets	65	12
Change in receivables and prepayments related to operating activities	-3,452	-642
Change in liabilities and prepayments related to operating activities	3,583	989
Interest paid	-11,523	-11,666
Total cash flow from operating activities	-13,210	-12,525
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	-232	-545
Purchase of other financial investments	-13	-692
Acquisition of investments in subsidiaries	-8,435	0
Acquisition of investments in associates	-58,566	0
Loans granted	-12,448	-30,000
Proceeds from repayment of loans granted	40,500	6,000
Dividends received	5,647	5,000
Interest received	10,681	11,911
Total cash flow from investing activities	-22,866	-8,326
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	48,000	25,000
Other payments from financing activities	-18	0
Payment of finance lease liabilities	-34	0
Dividends paid	-5,000	-5,000
Total cash flow from financing activities	42,948	20,000
TOTAL CASH FLOWS	6,872	-851
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	689	1,540
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	7,561	689

Unconsolidated statement of changes in equity

IN EUR THOUSAND	Share capital	Retained earnings	Total
Balance as at 31.12.2020	7,650	7,926	15,576
Net profit for the period	0	2,985	2,985
Dividends paid	0	-5,000	-5,000
Balance as at 31.12.2021	7,650	5,911	13,561
Adjusted unconsolidated equity at 31.12.2021			
Carrying amount of investments under control and significant influence	0	-18,843	-18,843
Value of investments under control and significant influence under the equity method	0	130,630	130,630
Adjusted unconsolidated equity at 31.12.2021	7,650	117,698	125,348



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 2021, 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 2021;
- 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.

Reporting on other information including the Management report

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, including the Management report.

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.

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

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management report for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements; and
- the Management report has been prepared in accordance with the requirements of the Accounting Act.

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

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

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.



- 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.
 - 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

Oksana Popova
Auditor's certificate no. 633

21 April 2022
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 2021 CONSOLIDATED ANNUAL REPORT

2021 Consolidated Annual Report of OÜ Utilitas was signed on 21 April 2022.



Priit Koit

Member of the Management Board, CEO of Utilitas Group

