CONSOLIDATED ANNUAL REPORT **2022**

UTILITAS

OÜ Utilitas

Consolidated Annual Report 2022

Address

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10145 Tallinn

Harju County

Republic of Estonia

Registry code

12205523

Telephone

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Principal area of activity

Production and sale of electricity and thermal energy

Auditor

AS PricewaterhouseCoopers

Beginning and end of financial year:

01.01.2022 – 31.12.2022

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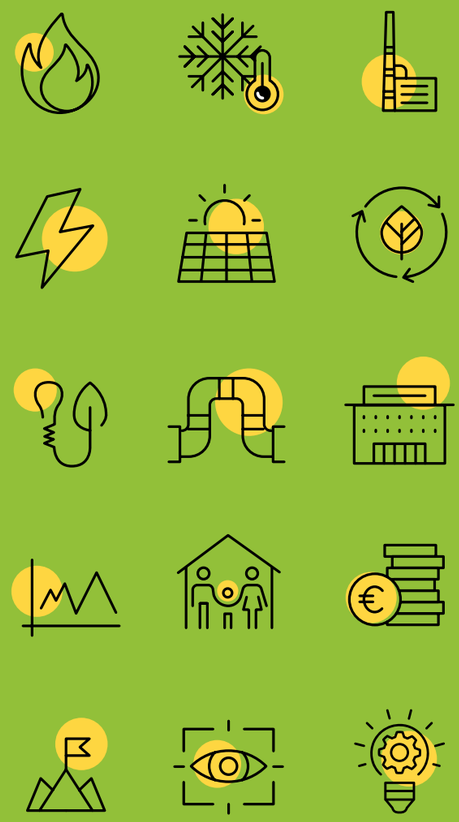
MANAGEMENT REPORT



UTILITAS

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 2022, the Group consists of:

- **OÜ Utilitas** - parent company
- **AS Utilitas Tallinn (100%)** – provider of district heating and cooling services as well as renewable heat and electricity producer
- **AS Utilitas Eesti (100%)** – provider of district heating services as well as renewable heat producer
- **OÜ Utilitas Tallinna Elektrijaam (100%)** - producer of renewable heat and electricity
- **OÜ Tuulepealne maa (100%)** – developer of Saarde and Aseri wind parks in Estonia
- **OÜ Utilitas Wind (50%)** - developer of renewable non-combustible energy projects in Estonia and neighbouring countries
- **AS Tallinna Vesi (20.4%)** - provider of water and wastewater services in Tallinn

2022 results:

2,012 GWh
heat consumed by customers
(2021: 2,139 GWh)

1,904 GWh
heat produced
(2021: 1,993 GWh)

2,142 MWh
cooling consumed by customers
(2021: 1,366 MWh)

325 GWh
electricity produced
(2021: 333 GWh)

1,525 GWh
renewable energy produced
(2021: 1,526 GWh)

68%
share of renewable energy in the production portfolio
(2021: 65%)

72 gCO_2 eq/kWh
district heating and cooling network emissions
(2021: 74 gCO_2 eq/kWh)

169 kt of CO_2 eq
operational greenhouse gas emissions
(2021: 183 kt of CO_2 eq)

192 kt of CO_2 eq
positive handprint of green electricity production
(2021: 201 kt of CO_2 eq)

12% share of Utilitas in total production of renewable electricity in Estonia (2021: 13%)

All district heating and cooling systems of Utilitas are efficient in accordance with the EU Energy Efficiency Directive 2012/27/EU

Group operating companies are certified according to ISO 9001, ISO 14001 and ISO 45001 standards

TÕHUS KAUGKÜTE – Utilitase kaugküttesüsteemid

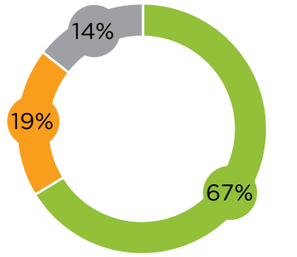
TÕHUS KAUGJAHUTUS – Utilitas Tallinn AS – Tselluloosi kaugjahutus

ISO 9001
ISO 14001
ISO 45001
BUREAU VERITAS Certification

Utilitas provides district heating service in eight cities of Estonia: Tallinn, Valga, Jõgeva, Haapsalu, Kärdla, Keila, Maardu and Rapla. Utilitas is also developing 2 wind parks in Estonia, in Saarde and Aseri.

Customers of district heating service include apartment associations, state and municipal agencies, and private companies. Electricity produced is sold on NordPool power exchange.

Figure 1. Utilitas operations in Estonia.



Residential
Corporate customers
State and Municipal agencies

Figure 2. Share of customer groups served by Utilitas (by heated sq. meters).

Operated capacities include:

3
cogeneration plants
(2021: 3)

41
boiler plants
(2021: 26)

58 MW
installed rated electrical capacity
(2021: 58 MW)

1,300 MW
installed total heat capacity
(2021: 1,200 MW)

9
solar parks
(2021: 9)

43 MW
wind parks under construction

Utilitas district heating:

5,500
buildings
(2021: 5,100)

393*
net new connected buildings in 2022
(2021: 92)

19.4 million m²
heated net area of buildings
(2021: 18.2 million m²)

185,000
households
(2021: 177,000)

397,000
city residents supplied with environmentally sustainable district heating
(2021: 375,000)

592 km
of operated networks
(2021: 556 km)

100%
customer connections remotely metered
(2021: 100%)

100%
used biomass is from certified sources (FSC, PEFC or SBP certified)
(2021: 100%)

99.99%
district heating availability
(2021: 99.99%)

26 km
district heating pipelines built or renovated
(2021: 28 km)

65-95%
share of new or reconstructed network depending on the operated area
(2021: 62-95%)

* including 237 buildings and 55 MW from takeover of Adven networks in Tallinn

In addition, Utilitas Wind (50% owned) has:

79 MW
operational wind portfolio

2,500+ MW
development portfolio of onshore wind parks across the Baltics

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

Tallinna Vesi (20.4% owned):

470,000
residents supplied with water and wasterwater services

22 mln m³
Water supplied

2,900 km
of water sewage and stormwater network operated

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 to achieve environmentally friendly and climate neutral society.

Values

sustainable, innovative, convenient and competitive

Organisation

279
employees (2021: 261)
+ 21 employees in Group member Utilitas Wind

2
occupational accidents
(2021: 0)

15
years average employment length
(2021: 16 years)

3%
employee voluntary turnover
(2021: 3.5%)

Financial indicators

585 million euros
total assets
(2021: 486)

77 million euros
investments
(2021: 117)

260 million euros
operating revenue
(2021: 161)

40 million euros
net profit
(2021: 28)

Membership in organisations

Eesti Taastuvenergia Koda
The Estonian Renewable Energy Association

EESTI JÕUJAAMADE JA KAUGKÜTTE ÜHING
The Estonian Power and Heat Association

Rohetiiger
Green Tiger

Vastutustundliku Ettevõtluse Foorum
The Responsible Business Forum of Estonia

Wind EUROPE
Wind Europe

MESSAGE
FROM THE CEO

The vital role of clean and domestically produced energy was once again asserted in 2022. The possibility to use supply of fossil energy as a geopolitical weapon was vividly demonstrated, followed by what many considered impossible in 21st century Europe – a full-fledged war, as launched by Russia in Ukraine in February. While transition from imported fossil fuels to local renewable alternatives was for some time seen as driven primarily by environmental benefits, 2022 opened many eyes. The only way to ensure security of supply and reasonable price of energy both in the short and longer term, is to complete this transition as quickly as possible.

The challenges posed by disruptions in supply of fuels and excessive volatility in prices required full attention and effort from Utilitas team to ensure that all clients of the group were continuously supplied with energy throughout the year. The flexibility in the production portfolio, embedded in the modern district heating systems run by Utilitas, allowed us to mitigate the risks during the turbulent year.

The benefits of a modern district heating system – the possibility to enjoy reliable, environmentally friendly heat supplied with low carbon footprint and at a reasonable price – was recognized by a number of new customers in 2022. In fact, the increase of client base of Utilitas by 393 buildings, marks historic record and increased the total area of buildings heated by Utilitas to 19.4 million square metres. And as we are glad to witness ongoing interest, we are proceeding with the expansion of the networks to provide possibility for new customers to connect to the system.

Utilitas has continuously invested in network upgrade as well as new production assets to increase resilience of operations and reduce its carbon footprint. Majority of heat is already sourced from combined heat and power plants using forest and wood industry residues and domestic solid waste, so that the positive handprint from renewable electricity production already exceeds carbon footprint of operations. Utilitas defined in 2021 its strategy to decrease the share of fossil fuels even further and reach carbon neutrality and produce only renewable energy by 2030. However, since February 2022, we have restated this ambition by committing to achieving this task as soon as possible, i.e. by 2030 at latest. Substantial investments are needed in order to reach this goal and we are constantly exploring opportunities to add new capacities to produce both power and heat from renewable sources.

Utilitas reacted rapidly to the energy crisis and second stage flue gas condensers in Mustamäe CHP were completed already in 2022, thanks to great efforts of our team and co-operation partners at a time when supply chains were witnessing unprecedented disruptions. We have also launched the process of adding similar solutions to our Väo CHPs – all in all allowing to replace approximately 100 GWh of heat currently produced from natural gas. Targale wind park, commissioned in 2022, is the largest wind park in Latvia and produces enough electricity to cover the needs of 50 000 households. Another wind park in Saarde, Estonia, will be commissioned in 2023, and will cover the power consumption of additional 40 000 households. Unlocking the potential to use industrial scale heat pumps and onshore and offshore wind to decarbonize the energy systems in the region, is within the primary focus areas of Utilitas project teams.

According to UN estimates, the world population passed the 8 billion mark in November 2022. The number of people on the planet has increased by one third, or 2.1 billion over the past 25 years, placing a significant strain on the planet's finite resources, particularly energy and food which also puts pressure on biodiversity and habitat loss. As cities represent two-thirds of global energy consumption and account for more than 70% of greenhouse gas emissions, the increased urbanization calls for full focus on ensuring that urban energy supply is fully aligned with climate and energy policy targets. Among those targets is the need to minimize the amount of energy wasted. Deep renovation of housing stock is therefore required and Utilitas welcomes European and national plans to support full renovation of residential buildings. All Utilitas customer connections are remotely metered and Utilitas supports its clients through providing accurate real-time as well as historic data on the buildings heat consumption, which enables to identify the buildings where heat consumption is abnormally high and would thus benefit most from renovation activities.

While it is absolutely critical not to waste energy, it is also important to recognize renewable energy as a potential source for economic growth. Carbon footprint is increasingly important in all sectors of our economy - only products and processes with low carbon footprint will be competitive in the longer run. At the same time, availability of large quantities of renewable energy would be the basis for new opportunities in modern production sectors. As an example, offshore wind farms can facilitate development of Power-to-X opportunities in Estonia, that otherwise would not emerge. To illustrate the potential - the population of Estonia, Latvia, and Lithuania combined is 6 million – that is comparable to 5.5 million people in Finland. The use of electricity in industry is, however, 5 times larger in Finland than in all three of its southern neighbours combined. By adding additional renewable energy capacities, we will be able to unlock this potential for growth.

We are in global competition for the resources necessary for the green transition. Both with our European neighbours, but also with the US with their ambitious Inflation Reduction Act, as well as China who has developed an unique edge both in technologies, as well as raw materials. However, Estonia has the possibility to build on the experiences from the successful digital transition and if taking necessary decisions swiftly can hopefully also become a new role model of renewables-based flexible economy.

With our devoted team, and in close co-operation with the communities and our customers, we are committed to taking the next steps to the future with clean energy in clean nature.

Priit Koit
juhatuse liige, Utilitas kontserni juht

GLOBAL TRENDS AND DEVELOPMENTS

Multi-crisis era

In 2022 it became clear that the world is not facing one crisis after another, but is going through compounding and multifold crises, from worsening climate change and global health challenges to geopolitical conflicts with global consequences, to name a few.

Europe has been in the center of all these crises. On 24th of February 2022 Russia launched its full-scale attack of Ukraine and as a result a devastating war is taking place in Europe. In addition to the unbearable human suffering, millions of war refugees were forced to leave their homes and seek refuge in European countries. In the beginning of 2023, 8 million refugees from Ukraine had been registered across Europe.

The Russian aggression was tightly tied with Europe's over-dependance on Russian fossil fuels. Russia was the leading supplier of natural gas, oil, and coal to the EU: overall almost 25% of gross available energy in the EU came from Russian imports[1]. Using energy as a weapon, Russia decreased imports to EU even before the war started and the price of natural gas began its rise to the never-before-seen levels.

In parallel with crisis caused by the war, people's livelihood is affected by the deepening climate crisis. The scientists of Copernicus, the EU's climate monitoring service, state that Europe and polar regions were hit hardest by global warming in 2022. Europe experienced its warmest summer, with temperatures increasing by more than twice the global average over the past three decades, faster than any other continent. The last eight years are now also the warmest eight yet recorded[2]. Yet, global energy-related CO_2 emissions grew by 0.9% or 321 Mt in 2022, reaching a new high of over 36.8 Gt. Emissions from energy combustion increased by 423 Mt, while emissions from industrial processes decreased by 102 Mt.

Portugal, France, Italy, and Romania were severely impacted by wildfires in August. Euronews reported that an area equivalent to three times the size of Luxembourg – a record-breaking 700,000 hectares burned in an uncontrollable blaze. Heat, dry conditions, and wind created ideal conditions for fires and exacerbated Europe's energy crisis with hydropower generation down by about a fifth across Europe and some nuclear plants unable to operate at normal capacity due to problems with cooling water[3].

A positive development is that world leaders are now increasingly waking up to the severity and magnitude of these issues and are starting to react accordingly with much needed sense of urgency. Energy crises and security as well as extreme weather conditions have led the world to accelerate the race towards renewable energy transition, supported by technological developments and increasing competitiveness of renewable alternatives.

1 https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Energy_imports_from_Russia_-_statistics&oldid=556977#EU_energy_dependency_on_Russia

2 https://www.copernicus.eu/en/news/news/observer-2022-year-extremes) https://www.bbc.com/news/science-environment-64213575 https://climate.nasa.gov/news/3246/nasa-says-2022-fifth-warmest-year-on-record-warming-trend-continues

3 (https://www.forbes.com/sites/mariannelehnis/2022/12/29/2022-was-a-year-of-record-breaking-extreme-weather-events/

Growing world population and increasing urbanisation

The transformation towards renewable energy is currently led by developed countries who are also responsible for vast majority of the accumulated historic greenhouse gas emissions. On the other hand, the world's population growth is heavily concentrated in developing countries highlighting the need to address inequalities and ensure a just transition towards a low-carbon future. According to the World Bank, investments in clean energy in low- and middle-income countries remain at or below 2015 levels[4].

According to UN estimates, the world population passed the 8 billion mark in November 2022.[5] Over the past 25 years, the number of people on the planet has increased by one third, or 2.1 billion. Humanity is expected to grow by another fifth to just under 10 billion by around 2050.

This growth of world population is placing a significant strain on the planet's finite resources, particularly energy and food which also puts pressure on biodiversity and habitat loss. Energy scarcity is a particularly pressing issue, as demand for energy continues to rise and without a rapid transformation towards renewable energy it will be impossible to meet the Paris Agreement goals of holding "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels."[6]

It is important to point out that some 56% of the world's population – 4.4 billion inhabitants – live in cities. Urban populations are expected to double by 2050, at which point nearly 7 of 10 people will live in cities. Cities represent two-thirds of global energy consumption and account for more than 70% of greenhouse gas emissions. The most important topics in cities on the path to carbon neutrality in addition to prioritising renewable energy, are energy efficiency and conservation, sustainable transport, circular economy, urban planning and resilience planning.

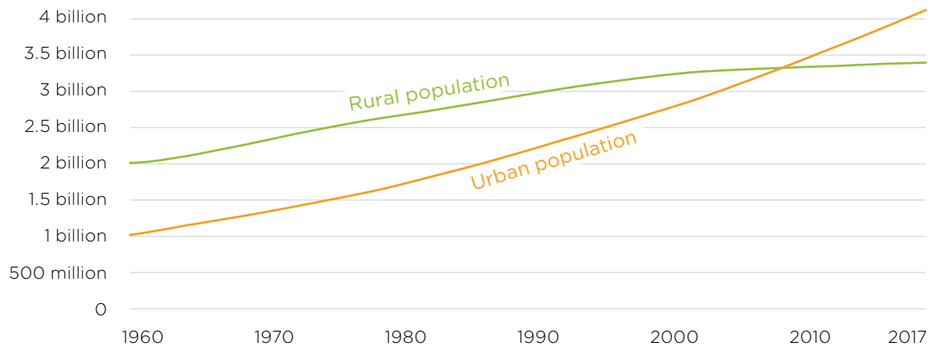


Figure 3. Number of people living in urban and rural areas, World.
https://ourworldindata.org/urbanization

4 https://www.worldbank.org/en/topic/energy/overview

5 https://unctad.org/data-visualization/now-8-billion-and-counting-where-worlds-population-has-grown-most-and-why

6 https://unfccc.int/process-and-meetings/the-paris-agreement

Renewable energy transition

The global energy crisis, triggered by Russia's invasion of Ukraine, has sparked unprecedented momentum for renewables, writes International Energy Agency (IEA) in its report "Renewables 2022"[7]. Fossil fuel supply disruptions have underlined the energy security benefits of domestically generated renewable electricity, leading many countries to develop and strengthen policies supporting renewables. Meanwhile, higher fossil fuel prices worldwide have improved the competitiveness of solar PV and wind generation against other fuels.

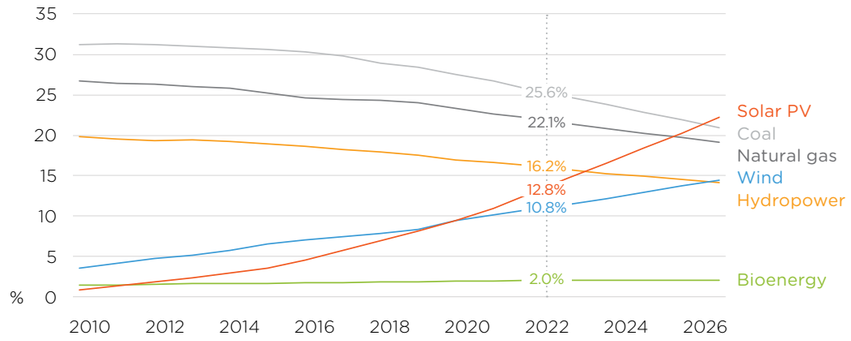


Figure 4. Share of global cumulative power capacity by technology, 2010-2027 [8]

Over 2022-2027, IEA foresees a growth in renewables by almost 2400GW which is equal to the entire renewable electricity capacity installed during the last 20 years. Renewables are set to become the largest source of global electricity generation by early 2025 and account for over 90% of global electricity capacity expansion in the coming years. Renewables are the only electricity generation source whose share is expected to grow, with declining shares for coal, natural gas, nuclear and oil generation. The prediction is mainly based on policies by China, the European Union, the United States and India, which are all improving existing policies and regulatory and market reforms, while also introducing new ones more quickly than expected in reaction to the energy crisis. China's 14th Five-Year Plan and market reforms, the REPowerEU plan and the US Inflation Reduction Act are the main drivers of the transition.

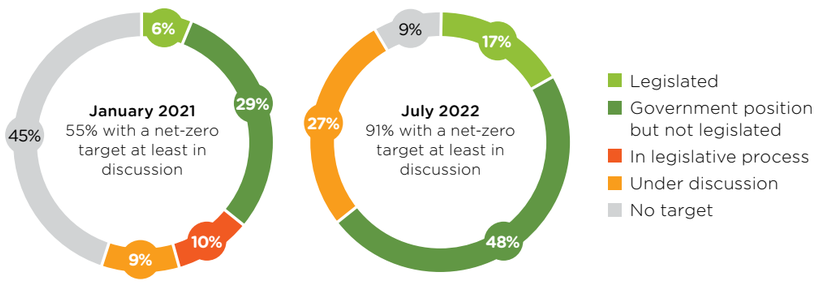


Figure 5. Over 90% of CO_2 emissions now occur in countries where some form of net-zero target is at least under discussion

Green electricity will also help to decarbonise transport and heating and cooling sectors. Electric cars are already taking over in some European countries and the transition will accelerate as European Union is on track of banning the sales of new diesel and petrol cars from 2035 onwards. Heating and cooling sector will benefit from electrical heat pumps and efficient district heating and cooling systems where possible. However, some sectors cannot easily be electrified. Where high amounts of energy are required, batteries will not be sufficient to store and transport energy. Heavy duty transport, shipping, and aviation all require fuel in a liquid or gaseous form, as the weight of batteries makes it unsuitable for these applications.

Although direct electrification is an important means to decarbonisation, Ramboll[9] is expecting green hydrogen and e-fuels to be main solutions for sectors that are hard to electrify from 2030 onwards. The EU, national and regional governments, and a number of private companies are increasingly developing and promoting strategies with hydrogen as a key energy carrier on the path to net zero emissions.

The term Power-to-X covers processes for converting renewably sourced electricity (power) to a substance or energy carrier ("X"). This can be in gaseous form such as hydrogen or methane (synthetic natural gas, Power-to-Gas), or it can be liquid synthetic fuels such as methanol, ammonia, synthetic diesel, or kerosene (Power-to-Liquid). Liquid fuels from Power-to-X are also often referred to as electrofuels or merely e-fuels.

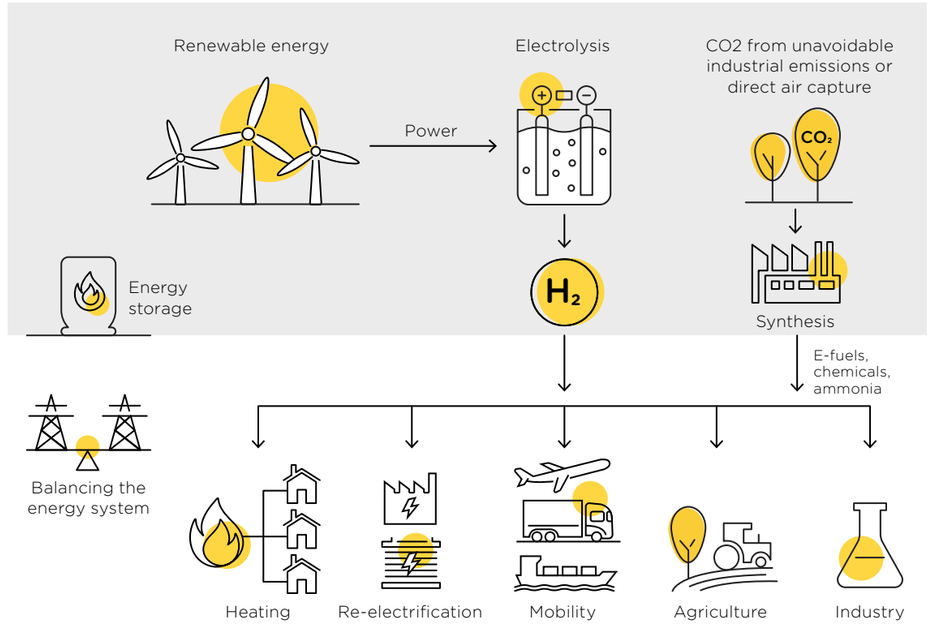


Figure 6. Hydrogen is produced in electrolysers and can be subsequently processed with other feedstock (such as nitrogen to produce ammonia or CO_2 from carbon capture to produce carbon-based fuels) to produce synthetic electrofuels.

7 https://www.iea.org/reports/renewables-2022

8 https://www.iea.org/reports/renewables-2022/executive-summary

9 https://ramboll.com/net-zero-explorers/explainers/power-to-x-explained

KEY THEMES IN THE EUROPEAN AND ESTONIAN ENERGY SECTOR IN 2022

1 Energy security and affordability

2022 was a difficult and challenging year for Europe as well as Estonia. Russia's war against Ukraine brought death and suffering to Ukrainians and resulted also in extremely high energy prices and concerns around security of supply across Europe. The energy crisis was exacerbated by the ongoing climate crisis with droughts, floods, deadly heat-waves and forest fires affecting also various parts of Europe.

Europe reacted to the crisis strongly with EU wide initiatives to replace Russian origin fossil fuels with other alternatives by importing LNG as well as promoting energy saving and replacing gas with other alternatives.

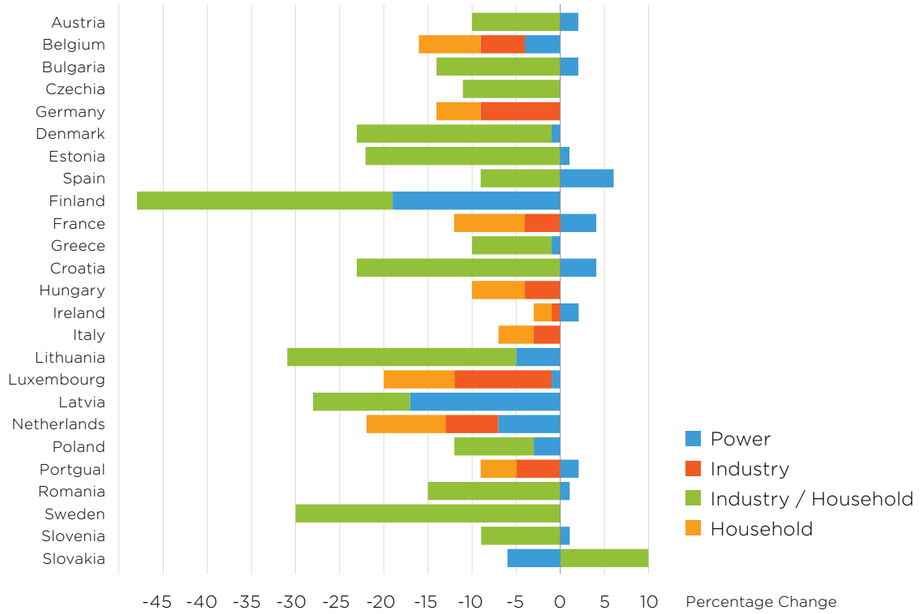


Figure 7. Sectoral natural gas demand reductions 2022 and January 2023 compared to average 2019-21
Absolute Changes are shown in TWh. Relative changes are changes in sectoral demand in 2022 divided by total average demand in 2019-21. It shows the contribution of individual components to overall demand change in 2022 vs 2019-21 average.

Whilst the above measures in combination with warm winter weather successfully mitigated worst-case scenario risks during 2022 (such as power outages and demand curtailment for industries and households) this was accompanied by extremely high energy prices which burdened European households whilst also decreasing the competitiveness of local businesses. High energy costs were partially compensated by EU wide and national support mechanisms of more than 600 billion euros[10].

10 https://www.crowell.com/NewsEvents/AlertsNewsletters/all/European-Commission-Prolongs-and-Expands-State-Aid-Temporary-Crisis-Framework

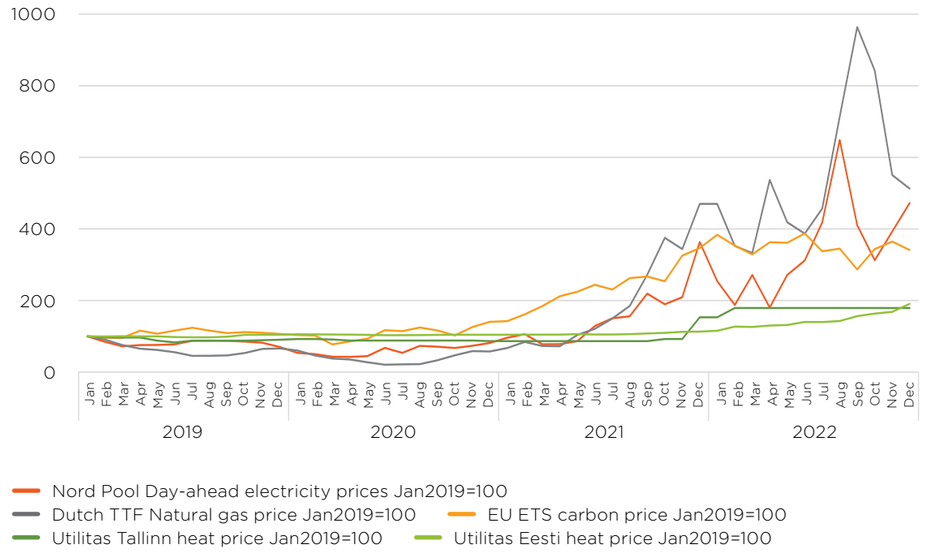


Figure 8. Energy price developments

The extreme volatility and unseen prices on energy markets resulted also in turmoil in the financial markets, with a number of major gas-reliant utility companies requiring urgent governmental support. The most prominent case was that of German utility and biggest natural gas importer Uniper where the German government agreed to a €15 billion bailout for a 30% stake in the company. Governments in Switzerland, the Czech Republic, Spain, Sweden and France were forced into similar arrangements in order to avoid even worse outcomes[11]. Fortunately, Estonia has over time reduced its dependence on Russian natural gas with annual consumption decreasing from 10+ TWh in the 2000s to ca 5 TWh in the 2020s and no such extreme measures were necessary. A major driver of this decrease has been the heating sector where local and renewable alternatives have replaced natural gas over time, but additional steps are still necessary to reduce dependence even further.

In the short term, Utilitas reacted to the energy crisis by contingency planning and procuring sufficient inventories during spring and summer of 2022 to prepare for the 2023 heating season. Regulations were passed during the summer of 2022 in Estonia to deal with potential shortfalls of natural gas and treatment of different consumer groups in those scenarios but fortunately it has insofar not been necessary to implement such measures in practice[12].

In the longer term the energy crisis has made countries across Europe realise that by transitioning to a clean economy, Europe would not only tackle the climate crisis but also become energy resilient and increase the competitiveness of European economy. Utilitas has decided to accelerate its carbon neutrality investment plan in order to support these aims in its areas of operations. See chapter Acceleration of Utilitas Carbon neutrality plan for details.

11 https://www.spglobal.com/esg/insights/european-utility-bailouts

12 e https://www.riigiteataja.ee/akt/109082022001

2 Acceleration of renewable energy targets

2022 brought several new decisions and updates in European Union Green Deal and climate emission reduction ambitions, the acceleration of the ambitions was a direct consequence of Russian aggression in Ukraine. In the longer term:

- Carbon emission reduction targets were increased. By year 2030 sectors under obligatory emission trading scheme (ETS) need to lower carbon emissions compared to 2005 by 62% and sectors currently not under ETS need to lower emissions by 40% (previously 43% and 29% respectively). The issuing of free carbon quotas under ETS will end in 2034
- New carbon toll policy will be implemented to balance the price of products manufactured outside of EU by implementing a carbon tax for products such as cement, steel, aluminium, fertilizers and electricity
- ETS will be expanded to the shipping sector (by 2026) and a new trading scheme will be established for suppliers of fuels used in transportation and buildings sector (by 2027)
- New proposal on rules for the energy sector to monitor methane emissions was agreed
- In order to facilitate the replacement of natural gas with renewable energy sources, a directly applicable framework regulation no 2022/2577 on accelerating the deployment of renewable energy across the European Union was enacted as of 29.12.2022, which, among other things, aims at the rapid deployment of heat pumps. Accordingly, the permit-granting process for the installation of heat pumps below 50 MW electrical capacity must not exceed 1 month
- In February 2022, the EU updated the Taxonomy Regulation which sets the criteria for different economic activities that can be classified as sustainable. This is one of the key tools implemented for financial markets to identify sustainable activities and direct investments. Energy generation from fossil gas and nuclear were included as transitional activities, meaning that these projects can now be deemed sustainable only until 2035 at the latest if certain carbon emission levels and special measures are met[13] . It is surprising that investments into fossil gas have been deemed to be compatible with the EU's climate ambition, especially at the time when it has become obvious that fossil fuel dependence is linked with negative consequences to EU's energy security and economy. Moreover, methane is responsible for around 20% of global greenhouse gas emissions but more alarmingly methane on a 20-year timescale has 84 times higher global warming potential than carbon dioxide[14].

13 https://ec.europa.eu/commission/presscorner/detail/en/ip_22_711

14 https://energy.ec.europa.eu/topics/oil-gas-and-coal/methane-emissions_en

According to the REPowerEU plans also announced in 2022[15], the EU aims to urgently end dependence on Russian fossil fuels by 2027 by:

- implementing energy savings through short-term fiscal and behavioural change measures and increasing the EU's energy efficiency targets;
- diversifying energy suppliers and increasing liquefied natural gas capacities;
- accelerating investments in renewable energy projects and increasing 2030 target for renewables from 40% to 45%;
- reducing fossil fuel consumption in industry and transport through efficiency and fuel substitution;
- facilitating renewable hydrogen and increasing bio-methane production.

To implement these plans, €210 billion worth of investments are planned until 2027 together with developing the EU's energy infrastructure.

■ The EU's goal of halving its natural gas usage will rely on clean energy and other sources.

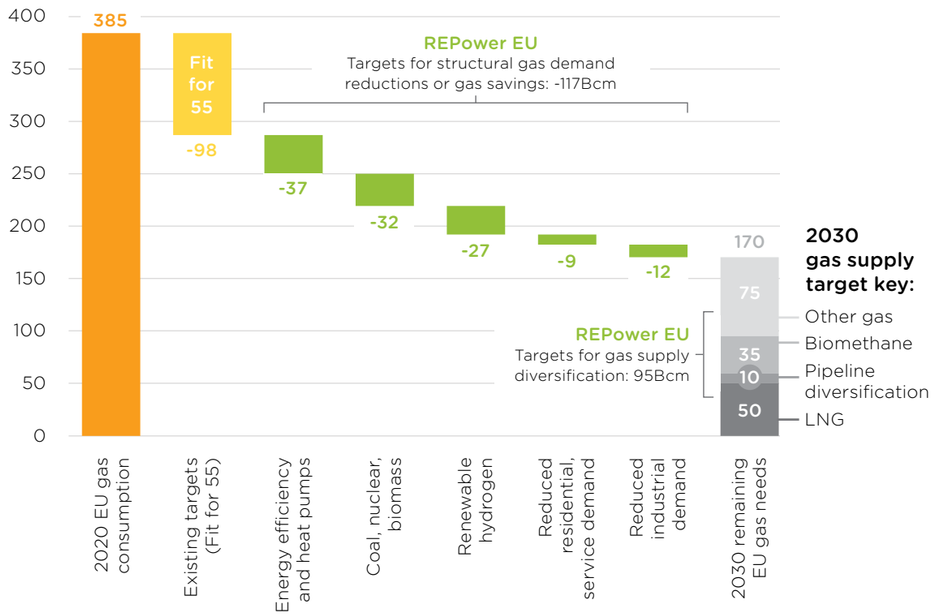


Figure 9. European Commission targets for EU natural gas consumption by 2030, based on the REPowerEU package

15 https://www.consilium.europa.eu/en/press/press-releases/2022/12/14/eu-recovery-plan-provisional-agreement-reached-on-repowereu/

To combat the immediate crisis in the shorter term, EU member states have approved 672 billion euros of subsidies under the bloc's temporary crisis framework. Majority of these funds (53%) have been approved for Germany equivalent to 9 per cent of its annual gross domestic product.[16] The equivalent figure in Estonia is < 1% which is in stark contrast to the ambitious renewable energy goals and targets.

Other countries are also actively promoting transformation towards renewables. With passage of the Inflation Reduction Act in August 2022, the US has committed 369 billion dollars in new funding to combat climate change. This includes 260 billion dollars specifically for lower-carbon technologies, including wind, solar and other renewables, along with nuclear power, electric vehicles, and others. The competition for attracting renewable investments is intense between the US and Europe but also within the EU itself as well.

The higher long- term aim for renewable energy use, combined with other REPowerEU provisions to reduce energy demand, implies significant increases in renewable capacity shares across the electricity, transport and heating and cooling sectors. The Commission estimates that renewable energy in electricity would need to climb to 69% by 2030, to 32% in transport, and in heating/cooling should expand at least 2.3 percentage points annually.

International Energy Agency is however sceptical in Europe's ability to deliver on these ambitious targets[17]. Europe's renewable capacity expansion is limited by three main challenges: inadequate support schemes, lengthy and complex permitting procedures and the slow pace of transmission and distribution network upgrades. According to the REPowerEU targets[18] capacities of 592 GW of solar and 510 GW of wind are required by 2030. This would require average annual additions of 48 GW for solar and 36 GW for wind. In comparison, International Energy Agency's foresees average annual net additions of only 39 GW for solar PV and 17 GW for wind during 2022-2027.

16 https://www.ft.com/content/85b55126-e1e6-4b2c-8bb2-753d3cafcbe5

17 https://www.iea.org/reports/is-the-european-union-on-track-to-meet-its-repowereu-goals

18 https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022SC0230&from=EN

Estonia also needs to develop a sense of urgency and realize that such targets are not achievable without significant support from the public sector in terms of both accelerated permitting but also establishing price mechanism which provide investment security and enable to carry out these sizeable and necessary investments.

3 Estonia's renewable targets and pathway

Estonia during 2022 reviewed its renewable energy targets and updated ambition is to to substantially increase production of renewable electricity, so that it would, as a minimum, cover 100% of domestic electricity consumption (previous target 40%) by 2030 which implies a production growth of at least 7 TWh. The revised targets envisage also achieving at least a 65% share of renewable energy in total final energy consumption (previously 42%) which compares to achieved 38% level in 2021.

Utilitas has already since 2012 supported ambitious renewable electricity production targets when it started participating in the Renewable Energy Roadmap Initiative which similarly foresaw the transitioning to 100% renewable electricity by 2030. If the state and municipalities live up to the announced ambitions and accelerate the planning and permitting processes, then this target is achievable but immediate actions are needed. The volume of installed onshore wind could be tripled in 3 years compared to the current level and 2 GW of offshore wind capacity installed by 2028-2030. This would bring total annual renewable electricity production in Estonia to around 18 TWh (In 2021 Estonia produced 2.9 TWh of renewable electricity) in comparison to forecasted electricity consumption volume of 9.5 TWh in Energy and Climate Development Plan 2030 (ENMAKS 2030). By producing electricity in excess of electricity sector demand, it will be further possible to electrify the heating sector by utilisation of heat pumps (additional electricity demand potential of ca 2.5 TWh) as well as promote electromobility (additional demand potential of 2.5 TWh). Thereby the total electricity demand in combination with exploiting sector coupling opportunities would increase to 14.5 TWh. According to Stockholm Environment Institute[19] there is additional demand of 4.1 TWh in the hydrogen economy over the next decades, which is dependent on the availability of sufficient renewable electricity for the production of hydrogen and its derivatives. Having sufficient quantities of renewable electricity also enables to attract industrial energy-intensive and value-adding investments and enhance the competitiveness of already established industries as their products will have low environmental footprint which is increasingly important for competing on export markets.

The price for such renewable electricity portfolio is highly competitive with an expected weighted average levelised cost ca 65-75 €/MWh (2022 real), considering also oil-shale or natural gas based reserve capacities to cover <10% of annual demand at times where wind or solar conditions are not sufficient. Renewable energy is clearly more cost competitive in comparison to fossil fuel based alternatives or nuclear. To put this into context, the regulated oilshale based electricity production price in Estonia during 2022 was established at 154 €/MWh and the newest nuclear power plant in Europe in launching phase (Hinkley point) has a guaranteed electricity price of 134 €/MWh as of 2022, which is inflated and payable for 30 years.

19 https://www.sei.org/projects-and-tools/projects/uleminek-kliimaneutraalsele-elektritootmisele-eestis/

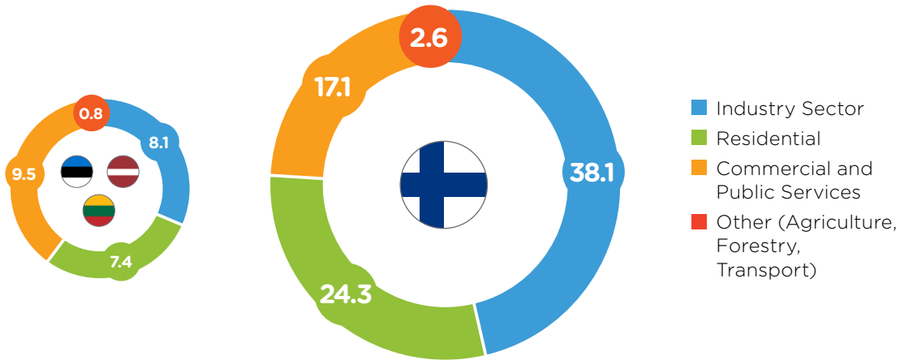


Figure 10. Net final electricity consumption in 2021 (TWh) by Eurostat SHARES

Finland has a total population of 5.5 million people in comparison to 6 million in the Baltics, yet the total electricity consumption is 3x higher, besides the electricity consumption in industrial sector is nearly 5x higher in Finland than in Estonia, Latvia, and Lithuania combined, or 38.1 TWh vs 8.1 TWh, which has enabled the success of a number of industry champions in the wood, machine building and other industrial sectors. Estonia has a chance to replicate Finland's success by also actively investing into renewable energy which provides opportunities and critical input for other sectors as well.

Offshore wind plays an important role in these development plans. Wind speed on sea is on average around 2 m/s higher than on land. In the windier months of October-March, the wind speed is ca 2.5 m/s higher and in summer 1.5 m/s higher. Wind generators work at maximum efficiency with wind speeds of 10+ m/s. On the sea such wind speeds are much more prevalent than onshore and therefore offshore wind parks are much more efficient. In addition Estonian onshore development areas are burdened with number of environmental and other restrictions (distance to homes, radar restrictions), therefore to achieve the planned substantial increase of renewable electricity production offshore wind is an economic and feasible solution.

Environmental impact assessment (EIA) program of Utilitas Wind's Saare-Liivi offshore wind farm with planned capacity of 1,200 MW was approved by The Consumer Protection and Technical Regulatory Authority (TTJA) in 2022.

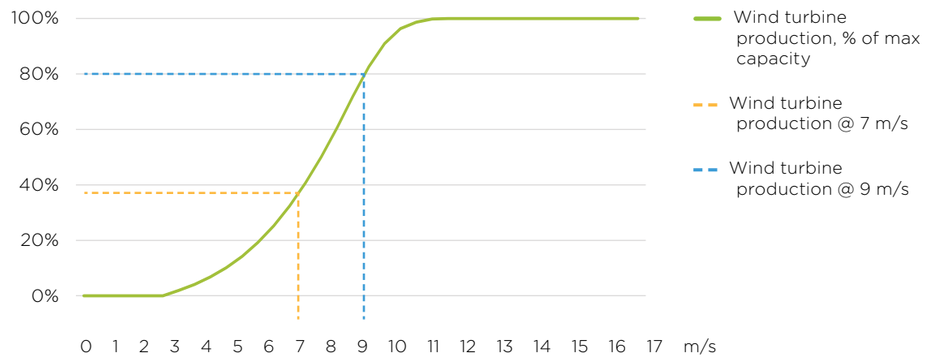
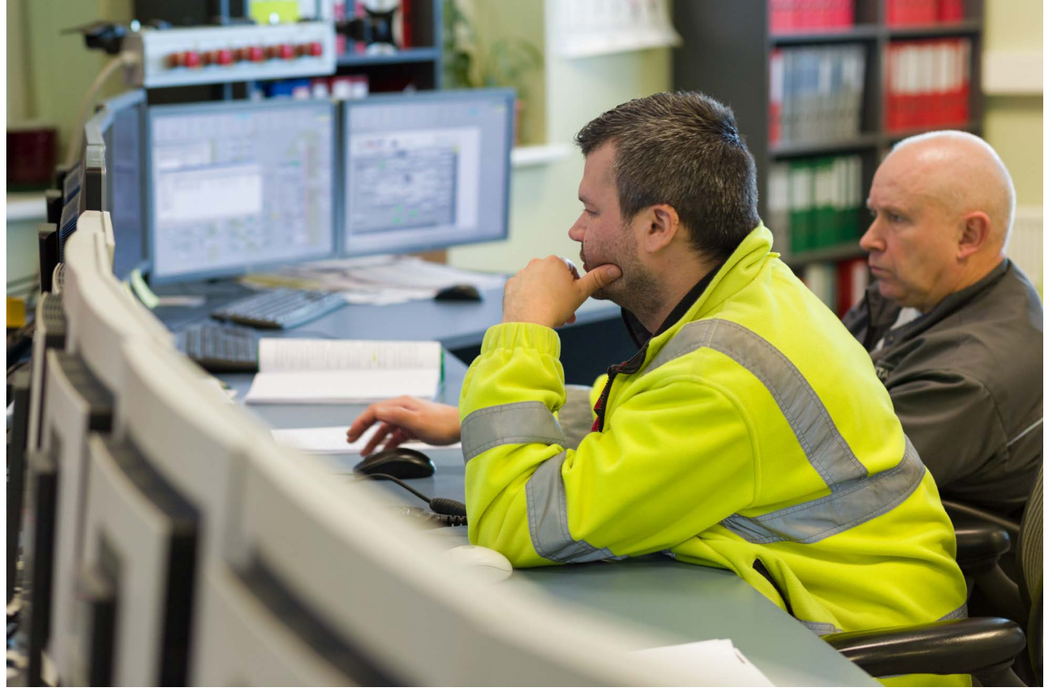


Figure 11. Typical wind turbine power curve



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 19.4 M m² of buildings across Estonia via 592 km of district heating networks, providing over 2 TWh of heat to 5,500 buildings (2021: 5,100), including ca 185k households as well as municipal and corporate customers. Utilitas supplied in addition 318 GWh of renewable electricity in 2022 which accounted for ca 12% of the renewable electricity production in Estonia.

In 2022, 393 (2021: 92) net new buildings all over Estonia with total capacity of 116 MW (2021: 40 MW) were connected to the district heating networks of Utilitas which was by far the record year for new connections in Utilitas history. Utilitas continued to offer a highly reliable service with 99.99% availability of district heating service for customers in 2022. 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.

After a relatively cold 2021, 2022 was on average warmer and as a result Utilitas produced 4.5% less heat and electricity in comparison to 2021 for a total of 2.2 TWh. This included 1.5 TWh of renewable energy or 68% of total, an increase from the 65% achieved in 2021.

High pace of heat networks' renovations and expansion continued in 2022 and reached 26 km in 2022 (28 km in 2021). 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 record low level of 12.4% in 2022 (12.7% in 2021).

FINANCIAL RESULTS

The Group's key financial figures and ratios	2022	2021
Total assets (in EUR thousand)	584,714	486,507
Loan liabilities (in EUR thousand)	332,701	277,701
Current ratio (times) = Current assets / Current liabilities	1.71	1.46
Quick ratio (times) = (Current assets – Inventories) / Current liabilities	0.98	1.39
Liquidity ratio (times) = Cash and cash equivalents / Current liabilities	0.07	0.41
Debt to equity ratio (D/E)	2.65	2.88
Total revenue (in EUR thousand)	259,623	160,892
Net profit (in EUR thousand)	39,907	28,301
Return on assets (ROA) = Net profit / Total assets (average)	7.5%	6.5%
Fixed assets turnover (times) = Revenue / Fixed assets (average)	0.57	0.44
Total assets turnover (times) = Revenue / Total assets (average)	0.48	0.37

INVESTMENTS

Achieving ambitious renewable energy targets is not possible without substantial investments on both country-wide as well as individual company levels in the utility sector. Efficient district heating and cooling play an important role in achieving the goals of climate neutrality and security of supply.

Utilitas has been highly focused on pursuing renewable energy opportunities for additional production volumes and as enhancing the resilience of existing operations via investments into the district heating networks. Infrastructure investments are carried out with time horizons of 30+ years and therefore require careful evaluation, planning and execution as well as a stable and predictable regulatory environment.

In 2022 Utilitas and its subsidiaries invested a total of 77 million euros (2021: 117 million euros), complemented by investments of joint venture Utilitas Wind of 50 million euros (2021: 25 million euros).

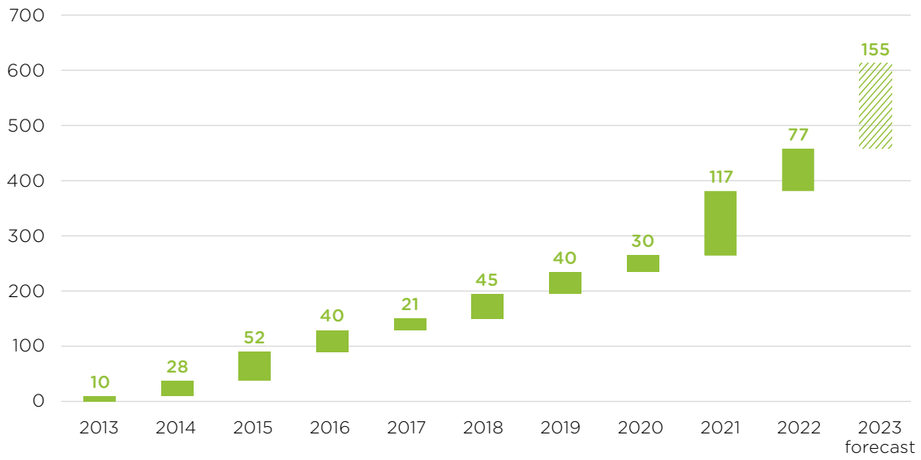


Figure 12. Volume of investments made by Utilitas from 2013 to 2023 (planned), EUR mln

Dividends amounted to 5 million euros (2021: 5 million euros) as Utilitas' policy is to pay a stable and sustainable dividend to its shareholders. The main focus of investments was on enhancing energy efficiency, adding new renewable production volumes and reconstruction of district heating networks:

- Investments related to operations of district heating networks and related production assets amounted to 47.5 million euros (38.5 million euros in 2021), including
  - Fourth year of long-term network replacement plan, 2022 network capex was in total 26 km (28 km in 2021), close to all-time high
  - Connecting 393 net new buildings to district heating networks (92 in 2021), including takeover of Adven clients in Tallinn. Total net area of heated buildings increased substantially to 19.4 mln square meters (18.2 million square meters in 2021)
  - Installation of second stage flue gas condensers in Mustamäe CHP, enabling to increase the efficiency of operations and provide additionally ca 20 GWh of renewable heat to Tallinn district heating network and thereby also reduce natural gas demand in the network. Similar investments are planned in both Väo CHP plants during 2023
  - District Cooling investments of 4.2 million euros to connect new customers and develop the network and production
- Start of Saarde wind park construction, capex in 2022 amounted to 26 million euros. The park which will be the most modern in Estonia will be commissioned during summer of 2023 and have a total capacity of 39 MW. The park utilises 9 modern Vestas V150 turbines (4.3 MW each). Total annual production is expected to reach 135 GWh which is enough to cover annual electricity needs of 40 thousand households. Total investment by Utilitas is around 65 million euros. In addition, turbine supply agreement was signed with Enercon to install 2 turbines to Aseri wind park (with grid capacity of 3.6 MW), commissioning planned for end of 2023, for a total investment of around 7 million euros

- Utilitas launched an innovative hydrogen project with the support of an investment grant of 5 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 CO_2 equivalent and the annual production of green hydrogen that will be used in public transport will exceed 36 tonnes
- Utilitas Wind finalized the construction of largest wind park in Latvia during the summer of 2022. The park has a total capacity of 59 MW and utilises 14 x 4.2 MW Vestas turbines. Annual production of ca 155 GWh is sufficient for covering annual electricity consumption of around 50 thousand households. Total investment amounts to 75 million euros
- During 2022 Utilitas Wind also acquired Grobina wind park in Latvia, with 33 Enercon turbines and total capacity of 20 MW. Thereby during 2022 Utilitas Wind became the largest wind energy producer in Latvia

Utilitas platform is planning over 250 million of investments in 2023:

- Continuation of district heating network renovation and expansion capex
- Subject to final investment decision launching investments into the large scale wastewater and seawater heat pumps, machinery and equipment procurement tenders planned for 2023
- 2nd stage flue gas condenser investments in Väo CHPs during 2023 which are expected to increase renewable heat output by ca 80 GWh and thereby reducing natural gas need by up to 15% in Tallinn together with the already completed Mustamäe CHP second stage flue gas condenser
- Large-scale solar (9 MW in stage 1) development launching with expected completion in by 2024 next to Väo CHP plants
- Short-term heat storage project was delayed in 2021-2022 due to anticipation of potential state grants to support with the implementation, Utilitas expects to continue with the project in 2023-2024
- Completion of construction of two wind parks (Saarde and Aseri) in Estonia in 2023 with total capacity of 43 MW
- Continuing with development of onshore and offshore wind projects under Utilitas Wind
  - Utilitas Wind is planning to start construction of Telšiai wind park in Lithuania and expansion of production capacities of Targale wind park in Latvia with total capex in excess of 200 million euros and around 100 million euros of investments foreseen for 2023

Utilitas Tallinna Elektrijaam and Utilitas Tallinn qualify as electricity producers with reporting obligations in the context of European Council regulation 2022/1854 and have to report electricity revenues which exceeded 180 €/MWh over the period December 2022 to June 2023. During December 2022 the electricity revenues exceeding the threshold amounted to 1 692 thousand euros, Utilitas Group is required to invest these funds into development of additional renewable energy production or storage by 2028. Utilitas has a number of suitable projects in the pipeline as described above and intends to duly comply with the regulation.

In order to mitigate potential risks related to security of supply for key production inputs (natural gas and biomass), Utilitas invested substantial funds towards procuring sufficient inventories of these inputs as well as a acquiring additional inventories of diesel fuel which would have been used in case of natural gas shortages in the region. The total amount of funds invested into inventories and prepayments (December 2022 vs December 2021) amounted to 38.6 million euros.

Dividends amounted to 5 million euros (2021: 5 million euros) as Utilitas' policy is to pay a stable and sustainable dividend to its shareholders.

ACCELERATION OF UTILITAS CARBON NEUTRALITY PLAN

Like in many other cities in Estonia, Utilitas district heating networks were also historically reliant on natural gas. In 2008 Utilitas used ca 2TWh of natural gas or close to 90% of input energy (and close to 100% in Tallinn) for heat production. By 2022 the share of fossil fuels in Utilitas' networks has been reduced to around 1/3rd or ca 675 GWh. The security, environmental and price concerns around natural gas have been evident to Utilitas for a long time already and in order to further reduce the demand for natural gas and meet the challenges of climate change and energy security, Utilitas developed its own carbon neutrality strategy during 2021, titled "From Low to Zero Carbon". The plan initially envisaged a transformation towards carbon neutral operations by 2030 but the developments in 2022 resulted in a review of the strategy and decision has been taken to accelerate the investment plan by as much as possible with an ambition to achieve these aims faster by 2027 already.

Since 2008, Utilitas, as a result of concentrated, investments has achieved significant reduction of fossil fuel dependence already:

- Most of Utilitas heat production currently comes from biomass CHPs, which also produce renewable electricity, which is additionally beneficial to all energy consumers in Estonia by replacing fossil fuels in the grid
- 65% reduction of carbon intensity since 2008 as a result of investments into CHP plants which use local renewable resources, 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
- Utilitas has invested over 450 million euros during this period

The accelerated carbon neutrality program foresees additional investments of over 500 million euros in 2022-2027 with focus on increasing renewable energy production, enhancing energy efficiency and refurbishment of networks:

- Development of new renewable energy capacities and transforming the heat sources of all Utilitas operated district heating networks to fully renewable alternatives. Utilitas is focused on developing opportunities to utilize industrial scale heat pumps to produce energy for its networks. Heat pump technology is key to producing renewable heating and cooling from ambient energy and enable the use of waste heat and cold. Deployment of heat pumps which mobilises underused renewable energy sources such as ambient energy, geothermal energy and waste heat from industrial and tertiary sectors, including data centres, makes it possible to replace natural gas and other fossil fuel-based boilers with a renewable heating solution, while increasing energy efficiency. This accelerates the reduction in the use of gas for the supply of heating, both in buildings as well as in industry. Installation of heat pumps increases the use of renewables in the heating sector, which accounts for almost half of the EU energy consumption, and thereby contributes to security of supply and fulfilment of environmental targets.

To support the deployment of heat pumps, Utilitas already in 2022 launched the construction of 39 MW Saarde wind park (see section Investments for more details) and in 2023 construction of 4 MW Aseri wind park is starting as well.

- Reconstruction and refurbishment of the district heating networks in order to:
  - increase network efficiency
  - enable utilisation of low-grade heat sources (such as waste heat from data centers and other industrial processes as well as waste-and seawater heat pumps) and development towards decreasingly low temperature district heating networks
  - improve the resilience of the networks, as modern networks have an order of magnitude lower probability of bursts in comparison to amortised legacy networks from Soviet times.
- Promoting sector coupling and taking advantage of new technologies and innovation
  - Utilitas is launching first-of-its-kind hydrogen project in Estonia next to Väo CHP plants, the excess heat from hydrogen production to be utilized in the district heating network

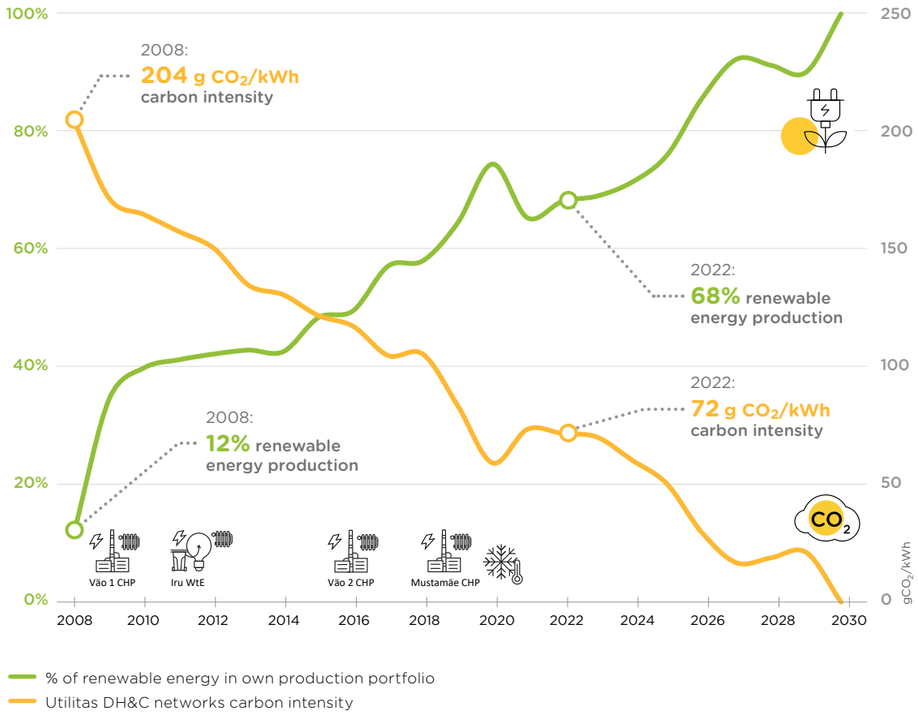


Figure 13. Utilitas Carbon Neutrality Plan targets

- Facilitating fuel switch across the cities where Utilitas operates by connecting 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
- Supporting the development of cities where Utilitas operates by being a reliable and responsible co-operation partner for residential and commercial real estate developers and connecting new buildings to the heating network as well as providing district cooling as an environmentally friendly alternative to local cooling solutions

The final step of the carbon neutrality plan is to replace remaining natural gas with biogas and/or electric boilers or future renewable technologies like hydrogen or e-fuels.

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 1) 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.

	2021 result	2022 result	2030 target
KPI 1[20]: Carbon intensity of Utilitas district heating and cooling networks	74 gCO_2 eq/kWh	72 gCO_2 eq/kWh*	0 gCO_2 eq/kWh
KPI 2[21]: Renewable energy production share	65%	68%	100%

*67 gCO_2 eq/kWh if eliminating natural gas replacement with shale oil

The 2030 sustainability performance target (SPT 1) is to reduce the carbon intensity of heating and cooling supplied in networks to 0 gCO_2/kWh. 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 2, which captures the share of renewable energy in the Utilitas own energy production mix. The 2030 sustainability performance target (SPT 2) is to increase the share of renewable energy in Utilitas own energy production mix up to 100%.

20 KPI 1 = (Scope 1 and 2 emissions from Utilitas + operational emissions from purchased heat)/total produced and purchased heat and district cooling; gCO_2/kWh

21 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; %

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).

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 2022, the Group structure is as follows:

OÜ UTILITAS

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
Janek Trumsi – Member of the Management Board
Aulis Meitus – Member of the Management Board

OÜ Utilitas Tallinna Elektrijaam (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

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
- **SIA Grobina Wind Park (100%)**
  Grobina wind park
- **Utilitas Wind SIA (100%)**
  wind park development in Latvia
- **TCK SIA (98%)**
  Targale wind park
- **UAB Telšiu vėjo parkas (20%)**
  wind park development in Lithuania
- **UAB Telšių vėjo jėgainės (10%)**
  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. In addition to providing district heating, Utilitas produces renewable electricity and provides district cooling. As a provider of vital services, we recognize our role in the society and commit to act responsibly. The goal is to contribute towards a sustainable economy and to provide long-term value without causing significant harm to the environment and people. Ensuring uninterrupted supply of services and adapting to rapidly changing operating environment and market trends as well as prioritising sustainability aspects in decision making is of upmost importance.

UTILITAS

STAKEHOLDERS OF UTILITAS

Utilitas includes the views of different stakeholders into decision making and engages them on an ongoing basis to update plans according to changing expectations. Different major internal and external stakeholder groups important to Utilitas together with their expectations and ways of engagement are:

Major stakeholder groups	Major expectations towards us
Consumers of heat, electricity and cooling	• Reasonable price • Security of supply • Convenience • Small carbon footprint
Investors, financiers	• 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.	• 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	• 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	• Good working conditions, motivation of employees • Fair wages • Safe working environment • Stable and responsible employer with good reputation
Society and media	• Open for cooperation • Good reputation • Opinion leader in energy sector

CONTRIBUTION TOWARD UN SUSTAINABLE DEVELOPMENT GOALS

United Nations Sustainable Development Goals (SDG) have been used to place Utilitas business operations in a broader context and to highlight most significant aspects on which the Group contributes regarding sustainable development. These goals are also brought out throughout the report to show the wider contribution of each sustainability topic managed by Utilitas.

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

Most important sustainability topics for Utilitas were identified in 2021 by reviewing material ESG aspects in cooperation with external experts. The assessment took into account most important short-term and long-term external contributors impacting Utilitas business, as well as impacts coming from Utilitas operations that have an effect on stakeholders, society and the environment. This included mapping of societal mega-trends, relevant political and regulatory developments, and societal challenges together with good industry practice and sector standards.

Aspects taken into account for formulating ESG strategy:

- Societal megatrends affecting the sector:
  - Global warming in Estonia and the world;
  - Urbanization and sector coupling in cities;
  - Increase in intermittent energy production capacities
- Societal challenges in Estonia and the world:
  - Need to ensure energy security, sustainability and affordability;
  - Needs according to the United Nations Sustainable Development Goals.
- European Union and Estonian regulatory developments:
  - Energy and climate policies and strategies;
  - Regulations for transparency on sustainability & ESG.
- Good market practice for ESG and sustainability management:
  - Requirements of good practice standardized management systems (e.g Iso 9001, 14001 and 45001);
  - Inspiration from other major ESG and sustainability management guidelines, standards and frameworks.

As a result of the analysis, seven priority sustainability areas in environmental, social, and governance dimensions were formulated. Targets, plans and key performance indicators were attached to each priority area in order to screen the sustainability management performance and progress of Utilitas. Future activities to initiate the mitigation of negative impacts and increase positive impacts in these areas were also identified. This forms the strategic ESG and sustainability framework of Utilitas.

OUR 7 ACTION AREAS

ENVIRONMENTAL DIMENSION

1 Climate and emissions

- Carbon neutral heat and cooling supply by 2030 at the latest
- 100% renewable energy production by 2030 at the latest
- Positive handprint from green electricity - avoided emissions by customers are higher than Utilitas` Scope 1, 2 & operational 3 emissions

2 Resource use and efficiency

- Heating and cooling networks are Efficient District Heating networks as defined by EU directive
- Highly efficient production (efficiency over 85%, incl scrubber near 100%)

3 Biodiversity and ecosystems

- 100% biomass sourced locally
- 100% of procured biomass is obtained from certified suppliers, PEFC certification

SOCIAL DIMENSION

4 Workplace safety

- Zero workplace accidents

5 Employee inclusion

- High employee engagement and satisfaction rate
- Diversity teams and gender balance
- Talent retention - voluntary turnover rate below 5%

6 Quality service for clients

- Certainty of supply for customers
- High client satisfaction rate
- Increase in client base

GOVERNANCE DIMENSION

7 Responsible governance and community engagement

- Relevant asset and operational as well as board level responsible governance measures in place
- Taxonomy aligned reporting to be developed
- Valid and updated ISO 9001, 14001, and 45001 & green office certifications
- Transparency of the price policy maintained

OVERVIEW OF **ESG PERFORMANCE IN 2022**

Key performance indicators for all priority ESG areas are in place to show Utilitas' sustainability performance. The graph below shows the Group sustainability targets and year 2022 results in all 7 important ESG areas.

Environmental dimension

1 Climate and emissions:

Carbon neutral heating and cooling supply by 2030.

2022: 72* gCO_2/kWh network CO_2 emissions

(2021: 74 gCO_2/kWh)

*67 gCO_2/kWh without special measures for gas replacement that were made in 2022

100% renewable energy production by 2030

2022: 68% renewable energy production

(2021: 65%)

Positive handprint from green electricity

2022: avoided CO_2 emissions 192 th tons > operational CO_2 emissions 165 th tons

(2021: achieved)

2 Resource use and efficiency:

Efficient district heating and cooling networks as defined by EU directives

2022: achieved in all networks

(2021: achieved)

High production efficiency

2022 (and 2021): over 85% in boiler houses and near 100% in combined heat and power plants

3 Biodiversity and ecosystems:

100% of used biomass sourced locally

2022: achieved

(2021: achieved)

100% of biomass obtained from certified sources

2022: achieved

(2021: achieved)

Social dimension

4 Workplace safety

Zero workplace accidents

2022: 2

(2021: 0)

5 Employee inclusion

High employee satisfaction

2022: new survey will be conducted in 2023 (biannually)

(2021: 4.15/5)

Gender balance

2022: 25%/25% of women in total / managerial positions

(2021: 25%/23%)

Talent retention

2022: 3.0% voluntary turnover rate

(2021: 3.5%)

6 Quality service for clients

Service supply certainty

2022: 99.99% average availability of district heating

(2021: 99.99%)

Satisfied customers

2022: 94% customer satisfaction

(2021: 97%)

Client base increase

2022*: 393 / 116 MW net new buildings / connected new power

(2021: 92 / 40 MW)

*including 237 buildings and 55 MW from takeover of Adven networks in Tallinn

Governance dimension

7 Responsible governance

- **Responsible governance measures are in place on asset, operational and board level**
- **Transparent price policy**
- **ISO 9001, 14001, and 45001 and green office certifications**

EU TAXONOMY

The EU Taxonomy regulations[22] is a classification system to encourage sustainable investments by determining which economic activities make a contribution to the environmental objectives of the EU Green Deal.[23] It establishes a science-based performance criteria and imposes a corporate reporting obligation on certain companies to disclose the extent to which companies' turnover, capital expenditure (CapEx) and operational expenditure (OpEx) are related to sustainable activities according to the Taxonomy regulation.

Currently, the list of activities and related performance criteria has been adopted in relation to climate change-related environmental objectives,[24] including activities relevant for Utilitas.

Utilitas is currently not in the scope of companies that are obliged to disclose Taxonomy-related information. Nevertheless, the first step has been taken towards assessing its business activities in relation to the Taxonomy regulation. The aim is to be transparent about the company's potential contribution to the Green Deal objectives and to start preparing for the compulsory reporting period. As a first step, the proportion of Taxonomy-eligible and Taxonomy-non-eligible economic activities in total turnover and CapEx are disclosed (OpEx extent assessment considered in the following steps during the next reporting period).

Eligibility assessment

The assessment of eligibility was done in reference to the NACE codes and descriptions of economic activity brought out in the Climate Delegated Act Annex I and Complementary Climate Delegated Act Annex I. The mapping was done in relation to the objective of climate change mitigation since only the turnover of activities that count as enabling activities for climate change adaptation could be eligible.

Taxonomy regulation distinguishes three types of activities: activities that make a substantial contribution to the environmental objective, activities that enable other activities to make a substantial contribution, and transitional activities if their greenhouse gas emissions are substantially lower than the industry average.

Most Utilitas Group's Taxonomy-eligible activities are low carbon activities mainly production of energy from renewable energy sources, cogeneration of electricity and heat from biomass and distribution of heat in efficient district heating networks etc and thereby being eligible to make a substantial contribution to climate change mitigation. Production of heat/cool from green electricity is additionally considered as Taxonomy-eligible activity since the activity is in accordance with the Taxonomy regulation and the Climate Delegated Act.

Utilitas Group also carries out transitional activities listed in the Complementary Climate Delegated Act, namely the production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system.

Taxonomy non-eligible activities include mainly heat production from fossil fuels (shale oil, light fuel oil, peat).

22 Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

23 Climate change mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular, pollution prevention and control, the protection and restoration of biodiversity and ecosystems

24 The list of activities can be found in the Climate Delegated Act (Commission Delegated Regulation (EU) 2021/2139) and Complementary Climate Delegated Act (Commission Delegated Regulation (EU) 2022/1214)

Accounting method

The turnover of the activities listed in the table was counted in the numerator and net turnover was counted as denominator of the turnover calculations. As for the calculation of proportion of CapEx, mainly Utilitas' invests in the sustainable and green activities such as new renewable energy generation units, heat pumps for utilisation of waste heat etc were considered. Those investments were counted in the numerator and total capex as indicated in the Disclosure Delegated Act[25] was counted as denominator.

As a result, 81% of Utilitas turnover and 98% of Utilitas CapEx was related with taxonomy-eligible activities in 2022.

Taxonomy-eligible activities	Taxonomy code	NACE code	Absolute turnover, k€	Proportion of turnover	Absolute CapEx, k€	Proportion of CapEx
A.1. Taxonomy-aligned activities*						
A.2. Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)**						
Electricity generation using solar photovoltaic technology	4.1	D35.11	337	0.1%	1,001	1%
Electricity generation from wind power	4.3	D35.11	-	-	27,656	36%
District heating/cooling distribution	4.15	D35.30	28,900	11.1%	24,441	32%
Cogeneration of heat and power from bioenergy	4.20	D35.11, D35.30	122,756	47.3%	687	1%
Production of heat from bioenergy	4.24	D35.30	6,510	2.5%	528	1%
Production of heat using waste heat	4.25	D35.30	17,372	6.7%	8,126	11%
Installation and operation of electric heat pumps	4.16	F43.22	-	-	94	0%
Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system	4.31	D35.30	35,593	13.7%	7,191	9%
Production of heat/cool from green electricity			154	0.1%	3,454	4%
Installation, maintenance and repair of charging stations for electric vehicles in buildings	7.4		-	-	27	0%
Storage of thermal energy	4.11		-	-	2,147	3%
Total (A.1+A.2)			**211,622**	**82%**	**75,351**	**98%**
Taxonomy non-eligible activities			48,001	18%	1,805	2%
Total (A+B)			**259,623**	**100%**	**77,156**	**100%**

* Utilitas Group did not assess the alignment of its Taxonomy-eligible activities in 2022
**A2 includes all Utilitas Group's Taxonomy-eligible activities

25 Commission Delegated Regulation (EU) 2021/2178.

ENVIRONMENTAL IMPACT

UTILITAS

Tackling global warming, reducing greenhouse gas (GHG) emissions and increasing the share of renewable energy and energy efficiency at the international as well as Estonian level are the keywords that characterise and direct the development of the energy sector. In addition to global trends and regulatory developments, the expectations of citizens regarding environmental sustainability are also constantly increasing.

According to the survey conducted among customers of Utilitas in December 2022, only 20% of people and businesses consider that the energy use and carbon footprint of buildings together with achieving climate neutrality are not important. This level has increased compared to previous survey results probably due to exceptionally sharp energy price increases and security of supply topics, which have recently been at the spotlight. At the same time, 83% customers still consider using renewable sources for energy production as very important and this has not changed compared with the last survey.

Management of environmental impacts is important in Utilitas. Emphasis is put on achieving high energy efficiency, reducing climate impact and using sustainable resources for energy generation together with acknowledging possible risks related to impacts on biodiversity. Air emissions, waste streams and consumption of waster is monitored on an ongoing basis to avoid significant impacts to the environment. More specific material environmental aspects and actions are reviewed annually in accordance with the environmental management system implemented at Utilitas.

All of Utilitas companies have implemented ISO 14001:2015 environmental management system, which are kept up to date by annual audits and recertification once in every three years. Certified green office principles are also followed in Tallinn offices.

- The main objectives of Utilitas 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.

- Environmental management system developments in 2022:
  - noise monitoring and prevention;
  - biomass sustainability tracking by demanding suppliers to provide sustainability forest managament sertifications (PEFC, FSC).

In 2022, Utilitas Tallinna Elektrijaam as well as offices of Mustamäe and Ülemiste production facilities received European Green Office certification which shows that green office principles are now followed there as well.

CLIMATE IMPACT AND AIR EMISSIONS

REDUCING CLIMATE IMPACT

Transition to carbon neutrality is getting more important every year, both economically and morally as the effects of climate change together with concerns of citizens and companies on the future prospects are intensifying.

Tallinn is the European Green Capital 2023, and the city has an ambition to become climate neutral by 2050. To fulfil the set sustainability ambitions, Tallinn has developed Sustainable Energy and Climate Action Plan 2030, which includes measures for both climate change mitigation and adaptation. One of the key components for achieving these plans is to reduce GHG emissions in the energy sector. Utilitas actions are interlinked with the city's action plan by directly contributing to the following actions:

- expanding areas connected to district heating to replace more polluting energy sources;
- implementing innovative and sustainable district cooling systems;
- renovating older pipelines in the district heating network to improve energy efficiency;
- raising energy generation in district heating from biomass and non-recyclable waste.

Utilitas' own target is to make the district heating system (operated by Utilitas) carbon neutral in its entirety already by 2030 at he latest. Actions that contribute towards this green transition are already in motion.

District heating has a significant role in reducing the carbon footprint of energy use. In Estonia, a report by Stockholm Environment Institute (SEI), found that transitioning to a carbon neutral heating and cooling in Estonia by 2050 is feasible[26].

Buildings that are connected to Utilitas heating network consume heat produced largely from renewable energy sources, which have lower GHG emissions compared to other used energy sources, e.g. electrical heating where the energy is largely produced from

26 https://www.sei.org/projects-and-tools/projects/transitioning-to-carbon-neutral-heating-and-cooling-in-estonia-by-2050/

fossil fuels. In addition, Utilitas uses cogeneration plants which also produce electricity and help to maximize the effective utilization of energy stored in the burnt fuels. This also helps to gradually phase out electricity that is produced mainly from fossil sources.

Utilitas has already lowered climate emission remarkably by having invested approximately 485 million euros in the operated district heating networks in the last 20 years (680 million euros in 2023 values when adjusting for inflation). As a result, since 2008 the carbon intensity of district heating networks has decreased by two thirds.

Carbon footprint of Utilitas

Utilitas continues to monitor and calculate its total GHG emissions according to the GHG Protocol Corporate Accounting and Reporting Standard. Utilitas' most material GHG emissions are direct emissions from fuel combustion in scope 1 (62%) and emissions due to fuel-and energy-related activities in scope 3 (32%).

The usage of fossil fuels for the production of heat, mainly covering peak loads in cold periods, is dependent on weather conditions. As 2020 was extraordinarily warm, emissions were also on incomparably low level compared to other years.

t CO_2 eq	2020	2021	2022*
Scope 1	117,513	175,166	165,233
Fuels combusted for energy production	117,038	174,829	164,876
Car fuels and freezing agents	474	337	357
Scope 2	4	4	3
Electricity/heat purchased	4	4	3
Scope 3 (operational)	11,631	7,484	3,485
Purchased heat	11,631	7,484	3,485
TOTAL Scope 1-3 (operational)	**129,148**	**182,654**	**168,722**
TOTAL Scope 1-3 (operational) if eliminating natural gas replacement in 2022			***156,620***
Scope 3 (other)	86,704		97,530
Purchased goods and services	4,848		3,555
Capital goods	0		6,344
Fuel- and energy-related activities	81,433		87,354
Upstream transportation and distribution	0	not measured	0
Waste generated in operations	106		16
Business travel	6		18
Employee commuting	312		242
Upstream leased assets	n/a		n/a
TOTAL Scope 1, 2 and 3**	**215,852**		**266,251**

**Updated emission factors used for 2022 according to Estonian GHG emissions report*
***Full scope 3 measured biannually*

Avoided emissions***	**204,681**	**201,449**	**192,379**

**** based on renewable electricity production net of networks consumption and Estonian residual mix (0.6366 gCO_2/kWh in 2021)*

Scope 1 emissions originating from the combustion of fuels to produce energy and small amount of GHG, which is emitted during the use of company owned or controlled vehicles.

GHG emissions from combustion of fuels used for energy production (tonnes of CO_2-eq)

t CO_2 eq (by sources for heat and electricity production)	2020	2021	2022
Natural gas	102,356 (87.5%)	153,510 (87.8%)	104,514 (63.4%)
Shale oil	4,694 (4.0%)	16,708 (9.6%)	37,093 (22.5%)
Milled peat	9,754 (8.3%)	438 (0.3%)	13,770 (8.4%)
Diesel fuel	235 (0.2%)	4,173 (2.4%)	9,069 (5.5%)
Biomass			430 (0.3%)
Total	117,038 (100%)	174,829 (100%)	164,876 (100%)

The largest share of emissions from the combustion of fuels comes from the natural gas (63% vs 88% in 2021). To mitigate impacts of energy crisis and reduce dependence on natural gas, the latter was replaced by locally sourced shale oil as an alternative fuel in 2022, which constituted 23% from the fuel combustion emissions in comparison to <10% in previous years. CO_2 emissions from combustion of shale oil are higher than natural gas. When eliminating the natural gas replacement effect, total operational scope 1-3 would have been 153 kt CO_2 eq (instead of 165 kt CO_2 eq).

In 2022, the emissions from biomass combustion take into account CH_4 and N_2O emissions as the Estonian Ministry of Environment has published a guideline document for GHG calculations which proposes the specification of the methodology. CO_2 emissions from biomass combustion are not included to the GHG inventory according to the requirements and guidance of international regulations and standards.

Scope 2 indirect emissions are associated with the energy purchased and consumed on-site (within organizational and operational boundaries). As we purchase only green electricity mainly from biomass sources, the Scope 2 reflects CH_4 and N_2O emissions of biomass.

Scope 3 other indirect emissions are associated with all the upstream activities, mainly from fuel- and energy-related activities. The main sources of GHG emissions under fuel- and energy-related activities are from the purchase of natural gas. These are the well-to-tank emissions related with acquiring, processing and transporting of natural gas.

Emissions under capital goods occurred mainly from the Saarde windpark construction works (foundations, cables, on-site work, transport). Purchased goods and services emissions are mainly related with the heating network pipes and spare parts.

To assess GHG emissions due to employee commute, a survey among employees was conducted similarly to 2020.

Utilitas monitors also the climate positive effect from the renewable electricity production each year. Positive effect from the electricity production compared with the Estonian residual mix (0.6336 gCO_2/kWh in 2021) was approximately 192 kt CO_2 eq in 2022 which exceeded Utilitas' operational emissions in Scope 1-3

PRODUCTION OF RENEWABLE ENERGY

Global and national energy sector development plans demand transition to renewable energy at an accelerating pace as it is a vital step for lowering the climate impact of humans. Estonia stands out in the heating and cooling sector where around 60% of energy is from renewable sources, whereas in electricity production Estonia is trailing behind it's neighbors as well as EU average.

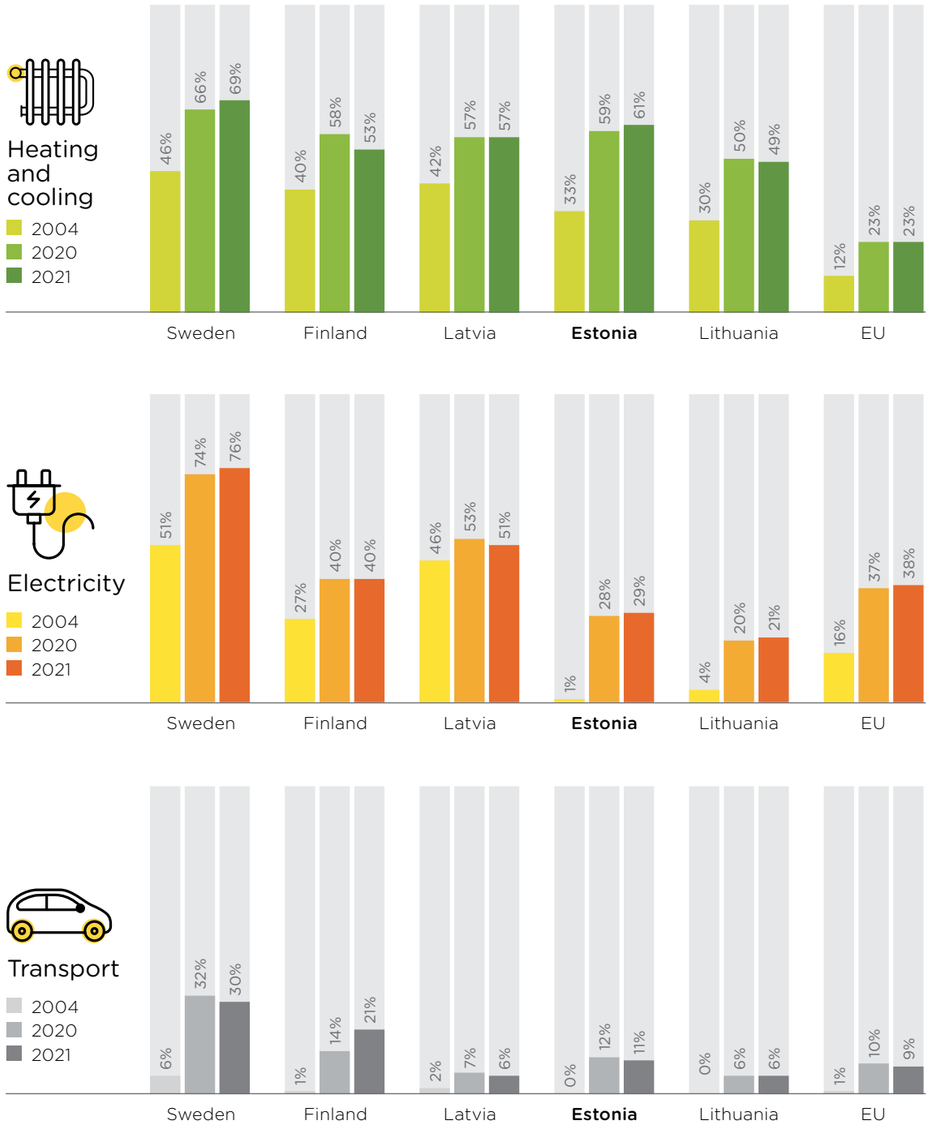


Figure 14. Share of renewable energy used from gross final energy consumption by Eurostat SHARES including statistical transfers between Member States

In recent years, renewable energy has increased in Estonia mainly due to new solar farm installations. In 2021, solar energy capacities in Estonia increased by two times compared to the year before. At the same time, no new significant capacities of wind energy have been added over the last ten years.

Wind energy capacities (MW)
(https://www.irena.org/publications/2022/Apr/Renewable-Capacity-Statistics-2022):

	2012	2020	2021
Sweden	3,606	9,976	12,080
Finland	257	2,586	3,257
Latvia	59	78	81
Estonia	266	317	317
Lithuania	275	540	671
EU	97,187	177,057	187,497

In Estonia, the consumption of heat makes up most of the nation's total energy consumption and is the primary reason why previous renewable energy targets have been achieved, whereas very limited progress has been made in electricity and especially transportation sector.

In the heating sector, district heating is the most efficient option for urban buildings as it allows to use production technologies from fuels that are otherwise difficult to use, such as wood chips or household waste. Residual heat is also used in cogeneration plants to generate electricity.

Utilitas is the largest renewable energy producer and district heating provider in Estonia. About one third of district heating in Estonia is provided and 12% (2021: 13%) of renewable electricity is produced by Utilitas.

Target: 100% of renewable energy in energy production by 2030

2022 result: 68% (2021: 65%)

Utilitas renewable energy production ambitions include using renewable sources over all different forms of energy produced (heating, cooling and electricity production). In order to meet this, waste- and seawater heat pump production capacities together with wind and solar energy projects are developed. In addition, further efficiency investments and boiler replacements are planned in existing cogeneration plants.

2022 was warmer and sunnier than on average, resulting in lower need for heating production in the winter. Summer months were also warmer which gave the opposite effect regarding energy consumption as the use of cooling systems was higher. Production volumes were also affected by the energy crisis and implemented energy saving measures in the society that were triggered due to Russia's war on Ukraine. To mitigate impacts of energy crisis and reduce dependence on natural gas, gas consumption decreased by about 45% in the last quarter. This was, in part replaced by locally sourced oil shale oil as an alternative.

Adven Tallinn customers were connected to the Utilitas district heating network in October 2022. This included 237buildings in Nõmme, North-Tallinn, Pirita and city centre districts which were previously supplied by Adven.

Production of renewable energy from Utilitas operated facilities increased from 65% in 2021 to 68% in 2022.

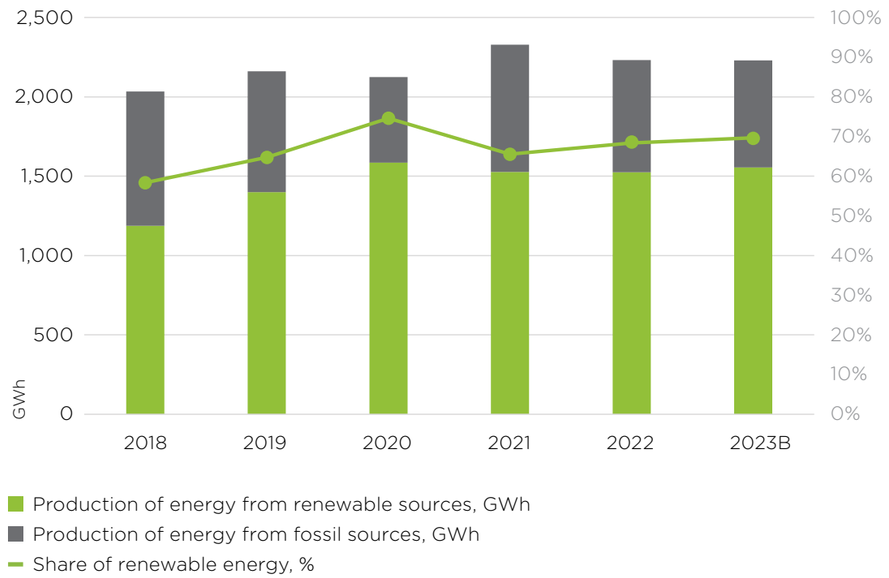


Figure 15. Volume (GWh) and share (%) of energy produced by Utilitas from renewable and fossil sources (electricity and heat in total)

The share of natural gas used in total energy sold by Utilitas, dropped in 2022 compared to the year before. This was mainly replaced by energy from woodchips and shale oil. The use of other energy sources (peat, domestic waste, light fuel oil, solar) has in general remained on the same level when comparing the last two years.

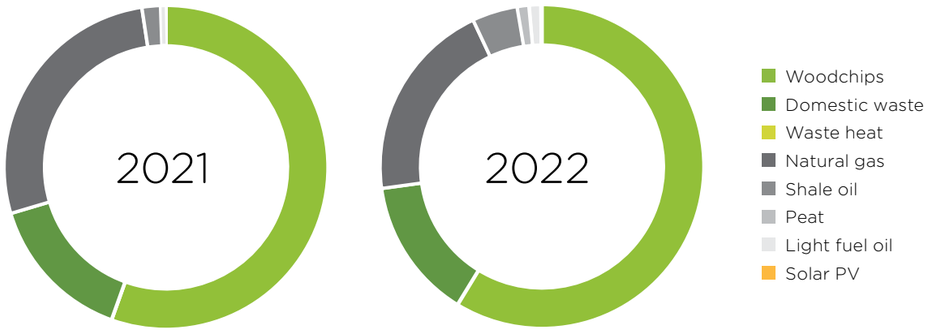


Figure 16. Yearly distribution of different energy sources used from total electricity and heat energy sold by Utilitas (includes energy purchased by Utilitas)

In 2022, the share of renewable energy provided by district heating networks operated by Utilitas was 69% to 100% depending on the area. The average share of renewable energy provided by district heating networks is about 50% in Estonia. The share of renewable and waste heat sold by Utilitas in each operated area can be seen on the following graph.

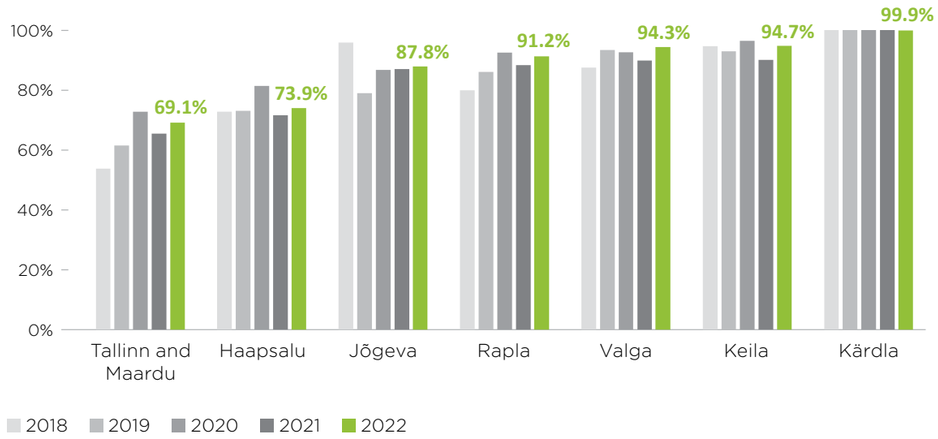


Figure 17. Share of renewable and waste heat in the heat sold by Utilitas, broken down by areas

District cooling

Due to climate change, more frequent heat waves are expected to occur also in Europe and Estonia. This creates a growing need for cooling systems to help alleviate resulting health problems linked with extreme heat periods. District cooling is identified as a sustainable solution to this problem compared to air conditioning systems which are energy inefficient, loud, include risk of coolant leaking and take a lot of space. European Union and Estonian national policies also indicate that district cooling can be a major contributor to fulfilling energy efficiency and climate mitigation targets.

Providing cooling is not only a problem of countries with a warmer climate, as one might expect. It is becoming increasingly relevant also in the Nordic countries. For example, Sweden is the largest producer of district cooling together with France. In Sweden, the annual supply of district cooling exceeded 1000 GWh already back in 2014. The length of operated district cooling network has also steadily increased by approximately 20 km every year and exceeding 520 km in total at the end of 2021. District cooling is used to cool office and other commercial spaces, refrigerators in shopping centres as well as servers in data warehouses to mention a few.

As a seaside city, it makes sense to use the cooling potential of sea water and specifically the low temperature of sea water in Tallinn. For example, in Stockholm and Helsinki, sea water is widely used as a free cooling source as it is efficient, reliable and renewable.

District cooling works very similarly to district heating in principle. Cooled water is led from the district cooling plant to the cooling assembly in a client's building. Within the assembly, this water is used to cool the ventilated air in the building and the water circulating in the cooling system of the building.

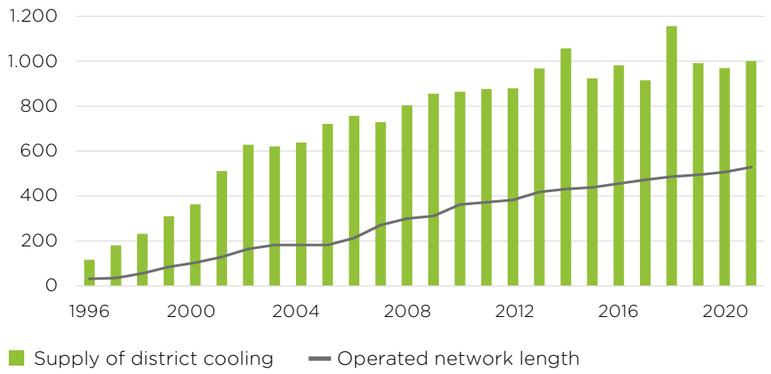


Figure 18. Supply of district cooling and operated network length in Sweden. https://www.energiforetagen.se/statistik/energiaret/

Utilitas is the frontrunner in implementing and enabling district cooling in Tallinn. The ambition is to create a network connecting the entire city centre area which will provide sector coupling, create synergies with the district heating network and to provide a full solution to clients for both winter and summer periods. In 2022, Utilitas invested 4.2 million euros into the development of district cooling operations.

At the end of 2022, a new district cooling station was completed by Utilitas to provide cooling for the buildings of Ülemiste city. This is the second Utilitas' district cooling station in Tallinn. The first station is located on Masina street and supplies office buildings in the Fahle quarter since 2019. Utilitas is involved in the development of Tallinn's district cooling network and will continue with installing new systems in the coming years.

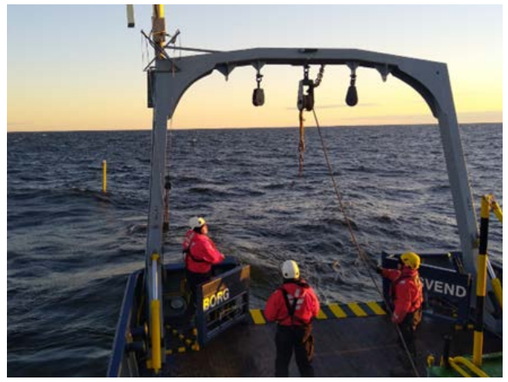
Utilitas' new cooling station

Wind energy

2022 was a major year in wind park developments for Utilitas:

- Utilitas started the construction of the most modern wind farm in Estonia. The foundations of Saarde wind farm were laid. The park consists of 9 wind turbines (Vestas V150) with a total capacity of 39 MW, the wind park will cover the electricity consumption needs of more than 40 000 households. Installation of wind turbines will begin in spring 2023 and electricity generation will start in the summer of 2023. In total Utilitas will invest more than 60 million in the project.
- Utilitas Wind completed the construction of Tārgale wind park which is the largest onshore wind park in Latvia and makes Utilitas Group now the biggest wind power producer in Latvia. 14 modern turbines supplied by Vestas, with a total capacity of 59 MW were installed, with annual production covering the electricity need of more than 50 000 households. 75 million euros in total were invested in the project
- Grobina Wind Park was acquired in Latvia by Utilitas Wind consisting of 33 Enecron wind turbines with a total capacity of 20 MW. It is one of the largest wind parks in Latvia
- Environmental impact assessment (EIA) program of Saare-Liivi offshore wind farm was approved by The Consumer Protection and Technical Regulatory Authority (TTJA). The approval took less than a year, which is exceptionally fast in Estonia, as Utilitas started with the initial studies before the compilation of the program to preemptively provide more precise information to the public and decision makers. This offshore wind farm could produce nearly half of Estonia's annual electricity needs and is projected to be completed in 2028. Approximately 80 modern wind turbines are planned with a total capacity of 1,200 MW. Utilitas Wind has engaged Ramboll, prefeed study has been completed and next steps in the project development are being jointly undertaken in parallel with the carrying out of the environmental studies
- Utilitas Wind and largest private land owner in Estonia, Graanul Mets started a strategic cooperation to build wind farms on the lands of companies belonging to the Graanul Mets Group. Suitable development areas have been mapped including more than 100 wind turbine places with an estimated total capacity of over 500 MW. Development projects are on their early stages as conducting appropriate planning together with impact assessments, local community and municipality engagements are needed to be carried out


Opening of Targale wind park



Saare-Liivi offshore wind farm environmental impact study


Grobina Wind Park

Saarde wind farm cornerstone laying

OTHER 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.

Unlike for local boiler houses, strict requirements are established for the permitted levels of fine particles for central production equipment used in district heating. Thus, the use of district heating instead of using wood combustion directly in households significantly reduce the emissions of fine particles in cities.

Electrostatic precipitators used in the cogeneration plants of Utilitas are very efficient flue gas cleaners. This equipment removes solid particles as well as gaseous air pollutants from the energy plant emissions (by absorbing or dissolving the gases within the flue gases, e.g. SO_2, HCl). 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 upper limit value.

Mustamäe and Väo CHPs, Mustamäe and Kristiine gas boilers are equipped with continuous monitoring systems for observing the emissions to air. Reports from the continuous monitoring systems are submitted to the Environmental Board.

Due to Russia's invasion in Ukraine there was a sudden drop of available natural gas in 2022 which partially had to be replaced by using locally sourced oil shale oil. Unfortunately, oil shale oil produces higher air pollution but due to the crisis this one-time measure was necessary. Utilitas informed and conciliated with the Environmental Agency of any deviations from the environmental permits and agreed on a special permit. Sufficient inventories were procured for 2022/2023 heating season.

RESOURCE USE AND **EFFICIENCY**

One of the priorities of Utilitas is to achieve as efficient energy production and distribution as possible for all consumers in order to maximise the use of natural resources. It is important for Utilitas to integrate principles of circular economy into regular business activities in all levels of resource management. Sector coupling solutions are actively investigated to increase efficiency.

Target: reduce heat losses to below 10% by 2035

2022 result: 12.4% (2021: 12.7%)

Utilitas is heading towards using 4th generation district heating and cooling networks which enables effective use of residual waste heat and two-way interaction between suppliers and consumers to provide a better balance between the demand and energy productions to improve resource use and efficiency.

Estonian Power and Heat Association has awarded Utilitas with the Efficient District Heating and Efficienct District Cooling labels. This means that all of Utilitas district heating and cooling systems are efficient systems within the meaning of Energy Efficiency Directive (2021/27/EU). Conditions set by the directive state that heating or cooling must be generated by using at least 50% renewable energy or 50% waste heat, 75% cogenerated heat or 50% combination of such energy and heat.

DISTRIBUTION NETWORK EFFICIENCY

Target: 100% renovated network by 2034

2022 result: 67.3% (2021: 64.3%)

To have efficient distribution networks, it is important to have up to date and renovated pipelines which decrease heat losses and allow to use more efficient solutions such as lowering the water temperatures in the pipeline. Between 65-95% of Utilitas' networks (depending on the operated area) use modern pre-insulated materials which are substantially more reliable and have lower losses in comparison to legacy heat pipes from Soviet times which they replace.

In 2022, 26 km of pipeline was renovated together with network expansion (2021: 28 km). The largest renovation works in 2022 in Tallinn were undertaken in Pelgulinn and

Helicopter taking thermal photographs of heat pipelines

Pelguranna, Veerenni and Tõnismägi, Uue-Maailma and Kitseküla, Sadama and Kalamaja. Bigger works were also carried out in Keila, Rapla and Valga.

In 2022, thermal photographs were taken of Tallinn, Maardu, Keila and Haapsalu heat pipelines from helicopter to inspect the technical condition of networks and to rule out significant heat leakages. In addition to modernising the network, it is also important to ensure high efficiency as a part of daily energy management operations. Supply and return temperatures are the main characteristics of the district heating network. Both of these are measured constantly in every production facility together with the heat energy output of that facility.

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

Lower water temperatures in the network:

- Decrease heat losses in the district heating network;
- Make flue gas condensers and combined heat and power generation plants more efficient and allow to use heat pumps;
- Create better opportunities for using heat storage units;
- Improve thermal stability in the distribution network which reduces stress on the pipelines and reduces the risk of leaks and maintenance costs.
- Allows to use plastic pipelines instead of pipes made from materials with higher environmental footprint like steel and copper;
- Improve the security of supply as the risk of water starting to boil is reduced when network pressure drops. Boiling water in the pipeline creates two-phase flow which causes flow cavities.

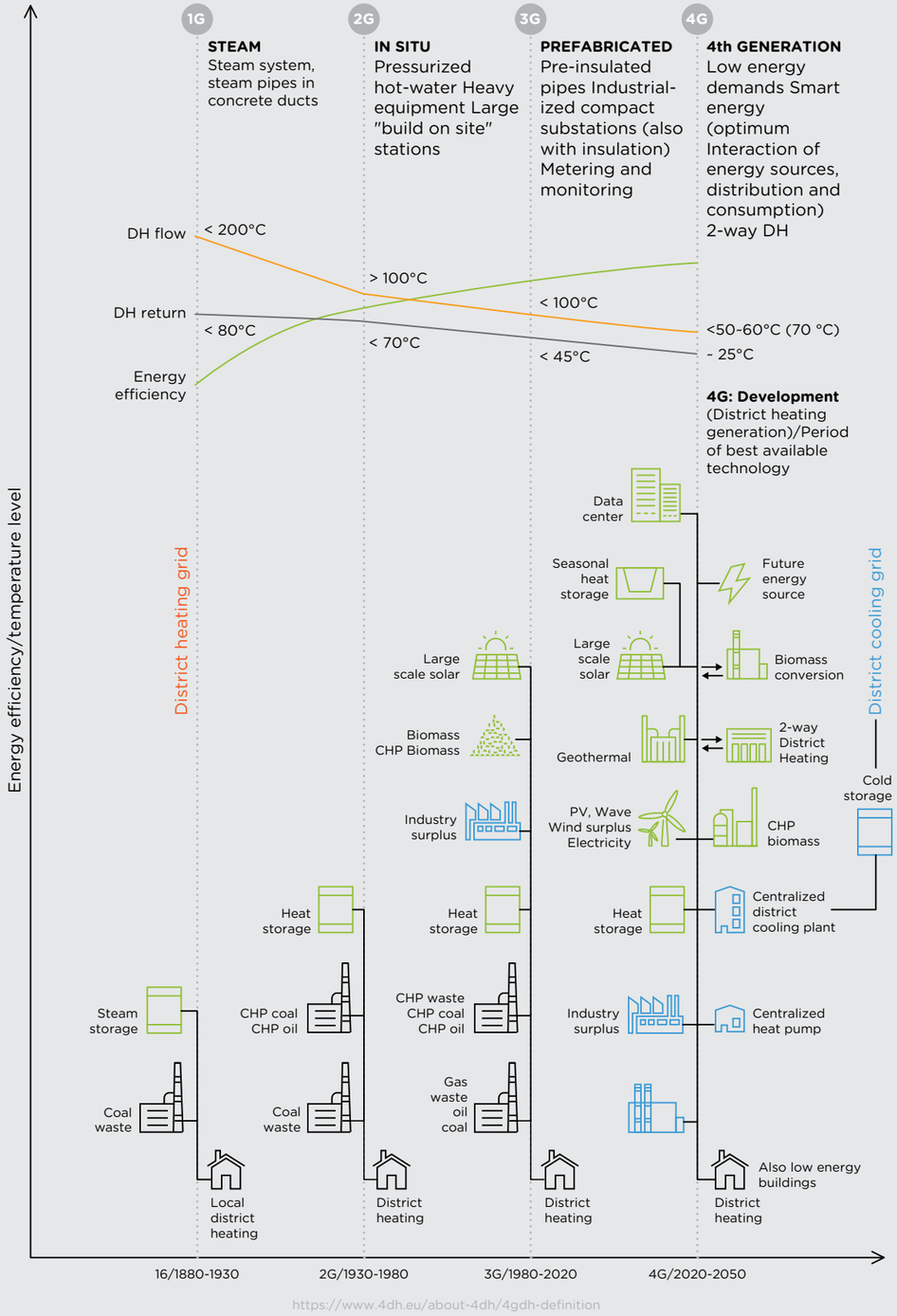


Figure 19. Development (District Heating generation) / Period of best available technology

On one hand it is important to keep energy efficient water temperatures in the supply for the customers. On the other hand, it is necessary to consider the spread between supply and return temperatures. Higher spread between these two mean that buildings are more energy efficient as less energy is taken from the system and also less energy is lost in the network. This is why it is important to renovate buildings, heating systems and substations in buildings. Utilitas supports this development by offering substation replacement advice and financing for clients, in addition to renovating older pipelines and heating systems which are directly managed by Utilitas.

There is also 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 operates wastewater treatment plant in Tallinn (Paljassaare wastewater treatment plant).

Majority of time the network temperature is already in the range of 70-80 degrees. Utilitas aims to improve distribution network energy efficiency by:

- Gradually lowering the yearly weighted average water outflow temperature every year. In 2022, this was 80.1˚C in Utilitas Tallinn operated networks (2021: 81.7˚C)
- Keeping the yearly weighted average return water temperature as low as possible. The target is to have return water temperature lower than 45°C at least for 73% of consuming buildings. In 2022, this was 74% for both Utilitas Eesti and Utilitas Tallinn operated networks (2021: 61% and 67% respectively)

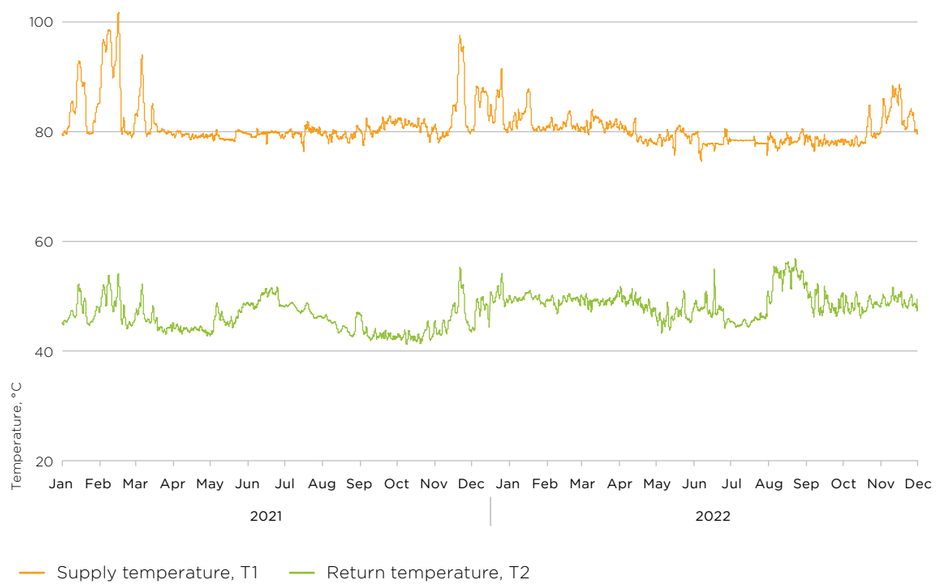


Figure 20. Network supply and return temperatures in Utilitas Tallinn network

PRODUCTION EFFICIENCY

As woodchip resources together with other fuel sources are limited, it is of utmost importance to use only highly efficient solutions, which minimize the amount of energy wasted in the process. Utilitas uses local renewable fuel and advanced district heating systems which allow unique levels of efficiency in resource use.

Utilitas target is to have production efficiency over 85%. In Utilitas co-generation plants which use flue gas scrubbers, the efficiency can reach to 100% and above

Production efficiency factor reaches approximately 100% in Utilitas operated cogeneration energy plants equipped with flue gas scrubber technologies. In these plants electricity and heat are generated in the same process with approximately 30% of output as electricity and the remaining 70% as heat that can be used to heat buildings via district heating networks. Such efficiency is 2.5-3 times higher than in power plants not connected to the district heating network and operate on the condensation regime, where the heat generated in the process is wasted and efficiency is only between 35-40%. Flue gas condenser technology is also used in heat only biomass boilers, increasing efficiency close to 100% in these production units as well.

Utilitas target is to have production efficiency over 85%. In Utilitas cogeneration plants and boilerhouses which use flue gas scrubbers, the efficiency can reach to 100% and above. In 2022-2023 Utilitas is investing close to 20 million euros into 2nd stage flue gas condensers at all three operated cogeneration plants to increase efficiency even further.

Definition: efficiency factor is the sum of annual production of electrical energy, mechanical energy and useful heat divided by the energy used to produce this energy. Efficiency factor is calculated based on the lower net calorific value of the fuel.

REDUCTION OF WATER USE

The volume of heat network of Tallinn is approximately 90,000 m^3. Water is a valuable natural resource, thus Utilitas constantly works to improve the water use efficiency in operated district heating network.

Target (Utilitas Tallinn): network water change rate to 1 time per year by 2035

2022 result: 1.4 (2021: 1.9)

Modernisation of the heating network, monitoring temperatures and pressure levels of the system together with efficient management are also the primary leverages for reducing water losses from district heating network (in addition to reducing energy losses). Utilitas tracks the quality of water used in operated systems on a monthly basis to keep it within the expected limits.

Utilitas also aims to increase water use efficiency by searching synergies and increasing cooperation with water utility companies that are operating in same cities as Utilitas. For example, through coordinated network investments. Utilitas has 20.4% shareholding in AS Tallinna Vesi and is partnering with majority shareholder the City of Tallinn to initiate water efficiency cooperation projects in Tallinn.

BIODIVERSITY AND ECOSYSTEMS

Biomass is a material which can help Europe move towards climate neutrality and energy security. It replaces materials which have higher environmental footprint and that originate from fossil sources (e.g. coal in energy and concrete in construction). Using wood to create long lasting products helps to bind carbon dioxide for an extended period. In addition to quality wood/timber a significant amount of low value woody biomass is created during forest management, wood harvesting and processing. The use of low value woody biomass, such as branches, treetops, brushwood and other timber industry residues locally in energy sector helps to increase the share of renewable energy on the market and replace the need to generate energy from fossil sources.

Estonia is situated at the northern border of the temperate forest biome where there is abundant biomass availability and higher natural biomass reproduction compared to many other European countries. Forests cover over 50% of the territory in Estonia and have always played a pivotal role in the country's economy. In 2021, 40% of solid biofuels used for primary energy production was exported in Estonia, 38% was used for producing electricity and heat in cogeneration plants and boiler houses, and 20% by households.

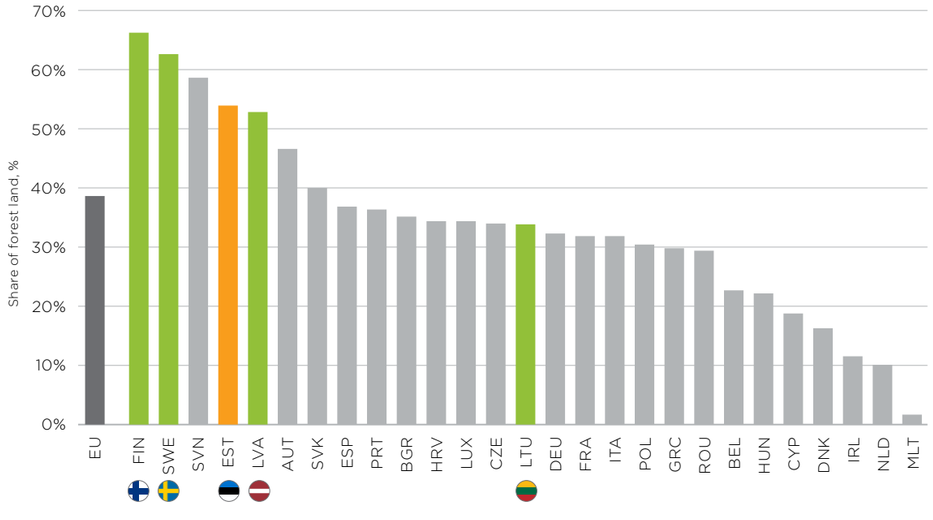


Figure 21. Share of forest coverage from total land coverage in European Union countries (2020).

In order to keep such ecosystem functional, it is important that forests are managed sustainably to avoid irreversible environmental damage to ecosystems and biodiversity, which would in turn cause long-term severe economic impact for the sector and to broader society. The land area of strictly protected forests in Estonia has increased from 9.6% in 2010 to 14.9% in 2020, leaving more room to nature and lowering the risk of extinction of vulnerable species as no economic activity is allowed in these areas. The share of forests that have different restriction measures is about 30% from total forest area in Estonia.

Utilitas supports constructive public discussions around the future of forestry to find a balanced approach between protecting nature and biodiversity, reaching climate goals and providing sources for economic activities. Utilitas continues to be up to date with changing social expectations and scientific as well as political developments to follow the best practice available.

For the last four years, Estonia's Forestry Development Plan for 2021 to 2030[27] has been under development. The process has caused a heated debate among different stakeholders around annual sustainable felling volumes in forests. The target of this development plan is to move towards a forestry sector, which on one hand ensures forest ecosystem and biodiversity persistence together with forests that contribute towards climate change mitigation and are resilient to different stressors due to climate change. On the other hand, provide financial competitiveness of the sector together with supporting social and cultural values in the society linked with forestry. This new development plan is expected to be accepted by the government in 2023, two years later than projected. From the environmental sustainability side there are some highly possible key trends shaping the future of forestry, which can be brought out:

- Forest cutting volumes will be gradually decreased to improve biodiversity and nature resilience toward impacts coming from climate change;
- Sustainable forest management practices are getting more detailed and widespread to reduce forest and soil deterioration together with other negative environmental impacts that come from more intensive practices;
- Higher value timber products are going to be manufactured with lesser wastes to boost long term binding of carbon dioxide;

On European Union level, the Renewable Energy Directive (RED) developments are closely followed by Utilitas to meet its requirements and to be accounted as renewable energy provider. It classifies woody biomass as renewable energy source, but under certain conditions. Rules regarding sustainable biomass sourcing have been added to RED which state which kind of biomass and on what conditions can be used to be classified as renewable energy. Further forest certification requirements got introduced in 2022 and will presumably start to apply in 2024. Creating clarity is welcomed by Utilitas as it gives assurance on which operations contribute towards higher sustainability and make it possible to plan further green investments.

On EU level new yearly carbon sequestration objectives for 2030 in land use, land-use change and forestry (LULUCF) sector was agreed. For Estonia this means that the goal was quintupled (to sequestrate 0.5 million tonnes of carbon to 2.5 million tons by 2030). By comparison, in Estonia the LULUCF sector emitted 1.3 million tons of carbon in 2020. The state will start exploring opportunities and viable measures to reach these goals in the coming years.

Utilitas procures 100% biomass from sustainability certified sources (FSC or PEFC) and meets the sustainability criteria defined in the EU Renewable Energy Directive.

All Utilitas suppliers are obliged to provide evidence that:

- All forest protection requirements are followed;
- Forest renewal measures are in effect;
- Wood did not come from a protected area.

Utilitas procures 100% biomass from sustainability certified sources (FSC or PEFC) and meets the sustainability criteria defined in the EU Renewable Energy Directive

Utilitas stands for responsible and transparent wood sourcing principles by monitoring exact origins of all sourced biomass. Utilitas prioritises sourcing and using low value local leftover or wood waste residues from timber industry as fuel. An internal control system has been set up to ensure sustainability criteria required by RED. Voluntary sustainable forest management certifications (PEFC) are planned for own operations in 2023 to gain external assurance and to be in accordance with the upcoming sustainability criteria regulations.

Of all the ways of using biomass to generate energy, cogeneration plants are the most environmentally sustainable. Cogeneration plant efficiency factor reaches near 100% by allowing maximum possible quantity of energy to be obtained from one unit of biomass which is substantially higher than in domestic stoves or electricity-only combustion plants.

In addition, old Christmas trees are collected by Utilitas every year to be direct these into energy generation. This prevents accumulation of waste and increases the utility of already extracted wood.

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SOCIAL IMPACT

UTILITAS

SERVICE **QUALITY**

Utilitas provides district heating services in eight cities across Estonia to approximately 400 thousand people. Ensuring availability of service to customers and consumers is our major everyday responsibility and quality indicator. Client satisfaction is a combination of:

- access to the network;
- affordable and transparent price;
- uninterrupted service.

in all these aspects our customers expect an increasingly competitive solution compared to alternative heat sources (i.e. natural gas, electricity and heat pumps).

District heating is a reliable and affordable form of heating that is on its way to becoming carbon neutral

COOPERATION WITH CUSTOMERS

Utilitas proactively seeks for new clients who wish to have more sustainable heating and lower their risks coming from gas dependence. As Utilitas renovates older pipelines, nearby potential clients who have not yet joined the network will be approached.

The environmentally sustainable shift of energy sector can only be achieved in cooperation with customers. Awareness campaigns and direct customer communication is done by Utilitas to share the environmentally sustainable properties of district heating and to help customers reach higher sustainability. Fortunately, clients also have an increasing knowledge of climate change and want to reduce their impact.

100% of Utilitas clients have smart remote meters to enable efficient energy use

All Utilitas' customer connections are remotely metered which provides information to the clients about the conditions of heating units and networks in buildings which makes it possible to:

- Increase energy efficiency of client heating substations and network which reduces client's heating expenses and environmental impact;
- Provide clear and detailed statistics for clients to help identify their impacts;
- Model demand patterns for better optimisation of network heat supply;
- To take personal energy management digital systems into use – this could potentially lower the peak energy demand by up to 20% which reduces the consumption of fossil fuels, as it is often used to satisfy peak periods.

Besides environmental impact, energy security gained more attention in 2022 due to Russia's invasion of Ukraine. Countries started to plan and implement energy saving measures to reduce energy consumption and bring the energy demand down to fill the supply gap caused by separation of Russia's natural gas from the EU market. Utilitas promoted energy saving measures in 2022 through customer self-service web portal by providing clients with:

- Accurate consumption datasets which help clients to find weak spots in energy consumption and track how efficient their energy saving measures are
- Comparisons of their building heating system efficiency with other similar buildings. This shows how much of their energy consumption could be decreased if renovations would be done
- Providing tips for lowering energy consumption

Utilitas supports its clients through providing accurate real-time as well as historic data on the buildings heat consumption, which enables to identify the buildings where heat consumption is abnormally high and would thus benefit most from renovation activities. The renovation of buildings is critical for improving the energy efficiency of buildings and as a result also achieving energy saving targets of the wider economy. Rohetiiger's road map to climate neutrality foresees even higher investment need into buildings' renovation (approximately 11 billion euros vs 8.5 billion needed for transformation to renewable electricity) than the total investments which are needed for electricity and heat production.

Energy efficient DH&C	Not renovated (kWh/m2/y)			Renovated (kWh/m2/y)		
	Heat	Electricity	KEK*	Heat	Electricity	KEK*
Apartment building	170	35	181	70	38	122

* KEK - weighted energy usage, 150 < C class < 180
Source: Long-Term Strategy for Building Renovation, MoE 2020

Estonia's long-term goal in energy performance of buildings is to fully renovate all building that were built before 2000 by 2050 (Long-Term Strategy for Building Renovation, TalTech & Ministry of Economics 2020). Full renovation means that in case of apartment buildings energy efficiency class C or better has been achieved.

- The strategy targets ~60% savings in heating demand of renovated apartment buildings
- Historically, the renovation tempo has been too slow (on average 280 th m^2 per year, which is less than 1% of non-renovated building stock) and there have been years where there were no grants given for renovation of buildings
- District heating is the best way for achieving energy efficiency with reasonable investments

In 2022-2027, Estonian Government will direct at least 366 million euros through Kredex to increase the energy efficiency of residential buildings. Funding for this comes through the European Union Structural Funds. Additionally, several municipalities are offering subsidies for reconstructing or changing the heating system in the buildings. Thanks to remote metering and IT solutions, Utilitas supports its clients via analysing historical consumption and offering advice and recommendations though online self-service interface and targeted direct communication with clients and promoting best practices, for instance by recommending thermostatic valves, smart substations, etc.

FAIR AND TRANSPARENT ENERGY PRICE

A key element of a sustainable energy solution is affordability. Utilitas has transparent pricing policies in place to ensure fair treatment of clients. All tariffs are in accordance with the District Heating Act and regulated by Estonian Competition Authority.

Maximizing the usage of renewable and local energy sources ensure lower prices for customers

2022 was an unprecedented year in energy price volatility. Russian invasion of Ukraine highlighted how important is energy dependency and how district heating can reduce supply risks and price volatility. The state continued compensation measures that started already in 2021 to reduce high energy prices for residents. However, in the long term it is not sustainable to expect state interventions to ensure affordable price levels. It is vital to shift energy sector toward sustainability and locality which results in lower and more stable energy prices. There was elevated interest by clients in 2022 who wished to switch over to Utilitas district heating.

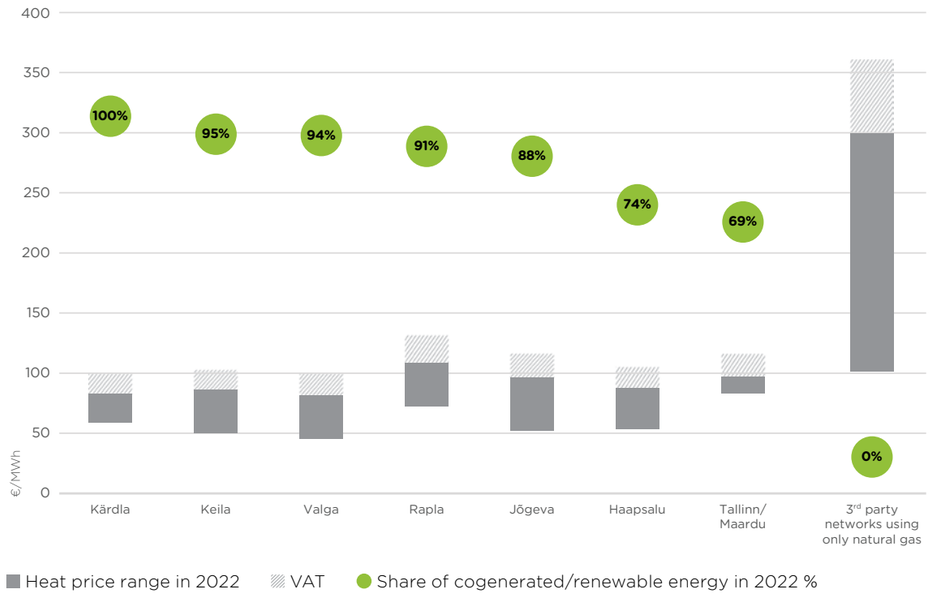


Figure 22. Heat tariffs in Utilitas networks as in 2022 and comparison to natural gas based network tariff

However, Utilitas was also affected by the price volatility as both natural gas and biomass prices increased. Biomass and waste heat make up to two thirds of the fuel sources used by Utilitas to provide heat energy. In 2021, the price of heating was increased in Tallinn and Rapla area due to natural gas cost increase. But In 2022 (starting from February), the price of heating was kept stable in Tallinn area, regardless of natural gas price reaching over 300 euros/MWh in high peaks. Due to the diversification of the fuel portfolio, the price of Utilitas district heating was still up to 2 to 3 times lower than the price of heat produced solely from natural gas. It can be observed that the heat price levels are directly correlated with the level of transition to renewables whereas network density and age also plays an important role.

Other regions where Utilitas provides district heating were less affected by the gas price increase as the share of using biomass is higher (up to 100%). However, as the price of biomass also increased, the price of district heating had to be increased by over 50% in 7 operated areas in 2022. Utilitas was still able to keep the price increase significantly lower than the increase in woodchip price which in comparison increased up to 200%.

QUALITY AND CONTINUITY

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. It is a combination of secure and reliable supply with a reasonable price. The expectations of consumers for undisrupted energy supply are 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, heating networks and production equipment is highest. 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 use electricity for heating buildings. As a result, the need for investing into electricity production equipment and networks is significantly reduced. Cogeneration plants operating at base load also have a very important balancing role in energy security as they provide electricity and heat when there is no wind or sunshine which solar and wind parks need.

In 2022, Utilitas client satisfaction rate was 94% (2021: 97%)

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. By the regulation of Tallinn City Council, interruption in the district heating supply service cannot last longer than 24 hours. Utilitas has accomplished this requirement 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.

In 2022, the availability of district heating service was 99.99% (2021: 99.99%)

Availability is measured by the share of hours district heating service was available without any interruptions

Utilitas ensures security of supply by having:

- Contingency plan:

  Detailed action plans are set for the case of technical failures, extreme weather conditions or interruptions in the electricity or fuel supply. Alternative fuel sources are stocked to replace other fuel sources. 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:

  Large district heating boiler plants are capable of using reserve fuel for at least 72 hours and additional water for at least 24 hours, which is obliged by law.

- Autonomous electricity production capability:

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

- 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 management:

  Production equipment must function reliably so regular maintenance of boiler plants and repairs in network system is done to reduce the need for emergency repairs. Maintenance management follows the following principles:

  - Prevent – Regular inspection of equipment to be in accordance with the technical requirements set by the manufacturer
  - Repair – regular repairing of the equipment to shortened unplanned downtimes
  - Forecasting – diagnostics and vibration measurement together with partners

- Qualification:

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

Utilitas uses 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 several maintenance service contracts. These agreements include a quick response time for addressing defects and making repairs by the partner.

As Utilitas has many additional obligations and measures to provide continuous supply of heat, it is more secure than heating systems used by individual buildings. In addition, heat pipelines in Tallinn form a connected circle, 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 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 Väo stations is also in process and it is important for additionally reducing energy supply interruption risks in situations of electricity network failures.

393 net new buildings or the equivalent of 116 MW were connected to Utilitas district heating system in 2022 (2021: 92 and 40 MW)

Gas consumption decreased by about 40% in Q4 2022 on a year-to-year basis. This was in part replaced by locally sourced oil shale oil to ensure security of heating supply for clients in case there would have been natural gas shortages. Utilitas received a permission from Environmental Board to temporarily use oil shale oil. In the longer term the carbon neutrality investment plan will phase out fossil fuel completely and energy security.

Intergrated District Heating Network Development Plan of Tallinn Until 2030

Scientists of Tallinn University of Technology (TalTech) and specialists from Utilitas have developed a plan for an integrated district heating network in Tallinn which mapped possible trends in the heat supply of the city for years 2020 to 2030. Utilitas Tallinn cooperates with City of Tallinn to carry out this plan.

The focus of the development plan is to reconstruct Tallinn's district network system at an accelerated pace in order to ensure energy security, reduce heat losses and linked negative environmental impact. Old network which was built before 1995 is going to be replaced in its entirety by year 2035. This means that Utilitas has to replace 14-15 km of network pipelines every year in Tallinn. Utilitas expanded this goal to reconstruct all heat networks managed by Utilitas all over Estonia by 2035. By the end of 2022, from 592 km of operated heat network 67% was reconstructed or new.

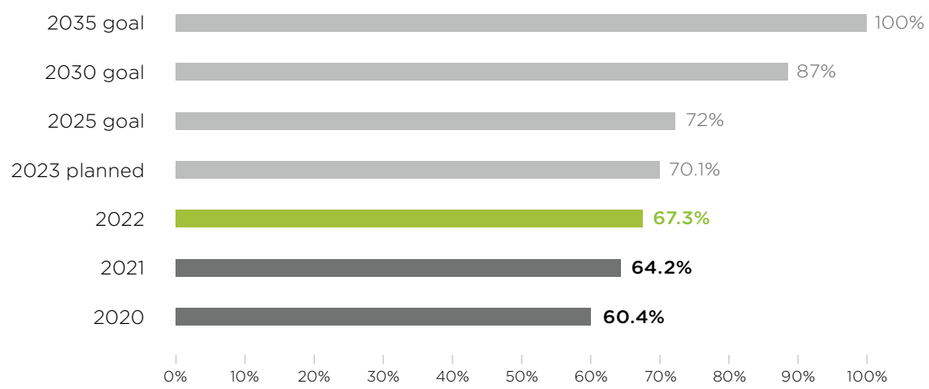


Figure 23. Share of reconstructed or new district heating networks and planned goals.

EMPLOYEES AND WORKPLACE

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. Utilitas employs directly 279 people (by the end of 2022) which is 6% more than in the year before.

Wider implementation of digitalisation and automation makes it possible to increase the value added by each employee and creates more meaningful jobs. The use of local wood chips for energy production also helps creating jobs in rural areas.

Average tenor of Utilitas' employees is 15.1 years

Utilitas' aim is to ensure that employees are well cared for by creating a safe working environment and providing people with best self-realisation opportunities. Utilitas is a valued employer among current employees and on the labour market more broadly. This is exemplified by low voluntary employee turnover and high average tenor of employees

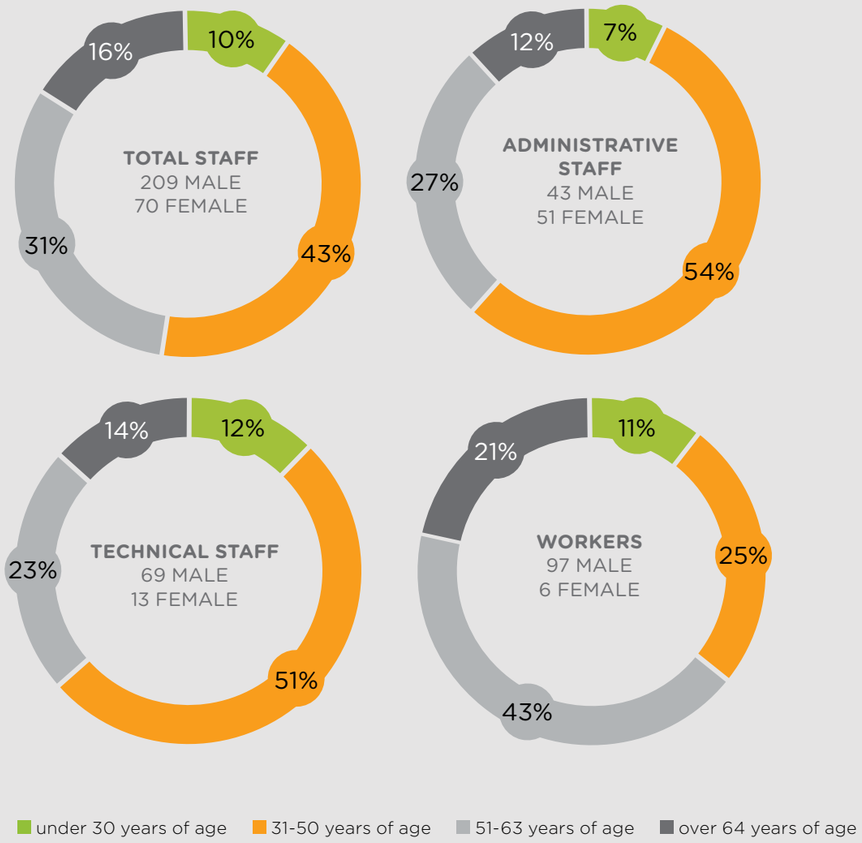


Figure 24. Employee breakdown by age and gender

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. Utilitas complies with all the requirements and industry good practice for occupational health and safety. Work Environment council with safety officers conduct regular risk analyses to eliminate safety hazards and raise employee awareness on safe working methods. All employees receive safety trainings and safety instructions are present in workplaces that include waste management, working at heights, fire safety, working with asbestos and other chemicals. Occupational accidents if happened are all investigated to improve procedures and reduce risks.

All employees receive retraining on occupational safety instructions and risk assessments in every three to five years. If there are changes or amendments to these policies then employees will get the retraining within one month of issuing the updated document at the latest.

Additional measures taken to support health and safety:

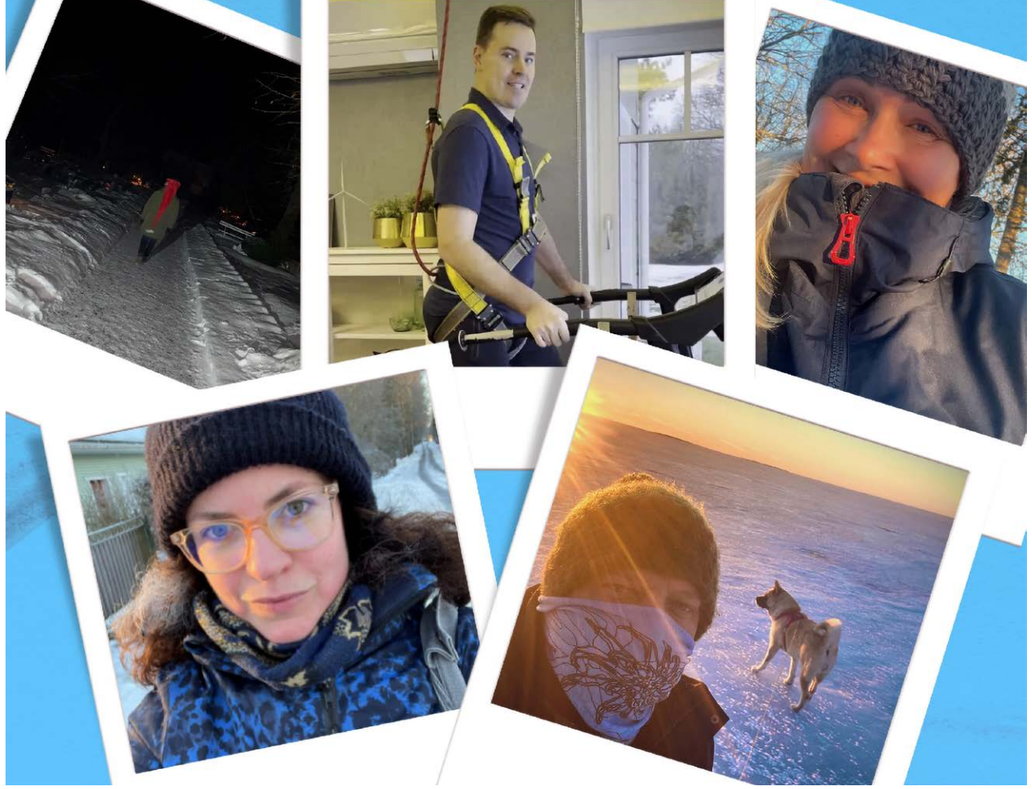
- Online training facility for safety trainings was created in 2022 which will be implemented further through the group
- Safety results are connected to managers remuneration system
- Health insurance is provided for all employees through Confido
- All employees have possibility to receive health related compensations

Target: 0 workplace accidents.

	2018	2019	2020	2021	2022
Occupational accidents with employees (fatal accidents)	3 (0)	1 (0)	0 (0)	0 (0)	2 (0)
LWIF per 100 employees (working 200 000 hours)	1.29	0.44	0.00	0.00	0.79
ASR per 100 employees (working 200 000 hours)	n/a	n/a	0.00	0.00	13.47

Both occupational accidents occurred due to slippery winter conditions in the territory of boiler plants. These occupational accidents were registered in the ISO 45001 system and additional prevention measures were implemented. The employees recovered quickly.

- 20 management safety walks were carried out in 2022 (2021: 22)
- 20 near misses were reported and registered in 2022 (2021: 36)



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

A traditional walking challenge was carried out in December by Utilitas' employees together with Tallinna Vesi to promote healthy lifestyles. Every 1000 steps walked contributed 1 euro toward donations and in total about 42 million steps were made. Donations were made to Toidupank in cities where Utilitas operates, to Eesti Agrenska Fond and to Eriliste Laste Varajase Toetamise Keskuse A-Akadeemia.

Management of contractors

Reporting of contractor accidents and providing health and safety measures to contractors are also covered by Utilitas management systems. It is the responsibility of the management team of each subsidiary 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 system and occupational safety inspections are undertaken by Utilitas to mark any deficiencies are registered in inspection reports. Annual summaries are prepared for each contractor to use this information in evaluating contractors in the future.

EMPLOYEE **INCLUSION**

Utilitas values the independence and freedom of specialists to decide themselves on how they work and supports mutual trust between employer and the employee. Management culture values humane, respectful and inclusive communication. Events are regularly organised to unite employees and biannual employee engagement surveys are carried out to get direct feedback and map workplace improvement measures. Last survey conducted in 2021 showed high employee satisfaction of 4.15 (max. 5). 84% of employees participated in the study.

Employee awareness on activities and goals of the Group is also important for Utilitas in order to engage everyone and provide a purposeful working environment. Since 2020, the Group has organised information days three times a year for all employees to share sector trends and business results together with open discussions where everyone can ask questions and raise topics.

Target: to have employee voluntary turnover rate below 5%

2022 result: 3.0% (2021: 3.5%)

Employees are listened and supported to boost personal development. Regular personal performance appraisal interviews are done with all employees 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.

A new integration program was created and implemented for new employees in 2022. This was put together based on the interviews of new employees to map out topics and weak points which they would have liked to know more about when starting the job.

Workshops were held for all management position employees to engage them into decisions regarding remuneration and development plans regarding leadership. Activities mapped are actively implemented in order to unify and improve the management culture of Utilitas.

In 2022 Utilitas reached top 20 most desirable employers ranking in Estonia.

DIVERSITY AND EQUAL TREATMENT

All employees of Utilitas are treated fairly and equally. Everyone in the same employee category has the same value propositions and equal personal development opportunities. Employees are also not selected based on gender, nationality or race. In job interviews, both male and female representatives participate to rule out the possibility of a gender biased selection.

The share of women in managerial positions increased in 2022

Utilitas' staff includes people with different nationalities and backgrounds. However, one of the issues linked to ensuring diverse staff is related to language skills. To provide a uniform culture and language environment for staff, Utilitas is conducting Estonian (B1 level) language courses for employees whose national language is not Estonian.

Due to sector specificity, Utilitas has overall more male and older employees. Proportion of women among all employees is 25% and 25% in first-line managerial positions (2021: 25% and 23% respectively). 53% of employees are younger than 50 years of age (2021: 50%).

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 and support the studies of thermal engineers together with building a good reputation among students. Recruitment focus is also on finding new young employees. However, providing younger employees with development opportunities as well as valuing the contribution made by experienced employees are both important to Utilitas. In 2022, 7 trainees underwent their paid internships in Utilitas (2021: 9) and 6 scholarships were offered (2021: 5).

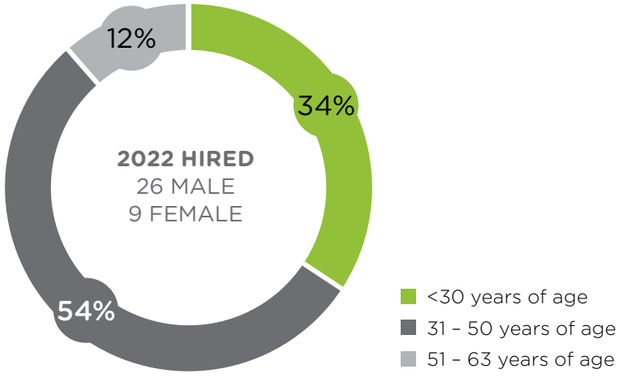


Figure 25. New recruitments in 2022

TRAINING AND DEVELOPMENT

Utilitas highly values personal initiative regarding development and supports employees by providing financial resources and availability of time. Each employee is provided to participate in trainings arising from their position (e.g meeting engineering profession requirements). In addition, personal performance appraisal interviews are made to map and fulfil each employee's individual development needs and interest.

Training events are divided between the fields of management, technical skills, time management and general education. All new employees receive introductory guidance from the quality and environmental manager, and human resources manager including:

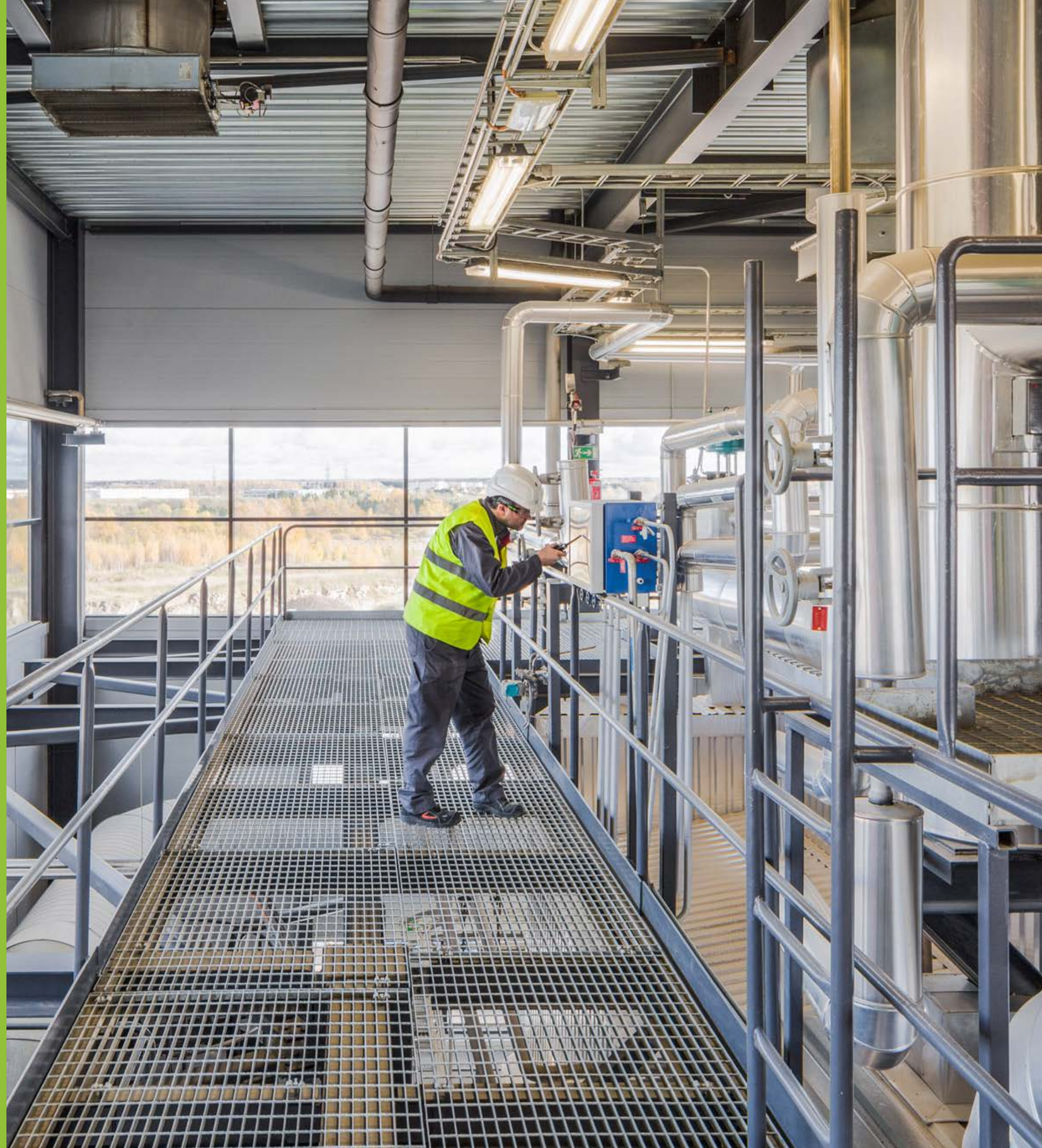
- Company Structure;
- Management System Documentation;
- Environment and Safety;
- Utilitas Management Policy and Objectives;
- General Fire and Safety Documentation;
- Addressing Environmental Aspects;
- Emergency Situations and Response;
- Legislation regulating Occupational Health and Safety.

New employee then receives further role specific training by the head of that department, which includes:

- The preparation and implementation of a vocational training plan (internal training);
- Occupational Safety Training and requirements (e.g. risk factors, risk analysis, use of personal protective equipment, fire safety and emergency plans);
- Instruction on policy documents.

GOVERNANCE

UTILITAS



SUSTAINABILITY GOVERNANCE

Sustainability is managed throughout the organisation on the basis of Utilitas ESG framework, which consists of:

Dimensions
3 dimensions – environmental, social, governance

Topics
7 topics – tackling most relevant angles of each dimension

Commitments
What exactly we commit to focus on within the topic

Targets/KPI-s
How we evaluate if we have been successful in delivering the commitment

Target levels
What is our specific ambition for each commitment

Activities
What we firsthand need to do in order to achieve all of the above

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

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

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

Comprehensive EHS procedures are in place which also 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.

ESG committee on Board level gathers at least twice a year and closely monitors ESG developments and trends as well as provides valuable feedback and recommendations.

Utilitas has established periodic management board reviews, during which the current state of the long and short-term business objectives are 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 can vary between business units due to the different activities done within each unit.

Key operational performance indicators tracked:

- New Connections (MW and Number of Buildings/Connections)
- Disconnections (MW and Number of Buildings/Connections)
- Planned and Unplanned Interruptions (Number and Duration)
- Customer and other complaints
- Production Efficiency (%);
- Electricity used for own operations (kWh/MWh);
- Network Performance (Temperature and Hydraulics)
- Average Network Age (Years)
- Heat Losses (GWh and %)
- Emissions Compliance
- CO_2 Emissions (tCO_2-eq per annum)
- Water Consumption (% of Network Volume)
- Water Quality indicators

Utilitas was awarded in 2022 with Gold Level by Responsible Business Index.

RESPONSIBLE BUSINESS INDEX GOLD LEVEL 2022

RISK MANAGEMENT

Utilitas has a risk registry in place to be on track and manage emerging risks on an ongoing basis.

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 to restore the operation of energy plants 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 electricity or fuel supply. Employees and members of the management board have been appointed who are responsible for carrying out stated plans if necessary. This topic is described in more detail in the ‘Quality and continuity’ chapter of this report.

ESG risks

Type of risk	Risks	How we mitigate the risk
Environmental	• 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;	• Performing regular risk analysis; increasing resilience of the energy production and delivering systems • Due to increased CO_2 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	• 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	• 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, competitive remuneration packages
Governance	• 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	• Open and active dialogue with financiers • Developing internal know-how and including experts if necessary • Dedication of in-house resources and encaging IT consultants; IT audit • Active participation in any regulative/ political discussions. Active membership in sector associations

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 fulfil 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 depts 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, 2022, the Group were deposited EUR 300 thousand (31.12.2021: the Group did not have any fixed term deposits).

As at balance sheet date, the loans granted to joint ventures amounted to EUR 21,150 thousand (31.12.2021: EUR 11,000 thousand), 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 2022 and 31 December 2021, there were no loans granted to unrelated parties.

Liquidity risk

Liquidity risk is the risk that the company is unable to fulfil its financial obligations due to insufficient cash funds. This risk realizes if the company does not have enough funds to service its loans, to fulfil its working capital needs and to perform necessary investments. As at 31 December 2022, the Group´s current ratio was 1.71 (31.12.2021: 1.46). 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 fulfil 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.

COMMUNITY RELATIONS

Utilitas' energy production units are mainly located near high density residential areas. We fully understand our responsibility to provide safety around Utilitas areas and to prevent disturbances of local communities. However, energy production can involve odour, dust, noise and transportation related disturbances to surrounding areas. Utilitas gives high attention to preventive work in order to exclude hazards and significant disturbances of surrounding areas.

Local community is kept informed and communicated with to promptly resolve any issues and to get feedback. Utilitas also organises production site tours and Doors Open Days, to give a closer look of the operations and to ensure transparency.

No significant complaints or accidents in nearby areas were registered in 2022.

Utilitas is cooperating with AS Tallinna Vesi to coordinate the construction and repair works of underground water and district heating networks. This means that overlapping areas where both works are needed can be done together. Therefore, disturbances of people living nearby are reduced.

COOPERATIONS AND SUPPORT

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 projects connected to its business regions, and long-term sponsorships are preferred for corporate consistency.

In cooperation with sponsorship partners, Utilitas wishes to inform the public about the importance of renewables, clean energy and reducing energy inefficiency in buildings.

Utilitas cooperation and sponsoring activities include:

- Utilitas progeny team to support young track and field athletes (since 2011). It is a long-term project to maintain and increase the level of professional sports in Estonia.
- Supporting basketball to connect people and advocate healthy lifestyles. Utilitas (since 2013) is the main sponsor of the Estonian national basketball team and name sponsor of Rapla basketball team.
- Tallinn City Theater cooperation to contribute toward environmentally sustainable concept of ''Green Theatre'' (since 2016)
- 'Gift of Life' cancer treatment foundation contributions and other charities.

COOPERATION WITH **EDUCATIONAL ESTABLISHMENTS**

Another important activity linked with sponsoring is ensuring the continuity of good quality employees by supporting education. In 2022, Utilitas supported the studies of six Taltech engineering faculty students through Clean Energy scholarships which in total were 11 200 euros. Three scholarships were given to both bachelor and master level students. Clean Energy scholarships have been given out once a year for the last four consecutive years and its purpose is to increase the interest of young people in energetics and sustainable solutions.

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 attractiveness of thermal engineering specialty among young people is also a big challenge for Utilitas. New generation of workforce is needed as current employees age and labor shortages are increasing in Estonia. 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.

Utilitas is engaged in long-term cooperation with TalTech in order to ensure the continuity of engineering education in Estonia. In addition to already mentioned Clean Energy scholarship, Utilitas supports education by:

- Participating in University program councils
- Taking part in career events and offer paid traineeship positions for young people to facilitate learning of practical skills
- Having heating laboratory of Utilitas in TalTech Mektory Innovation and Business Centre to introduce the basic principles of energy supply in cities to students as well as other groups who are interested

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. Special attention is given in this program to engage young mathematics and physics teachers. In addition, Utilitas site tours are made for students to arouse interest.

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:

Eesti Taastuvenergia Koda

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

EESTI JÕUJAAMADE JA KAUGKÜTTE ÜHING

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.

Rohetiiger

Green Tiger 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.

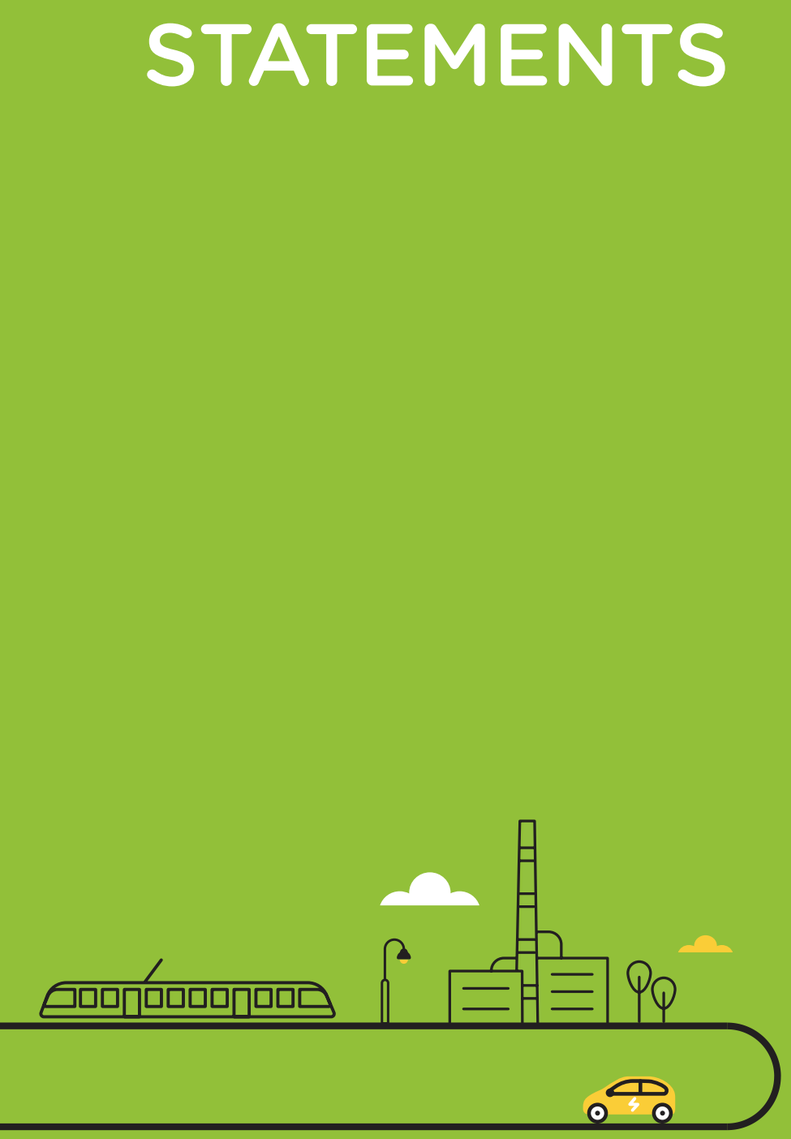
Vastutustundliku Ettevõtluse Foorum

The Responsible Business Forum 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.

Wind EUROPE

Wind Europe comprises of over 400 members from across the whole value chain of wind energy to actively promote, coordinate, communicate, research and analyse topics connected to wind energy and provide a networking ground for companies. Utilitas joined the organisation in 2022.

CONSOLIDATED
FINANCIAL STATEMENTS



UTILITAS

CONSOLIDATED BALANCE SHEET

IN EUR THOUSAND	Note	31.12.2022	Restated 31.12.2021
ASSETS			
Current assets			
Cash and cash equivalents	2	**4,152**	19,331
Receivables and prepayments	3	**51,967**	46,351
Inventories	4	**41,712**	3,146
TOTAL CURRENT ASSETS		**97,831**	68,828
Non-current assets			
Investments in associates	6	**62,151**	58,643
Non-current receivables and prepayments	3	**20,175**	11,028
Property, plant and equipment	7, 8	**390,874**	333,895
Intangible assets	8, 9	**13,683**	14,113
TOTAL NON-CURRENT ASSETS		**486,883**	417,679
TOTAL ASSETS		**584,714**	486,507
LIABILITIES AND EQUITY			
Current liabilities			
Finance leases	8, 10	**2,183**	1,795
Payables and prepayments	11	**55,168**	45,396
TOTAL CURRENT LIABILITIES		**57,351**	47,191
Non-current liabilities			
Borrowings	10	**332,701**	277,701
Finance lease	8, 10	**34,128**	36,033
Provisions	12	**279**	234
TOTAL NON-CURRENT LIABILITIES		**367,108**	313,968
TOTAL LIABILITIES		**424,459**	361,159
Equity			
Share capital	13	**7,650**	7,650
Retained earnings		**152,605**	117,698
TOTAL EQUITY		**160,255**	125,348
TOTAL LIABILITIES AND EQUITY		**584,714**	486,507

The Notes on pages 98 to 121 form an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

IN EUR THOUSAND	Note	2022	2021
Revenue			
Sales revenue	14	**255,778**	159,912
Other income	15	**3,845**	980
TOTAL REVENUE		**259,623**	160,892
Cost of goods and services sold	16	**-162,654**	-83,909
Other operating expenses	17	**-4,749**	-3,611
Payroll expense	18	**-12,738**	-11,619
Depreciation, amortisation and impairment	7, 9	**-20,255**	-19,781
Other expenses	19	**-8,457**	-23
Operating profit		**50,770**	41,949
Financial income and expenses			
Share of net profit of associates accounted for using the equity method	6	**6,155**	1,734
Interest expense	10	**-17,159**	-16,058
Other financial income and expenses		**637**	1,164
TOTAL FINANCIAL INCOME AND EXPENSES		**-10,367**	-13,160
Profit before tax		**40,403**	28,789
Income tax	13	**-496**	-488
NET PROFIT FOR THE PERIOD		**39,907**	28,301

The Notes on pages 98 to 121 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

IN EUR THOUSAND	Note	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		**50,770**	41,949
Adjustments:			
Depreciation and impairment losses of property, plant and equipment and intangible assets	7, 9	**20,255**	19,781
Change in receivables and prepayments related to operating activities	3	**-6,230**	-24,855
Change in inventories	4	**-38,566**	1,100
Change in payables and prepayments related to operating activities	11	**5,339**	28,082
Interest paid	10	**-17,364**	-14,835
Income tax paid	13	**-496**	-488
Total cash flow from operating activities		**13,708**	50,734
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets	7, 9	**-71,811**	-37,158
Proceeds from sale of property, plant and equipment and intangible assets	7	**70**	110
Acquisition of investments in subsidiaries	5	**0**	-8,435
Acquisition of investments in associates	6	**0**	-58,566
Purchase of other financial investments		**0**	-13
Loans granted	23	**-9,150**	-11,028
Interest received		**1,265**	4
Dividends received	6	**2,647**	2,647
Total cash flow from investing activities		**-76,979**	-112,439
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans received	10	**55,000**	48,000
Payment of finance lease liabilities	10	**-1,864**	-1,575
Other payments from financing activities		**-44**	-100
Dividends paid	13	**-5,000**	-5,000
Total cash flow from financing activities		**48,092**	41,325
TOTAL CASH FLOWS		**-15,179**	-20,380
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	2	**19,331**	39,711
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2	**4,152**	19,331

The Notes on pages 98 to 121 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 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
Dividends paid	0	**-5,000**	-5,000
Net profit for the period	0	**39,907**	39,907
Balance as at 31 December 2022	**7,650**	**152,605**	**160,255**

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

The Notes on pages 98 to 121 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 2022 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.

Reclassifications

Building rights and connection agreements obtained in 2021 in the course of business acquisition that were previously presented as part of Intangible assets line in the consolidated balance sheet have been reclassified and presented on the Property, plant and equipment line in the consolidated balance sheet. 2021 figures have been restated to that effect. There was no impact on 1.01.2021, thus the third consolidated balance sheet is not presented. There was no impact on the consolidated income statement and consolidated cash flow statement.

IN EUR THOUSAND	As reported 31.12.2021	Restatement	Restated 31.12.2021
Property, plant and equipment	325,585	8,310	333,895
Intangible assets	22,423	-8,310	14,113

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. Derivative instruments

Derivatives are measured at fair value both at the date the derivative contract is entered into and subsequently.

Derivatives are recognized at fair value in the income statement. Such profit and losses resulting from changes in the fair value of derivatives are recognized in the Income statement within other income or other expenses.

F. 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 Elektrijaam 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.

G. 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 a 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, artwork, museum showpiece, books, etc.) are not depreciated.

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

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

an item of property, plant and equipment is written down to its recoverable amount (refer to accounting policy from section J).

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

H. 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.

I. 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	20-30%

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

Goodwill

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

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

Software

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

Building rights, connection agreements

Building rights are amortised from the receival 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.

J. 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.

K. 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.

L. 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.

M. 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.

N. 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.

O. 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	**31.12.2022**	31.12.2021
Bank accounts	**3,852**	19,331
Term deposits (with maturities of less than 3 months)	**300**	0
TOTAL CASH AND CASH EQUIVALENTS	**4,152**	19,331

Note 3 Receivables and prepayments

Current receivables and prepayments

IN EUR THOUSAND	**31.12.2022**	31.12.2021
Trade receivables	**47,151**	44,303
Inc. Accounts receivables	47,154	44,309
Allowance for doubtful receivables	-3	-6
Prepaid taxes and receivables for reclaimed taxes	**2**	3
Other current receivables	**1,478**	51
Receivables from associates (Note 23)	**25**	24
Interest receivables from associates (Note 23)	**2,149**	1,260
Prepayments for services	**1,162**	710
TOTAL CURRENT RECEIVABLES AND PREPAYMENTS	**51,967**	46,351

Non-current receivables and prepayments

IN EUR THOUSAND	**31.12.2022**	31.12.2021
Non-current prepayments	**25**	28
Loans granted (Note 23)	**20,150**	11,000
TOTAL NON-CURRENT RECEIVABLES AND PREPAYMENTS	**20,175**	11,028

During the reporting period, allowance for doubtful receivables increased EUR 5 thousand (2021: the reserve decreased EUR 4 thousand; see Note 17). In 2022 EUR 8 thousand was written-off (2021: no receivables were written-off). During the reporting period, income from previously written-off receivables in the amount of EUR 7 thousand was recognised (2021: EUR 11 thousand; see Note 15).

Note 4 Inventories

IN EUR THOUSAND	**31.12.2022**	31.12.2021
Raw materials and consumables	**2,196**	1,598
Fuel	**22,800**	1,530
Prepayments for inventories	**16,716**	18
TOTAL INVENTORIES	**41,712**	3,146

Prepayments included 10,625 thousand EUR of prepayments for diesel fuel reserves which were procured as a reserve fuel to mitigate potential risks of natural gas supply disruptions. As of 31.12.2022 the prepayments were revalued to net realisable value based on prevailing market price, resulting in provision of 7,781 thousand EUR (see Note 11).

During the reporting period, inventories were discarded in amount of EUR 4 thousand (2021: in amount of EUR 12 thousand). In 2022 and 2021 no inventories were written down.

Note 5 Subsidiaries

As at 31.12.2022 OÜ Utilitas owned shares of the following subsidiaries:

Subsidiary	Area of activity	**Ownership 31.12.2022**	Ownership 31.12.2021
OÜ Utilitas Tallinna Elektrijaam	Production and sale of thermal and electrical energy	**100%**	100%
AS Utilitas Tallinn	Production and sale of thermal and electrical energy and district cooling	**100%**	100%
AS Utilitas Eesti	Production and sale of thermal energy	**100%**	100%
OÜ Tuulepealne Maa	Development of wind parks	**100%**	100%

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 was accounted for not as a business combination but as an asset acquisition.

Note 6 Associates

In February 2021, Utilitas together with UG Investments OÜ established a joint venture (50%/50%) 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	**31.12.2022**	31.12.2021
Investment in the associate at the beginning of the year	**720**	0
Establishment expenses	**0**	5
Contribution to share capital	**0**	990
Reporting period's profit (loss) calculated under the equity method	**4,626**	-275
Investment in associate at the end of the year	**5,346**	720

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

IN EUR THOUSAND	**31.12.2022**	31.12.2021
Current assets	**13,372**	5,974
Non-current assets	**93,263**	37,738
Current liabilities	**10,129**	4,004
Non-current liabilities	**84,829**	37,936
Owners' equity	**11,677**	1,772
Revenue	**10,811**	14
Net profit (loss)	**9,913**	-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 neighbouring municipalities.

IN EUR THOUSAND	**31.12.2022**	31.12.2021
Investment in the associate at the beginning of the year	**57,923**	0
Purchase price	**0**	58,561
Dividends received	**-2,647**	-2,647
Reporting period's profit calculated under the equity method	**1,529**	2,009
Investment in associate at the end of the year	**56,805**	57,923

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

IN EUR THOUSAND	**31.12.2022**	31.12.2021
Current assets	**22,836**	43,898
Non-current assets	**230,557**	212,275
Current liabilities	**18,487**	15,490
Non-current liabilities	**84,930**	88,022
Owners' equity	**149,976**	152,661
Revenue	**54,558**	41,510
Net profit (loss)	**10,315**	13,246

Note 7 Property, plant and equipment

IN EUR THOUSAND	Buildings and land	Machinery and equipment	Other tangible assets	Construction in progress and prepayments	Total
Balance as at 31.12.2021					
Cost	259,319	164,082	2,303	22,021	447,725
Accumulated depreciation	-68,079	-44,532	-1,219	0	-113,830
CARRYING VALUE	191,240	119,550	1,084	22,021	333,895
Changes in the year 2022					
Acquisitions and improvements	1,159	653	256	73,899	75,967
Write-offs	-65	-152	-1	0	-218
Sales	0	-67	-3	0	-70
Reclassifications	27,800	4,505	0	-32,305	0
Other reclassification	0	-11	0	0	-11
Depreciation	-11,005	-7,477	-207	0	-18,689
Balance as at 31.12.2022					
Cost	**289,550**	**170,917**	**2,592**	**63,615**	**526,674**
Accumulated depreciation	**-80,421**	**-53,916**	**-1,463**	**0**	**-135,800**
CARRYING VALUE	**209,129**	**117,001**	**1,129**	**63,615**	**390,874**

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 222,239 thousand (2021: EUR 196,803 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 3,536 thousand as of 31.12.2022 (31.12.2021: EUR 4,108 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 noncurrent 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 (see Note 8).

Proceeds from sale of property, plant and equipment during the reporting period was in the amount of EUR 70 thousand (2021: EUR 786 thousand). Loss from write-offs of property, plant and equipment was EUR 218 thousand (2021: EUR 148 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 31.12.2021			
Cost	127,115	246	127,361
Accumulated depreciation	-37,616	-185	-37,801
CARRYING VALUE	89,499	61	89,560
Changes in the year 2022			
Acquisitions, improvements and replacements	18,273	35	18,308
Write-offs	-61	0	-61
Depreciation	-7,767	-30	-7,797
Balance as at 31.12.2022			
Cost	**144,866**	**281**	**145,147**
Accumulated depreciation	**-44,922**	**-215**	**-45,137**
CARRYING VALUE	**99,944**	**66**	**100,010**

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". 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. In addition non-current assets include other fixed assets related to the rental and operating contract with AS Tallinna Soojus 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.

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

IN EUR THOUSAND	**31.12.2022**	31.12.2021
AS Tallinna Soojus (lessor) assets transferred upon the signing of rental and operating contract	**3,536**	4,108
Improvements during the rental period by AS Utilitas Tallinn (lessee)	**6,640**	7,226
Replacements during the rental period by AS Utilitas Tallinn (lessee)	**89,005**	77,563
CARRYING VALUE OF LEASED ASSETS	**99,181**	88,897
Project assets	**103,086**	94,961
Private assets	**6,525**	6,509
Construction in progress and prepayments	**15,272**	7,805
TOTAL ASSETS RELATED TO THE RENTAL AND OPERATING CONTRACT WITH AS TALLINNA SOOJUS	**224,064**	198,172

Contractual obligation from financial leasing

Present value of rental payments arising from the rental and operating contract with AS Tallinna Soojus amounted to EUR 35,639 thousand as of 31.12.2022 (31.12.2021: EUR 37,314 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 31.12.2022 the financial lease liability amounted to EUR 36,311 thousand (31.12.2021: EUR 37,828 thousand; see Note 10).

As at 31.12.2022 vehicles are being leased under financial lease with the carrying amount of EUR 829 thousand (31.12.2021: EUR 663 thousand).

Note 9 Intangible assets

IN EUR THOUSAND	Goodwill	Other intangible assets	Total
Balance as at 31.12.2021			
Cost	22,839	2,252	25,091
Accumulated depreciation	-10,381	-597	-10,978
CARRYING VALUE	12,458	1,655	14,113
Changes in the year 2022			
Acquisitions and improvements	0	918	918
Depreciation	-1,039	-309	-1,348
Balance as at 31.12.2022			
Cost	**22,839**	**3,163**	**26,002**
Accumulated depreciation	**-11,420**	**-899**	**-12,319**
CARRYING VALUE	**11,419**	**2,264**	**13,683**

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 66 thousand (31.12.2021: EUR 61 thousand; see Note 8).

Note 10 Borrowings

IN EUR THOUSAND	**Current balance 31.12.2022**	**Non-current balance 31.12.2022**	Maturity	Contractual interest rate
Loans from parent company (Note 23)	**0**	**332,701**	2047	4.99%
Financial lease	**2,183**	**34,128**		
Inc. Rental and operating contract with AS Tallinna Soojus (Note 8)	**2,008**	**33,631**	2031	(discount rate) 9.60%
Other financial lease	**175**	**497**	2026	six-month euribor + 1.30-1.55%
TOTAL	**2,183**	**366,829**		

IN EUR THOUSAND	**Current balance 31.12.2021**	**Non-current balance 31.12.2021**	Maturity	Contractual interest rate
Loans from parent company (Note 23)	**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	six-month euribor + 1.30-1.35%
TOTAL	**1,795**	**313,734**		

In the reporting period additional loans were received from the parent company in the total amount of EUR 55,000 thousand (2021: EUR 48,000 thousand).

The interest expense of the reporting period from loans received was EUR 14,481 thousand (2021: EUR 12,646 thousand) (see Note 23), the interest expense of the financial lease was EUR 3,078 thousand (2021: EUR 3,319 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 82 thousand (2021: EUR 91 thousand) and interest expense on working capital loan was 1 thousand (2021: EUR 2).

All Group debt liabilities are in EUR. Information about collaterals of loan liabilities is disclosed in Note 20.

Note 11 Payables and prepayments

Current payables and prepayments

IN EUR THOUSAND	**31.12.2022**	31.12.2021
Payables to suppliers	**34,160**	29,553
Payables to employees	**156**	159
Tax liabilities	**1,022**	5,650
Incl. VAT	**251**	4,973
Social tax	**342**	293
Air contamination tax	**192**	180
Personal income tax	**172**	158
Income tax of special cases	**33**	16
Unemployment insurance	**18**	17
Obligatory pension payments	**10**	10
Excise tax	**4**	3
Other payables	**309**	245
Interest payable (Note 23)	**1,501**	1,223
Short-term derivatives (Note 19)	**1,534**	0
Current provisions	**2,061**	1,660
Provision related to onerous contracts (Note 4)	**7,781**	0
Reserve for CO2 emission allowances (Note 16; 21)	**6,344**	6,598
Prepayments received	**300**	308
TOTAL CURRENT PAYABLES AND PREPAYMENTS	**55,168**	45,396

In 2022, in order to mitigate shale oil price risk the Group has entered into a derivative contract. The derivative fair value as of 31.12.2022 was EUR 1,534 thousand (see Note 19).

Note 12 Non-current provisions

Provisions for possible environmental damage has been made in the amount of EUR 279 thousand (2021: EUR 234 thousand) and it is based on the rental and operating contract with AS Tallinna Soojus, which stipulates that AS Utilitas Tallinn will cover all environmental protection expenses in the amount up to EUR 64 thousand and 10% of the costs over that limit, but not more than EUR 128 thousand per contract year. The amounts are to be adjusted annually based on the development of the consumer price index.

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

Note 13 Share capital

	31 .12 .2022	31.12.2021
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 31.12.2022 and 31.12.2021, 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 .2022**	31.12.2021
Retained earnings	**152,605**	117,698
Potential dividends	**122,599**	94,567
Possible income tax on potential dividends	**30,006**	23,131

In 2022, EUR 5,000 thousand were paid as dividends (2021: EUR 5,000 thousand) and this resulted in an income tax expense of EUR 496 thousand (2021: EUR 488 thousand).

Note 14 Sales revenue

IN EUR THOUSAND	**2022**	2021
Consolidated revenue by geographical region		
Estonia	**255,778**	159,912
TOTAL	**255,778**	159,912
Consolidated revenue by activity		
Production and sale of thermal and electrical energy (Note 19)	**240,388**	142,680
Renewable energy subsidies	**10,725**	13,541
Other revenue	**4,665**	3,691
TOTAL SALES REVENUE	**255,778**	159,912

Compared to 2021, the sales of thermal and electrical energy increased in the reporting year due to higher electricity prices in the Nord Pool electricity market and due to higher heat tariffs, which increased due to considerably higher variable costs (primarily natural gas).

Note 15 Other income

IN EUR THOUSAND	**2022**	2021
Fines and penalties received	**91**	8
Irrecoverable receivables collected (Note 3)	**7**	11
Sale of CO_2 quotas	**3,305**	155
Government grants income	**428**	797
Other operating income	**14**	9
TOTAL OTHER INCOME	**3,845**	980

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, totalling 41,0 thousand tonnes, with an average price of EUR 80.7 per ton (2021: 3.5 thousand tonnes, with an average price of EUR 44.2 per ton).

In 2022, the SA Keskkonnainvesteeringute Keskus co-financed one investment project of AS Utilitas Tallinn in the amount of EUR 34 thousand (2021: three investment projects in the amount of EUR 188 thousand) and six investment projects of AS Utilitas Eesti in the amount of EUR 394 thousand (2021: five investment projects in the amount of EUR 609 thousand).

Note 16 Cost of goods and services sold

IN EUR THOUSAND	**2022**	2021
Raw materials and purchased energy	**-134,975**	-68,408
Energy, water and chemical expense	**-5,144**	-2,942
Repair and maintenance costs	**-4,021**	-3,343
Air pollution charge	**-469**	-483
Cost of CO_2 emission quota	**-7,220**	-6,598
Building permit and estate tax	**-439**	-443
Cost of resale	**-8,345**	-117
Other	**-1,951**	-1,575
TOTAL COST OF GOODS AND SERVICES SOLD	**-162,564**	-83,909

Note 17 Other operating expenses

IN EUR THOUSAND	**2022**	2021
Office, administrative and maintenance costs	**-1,552**	-1,295
Research and development costs	**0**	-26
External counsel	**-503**	-502
Property insurance costs	**-446**	-336
Allowance for doubtful receivables (Note 3)	**-5**	4
Other expenses	**-2,243**	-1,456
TOTAL OTHER OPERATING EXPENSES	**-4,749**	-3,611

Note 18 Payroll expense

IN EUR THOUSAND	**2022**	2021
Wages and salaries	**-9,543**	-8,706
Social security costs	**-3,195**	-2,913
TOTAL PAYROLL EXPENSE	**-12,738**	-11,619
Average number of employees in full time equivalent units	**271**	252
Employee working under an employment contract	**279**	261
Member of the management board and other control bodies	**9**	9

Note 19 Other expenses

IN EUR THOUSAND	**2022**	2021
Loss from realised derivative transactions	**-6,873**	0
Loss from unrealised derivative transactions (Note 11)	**-1,534**	0
Other expenses	**-50**	-23
TOTAL OTHER EXPENSES	**-8,457**	-23

The electricity sales prices during 2022 were partially fixed in order to manage electricity price risk, as a result sales revenue from electricity was partially set off by loss from hedging transactions recognised as other expense in amount of EUR 6,873 thousand (Note 14).

Note 20 Loan guarantees, pledged assets and guarantees given

Collaterals for the liabilities related to group's investment loans in the amount of EUR 332,701 thousand as at 31.12.2022 (as at 31.12.2021: EUR 277,701 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 4.5 million (as at 31.12.2021: EUR 4.4 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 7,250 thousand EUR as at 31.12.2022 (as at 31.12.2021: EUR 11,350 thousand. The guarantee interest is 12% per annum (see Note 23).

Note 21 Contingent assets

Pursuant to Article 10a of Directive 2003/87 / EC of the European Parliament and of the Council, a total of 82,987 tonnes (2021: 79,314 tonnes) of free greenhouse gas emission units for heat production have been allocated to Utilitas group installations for the reporting period 2022. As at 31.12.2022, the amount of unused allowances in the registry account was 70,737 tonnes (31.12.2021: 81,755 tonnes), from which the amount of 144,937 tonnes in 2022 has not been deducted (154,388 tonnes in 2021), which will be returned in April 2023 in accordance with the regulations. As the volume of greenhouse gas emission units owned by the Utilitas Tallinn AS as at 31.12.2022 is not sufficient to cover the needs of the company, a provision in the amount of 6,344 thousand euros has been formed (31.12.2021: 6,598, see Note 11 and 16).

Note 22 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 23 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:

a. Entities that control or have significant influence over the company;

b. Subsidiaries and affiliates (transactions with subsidiaries that are eliminated in the course of consolidation must not be disclosed in consolidated statements);

c. 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	**31.12.2022**	31.12.2021
Current receivables from associates (Note 3)	**2,174**	1,284
Inc. Interest receivables	**2,149**	1,260
Non-current receivables from associates	**20,150**	11,000
Inc. Loans granded	**20,150**	11,000

Sales to related parties

IN EUR THOUSAND	**2022**	2021
Goods and services sold to associates	**223**	44
Interest income on loans to associates	**952**	432
Interest income on guarantees given to associates	**1,198**	828

Payables to related parties

IN EUR THOUSAND	**31.12.2022**	31.12.2021
Current payables to parent company	**2,976**	1,223
Inc. Interest payable	**1,501**	1,223
Current payables to associates	**139**	127
Non-current payables to parent company	**332,701**	277,701
Inc. Loans received (see Note 10)	**332,701**	277,701

Transactions with related parties

IN EUR THOUSAND	**2022**	2021
Interest expense from loan received from parent company	**14,481**	12,646
Goods and services purchased from associates	**1,248**	973

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

In 2022 the remuneration of the members of the Management Board and Supervisory Board of all Group entities amounted to EUR 1,275 thousand plus social taxes (2021: EUR 1,355 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 24 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	**31.12.2022**	31.12.2021
ASSETS		
Current assets		
Cash and cash equivalents	**12,672**	7,561
Receivables and prepayments	**9,608**	7,339
TOTAL CURRENT ASSETS	**22,280**	14,900
Non-current assets		
Financial investments in subsidiaries	**19,143**	18,843
Investments in associates	**62,151**	58,643
Loans granted	**248,330**	205,480
Property, plant and equipment	**1,195**	665
Intangible assets	**168**	83
Total non-current assets	**330,987**	283,714
TOTAL ASSETS	**353,267**	298,614
LIABILITIES AND EQUITY		
Current liabilities		
Finance leases	**29**	28
Payables and prepayments	**6,717**	7,229
Total current liabilities	**6,746**	7,257
Non-current liabilities		
Borrowings	**332,701**	277,701
Finance leases	**66**	95
Total non-current liabilities	**332,767**	277,796
TOTAL LIABILITIES	**339,513**	285,053
Equity		
Share capital	**7,650**	7,650
Retained earnings	**6,104**	5,911
TOTAL EQUITY	**13,754**	13,561
TOTAL LIABILITIES AND EQUITY	**353,267**	298,614

Unconsolidated income statement

IN EUR THOUSAND	**2022**	**2021**
Revenue		
Sales revenue	**2,137**	1,801
TOTAL REVENUE	**2,137**	1,801
Cost of goods and services sold	**-571**	-467
Other operating expenses	**-1,184**	-1,015
Payroll expense	**-1,919**	-2,137
Depreciation, amortisation and impairment	**-106**	-65
Total operating loss	**-1,643**	-1,883
Financial income and expenses		
Financial income from investments in subsidiaries and associates	**9,155**	4,734
Interest expense	**-14,569**	-12,740
Other financial income and expenses	**12,250**	12,874
TOTAL FINANCIAL INCOME AND EXPENSES	**6,836**	4,868
Profit before tax	**5,193**	2,985
NET PROFIT FOR THE PERIOD	**5,193**	2,985

Unconsolidated cash flow statement

IN EUR THOUSAND	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	**-1,643**	-1,883
Adjustments:		
Depreciation and impairment losses of property, plant and equipment and intangible assets	**106**	65
Change in receivables and prepayments related to operating activities	**306**	-3,452
Change in liabilities and prepayments related to operating activities	**-2,403**	3,583
Interest paid	**-14,291**	-11,523
Total cash flow from operating activities	**-17,925**	-13,210
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	**-584**	-232
Purchase of other financial investments	**0**	-13
Acquisition of investments in subsidiaries	**-300**	-8,435
Acquisition of investments in associates	**0**	-58,566
Loans granted	**-62,850**	-12,448
Proceeds from repayment of loans granted	**20,000**	40,500
Dividends received	**5,647**	5,647
Interest received	**11,151**	10,681
Total cash flow from investing activities	**-26,936**	-22,866
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	**55,000**	48,000
Other payments from financing activities	**0**	-18
Payment of finance lease liabilities	**-28**	-34
Dividends paid	**-5,000**	-5,000
Total cash flow from financing activities	**49,972**	42,948
TOTAL CASH FLOWS	**5,111**	6,872
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**7,561**	689
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**12,672**	7,561

Unconsolidated statement of changes in equity

IN EUR THOUSAND	Share capital	Retained earnings	Total
Balance as at 31.12.2021	7,650	5,911	13,561
Net profit for the period	0	5,193	5,193
Dividends paid	0	-5,000	-5,000
Balance as at 31.12.2022	**7,650**	**6,104**	**13,754**
Adjusted unconsolidated equity at 31.12.2022			
Carrying amount of investments under control and significant influence	0	-19,143	-19,143
Value of investments under control and significant influence under the equity method	0	165,644	165,644
Adjusted unconsolidated equity at 31.12.2022	7,650	152,605	160,255

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 2022, 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 2022;
- 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.

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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:

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.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- 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 2023
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 2022 CONSOLIDATED ANNUAL REPORT

2022 Consolidated Annual Report of OÜ Utilitas was signed on 21 April 2023.

Priit Koit

Member of the Management Board, CEO of Utilitas Group

UTILITAS