



Annual Report
2013

Creating New Energy!



Eesti Energia

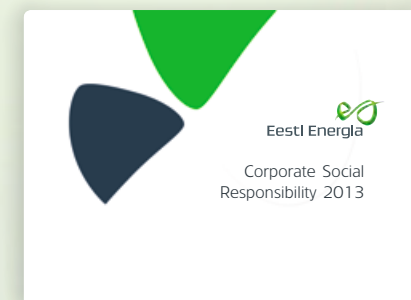
We will release the Group's consolidated interim reports for the financial year 2014 as follows:

- 1st quarter – 30 April 2014
- 2nd quarter – 31 July 2014
- 3rd quarter – 31 October 2014

The audited results for the financial year 2014 will be released on 27 February 2015

www.energia.ee/et/investor

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Consolidated Financial Statements

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Dear readers,

Eesti Energia met 2013 objectives for turnover and operating profit.

Sandor Liive
Chairman of the
Management Board

Eesti Energia's total revenues amounted to 975 million euros, EBITDA to 310 million euros and net profit to 160 million euros. In 2013, we paid 190 million euros in dividends and different taxes to the Republic of Estonia and employed 7,000 employees, 5,000 of whom are working in Ida-Virumaa region.

In 2013, we completed three new power plants and looked further into the company's future. Shortly before year end we finalised the renewed strategy for the next ten years.

Ongoing investments have reached their final stages. Only the construction of the new Auvere power plant is still in the process. In 2013, we opened two large wind parks in Paldiski and Narva and first waste-to-energy co-

generation plant in Estonia. The new energy unit doubled the electricity generation of Iru gas-fired plant and ended large scale waste depositing in Estonia. The prices of waste handling and heat dropped. We all benefitted from this – the country, the environment and the people.

Last financial year was very successful for Eesti Energia also in terms of electricity generation, which increased 13% year-on-year. We have made significant progress in reducing environmental impacts of electricity generation. We have successfully completed two projects reducing air emissions. We reduced SO₂ emissions 2.5 times and achieved good results in reducing NO_x emissions. We will reduce NO_x emissions up to two times in four additional energy units by 2016.

The retention of electricity generation capacity has a material impact on our financial results. While the Enefit280 oil plant is not yet working consistently the successful electricity generation fully compensated the lacking income from oil plant. Progress made in the new oil plant is promising even better results in this financial year.

The beginning of 2013 marked the end of long preparation period for the full opening of electricity market in

The beginning of 2013 marked the end of long preparation period for the full opening of electricity market in Estonia.

Estonia. Before market opening we could only hope and believe that we can handle the competition. Today we know that we did. The market share of Eesti Energia in Estonian electricity retail market remained around 70% during the first year of

operations under open market conditions despite heavy competition from eight market participants. The customers prefer Eesti Energia also when signing contracts for the second year.

Since June last year Estonian and Nordic electricity sellers can no longer hedge Estonia-Latvia border-crossing costs in advance. This decision has negative impact on the financial results of Eesti Energia. Therefore, we decided to stop signing fixed-priced electricity sale contracts in Latvia and Lithuania. The solution that would allow Enefit SIA and Enefit UAB, the subsidiaries of Eesti Energia, to start selling fixed-prices electricity contracts in Latvia and Lithuania, has not been agreed yet. The launching

of Estlink2, a 650 MW submarine cable between Estonia and Finland, at the end of 2013 improved the hedging of price risks in financial market and decreased the role of electricity retail sale as hedging instrument. While the connection with Finnish electricity market continues to strengthen the importance of Latvian and Lithuanian electricity markets is declining.

Group distribution network provider Elektrilevi continues investments to network reliability by building on average 5 kilometres of cables and two substations a day. The network is upgraded by building weather resistant land and air cables. This has allowed us to reduce outages 17% compared to previous financial year in spite of storms at the end of 2013. This all proves that the investment of 100 million euros annually in distribution network has served its purpose. In 2013, Elektrilevi started with extensive replacement of remote power meters. By the end of the year 167,000 meters were replaced. Network losses were with 5.2% at record low.

We will focus on production of shale oil from oil shale and diversification of fuels used in electricity generation.

We renewed the strategy of Eesti Energia for the next ten years. We will focus on production of shale oil from oil shale and diversification of fuels used in electricity

generation. We have developed methods how to remain a competitive oil and electricity producer under stricter climate policy. We extract twice more energy from oil shale than ever before.

To increase the value added we direct the largest possible quantity of high-quality oil shale to oil industry. If you would ask whether Eesti Energia is withdrawing from electricity generation then the answer is – certainly not. More oil means that also more electricity is produced from local fuel with lower CO₂ intensity. We have the power plants that can operate for decades. In addition, we are soon completing the construction of new Auvere power plant. Our long-term perspective is to maintain the domestic support free electricity generation on a level exceeding the actual Estonian electricity consumption.

The diversification of fuels is the future of electricity generation. We see that different oil shale products including oil shale gas, lower-quality oil shale and biomass, will play important role in this.

The diversification of fuels is the future of electricity generation. We see that different oil shale products including oil shale gas, lower-quality oil shale and biomass, will play important role in this. Semicoke and oil shale gas, the by-products of pyrolysis process in oil production, allow us to

produce more electricity while the oil volumes increase. By doing this, using the production by-products, we are basically copying the success story of US shale gas. It is the fastest method how to decrease CO₂ emissions significantly and without any additional financial support.

We are testing the usage of mining residue by mixing lower-quality oil shale with fuels of high calorific value such as coal. By mixing different fuels we reduce also SO₂ emissions. The diversification of fuels improves significantly our flexibility in the competitive regional electricity market.

We prepare for the construction of oil shale based power plant in Jordan with one of the largest unit capacity in the world. We have submitted our offer to the Jordanian government, signed preliminary agreements with construction and financing partners. We expect to hear good news from Jordan in the near future.

Year 2014 will welcome us with several changes in EU and Estonian renewable energy regulations. In Estonia, two important national development plans impacting energy production and oil shale exploitation, will be updated. Under uncertain market conditions our key focus will be on cost cutting and more efficient production. These key words describe our targets also for next years. Our priority in 2014 will be on fine-tuning the new oil plant in order to guarantee the smooth operation of the plant. The first Enefit280 plant will definitely not be the last one.

Sandor Liive
Eesti Energia,
Chairman of the Management Board

In Brief

Eesti Energia is an international energy company operating in the unified energy market of the Baltic and Nordic countries. 100% of the shares of Eesti Energia are owned by the Republic of Estonia.

The core business of Eesti Energia is oil shale mining for electricity, heat and shale oil production. As electricity retail company we sell electricity to retail customers in Baltic Countries and to energy wholesale market. Elekt-rilevi, Eesti Energia Group company, provides distribution network services to Estonian customers. Internationally, we operate under the name of Enefit.

Our unique experience in processing oil shale and our skills and technology are held in high regard around the world. Oil shale resource belonging to Eesti Energia in Estonia, Jordan and the US are estimated at 11 billion tonnes. With nearly 7,000 employees, Eesti Energia is one of the largest employers in Estonia.

SALES REVENUES

966.4 million euros
▲ +17.6%

NET PROFIT

159.5 million euros
▲ +107.4%

CREDIT RATINGS

BBB+/Baa2*
with stable outlook
(*changed in January 2014)

ELECTRICITY DISTRIBUTED

6.3 TWh
▼ (1.3)%

EBITDA

310.5 million euros
▲ +11.5%

INVESTMENTS

418.9 million euros
▼ (18.4)%

ELECTRICITY SALES

11.4 TWh
▲ +13.4%

SHALE OIL SALES

208.1 thousand tonnes
▲ +10.0%

Key Events in the 2013 Financial Year

JANUARY

- ▶ International rating agency Moody's changed Eesti Energia's credit rating of Baa1 with stable outlook to negative. The negative outlook reflects the competitive pressures arising from electricity market opening and volatility of cash flows.

MARCH

- ▶ The test burning of mixed municipal waste commenced in the completed Iru waste-to-energy unit.



MAY

- ▶ Construction of Auvere power plant half complete. The 19 meters long steam drum weighing 160 tonnes was installed into the boiler still under the construction. The installation of steam drum, which separates water and steam in the generation process, marked the end of first phase in the construction of Auvere power plant.

JUNE

- ▶ Iru waste-to-energy unit using mixed municipal waste as fuel was opened. In addition to electricity, the 105 million euro unit also produces heat for Tallinn and Maardu residents.
- ▶ Ministry of Environment of Jordan granted Enefit Jordan the approval for construction of oil shale power plant to Jordan. The approval was received once the commission appointed by the ministry had reviewed the detailed environment impact assessment report by Enefit Jordan.
- ▶ Enefit Outotec Technology opened a unique Enefit technology based pilot plant in Frankfurt to test oil production from different types of oil shale. The hot-commissioning of the plant will be conducted with Estonian oil shale. Next tests will be run with Utah and Jordanian oil shale.

AUGUST

- ▶ Eesti Energia and Nelja Energia opened jointly a new wind park at the northern end of Pakri peninsula where 18 new 2.5 MW wind energy generators were installed. The generators are equally distributed between the two companies.

SEPTEMBER

- ▶ Eesti Energia signed three new bilateral revolving credit facilities with Nordea Bank Finland, Pohjola Bank and SEB Pank for a combined size of 150 million euros. Term of the new facilities is five years. New facilities will be used for backup liquidity purposes and supporting the Group's credit rating.
- ▶ Eesti Energia opened a unique wind park in Narva on former ash field of oil shale power plant. The ash field of Balti power plant, which was used for oil shale ash depositing until 1987, is now used to generate wind power. The wind park comprises of 17 new 2.3 MW wind energy generators with a total production capacity of 39.1 MW.

OCTOBER

- ▶ Eesti Energia Narva Power Plants successfully completed the installation of deNO_x equipment. As part of the pilot project NO_x control equipment reducing NO_x emissions up to two times was installed to an energy generating unit in Eesti power plant.
- ▶ Eesti Energia signed a new loan agreement with European Investment Bank (EIB) in the amount of 100 million euros to finance investments into distribution network. The term of the debt facility is ten years.

NOVEMBER

- ▶ Eesti Energia's Balti Power Plant started testing the low calorific value oil shale by adding higher calorific value coal. The proportion of Siberian coal in the fuel mixture was 10-30%.
- ▶ Eesti Energia started selling its large corporate customers natural gas in addition to electricity. Eesti Energia offers the companies to buy electricity and gas from one seller at fixed or combined rate and with contract term of up to one year.

DECEMBER

- ▶ Attarat Power Company that is developing the Jordanian oil shale power plant signed preliminary contracts with the builder and financiers of the power plant. Guangdong Power Engineering Corporation, a subsidiary of the Chinese state-owned China Energy Engineering Group, won the construction and design procurement of the oil shale power plant. Preliminary contracts for financing the construction of the power plant were signed with two large Chinese banks.



Group's Financial and Operating Indicators 2010-2013

		2010	2011	2012	2013
Total electricity sales, of which	GWh	10,714	10,707	10,022	11,368
Regulated price	GWh	6,079	5,473	5,644	0
Non-regulated price	GWh	4,635	5,234	4,378	11,368
Electricity distributed	GWh	6,311	6,170	6,365	6,280
Shale oil sales	th t	181	164	189	208
Oil shale sales	th t	1,966	2,120	1,423	889
Heat sales	GWh	1,428	1,074	919	1,021
Distribution grid losses	%	6.6	5.8	5.7	5.2
Average number of employees	no.	7,423	7,585	7,573	7,314

Net debt

debt obligations (at amortized cost), less cash and cash equivalents (incl. deposits with maturity of more than 3 months), units in money market funds, investments into fixed income bonds

Leverage

net debt / (net debt + equity)

ROIC

operating profit / average invested capital

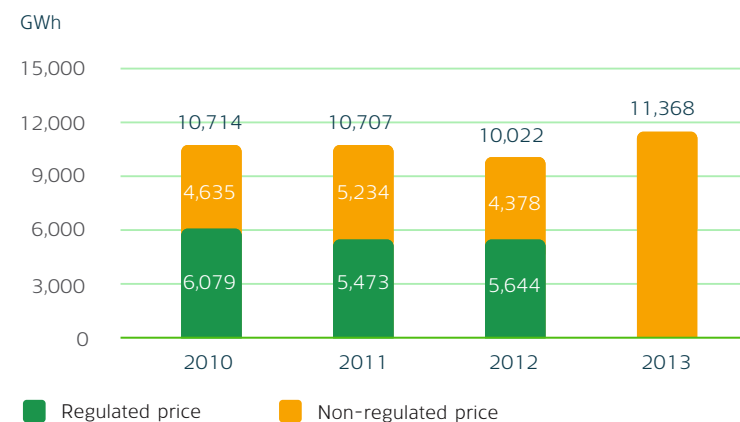
FFO

cash flow from operations, excl. change in working capital and unpaid/unreceived profit/loss on derivatives

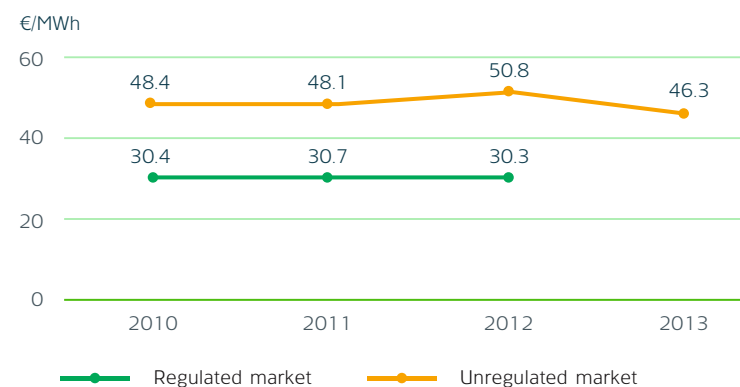
EBITDA margin

operating profit before depreciation divided by revenues

Electricity sales

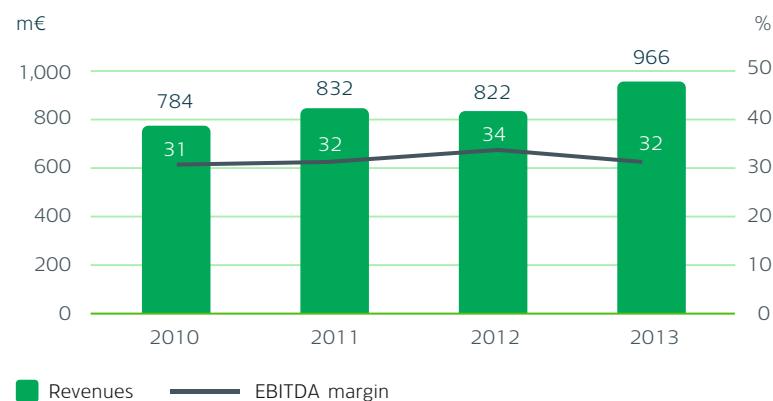


Average External Electricity Sales Price

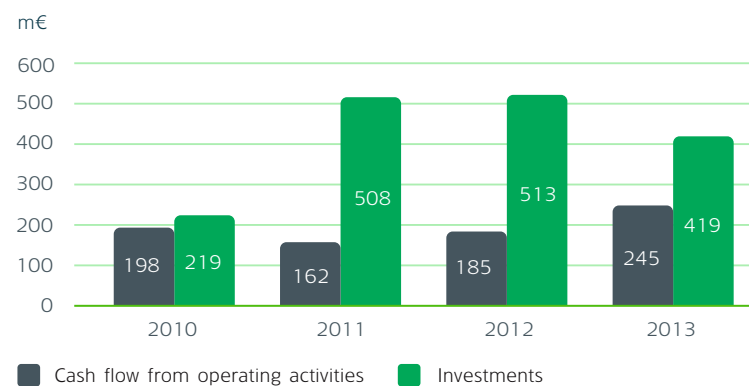


		2010	2011	2012	2013
Sales Revenues	million €	784.1	831.9	822.1	966.4
EBITDA	million €	242.3	265.1	278.4	310.5
Operating profit	million €	148.9	168.0	100.1	175.5
Net Profit	million €	117.0	149.2	76.9	159.5
Fixed assets	million €	1,329.4	1,769.5	2,101.9	2,368.3
Equity	million €	1,107.1	1,236.6	1,409.1	1,547.7
Net debt	million €	112.3	380.2	581.0	744.3
Investments	million €	218.5	507.8	513.5	418.9
Cash flow from operating activities	million €	198.1	161.8	185.2	244.6
FFO	million €	185.8	213.1	212.5	257.3
Net debt/EBITDA	times	0.5	1.4	2.1	2.4
FFO/net debt	times	1.65	0.56	0.37	0.35
FFO/interest cover	times	11.4	11.1	7.0	7.7
EBITDA/interest cover	times	14.9	13.8	9.1	9.3
Leverage	%	9.2	23.5	29.2	32.5
ROIC	%	12.6	11.8	5.5	8.3
EBITDA margin	%	30.9	31.9	33.9	32.1
Operating profit margin	%	19.0	20.2	12.2	18.2

Sales Revenues and EBITDA margin



Investments and Cash flow from operating activities



Strategy

Eesti Energia is the oil shale-to-energy company using oil shale to produce shale oil, electricity and heat. The core aim of the company is to **increase the oil shale usage efficiency and add value thereby**.

We use the mineral resources of national importance in prudent and responsible manner to increase the value of oil shale to its owner, Republic of Estonia. In order to achieve this, we increase the production of shale oil and diversify the portfolio of fuels used for electricity generation. The more efficient usage of oil shale turns Estonia into net exporter of electricity contributing thus significantly to the economic growth of Estonia.

As oil producer we increase the production of oil shale based shale oil. We export our long-term oil shale processing experience internationally in order to find the best possible usage of oil shale for other countries. As an electricity producer we make efficient usage of all by-products of shale oil production.

We operate in responsible manner. Our highest priority is meeting environmental and safety requirements. We consider the interests of local communities and take responsibility for the development of local energy industry. Oil shale based co-generation of liquid fuels and electricity allows Eesti Energia to employ thousands of people also in the future. The full oil shale based industry cycle employs tens of thousands of Estonians.

Vision:

Eesti Energia is the world leader of oil shale energy



Oil Shale Energy: More Oil = More Electricity

The strategy of Eesti Energia is founded on extracting value from oil shale reserves through co-generation of liquid fuels and electricity.

The greatest potential for growth in value lies in using as much oil shale as possible for oil production. We have developed Enefit technology, a unique technology for producing shale oil from oil shale, which uses all mined oil shale including the fine particles. We can double the energy extracted from oil shale by directing semicoke and oil shale gas, the by-products from pyrolysis to energy production.

We export our knowhow also to other countries with oil shale reserves. We have mining rights in Estonia,

Jordan and the USA. Outside Estonia we cooperate with other investors and partners to develop the production of liquid fuels and electricity from oil shale.

We double the extraction of energy from oil shale.

We modernize existing generation portfolio, use oil shale gas for energy production and build a new Auvere power plant based on more environment friendly circulating fluidized bed technology to generate electricity at lowest possible additional costs and CO₂-intensity as well as to match the stringent requirements of European Union's climate policy. This allows us to make maximum use of our current generation capacity.

We turn semicoke and oil shale gas, by-products of production of liquid fuels, to electricity. The usage of biomass is also another option how to decrease emission allowances. The testing of low-quality oil shale and coal mix was successful. In long-term Eesti Energia's electricity production capacity, which is based on domestic fuel and by-products of liquid fuel's production, exceeds the annual electricity consumption in Estonia.

We make specific investment decisions step by step considering the regulations as well as the general development of electricity market. As electricity retail company we are a client service organisation providing energy products as well as energy saving solutions to our clients.

We are Reducing Outages and Increasing Customer Satisfaction

The priorities of distribution network services provider Elektrilevi are the effective network management and customer satisfaction growth.


Elektrilevi guarantees equal access to network services for all the market participants at any time and ensures meeting the quality requirements set forth by the regulator. Our biggest challenge is increasing customer satisfaction by improving the resistance of the distribution network to stormy weather conditions and change to the remote meter reading system.

Elektrilevi is investing all cash flows from sale of network services, in increasing the security of supply of distribution network. This allows us to establish a weather-tight power network.

Elektrilevi guarantees equal access to network services for all the market participants at any time and ensures meeting the quality requirements set forth by the regulator.

Transition to remote meter readers should be completed by the end of 2016. Elektrilevi will install 620,000 remote meter readers during the four years of transition, which measure electricity consumption by hour. With the new meters customers will no longer have to submit their meter readings and can also manage their electricity consumption and selection of electricity packages more consciously.

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The largest Estonian producer of electricity and heat energy is the Narva power plants,

owned by Eesti Energia, which provide over 90% of the electricity produced in Estonia and supply the whole town of Narva with heat. The Eesti and Balti power plants produce about 11 TWh of electricity each year.

Both Eesti and Balti power plants celebrate remarkable anniversaries in 2014 – Eesti power plant becomes 45 and Balti power plant 55 years old.

Operating Environment

In 2013, energy prices were affected by the perceived recovery of the global economy, geopolitical tensions in oil-exporting regions and seasonal factors such as air temperature, precipitation and maintenance works in power plants and networks and in oil transport systems. Additionally, energy prices were impacted by change in preferences on types of energy carriers used.

According to IMF estimate the global economic growth in 2013 was 3.0% (-0.1 percentage points less than in 2012). The economic growth shrank both in developed countries (1.3% in 2013, -0.1 percentage points) and developing countries (4.7% in 2013, -0.2 percentage points). Similarly to 2012 the economies of the USA and euro area moved in different directions. Both, the US economic growth (1.9% in 2013, -0.9 percentage points) and the economic decline of euro area (-0.4% in 2013, +0.3 percentage points) decreased in 2013.

In 2013, IMF changed its outlook¹ for the global economic growth to even more conservative. The second quarter of the year revealed that the slow pace of economic growth of developing countries will continue longer than initially expected and so will the economic decline of euro area. In the third quarter, economies of developed countries including the euro area showed signs of improvement but the pace of recovery slowed down.

IMF forecasts the global economic growth to be 3.7% (+0.7 percentage points) in 2014. The IMF expects euro area to grow 1.0% in 2014 (+1.4 percentage points) and Estonian economy by 2.5% (+0.9 percentage points).

The euro area economy in 2013 is best described by recovering from debt crisis. The economic recovery of



¹ Macroeconomic data based on IMF estimates. Source: IMF WEO Update January 2014: Is the Tide Rising?

euro area was impacted by the progress and speed of economic reforms in problem countries. Full recovery was held back by the weak economies of Southern periphery countries. The high unemployment rate continued to be one of the key factors while remaining at the similar level since April 2013 and standing at 12.0% at the end of the year (11.9% in December 2012).

In 2013 the core focus in the euro area was on setting up a banking union necessary to prevent a need to save troubled banks in the future and to set a framework for crisis management. In Q3 2013 European Parliament approved the first pillar of the banking union - single supervisory mechanism, which should come into action in 2014.

The US economy improved in 2013 compared to 2012. During the year, the unemployment declined reaching 6.7% by the end of the year (7.9% in 2012), the lowest level over the last 12 months. In relation to the gradual improvement of the US economy in 2013 the markets were still insecure about the potential alleviation of aggressive US Federal Reserve's monetary policy declared in 2012. In September 2013, the US Federal Reserve announced the purchasing of bonds would not be cut back in the nearest future. Yet, on 18 December, the US Federal Reserve announced the bond purchases will be reduced from January 2014. In October 2013 the US government entered a shutdown due to budgetary disputes and the need to increase the debt ceiling was brought up. In October 2013 temporary solutions for both issues were adopted. In January 2014 President Obama signed the spending package, which will fund the government until end of September 2014.

Oil Prices

In 2013, Brent crude oil price traded on average 5.6% lower in comparison with 2012 (-4.9 €/bbl). In 2013, the price of crude oil decreased from 86.4 €/bbl to 80.4 €/bbl.

In 2013, Brent crude oil prices were influenced by volatile market expectations on the recovery of world economies but also by growing uncertainty about the continuation of the bond purchasing program of the US Federal

Reserve. In the beginning of 2013 the markets expected a faster recovery of world economy and hence a growth in oil prices arising from higher fuel consumption. The poor outlook of US and China economies reflected in the oil price in mid-2013. In the second half of the year, positive economic data from US, China and the

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Oil Prices

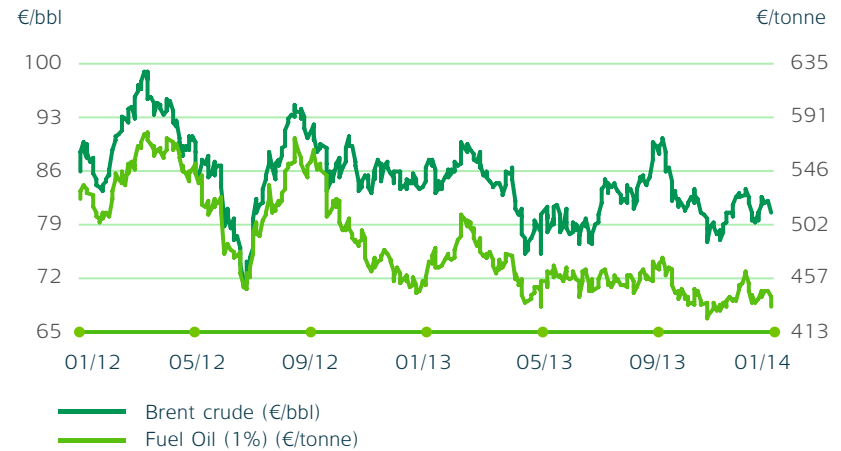
	Min*	Max	Average price	Change compared to 2012
Brent crude oil (€/bbl)	75.2	90.4	82.5	(5.6)%
Fuel oil (1% sulphur content) (€/tonne)	422.3	509.2	456.5	(11.5)%
Fuel oil 1% crack spread (€/bbl)	(13.1)	(3.0)	(9.1)	90.6%

* Minimum and maximum daily average closing prices. In case of electricity, minimum and maximum daily average prices are shown.

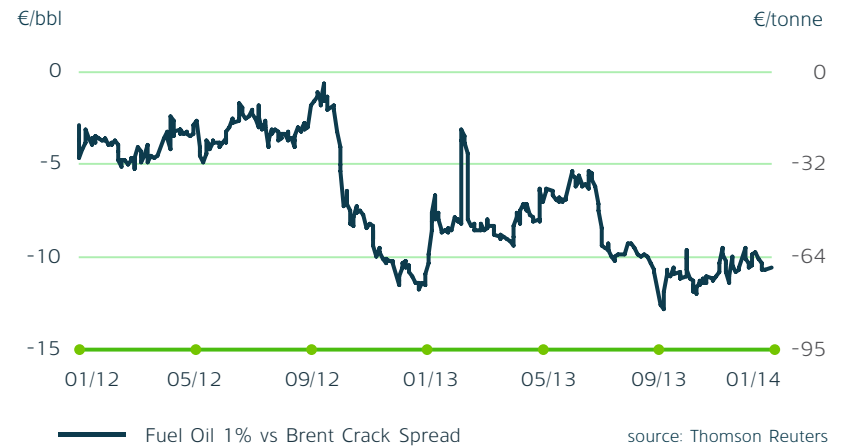
euro area economies had a positive impact on oil price. Throughout the year 2013 geopolitical tensions run high in areas related to oil production like Algeria, Syria and Northern African region. In the first quarter, prices were pushed up by the hostage crisis in the Algerian gas complex and the air attack in Syria. In the third quarter the market prices were impacted by geopolitical tensions in Northern African region.

The price of fuel oil (1% sulphur content) decreased by 11.5% (-59.2 €/tonne) compared to 2012. In 2013, the price of fuel oil decreased from 456.5 €/tonne to 432.0 €/tonne. Crack spread (describing the price difference between crude oil and fuel oil extracted from it) increased in 2013 further as compared to 2012. The increased demand for fuel oil impacted the crack spread in early and mid-2013. In the first half of the year the price of fuel oil was supported by strong demand from Asia due to the consumption of fuel oil by local utilities. In 2012, Japan and South Korea decided to withdraw from extensive usage of nuclear power resulting in increased demand for alternative energy carriers. In the second half of 2013 the demand for fuel oil dropped both in Europe as well as in Asia mostly due to wider switching to cheaper energy carriers by Asian utilities.

Prices of Liquid Fuels



Fuel Oil Crack Spread



source: Thomson Reuters

Emission Allowance Prices

The price of December 2013 CO₂ emission allowance futures traded 43.3% lower compared to 2012 (-3.4 €/tonne). The price of December 2013 emission allowance

The price of December 2013 CO₂ emission allowance futures traded 43.3% lower compared to 2012.

decreased during the year from 6.6 €/tonne to 4.7 €/tonne at the end of the year.

In 2013, emission allowance prices were still influenced by the excess supply of allowances pre-

vailing on the market resulting from global economic slowdown. In November 2012 the European Commission presented several proposals on further development of emissions trading. The purpose of the back-loading proposal presented by the European Commission is to reduce the excess supply of emission allowances in the market. The Commission proposed to withhold the auction of 900 million tonnes of emissions until the end of trading period in 2019-2020. The belief of markets to the success of back-loading proposal by European Commission continued to increase in 2013. This reflected in the growing price of emission allowances since mid-2013. In Q3 2013 the first signs revealed that the European Commission has taken a stricter attitude concerning the emission allowances. In September 2013, the European Commission announced it will reduce the free emission allowances that the industries of Member States had initially applied for.

Emission Allowance Prices

	Min (€/t)	Max (€/t)	Average price (€/t)	Change compared to 2012
CO ₂ December 2013	2.8	6.7	4.5	(43.3)%
CO ₂ December 2014	2.9	7.0	4.7	(44.7)%

Prices of CO₂ Emission Allowances



While in 2012, the state allocated 10.3 million tonnes of free CO₂ emission allowances to Eesti Energia then in 2013 free emission allowances for electricity generation were no longer allocated.

Electricity Prices

In 2013, electricity prices increased in all Nord Pool price areas as compared to previous year. In 2013, the average Nord Pool system price increased by 22% (+6.9 €/MWh). The significant increase in the Nord Pool system price is attributable to the extraordinarily low price level from last year (average system price 31.2 €/MWh) arising from historically high hydro reservoir levels in the second half of 2012.

In 2013, the average Nord Pool system price increased by 22% (+6.9 €/MWh).

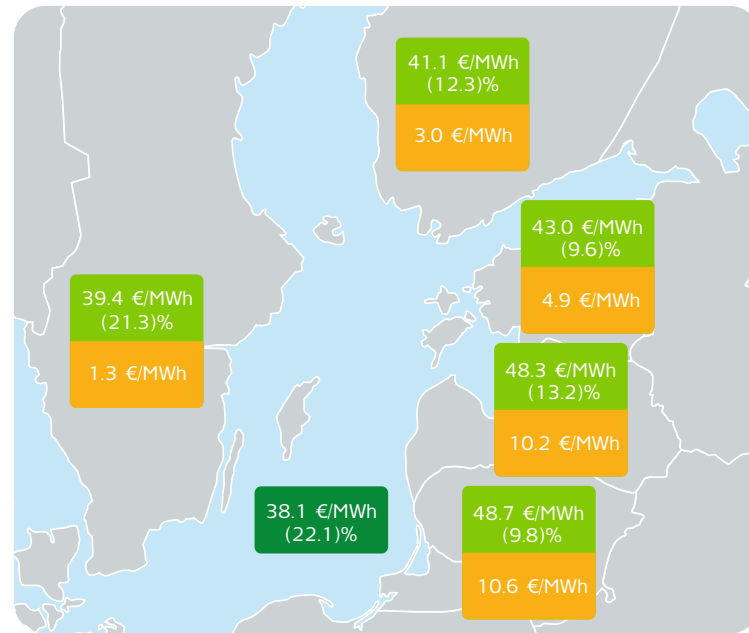
While the levels of hydro reservoirs in the Nordic countries reached the historic median value quickly in Q3 2013 then in the remaining time the level stood lower than a year before and the historic median value. The indicator mainly influences the Nordic hydro energy generation volume and electricity price.

Electricity prices in Finland and Baltics were volatile in 2013. The combination of warmer than normal temperatures and rapid increase of hydro reservoirs in Q2 2013 decreased the electricity prices in Finland and Baltics. The situation changed at the end of Q2 2013 when the production of hydro energy shrank and cross-border power transmission lines as well as the Estonian and Lithuanian generation units went through maintenance works. In Q3 2013 several faults and repairs in Finnish nuclear power stations took place, maintenance works in cross-border transmission lines resulted in transmission capacity limitations. Additionally, regular maintenance works were carried out in

Electricity Prices

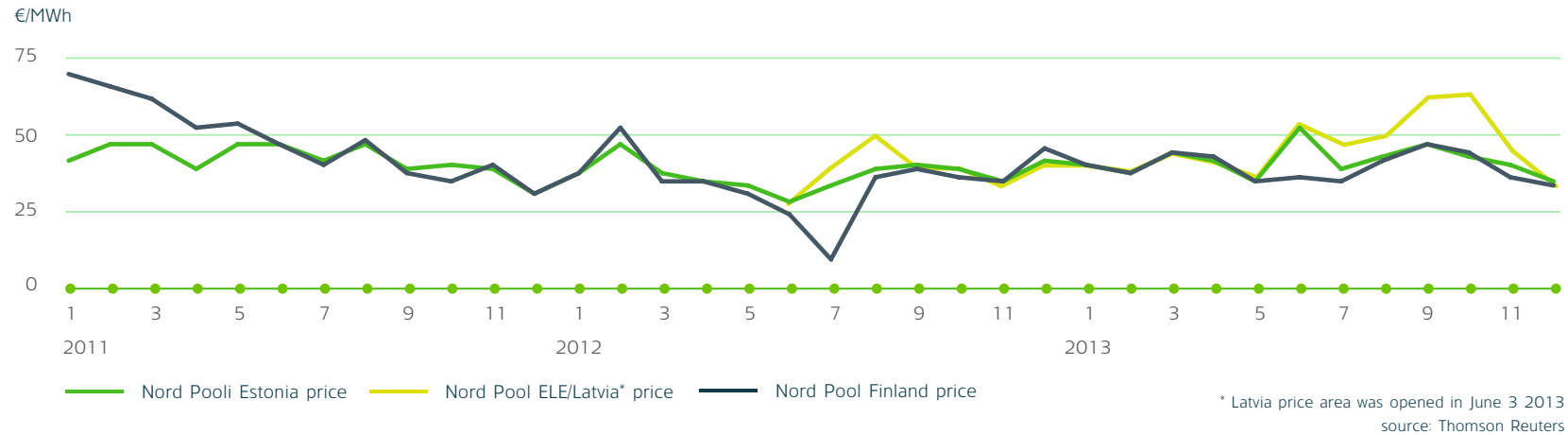
	Min (€/MWh)	Max (€/MWh)	Average price (€/MWh)	Change compared to 2012
SYS	17.5	58.5	38.1	22.1%
Finland	17.2	93.9	41.1	12.3%
Estonia	26.2	103.9	43.0	9.6%
ELE/Latvia*	26.2	126.3	48.3	13.2%
Lithuania**	24.4	108.4	48.7	9.8%

* Latvian price area was opened on 3 June 2013, replacing the former ELE price area.
 ** At 18 June 2012, Nord Pool Lithuanian price area was opened. Earlier, the Lithuanian electricity exchange was operated by Baltpool.



■ NP system price ■ Average price ■ Price spread compared to the SYS price source: Thomson Reuters

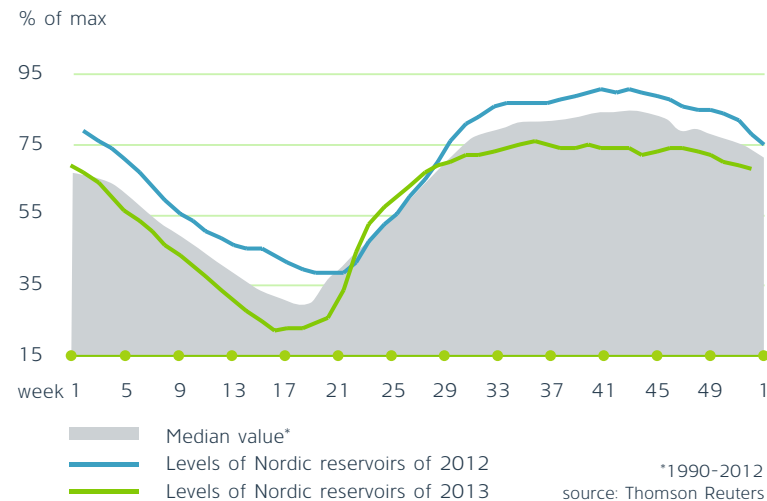
Monthly Average Prices of Electricity



Narva Power Plants. In Q4 2013 the electricity prices in Nordic countries and Finland dropped due to warmer than normal weather in both regions.

In 2013, the price spread between Estonia and Finland was 1.8 €/MWh, having decreased by 0.7 €/MWh from a year earlier. The price spread of 2.6 €/MWh in 2012 was mainly attributable to low electricity price in Finland due to low prices in Nordic countries resulting from extremely high levels of hydro reservoirs. While in general, the price spread between Estonia and Finland stayed close to the average in 2013, the daily average spread increased considerably in June-July reaching up to 53.7 €/MWh at the end of July. The significant price differences in this period were attributable to the extraordinary high electricity prices in Estonia due to electricity deficit in Latvia and Lithuania and limitations in cross-border transmission capacities.

Levels of Nordic Water Reservoirs



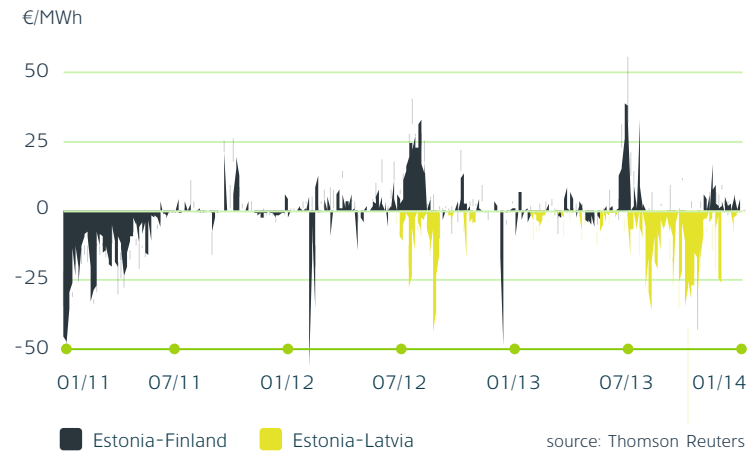
At the end of October, tests of the Estlink2 underwater cable started. The cable's transmission capacity was allocated by market for the trial operation period. The additional transmission capacity will decrease the price difference between Estonia and Finland.

In 2013, the average price difference between Sweden and Finland was -1.7 €/MWh (-4.1 €/MWh in 2012) which means that the bottleneck effect resulting from insufficient transmission capacity between these two areas decreased, but electricity prices in 2012 were significantly influenced by extremely low hydro reservoir levels.

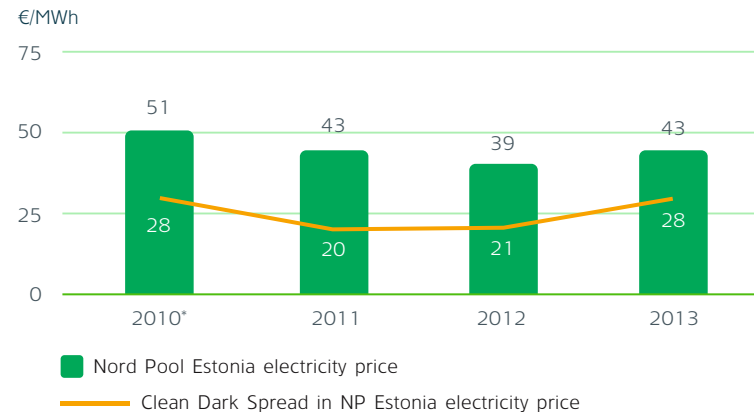
In June 2012, the ELE price area was established on the Estonian-Latvian border in connection with transmission capacity limitations on the border. On 3 June 2013, the ELE trading area was closed and replaced with the Nord Pool Latvian price area. The average price spread between Estonia and ELE/Latvia was -5.3 €/MWh in 2013, having increased by 1.9 €/MWh as compared 2012. The average price spread between Estonia and Latvia was -1.4 €/MWh in the first half of 2013 but the spread increased significantly in the second half of the year.

Unlike in the system used in the ELE area, the transmission capacities are allocated fully by the implicit auction or energy auction from 3 June. As a result of the energy auction, the deficit of transmission capacities can create price differences between the regions generating revenue for the transmission system operators managing the price area and not for electricity sellers. Due to the fact that from 3 June electricity sellers cannot hedge border-crossing costs in advance, on 17 September Eesti Energia stopped entering fixed-price electricity sale

Daily Average Price Differences



Clean Dark Spread in Nord Pool Estonia Electricity Price



* NP Estonia price area opened on 1.04.2010

source: Thomson Reuters

contracts in Latvia and Lithuania. The transition to full implicit auction is not permitted under European Union law if significant congestion exists and there are no instruments to manage price risk. Eesti Energia has turned to the Baltic regulators to find a solution to the situation but as at the end of the year satisfactory solution to continue entering fixed-price electricity sale contracts was not found.

In 2013, Eesti Energia clean dark spread (power price excluding variable oil shale and CO₂ costs) in the Estonian price area was 28.3 €/MWh (+7.0 €/MWh, +33% y-o-y). Unlike in 2012 when the clean dark spread grew due to the lower price of CO₂ emission allowances while the electricity price declined the increase in clean dark spread in 2013 was impacted by lower price of CO₂ emission allowances and higher electricity price on power exchange (+10% y-o-y).

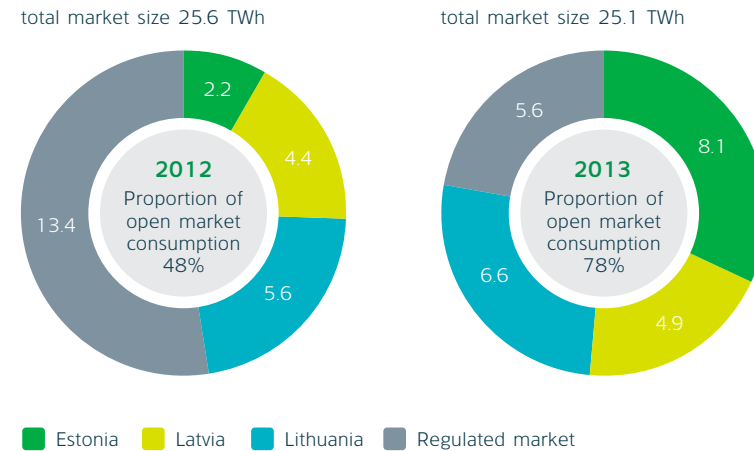
The Estonian retail electricity market was fully opened on 1 January 2013 and regulated electricity prices were replaced by market prices. Latvian and Lithuanian electricity markets are partially opened. It is estimated that

The Estonian retail electricity market was fully opened on 1 January 2013 and regulated electricity prices were replaced by market prices.

the Latvian market was opened to the extent of 70% of the volume of electricity consumption. In September, the proposals of legislative amendments on the opening of the Latvian electricity market were approved by the government and will be

submitted to the Latvian parliament. The Latvian retail electricity market will most likely be opened on 1 April 2014.

Electricity Consumption on Baltic Open Market



source: Eesti Energia estimate

Starting from 2013, all business customers in Lithuania have been buying electricity on the open market. Household consumers have no obligation to buy electricity on the open market and since the regulated electricity tariff offered to them is lower than the open market price, household consumers have no incentive to voluntarily buy electricity from the open market. It is estimated that in 2013, the Lithuanian market was open to the extent of 66% of the volume of electricity consumption.

Network Service Tariffs

Estonian network operators are obliged to approve the network tariffs with the Estonian Competition Authority. Electricity Market Act regulates the approval of ceiling price of weighted average cost of network service and electricity, sold by network service providers. Network service tariff includes costs related to investments ensuring the network reliability and maintenance and repair costs. The network service covers the ability of the system to ensure electricity transmission and the maintenance of its infrastructure, and also the transmission of electricity to places of consumption such as private homes.

A network tariff established by a network operator shall become effective on the date determined by the network operator after its publication in at least one daily newspaper of national circulation, provided that at least ninety days have passed since publication. This condition does not apply to the connection fee, the fee for the amendment of conditions and the transmission fee for the transit of electricity.

Elektrilevi, network operator in Eesti Energia Group, approves the network tariffs with the Estonian Competition Authority. In 2013 the standard methodology for calculating network tariffs was amended. Instead of three-year period the tariff approval period will be one calendar year depending on the need for tariff change. The approved tariffs will be in force until the approval of new network tariffs, which will be based on forecasted costs of network operator. The tariff approval takes into account the forecasted investment costs (including capital costs and justified return), changes in sales volumes, justified fixed costs as well as changes in costs not controlled by network operator. In addition to regular review of tariff adjustment covering all costs, the application for adjustment of non-controllable costs can be submitted separately. Transmission system operators, Elering's, transmission service tariff and expenses related to network losses are an example of cost over which the distribution service operator has no control.



Eesti Energia produces more than a million barrels of shale oil each year from oil shale.

The oil produced from oil shale is essentially synthetic crude oil and is made by heating oil shale, which has been done in Estonia for almost 100 years with technology that has been constantly developing.

Enefit140 oil plant was built next to Eesti power plant already in 1980.

Financial Results

2013 results compared to 2012

SALES REVENUE

966.4 million euros

▲ +17.6%

EBITDA

310.5 million euros

▲ +11.5%

OPERATING PROFIT

175.5 million euros

▲ +75.3%

NET PROFIT

159.5 million euros

▲ +107.4%

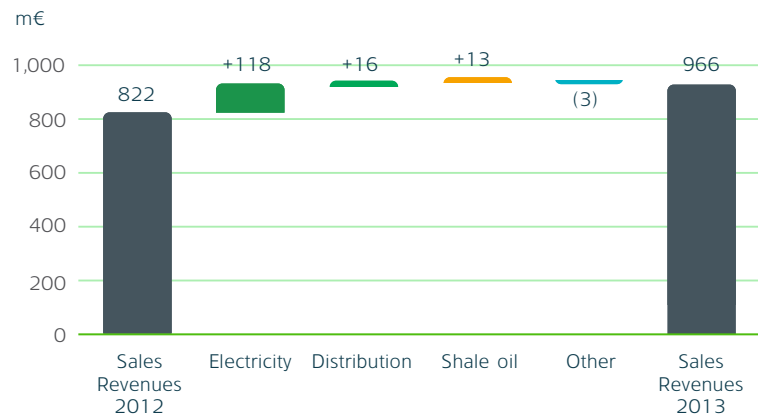
Group Revenues and EBITDA

The Group's sales revenue in 2013 was 966.4 million euros, up 17.6% compared to 2012 (+144.3 million euros). Sales revenue increased mainly due to higher electricity sales (+28.5%, +118.4 million euros), sales of the distribution service (+6.9%, +15.8 million euros) and sales of liquid fuels (+17.0%, +13.2 million euros). Sales revenue

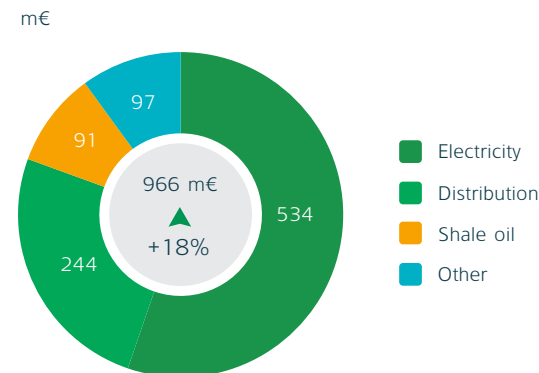
decreased due to lower sale of other products and services by 3.1% (-3.1 million euros) compared to 2012.

In 2013, the Group's EBITDA amounted to 310.5 million euros (+11.5%, +32.1 million euros). The Group's EBITDA was positively influenced by growth in the profitability of

Change in Group Sales Revenue

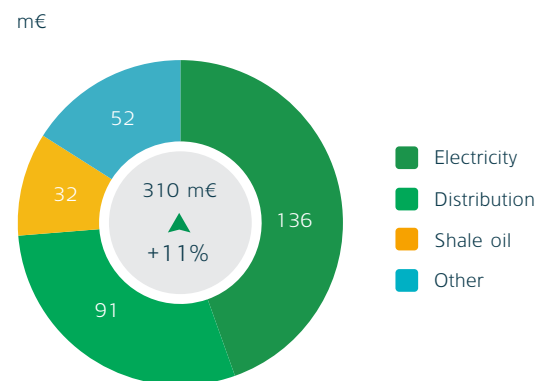
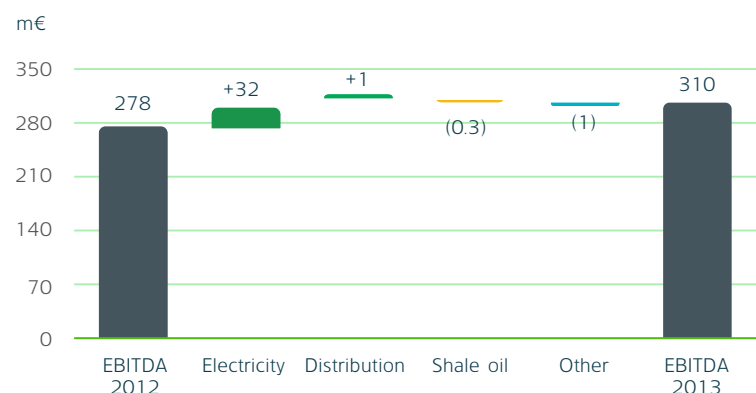


Breakdown in Group Sales Revenue



electricity sales (+30.1%, +31.6 million euros) and distribution network services (+1.6%, +1.4 million euros). On the other hand, the Group's EBITDA was negatively influenced by lower profitability of shale oil sales (-0.9%, -0.3 million euros). Sale of other products and services influenced Group's EBITDA negatively by 0.6 million euros compared to 2012 (-1.2%)

Breakdown and Change in Group EBITDA



Electricity

Electricity sales revenue totalled 534.1 million euros (+28.5%, +118.4 million euros). In 2013, Eesti Energia sold 11,368 GWh of electricity (+13.4%, +1,346 GWh). Of this, retail sales of electricity amounted to 7,097 GWh (-12.0%, -968 GWh), while electricity wholesale market sales reached 4,271 GWh (+118.2%; +2,314 GWh). Average electricity price was 46.3 €/MWh (+7.1 €/MWh, +18.2%).

Electricity wholesale volumes were positively influenced by the increase in the above-average market price.

Electricity wholesale volumes were positively influenced by the increase in the above-average market price that increased 9.6% compared to previous year. The decrease in electricity retail sales volume is due to the full opening of the Estonian electricity market in the beginning of 2013. Since Eesti Energia had until then been operating as a monopoly, the number of clients and market share decreased after the market opening.

As at the end of 2012, Eesti Energia had 499,000 electricity customers in the closed market. As part of the market opening all existing contracts lapsed and the customers who so far were buying electricity from closed market at regulated prices could choose a suitable electricity seller or remain purchasing the universal electricity service. The electricity market opening in Estonia was characterized by higher than expected interest in concluding electricity agreements. As at the beginning of 2013 65% of connection points were covered with electricity agreements. In 2013 the number

of contractual customers continued to grow and the number of consumers of universal electricity service fell. As at the end of 2013 electricity market contracts covered 78% of connection points.²

By the end of 2012, 337,000 clients had chosen Eesti Energia as their contractual electricity seller. In addition to

As at the end of 2013, Eesti Energia had 367,000 contractual electricity clients

contractual clients, Eesti Energia started to provide also universal electricity service to 130,000 customers of distribution network operator Elektrilevi. During the 2013 the number of contractual Eesti Energia customers continued to grow and the number

of consumers of universal electricity service fell. As at the end of 2013, Eesti Energia had 367,000 contractual electricity clients³ (+30,000 compared to the beginning of 2013. In addition to contractual clients, as at the end of 2013, Eesti Energia provides the universal electricity service to 100,000 customers (-30,000 customers year-on-year) of distribution network operator Elektrilevi. In 2013, the market share of Eesti Energia in Estonia by electricity consumption of clients was 71%.⁴

In Latvia and Lithuania where Eesti Energia operates under the trademark of Enefit, retail sales increased as compared to previous year as did also the number of new clients. As at the end of 2013, Eesti Energia had 1,760 open market clients in Latvia (+443 clients from the end of 2012)

and 905 clients in Lithuania (+589 clients). Due to the principles of dividing transmission capacities that entered into force in June, it is not possible to fix in advance price difference on the Estonian-Latvian border. In Q3 2013, a significant price difference occurred between the electricity exchanges of Estonia, Latvia and Lithuania. As Eesti Energia does not have substantial electricity generation capacities in Latvia or Lithuania, in order to meet contracts with fixed prices, it was necessary to buy electricity from the electricity exchange at a higher price than the sales price that Group's power plants have earned in Estonian price area. As a result of price differences, Eesti Energia earned a loss of 13 million euros in 2013. For this reason it was decided in October 2013 to postpone the plan to start selling electricity to Latvian household consumers from spring 2014 and to end selling fixed price contracts to Latvian and Lithuanian retail customers until suitable instruments to manage price risk appear.

In 2013, we generated a total of 10,560 GWh of electricity⁵ (+12.6%, +1,182 GWh). Volumes of electricity produced from oil shale grew due to higher electricity and lower CO₂ market prices. Electricity generated from renewable sources totalled 262.2 GWh (-50.9%, -271.7 GWh). Generation of electricity from renewable sources decreased mainly as the Group stopped using biomass in Narva power plants. According to the draft amendments to the Electricity Market Act, Narva Power Stations will not receive renewable energy subsidies for burning biofuel in the coming years. Renewable energy subsidies

² Data by system operator Elering.

³ 367 thousand electricity consumers have concluded a total of 462 thousand electricity contracts which cover approximately 65% of all Estonian consumption points.

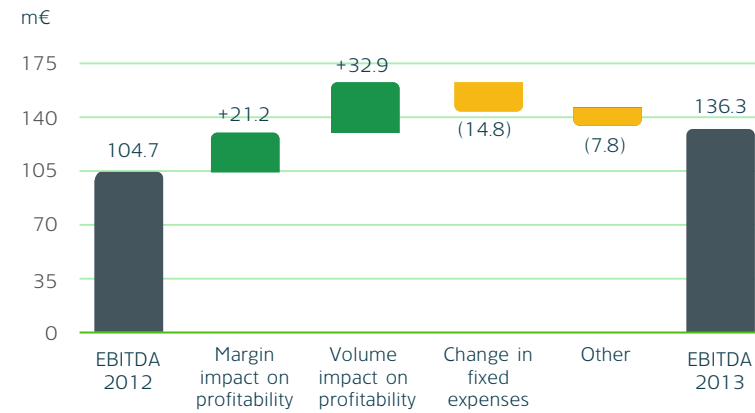
⁴ The market share of Eesti Energia by electricity amount (including electricity consumed as a general service and network losses) according to the data of the system operator Elering.

⁵ Net production of electricity.

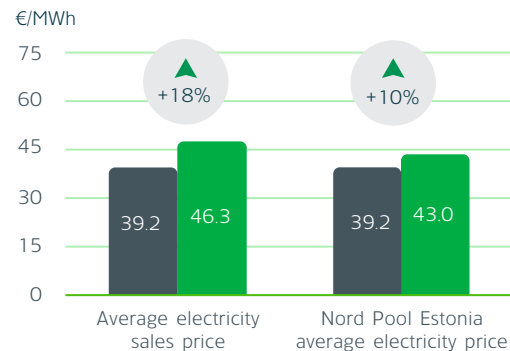
received by Eesti Energia totalled 9.0 million euros (-64.3%, -16.1 million euros). The majority of energy generated from renewable sources came from wind parks (200.3 GWh, +48.4%, +65.3 GWh), mostly from new wind parks in Narva and Paldiski that were launched in the summer 2012. Eesti Energia is currently not developing any other wind farm projects.

In 2013, **EBITDA from electricity sales** amounted to 136.3 million euros (+30.1%; +31.6 million euros). EBITDA was positively influenced by higher electricity sales volume (+32.9 million euros) and margin (+21.2 million euros). Variable costs increased mainly due to higher CO₂ costs (+46.8 million euros) and higher border crossing costs (+21.2 million euros).

Change in Electricity EBITDA



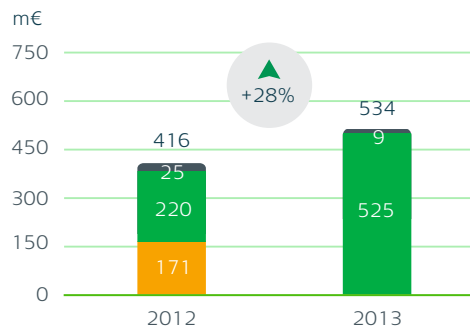
Average Electricity Sales Price*



■ 2012
■ 2013

* excl. renewable energy subsidies

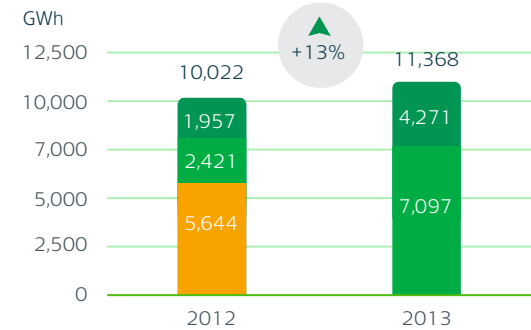
Sales Revenues



■ Renewable energy subsidies
■ Regulated market revenues
■ Sales revenues**

** excl. renewable energy subsidies, sales revenues excl. regulated market revenues

Sales Volumes



■ Sales on power exchanges and to wholesale buyers
■ Retail sales
■ Sales in regulated market

Distribution

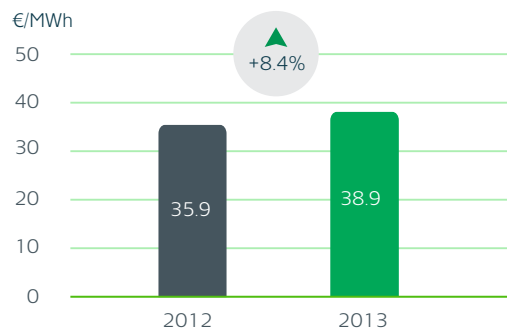
Distribution sales revenue amounted to 244.4 million euros (+6.9%; +15.8 million euros) in 2013. In 2013, volume of electricity distributed declined slightly year-on-year amounting to 6,280 GWh (-1.3%; -86 GWh). Sales of distribution service was positively influenced due to reduced network losses (-45 GWh) while higher than average air temperature and adjustment of price-sensitive customer behavior habits had negative impact.

In 2013, the average price of the distribution service was 38.9 €/MWh (+8.4%, +3.0 €/MWh). The increase in the distribution service tariff is attributable to the regular price correction. A regular price correction took place on 1 January 2013 since distribution network operator Elektrilevi started to purchase electricity for network losses at market prices instead of the previously regulated tariff and the price of Elering's transmission service changed (total impact on average sales price +2.5 €/MWh).

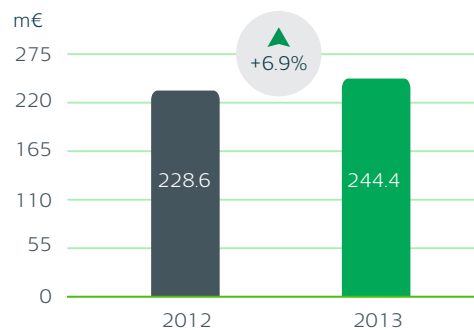
Another tariff correction took effect at 1 August 2013, when permitted regulated return for distribution companies was reduced by Estonian Competition Authority changed (impact on average sales price -0.6 €/MWh). The maximum permitted return on capital invested to electrical network declined from 7.83% to 6.76%.

In 2013, distribution network losses amounted to 359 GWh or 5.2%, having decreased by 0.5 percentage points from 2012. Three major storms at the end of the year were declared as extraordinary situations based on the network construction norms. The impact of these storms on unplanned interruptions was 269 minutes per client. Excluding such extraordinary situation the average duration of unplanned interruptions was 144 minutes (187 minutes in 2012). The average duration of planned interruptions increased to 93 minutes (91 minutes in 2012) due to the investments to improvement of network reliability.

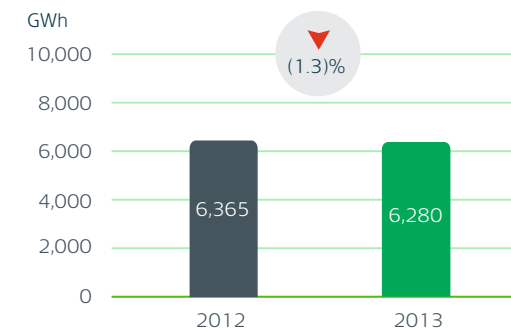
Distribution Prices



Sales Revenue from Electricity Distribution

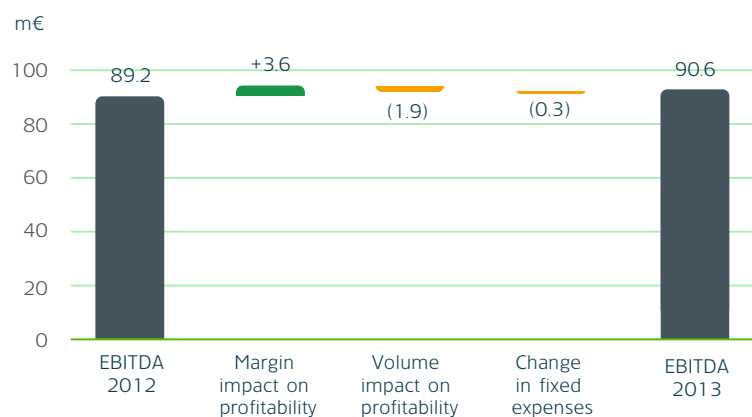


Sales Volumes



In 2013, EBITDA from sales of distribution service totalled 90.6 million euros (+1.6%; +1.4 million euros). Distribution service EBITDA was positively influenced by margin growth (+3.6 million euros). EBITDA was negatively impacted by decrease in volume (-1.9 million euros) and higher fixed costs (-0.3 million euros). Margin related revenues compared to 2012 grew due to higher sales price (+19.1 million euros) while variable costs increased due to higher transmission costs and expenses for network losses (-15.5 million euros).

Change in Distribution Service EBITDA



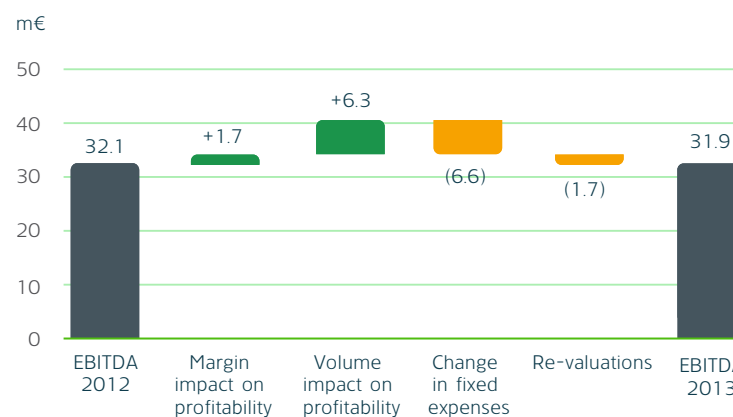
Shale oil

The revenue from the sales of shale oil totalled 91.1 million euros (+17.0%; +13.2 million euros) in 2013. In 2013, Eesti Energia sold 208,100 tonnes of shale oil (+10.0%, +18,900 tonnes).

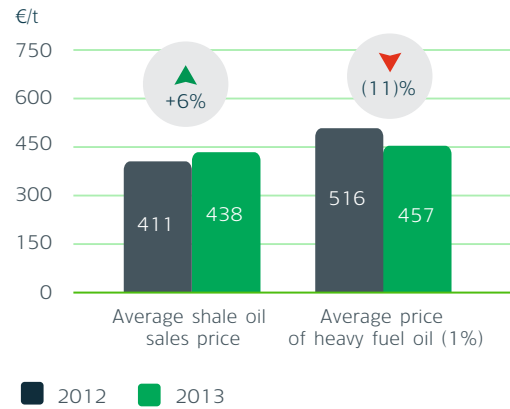
In 2013, the average sales price of shale oil was 437.6 €/tonne (+6.4%, +26.1 €/tonne). As compared to 2012, the average price increased while the global market price of heavy fuel oil, a reference product, decreased by 11.5%. The Group's sales price of shale oil is hedged to protect sales against the drop in world market prices. In 2013, the impact of hedging transactions on the sale of shale oil was +1.7 million euros (+14.8 million euros compared to last year) or +8.2 €/tonne. Excluding the effect of derivative transactions, the sales price of shale oil was 429.4 €/tonne (-10.6%, -51.1 €/tonne).

In 2013, EBITDA from sale of shale oil totalled 31.9 million euros (-0.9%; -0.3 million euros). EBITDA was positively influenced by higher margin (+1.7 million euros) and sales volume (+6.3 million euros). Increased fixed costs had a negative impact (-6.6 million euros).

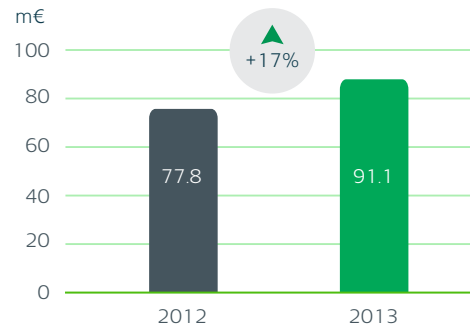
Change in Shale Oil EBITDA



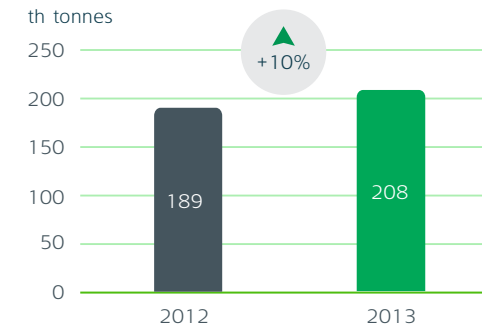
Shale Oil Prices



Sales of Shale Oil



Sales Volumes

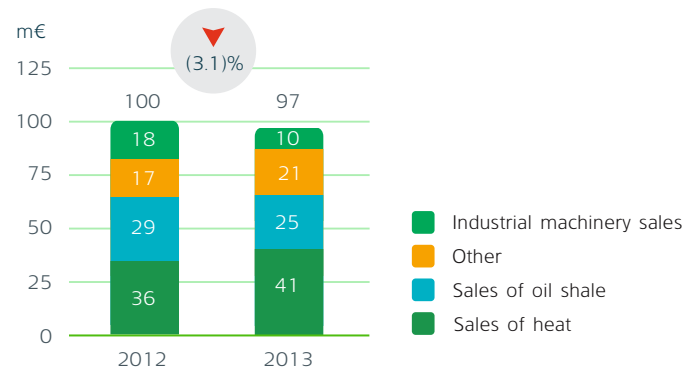


Other Revenues

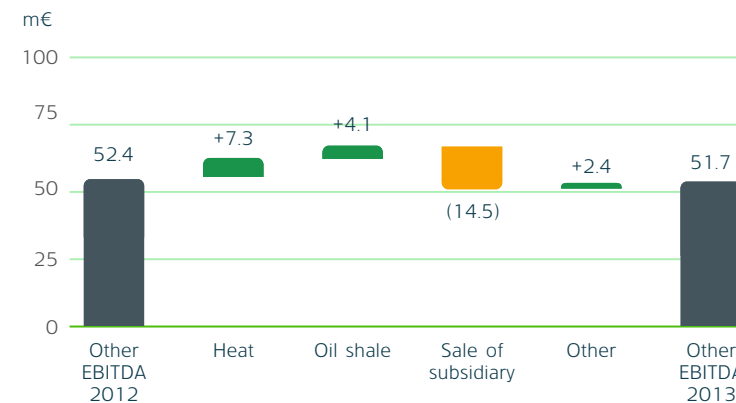
In 2013, the revenue of Eesti Energia from **sale of other products and services** totalled 96.8 million euros (-3.1%, -3.1 million euros). Growth of other revenue was positively influenced by sale of dismantled equipment

from Aidu opencast mine (+4.3 million euros) and sale of heat (+2.7 million euros. Heat sales increased due to completion of waste-to-energy unit in Iru Power Station. Waste reception revenues attributable to heat production

Breakdown of Other Revenues



Change in EBITDA of Other Products



amounted to 2.5 million euros in 2013. Revenue from the sale of electrical equipment as well as construction and repair services decreased 8.3 million euros, which is attributable mainly to the completion of the new oil plant. Sales of oil shale decreased by 4.0 million euros. Decline in sales volume (-534,000 tonnes, -38%) was offset by higher sales price.

In 2013, **EBITDA of other products** reached 51.7 million euros (-1.2%, -0.6 million euros). The comparison base was strongly affected by sale of Televõrgu AS in the first quarter 2012 (-14.5 million euros). The EBITDA of other products was positively impacted by growth in sales of heat (+7.3 million euros) and oil shale (+4.1 million euros).

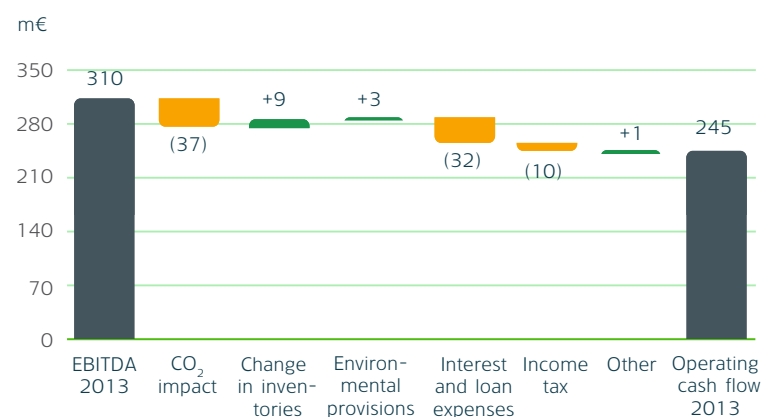
Cash Flows

In the financial year 2013, the Group's cash flows from operating activities amounted to 244.6 million euros growing 32.1% year-on-year (+59.4 million euros).

Cash flows from operating activities were increased by higher EBITDA (+32.1 million euros), higher usage of oil sale inventory and change in trade receivables and provisions (total impact + 38.5 million euros). Cash flows from operating activities were decreased due to CO₂ purchase cost (-28.4 million euros) as in 2013 Eesti Energia did not receive free emission allowances for electricity generation.

In comparison with the Group's EBITDA (310.5 million euros), the impact of CO₂ purchase cost (-36.7 million euros) decreased the cash flows from operating activities. Additionally, cash flows from operating activities was negatively impacted by the payment of interest and loan expenses (-31.8 million euros). The higher usage of oil shale inventory had positive impact on cash flows from operating activities (+9.2 million euros).

EBITDA to Operating Cash Flows Development



Financing

As at 31 December 2013, Eesti Energia had a credit rating of BBB+ with stable outlook from Standard & Poors and Baa1 with negative outlook from Moody's. In January 2014 Moody's downgraded Eesti Energia's by one notch to Baa2 with stable outlook. Eesti Energia's credit ratings are at the investment grade level that allows the Group to access debt capital markets if needed.

As at 31 December 2013, Eesti Energia's total nominal borrowings amounted to 838.5 million euros (up by +93.6 million euros year-on-year). The amortised borrowings amounted to 827.9 million euros (+95.2 million euros compared to 31 December 2012). The significant borrowings of the Group as at the end of financial year included:

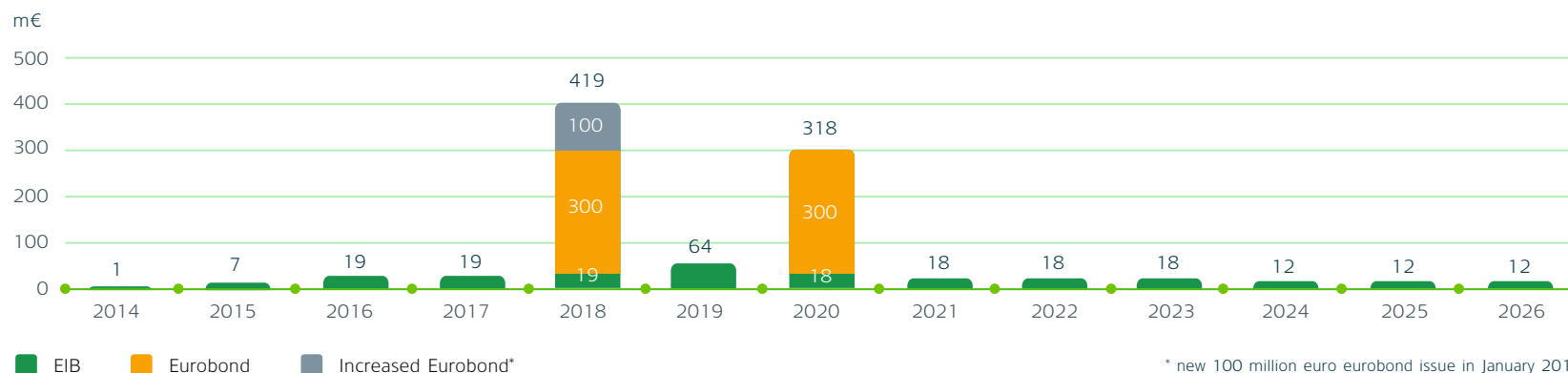
- The Eurobonds listed on the London Stock Exchange in the amount of 600 million euros maturing in 2018 and 2020.

- The loans received from the European Investment Bank amounted to 238.5 million euros. In addition to existing loans Eesti Energia withdraw in Q4 2013 investment loans in the amount of 95 million euros subject to a loan agreement signed with EIB in 2011.

After the end of reporting period, in January 2014, Eesti Energia carried out a bond issue in the amount of 100 million euros. The yield of newly issued notes with maturity date in 2018 is 2.181%. Issued notes have been priced at 109.085% and the net proceeds of the offering including interest amounted to 110.5 million euros. The bonds are listed in London Stock Exchange. Together with bonds issued in April 2012 the total volume of bonds with maturity date in 2018 amounts to 400 million euros.

As at 31 December 2013, the Group's liquid assets (including deposits with maturity of more than 3 months and liquid financial assets) amounted to 84 million euros. The

Debt Maturity



* new 100 million euro eurobond issue in January 2014

Group's undrawn loans amounted to 250 million euros as at the end of 2013 including:

- In September 2013, bilateral liquidity loan contracts for the total amount of 150 million euros were signed with three regional banks (SEB, Pohjola and Nordea). The due date of the contracts is September 2018. As at the end of the financial year the loans were fully undrawn. Since in the nearest few years the Group's investment volume will decrease, the need for the liquidity buffer will also decrease.
- In October 2013, the Group completed negotiations for a new long-term loan with the European Investment Bank for financing the investments of Elektrilevi and signed the loan contract in the amount of 100 million euros. As at the end of the financial year the loan was fully undrawn.

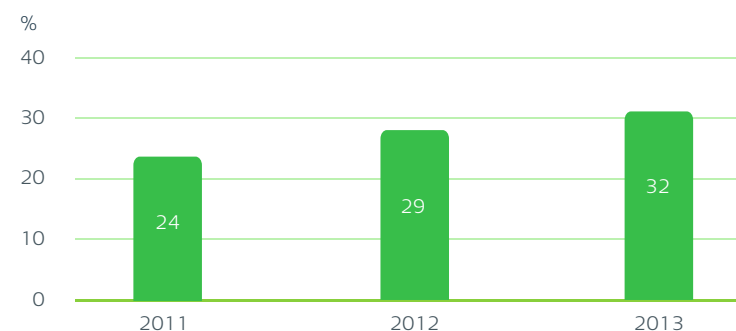
The weighted average interest rate of the Group's borrowings at the end of 2013 was 3.86% (4.12% as at 31 December 2012). The weighted average rate of borrowings with fixed interest rates was 4.06% and that for borrowings with floating interest rates was 0.97% (including the base rate). Borrowings with fixed interest rate made up 94% of the total Group's debt as at the end of the financial year. All borrowings are denominated in euros. As at 31 December 2013, Eesti Energia's equity amounted to 1,548 million euros. The shares of Eesti Energia are 100% held by the Republic of Estonia.

As at the end of 2013, the Group's net debt⁶ stood at 744.3 million euros, up by 163.4 million euros year-on-year. The EBITDA to net debt ratio reached 2.4 compared to 2.1 in 2012. The net debt to equity ratio was 48%, up

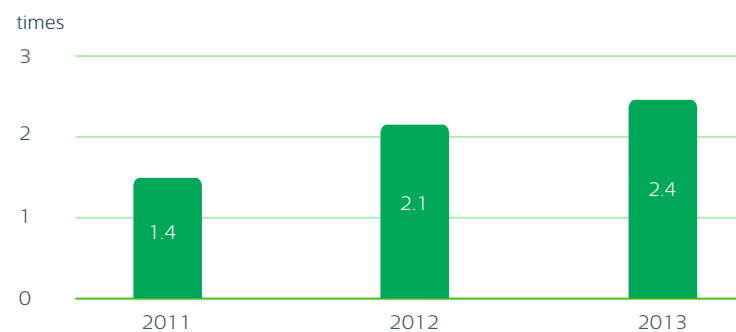
by 6.9 percentage points from 2012. Based on its loan agreements, Eesti Energia is bound to conform to certain financial covenants. As at the end of 2013, the Group complied with these financial covenants.

In 2013 Eesti Energia paid 55.2 million euros dividends the Republic of Estonia. In 2014, Eesti Energia is expected to pay dividends in the amount of 113.6 million euros.

Financial Leverage



Net Debt / EBITDA



⁶ Net debt – debt obligations (at amortized cost), less cash and cash equivalents (incl. deposits with maturity of more than 3 months), units in money market funds, investments into fixed income bonds

Investments

In the financial year 2013, the Group invested 418.9 million euros (-18.4%, -94.6 million euros). The largest investments were made to the new 300 MW power plant in Auvere and projects related to improving the quality of distribution network. The construction of a new 300 MW power plant and the preliminary development of international projects oil production will continue in the next years.

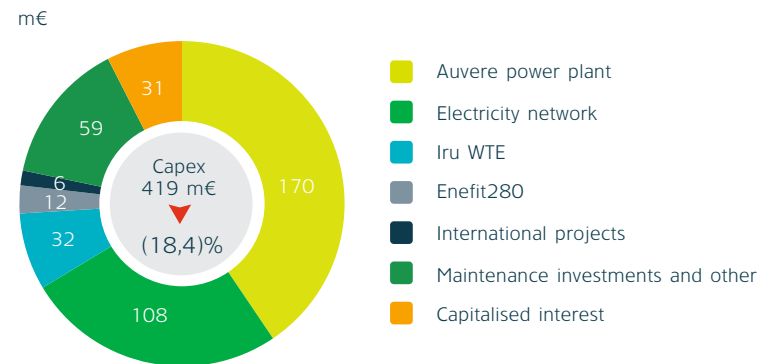
Construction of the New 300MW Circulating Fluidized Bed (CFB) Power Plant

In summer 2011, Eesti Energia started the construction of the new power plant running on the modern circulating fluidized bed (CFB) technology in Auvere. The new power plant, which should be completed in 2016, allows alongside oil shale to burn biofuels for up to 50% of its fuel intake and helps to bring the emissions of the plant to the level of a modern gas plant. The maximum annual net generation of the Auvere power plant is 2,192 GWh. For financing the construction of Auvere power plant, the European Commission allowed Estonia to allocate a total of 18 million tonnes of CO₂ emission allowances free of charge for 2013–2020.

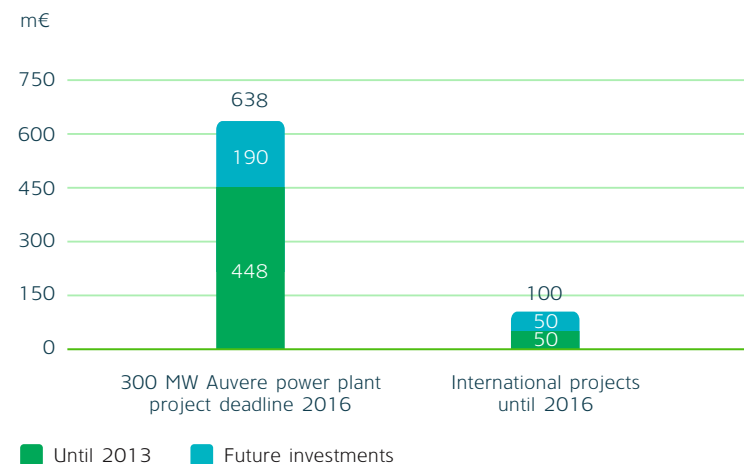
In 2013, the transportation and implementation of equipment needed for the construction of power plant was continued. In parallel, the construction works were continued also in boiler room, turbine room, pumping station of cooling water, administrative building, water preparatory building and other smaller buildings. In the financial year, the steam drum and rotary power generator were the

largest parts delivered to the construction site. Additionally, the stator and high pressure turbine were installed.

Capex Breakdown by Projects



Projects Close to Completion



Improving the Quality of Distribution Network

For improving the quality of the network service, we invested a total of 108 million euros in 2013. In the financial year, the Group renovated and built 679 substations and 1,826 kilometres of underground and overhead cables.

In 2012–2016, Elektrilevi will install remote power meters to all consumption points across Estonia. Since November 2012 Elektrilevi with its partnering companies have installed its customers 167,000 remote power meters measuring electricity consumption by the hour. A total of 620,000 meters will be replaced over four years.

Construction of Iru Waste-to-Energy Unit

In June, Iru waste-to-energy unit using mixed municipal waste as fuel was opened. Iru waste-to-energy unit is a new advanced step for Estonia both in terms of energy generation and waste handling. This significant environment project ended large-scale mixed municipal waste depositing in Estonian landfills. Total cost of the waste-to-energy unit, which in addition to energy generates also heat for the residents of Tallinn and Maardu, was 105 million euros.

The technology used in the waste unit qualifies for combustion of different kind of waste and does not require preliminary sorting, crushing or sieving of municipal waste. At full capacity, the Iru waste-to-energy unit burns about 27.5 tonnes of mixed municipal waste per hour. Such amount of waste is created by approximately 70 average Estonian homes each year. On average, 80 waste collection trucks per day visit the waste-to-energy unit.

The full quantity of waste necessary for the two first years of operation as well as the majority of quantity necessary for the following years of operations are covered by contracts. The waste-to-energy unit is able to turn nearly 85% of energy contained in waste into electricity and heat. The heat generation capacity of the plant is 50 MW and electricity generation capacity is 17 MW.

Installation of Desulphurisation Equipment at Narva Power Plants

For reducing sulphur emissions, we installed desulphurization equipment on four of the generating units of the Eesti power plant. After the installation, the net capacity of those units is 674 MW and the annual production capacity is 4.9 TWh. With the project commenced in spring 2009, we took an obligation to reduce sulphur emissions at Narva power plants 2.5 times, while maintaining the production capacity at the current level. Under the same project, we also commenced the installation of lime dosing systems in order to achieve the required cleaning level of exhaust gases, irrespective of the quality of burnt oil shale. The lime systems were completed in the first quarter of 2013. At the same time also acceptance and operational tests were completed. As at the date of the report all lime dosing systems are up and running.

Pre-development of the Jordanian Electricity and Oil Project

Eesti Energia holds 65% in the Jordanian electricity and oil development project. Project partners include YTL Power International Berhad with 30% and Jordanian partner Near East Investment with 5% shareholding.

In 2013, procurement for construction of the Jordanian power plant (announced in 2012) disclosed: six bids received from the internationally acknowledged corporations. The technical, legal and commercial analysis of the bids received in the procurement for the construction for the Jordanian power plant was completed based on which two bidders were selected. At the end of the financial year preliminary contracts were reached with the builder and financiers of the power plant.

Guangdong Power Engineering Corporation (GPEC) belonging to Chinese state-owned company China Energy Engineering Group won the construction and design procurement of the oil shale power plant. According to the bid of GPEC, the power plant will be designed by international engineering bureau WorleyParsons, boilers will be built by world's leading boiler design and production company Foster Wheeler and turbine supplied by Siemens. Preliminary contracts for financing the construction of the power plant were signed with two large Chinese banks – Bank of China and Industrial Commercial Bank of China. The nearly 1.4 billion USD loan agreement has the guarantee of Chinese export credit agency Sinosure.

In 2013, the environmental impact assessment of the electricity project was approved by the Ministry of the Environment of Jordan. Jordanian government approved the environment regulation necessary for the development of energy project. The additional geological studies in the developed mining area were completed. The planned

net capacity of the Jordanian first oil shale power plant is 460 MW and its completion is planned in 2017.

The preliminary development of the Jordanian oil project is expected to last until 2016. During the preliminary development phase, Eesti Energia will develop a part of the Attarat Um Ghudran mine.

Area under research is estimated to contain 3.5 billion tonnes⁷ of oil shale of which 0.9 billion tonnes represents measured resource for developing electricity project. In third quarter 2013, additional geographical surveys were completed and supplementary technical surveys were performed to adjust the Enefit technology to the Jordanian oil shale.

Pre-development of the American Oil Project

In March 2011, Eesti Energia acquired a significant oil shale resource in State of Utah, which is estimated at 6.6 billion tonnes⁸. In Utah, we operate under the name of Enefit American Oil (EAO). We plan to use our oil shale resources in Utah as a base for developing a new liquid fuels industry under a phased development scenario with an ultimate capacity of 50,000 barrels of shale oil per day.

In 2013, the Environment Impact Study (EIS) continued with Bureau of Land Management (BLM) including public scoping sessions in July in Salt Lake City and Vernal, Utah and

⁷ Measured 0,9 billion tonnes (resource represents a part of in place Resource, after it has been modified by desired cut-off grade, technical, economical and already defined modifying factors) and inferred 2,6 billion tonnes (resource is defined as amount of total in place oil shale, that has high possibility for commercial interest. This definition is applied for resources before the pre-technical analyses, to which possible modifying factors have not been applied)

⁸ Measured 3.7 billion tonnes, indicated 2.5 billion tonnes, inferred 0.4 billion tonnes.

a scoping report was issued by the BLM in September. Although the project is being developed on Enefit's private property, the infrastructure will also cross federal land, which requires an EIS analysis and coordination with local authorities.

In the third quarter 2013 the Frankfurt pilot plant started testing of Utah oil shale. A comprehensive project prefeasibility study (including mining, retorting, upgrading, construction and infrastructure) was also completed. 1.5 years of baseline data collection on meteorology and air quality, which is a prerequisite to start air permitting, was completed, as well as completion of baseline data collection for biological, paleontological and cultural resources. Surface and groundwater baseline data collection continued through 2013 and will continue into 2014.

Outlook for 2014

We expect the revenues and EBITDA to remain stable in 2014. The expected growth in the sale of electricity and shale oil will have the largest positive impact on the Group revenues.

We expect the revenues and EBITDA to remain stable in 2014.

The Group's electricity generation capacity is increased by Iru waste-to-energy unit working at full capacity and

Narva and Paldiski wind parks. We expect a decline in exported electricity volumes due to lower sales to retail customers in Latvia and Lithuania.

The sales volume of shale oil is expected to increase in 2014. Firstly, due to higher production volumes arising

from commissioning of new oil plant and major repairs conducted in Enefit140 in 2013, which reduced the production volume in 2013. Secondly, we have reviewed and improved the efficiency of production process in the existing oil plant.

We expect the volume of distribution network services to increase compared to 2013. Economic growth has the highest impact on the Elektrilevi sales volume. In 2014 the network losses are likely to remain on the same level as in 2013.

Higher environmental taxes from increased resource tax are behind the significant growth of variable expenses. The cost of waste depositing is also growing in Narva Power Plants. The fixed costs should stay at the same level as in 2012. One of the core priorities of Eesti Energia is to keep its fixed costs under control.

Lower investment volume in 2014 decreases also cash flows from investment activities. We expect that in 2014 the dividend payment to the sole shareholder will reach 113.6 million euros and income tax to the state to 30 million euros. We are using debt and internal cash flows to ensure the availability of sufficient cash. In January 2014 we carried out a bond issue in the amount of 100 million euros.

Investments

Committed investments for 2014 will decrease and are estimated at 319 million euros. The main investments, apart from the base investments, are the 300 MW power plant to be built in Auvere and installation of remote

power readers. We continue investments in reducing environmental impacts in Narva Power Plants. Last investments will be made to improve Enefit280 oil plant and to complete Paide co-generation plant.

Closed Positions

The Group's revenue from the sales of electricity and shale oil substantially depends on the prices of raw materials prevailing in the global and regional markets. The Group's financial results are mainly impacted by the electricity price in the Nord Pool trading system, the price difference of the Finland Price Area and Estonia Price Area of Nord Pool compared to the system price and the price of fuel oil with 1% sulphur content being the reference product of shale oil in the global market.

By way of derogation, the European Commission has granted Estonia the right to allocate free-of-charge emission allowances to the existing manufacturers for making more environment-friendly production investments. The

new 300 MW power plant being built by Eesti Energia at Auvere may receive under that measure up to 18 million tonnes of CO₂ allowances in the period of 2013–2020. Eesti Energia will add received CO₂ allowances to its CO₂ allowances portfolio.

The Group has hedged 10.5 TWh electricity (average price of 43.7 €/MWh) and 171,000 tonnes of shale oil (average price of 472 €/tonne) for 2014.

For 2015 the Group has hedged 5.4 TWh electricity (average price of 40.1 €/MWh) and 180,000 tonnes of shale oil (average price of 428 €/tonne)

To cover the CO₂ emission expenses the Group has concluded forward contracts. Together with received CO₂ allowances the Group has hedged 27.6 million tonnes (average price of 4.8 €/tonne) for the year 2014 and 8.7 million tonnes (average price of 2.3 €/tonne) for the year 2015.

The Environment

Oil shale industry has been developed in Estonia for almost a century. The experience with handling oil shale industry related environmental impacts has improved significantly since then. The technological progress has enabled us to reduce environmental impacts without decreasing the production volumes but rather even increasing the volumes. In 2013, one of the key priorities of Eesti Energia was to reduce environmental impacts and increase production efficiency simultaneously.

Preventive Investments to Environment Protection

We continued to keep the SO₂ emission levels as low as possible also in 2013. We were able to reduce SO₂ emissions remarkably by installing the deSO_x desulphurisation equipment on four generating units in Narva Power Plant and adding crushed stone and mine waste to other energy units as supplementary source of calcium. DeNO_x equipment was installed on one energy generating unit already fitted with deSO_x equipment in order to reduce nitrogen oxide emissions. The installed equipment allowed us to reduce NO_x emissions almost twice.

We increased efficiency through improved usage of resources. We continued with maximizing the usage of oil shale ash. To increase the efficiency of oil shale resource we started using mine waste, formerly

considered as a waste or by-product, and low caloric oil shale in generation process. Diversification of energy generation portfolio has significantly reduced environmental impacts.

We increased efficiency through improved usage of resources.
We continued with maximizing the usage of oil shale ash.



With the construction of new Auvere energy unit we invested in new and cleaner, more effective and low-emission production capacity. Besides reducing emission allowances the circulating fluidized bed technology allows higher flexibility in fuel usage, such as a combination of oil shale and biomass or other fuels.

In terms of renewable energy we prioritised wind energy but also waste-to-energy generation, a totally new method in Estonia. The new wind parks in Paldiski and Narva were opened in 2013. Narva wind park was built on the former ash field of Balti power plant. The new waste-to-energy unit of Iru power plant is using mixed waste to generate

In terms of renewable energy we prioritised wind energy but also waste-to-energy generation, a totally new method in Estonia.

electricity and heat. The new fuel increased the plant's electricity and heat production and therefore also its competitiveness. Iru plant used around 180,000 tonnes of waste for energy generation in 2013.

Construction of Paide Co-Generation Plant in Final Stage

In 2013 Paide CHP plant reached its final construction stage marking the key event in Eesti Energia's co-generation field. We started the cold commissioning at the

end of the year and first heat was produced for Paide in the beginning of year. The electricity capacity of biomass based co-generation plant is 2 MW and heat capacity is 8 MW. Considering the local heat consumption co-generation plant of such capacity is an optimum and best solution. After commissioning the existing boiler plants in Paide will be held in reserve to cover peak demand.

Restoration of Mine Areas

Before returning former open pit mine areas to natural and life environments the areas are restored through forestation, turning into arable land or creating a new purpose for the area. Afforestation is the most common method of cultivating the open cast mines. We have mostly planted pine and birch but also alder and aspen. As a result of mine recultivation forest of up to 50 years of age is growing in open cast mines. In 2013, 251 ha of forest was planted on former mining areas. Since 1960s we have planted forest on some 13,000 hectares during the recultivation process.

In 2013, after the closure of Aidu opencast mine we had a great opportunity to add new value to the local community in the process of restoration of the area. In 2020 we expect to open in this unique area an international water sports centre together with local municipality. In 2013 the construction of first phase, a 2.3 km long, 162 m wide and 3.5 meter deep rowing channel, was completed. The former open cast mine has 30 kilometres of oblong reservoirs,

In 2020 we expect to open in this unique area an international water sports centre.

which are split by 4 million trees planted over 40 years. As many other recultivated open cast mine areas Aidu is becoming more popular for fishing and hunting among locals.

Investigating and Assessing Environmental Impacts

In 2013 we focused on improving the assessment of environmental impacts. So far we had only studied specific emissions from a single source of pollution and their local impact on surrounding environment. In 2013 together with other oil shale companies we started mapping and assessing the impact of oil shale industry impact on environment. As a first step we ordered a survey to identify the environment impacts of new technologies

In 2013 together with other oil shale companies we started mapping and assessing the impact of oil shale industry impact on environment.

used in oil shale mining today. Since last century the oil shale industry has gone through a giant leap towards more efficient and environment friendly production. We can say that due to the hard work and extensive investments the oil shale industry of Eesti Energia is cleaner than ever. We will definitely continue with assessment of environment impact on oil shale industry next year.

Key Environment Figures

Production

	2013	2012
Electricity (GWh)	10,560	9,378
Heat (GWh)	1,242	1,137
Liquid fuels (th tonnes)	214	209
Retort gas (million m ³)	62	65

Resources Used

	2013	2012
Commercial oil shale (million tonnes)	17.2	14.8
Natural gas (million m ³)	47.3	59.4
Biofuels (mln tonnes)	0.1	0.5
Municipal waste (th tonnes)	184.2	-
Cooling water (million m ³)	1,487.6	1,307.2
Pumped mining water (million m ³)	138.1	203.0
incl. water from quarries (million m ³)	61.6	112.2
incl. water from underground mines (million m ³)	76.5	90.8

Emissions

	2013	2012
SO ₂ (th tonnes)	21.9	23.2
incl. Narva Power Plants (th tonnes)	21.1	23.1
NO _x (th tonnes)	8.8	9.9
Fly ash (th tonnes)	9.1	6.5
CO ₂ (million tonnes)	13.4	11.0

Solid Waste

	2013	2012
Oil shale ash (mln tonnes)	8.1	6.9
incl. recycled (mln tonnes)	0.1	0.1
Mine residue (mln tonnes)	5.6	8.1
incl. recycled (mln tonnes)	3.7	7.6

Water Pollutants

	2013	2012
Suspended matter (th tonnes)	0.8	1.1
Sulphates (th tonnes)	64.8	76.0

Environmental Fees Paid

	2013	2012
Resource fees (million euros)	28.3	30.4
Pollution fees (million euros)	24.5	17.8

Distribution service operator maintains power lines and supplies electricity to customers.

Elektrilevi maintains almost 61,000 kilometres of power lines and more than 22,000 substations.

With the exception of Lääne county, Viimsi, Narva and its surrounding areas, where electricity is supplied by other network operators, Elektrilevi network covers most of Estonia.

Corporate Governance and Risk Management

The shares of Eesti Energia are owned by the Republic of Estonia. Due to the fact that the Eurobonds of Eesti Energia are listed on London Stock Exchange and following the company's structure of ownership, we observe the following principles and laws in our corporate governance:

- The Combined Code on Corporate Governance (hereinafter the Combined Code), the set of principles of the United Kingdom's Financial Reporting Council;
- Selected principles of the Baltic Guidance on the Governance of Government-owned Enterprises (hereinafter the Baltic Guidance), drawn up by the Baltic Institute of Corporate Governance, which cover the expectations for management, financial reporting and auditing;
- The State Assets Act;
- The Commercial Code of Estonia;
- Eesti Energia's Articles of Association.

To make Eesti Energia's governance even more efficient, we have developed a corporate governance model using the following inter-linked components to ensure transparent and sound governance:

1. A single management structure and understanding of authority
2. Clear and clearly stated principles of management
3. Agreed reporting principles
4. Effective supervision
5. Perceived risk management



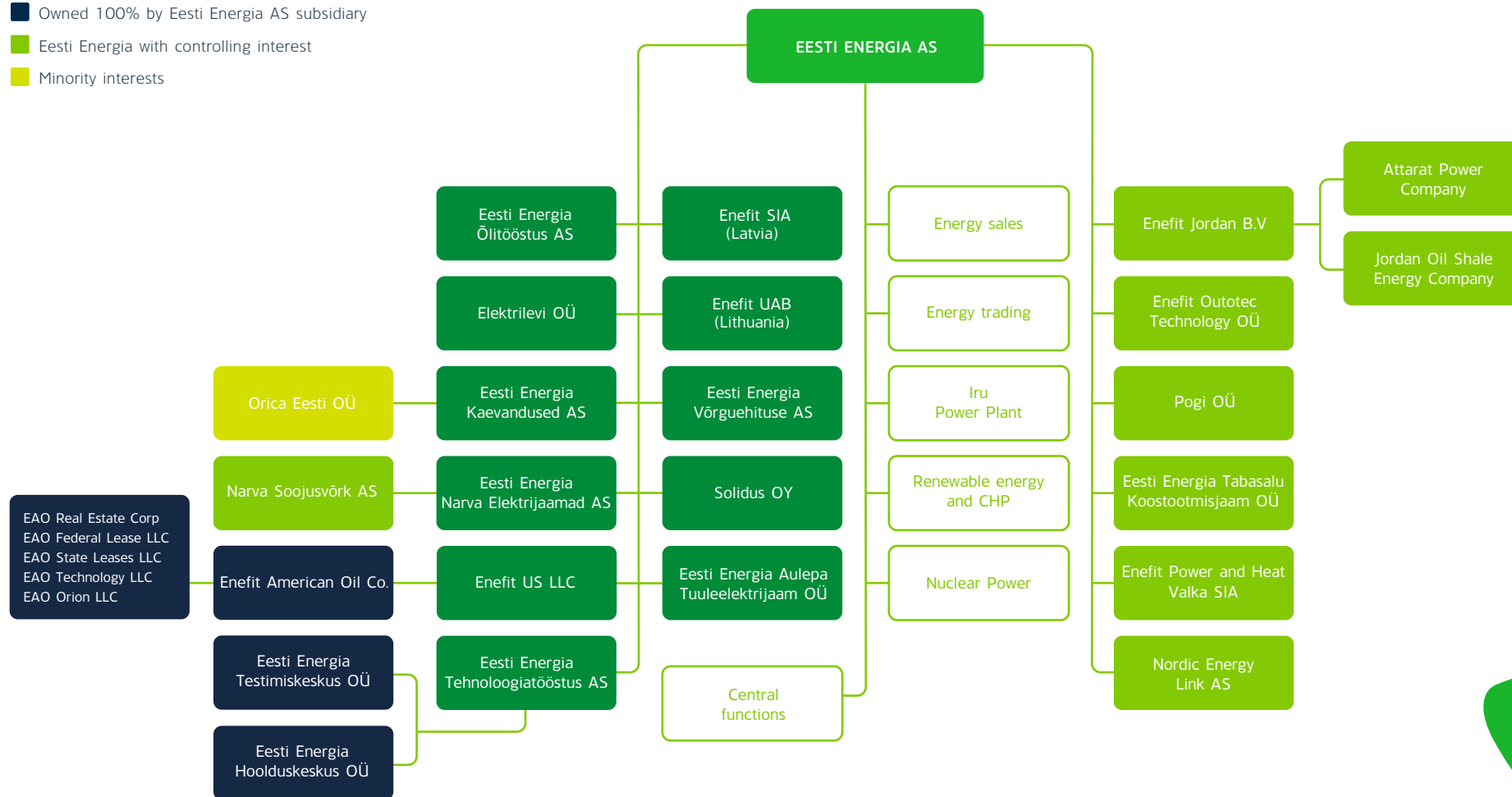
Organisational Structure

It has been crucial for us to keep the organisation structure of Eesti Energia simple and rely above all on the Group's goals and requirements. Therefore we have separated the management structure from legal structure. The management bodies of Eesti Energia are the General Meeting, Supervisory Board, Management Board and Audit Committee. The General Meeting is the highest management body and is appointing the company's Supervisory Board. Supervisory Board appoints the Management Board and supervises the activities of Management Board. Audit Committee provide consultation to the Supervisory Board in supervision related matters.



Legal Structure

- Owned 100% by Eesti Energia AS
- Eesti Energia departments
- Owned 100% by Eesti Energia AS subsidiary
- Eesti Energia with controlling interest
- Minority interests



General Meeting

The General Meeting is the highest managing body of Eesti Energia that among other things decides on the establishing and acquisition of new companies, dissolution of existing entities, election and removal of members of Supervisory Board, major investments, appointment of auditor and approval of annual report. The annual general meeting to approve the annual report is held at least once a year and no later than four months after the end of the financial year.

The shares of Eesti Energia are owned by the Republic of Estonia. The Ministry of Economic Affairs and Communications, represented by the Minister of Economic Affairs and Communications in the General Meeting, held the sole shareholder rights until March 2013. From March 2013 with the decision of government of the Republic of Estonia the shares of Eesti Energia are held by Ministry of Finance, represented by the Minister of Finance in the General Meeting.

Supervisory Board










The Eesti Energia Supervisory Board has eight members, half of whom are appointed by the Minister of Economic Affairs and Communications as sole shareholder, and the other half by the Minister of Finance.

The primary functions of the Supervisory Board are:

- to enforce the strategy agreed at the General Meeting,
- to approve major strategic and tactical decisions,
- and to supervise the work of the Management Board of the Group.

The work of the Supervisory Board is organised by the Chairman of the Supervisory Board. The requirements and expectations for the Supervisory Board members are set forth in the State Assets Act. The Eesti Energia Supervisory

Board is guided by its own rules of procedure, the Articles of Association, the General Meeting and the State Assets Act. In 2013 one member of Supervisory Board changed.

		
JÜRI KÕO (48)	MEELIS ATONEN (47)	MÄRT VOOGLAID (45)
<i>Chairman</i>	<i>Member</i>	<i>Member</i>
<i>Date appointed</i>	16 May 2005	21 September 2011
30 May 2007	19 May 2014	20 September 2014
<i>Expiration of term</i>		
28 May 2016		
		
OLARI TAAL (60)	KALLE PALLING (28)	ANDRES SAAME (54)
<i>Member</i>	<i>Member</i>	<i>Member</i>
24 April 2013	26 November 2009	1 July 2011
24 April 2016	26 November 2015	30 June 2014
		
TOOMAS TAUTS (41)	TOOMAS LUMAN (54)	REIN KILK (60)
<i>Member</i>	<i>Member</i>	<i>Member</i>
1 July 2011	17 March 1998	30 May 2007
30 June 2014	20 September 2015	24 April 2013

In March the current member of Supervisory Board, Rein Kilk, was recalled and Olari Taal was appointed as the new member. Supervisory Board meetings generally take place once a month, except during the summer. In the financial year 2013 the Supervisory Board held 10 meetings.

Participation of Supervisory Board Members in Meetings and the Total Remuneration Paid:

Name	Participation in meetings	Total remuneration in 2013 (€)	Total remuneration in 2012 (€)	Change
Jüri Kõo	10	5,675	5,808	(2)%
Meelis Atonen	10	4,257	3,991	7%
Kalle Palling	10	4,257	4,257	0%
Toomas Tauts	10	4,257	3,547	20%
Andres Saame	10	4,257	3,991	7%
Märt Vooglaid	8	3,547	3,547	0%
Olari Taal	7	3,192	-	
Rein Kilk	2	709	4,257	(83)%
Toomas Luman	1	1,064	2,128	(50)%

The work of the Supervisory Board is organised by attorney at law Sven Papp of the law firm of Raidla Lejins & Norcoux. The principles of remuneration for the members of the Eesti Energia Supervisory Board are regulated by the State Assets Act, under which the decisions on the level and conditions of payment are taken by the sole stockholder or sole shareholder. A regulation from the Minister of Finance sets the limits on the remuneration of the members of the Supervisory Board. A further payment can be made for participation in the work of bodies such as the Audit Committee run by the Supervisory Board. Members of the Supervisory Board are not paid severance pay or other additional payments beyond those for participation in the work of the Supervisory Board.

Supervisory Boards of Subsidiaries

The powers and responsibilities of the Supervisory Boards of Eesti Energia's subsidiaries are set forth in their Articles of Association. The Supervisory Boards are generally comprised of members of the Eesti Energia Management Board. The exceptions include the following subsidiaries and associates:

- Enefit American Oil (Sandor Liive, Rikki Lauren Hrenko, Margus Kaasik, Stuart Rose, Michael Polt),
- Enefit Jordan B.V. (Sandor Liive, Margus Kaasik, Andres Anijalg, Swee Huat Chan, Seok Yeoh Hong, Mohammad Maaitah),
- Enefit Outotec Technology OÜ (Sandor Liive, Margus Kaasik, Indrek Aarna, Peter Weber, Andreas Orth, Mathias Noll),
- Narva Soojusvõrk AS (Tõnu Aas, Valeri Trubin, Vladimir Šiškov, Vladimir Kalatšov, Aleksei Mägi).

Meetings of the Supervisory Boards of subsidiaries take place as needed and are called for in accordance with the Group's internal rules, the subsidiary's Articles of Association, the law and the agreements with the company's other shareholders.

Management Board

The Management Board of Eesti Energia AS is responsible for operational management. There are four members of the Management Board, who are appointed by the Supervisory Board. The Chairman of the Board, who also performs the functions of the Managing Director, is appointed separately. No changes in the Management Board of Eesti Energia took place in 2013. Management Board meetings generally take place once a week and if necessary voting can take place electronically. During the financial year 2013, 51 meetings were held of which 2 were electronic.

The principles of remuneration for the members of Eesti Energia Management Board are regulated by the State Assets Act, under which the level of remuneration is set by the Supervisory Board. Members of the Management Board are paid remuneration for fulfilling their responsibilities as members of the Management Board. The remuneration is set out in the agreement signed with the Management Board member and can only be amended by mutual agreement. Management Board members are also paid bonuses within the restrictions set by the State Assets Act and the results of the Group, with maximum bonus of four monthly salaries. Bonus must be justified and reflect achievement of the Group's targets, value added and its market position.

MEMBERS OF THE BOARD:



SANDOR LIIVE (43)

Chairman of the Board and CEO

Date appointed:

1 December 2005
(Member of the Board since
31 March 1998)

Expiration of term:
30 November 2014

EXPERIENCE:

- 1998–2005 CFO, Eesti Energia
- 1995–1998 CFO, head of Treasury, Tallinna Sadam

EDUCATION:

- Tallinn Technical University, degree in Financial Management
- Stanford Graduate School of Business (The effective use of power, 2012)
- IMD, Lausanne, Switzerland (2012, 2004)
- INSEAD (Advanced Management Program, 2007)



MARGUS KAASIK (40)

Member of Board, CFO

1 December 2005
30 November 2014

EXPERIENCE:

- 2001–2005 Head of Management Accounting, Eesti Energia
- 2000–2001 Financial Manager, Distribution network service provider Jaotusvõrk
- 1994–1999 CFO, Koger & Sumberg Grupp

EDUCATION:

- Tallinn university of Technology, Faculty of Economics, diploma in Business Administration
- Tallinn university of Technology, Faculty of Economics, Master in Business Administration



MARGUS RINK (41)

Member of Board

14 April 2008
13 April 2016

EXPERIENCE:

- 1996–2008 different positions including Head of Personal and Retail Banking, Hansapank (current Swedbank)

EDUCATION:

- University of Tartu, degree in Financial Management
- University of Tartu, MA of Business Administration
- INSEAD (International Executive Programme, 2005)
- Oxford Said Business School (Advanced Management and Leadership Programme, 2012)



RAINE PAJO (37)

Member of Board

1 December 2006
30 November 2014

EXPERIENCE:

- 2000–2006 various positions including Member of the Board, Head of Development Department, Director of the Electrical Grid Planning Division, Põhivõrk (current Elering)
- 1999–2000 Finnish TSO Fingrid

EDUCATION:

- Tallinn University of Technology, degree in Electrical Engineering
- Tallinn University of Technology, M.Sc. and Doctor of Engineering
- Tallinn University of Technology, MA in Business Administration

Severance pay may be paid only if the Supervisory Board recalls a member of the Management Board at its own initiative before the completion of the member's term. The amount of severance pay may not exceed three months' remuneration for the Management Board member.

Participation of Management Board Members in Meetings and the Total Remuneration Paid:

Name	Participation in meetings	Total remuneration in 2013 (€)	Total remuneration in 2012 (€)	Change
Sandor Liive	49	182,629	150,972	21%
Margus Kaasik	49	122,670	102,639	20%
Raine Pajo	49	122,864	102,839	19%
Margus Rink	44	122,048	103,888	17%

Clear and Accepted Principles of Management

Eesti Energia treats the unambiguous and simple principles of management as a whole supporting integrated multi-directional exchange of information. The Group's Management Board is responsible for the availability, development and implementation of these principles. In 2013 no significant changes in principles of management took place. The focus is still on increasing efficiency, higher burdening of group assets and optimum outsourcing of services.

Extended Management and Management Groups

The former business division (fuels, electricity and heat generation, retail business) based management model was replaced with the Group's value chain based management model in the beginning of 2013. The change was prompted by the need to limit the number of management levels in the Group and expand cooperation throughout the Group's value chain. Three bodies of cooperation are the grounds of value chain based management model - extended management, oil shale management group and customer offer management group.

In addition to Group's Management Board members the extended management includes also the heads of larger subsidiaries and support services. The role of extended management includes the implementation of Group principles, approval of objectives and monitoring the results. In general, meetings of extended management take place once a month.

The priority of the oil shale management group is to increase the efficiency and develop the oil shale value chain. The management group includes also the head of subsidiaries producing and exploiting oil shale.

The key goal of customer offer management group is to integrate the Group operations targeting retail customers. In addition to members of Management Board the management group includes the heads of Energy Sale, Energy Trading, Elektrilevi, Business Technology and IT and Communication Divisions. In general, the meetings take place once a week.

Support Services

The support services that are run at Group level to help us achieve our business goals are:

- Strategy development,
- Human resources and training,
- Environment safety management,
- Risk management and internal audit,
- Real estate and transport management,
- Fire safety, emergency rescue and security services,
- Treasury, accounting and management accounting,
- IT management and development,
- Legal services,
- Communications and marketing.

Exception from the Management Structure

Under the Electricity Market Act, Elektrilevi, as the distribution network operator, must ensure, among other things,

that the access to customer and business data is separated between network operators and electricity sellers by procedures and technological solutions. For this purpose Eesti Energia has implemented exceptions from the management structure, which ensure independence when deciding on investments, conducting procurements and maintaining the confidentiality of information about customer contracts. We also clearly separate Elektrilevi from other segments as far as financial reporting is concerned.

Agreed Reporting Principles

Getting sufficient and timely information is the basis of top-quality management. It is important that reporting is factual and forward-looking, allowing the best information to be used to avoid risks being realised and to turn them instead into competitive advantage.

Financial reporting mainly focuses on the consolidated reporting of financial results of the Group's units. We give out information that concerns company operations and that may have an impact on the price of the Eurobond in accordance with the rules of the London Stock Exchange using its information system. We release information that is expected not to impact the Eurobond price through domestic media channels. In both cases, we adhere to the Group's rules for handling insider information before releasing the information.

Management reporting is mainly used internally within the Group. There is a distinction between the performance-based reporting which focuses on a variety of the Group's and companies' results, and the project based reporting which focuses on analysing the application of investments and developments. We constantly review the factors that

influence the achievement of the agreed goals in order to improve our reporting.

Effective Supervision

Eesti Energia Group has implemented multi-level and balanced supervision system, which focuses on the most serious risks. Risk-based supervision allows us to adapt our activities in a flexible manner and support the achievement of our goals as much as possible.

Audit Committee

Eesti Energia Supervisory Board has appointed the Audit Committee as its work body and assigned Audit Committee's rights and duties in accordance with the approved procedural rules. Work of the Audit Committee is governed principally by the statutes of the Audit Committee and the Authorised Public Accountants Act. In the beginning of 2013 the Audit Committee had four members. With the decision of Supervisory Board Kaie Karniol and Kalle Palling were appointed as the members of Audit Committee. The primary function of the Committee is to provide consultation to the Supervisory Board in supervision related matters.

The Committee reviews and monitors adherence to accounting principles; preparation and approval of the financial budget and statements; sufficiency and efficacy of the external audit; development and functioning of the internal audit system, including risk management; legality of the company's activities. The Committee participates in ensuring the independence of the external audit and in planning and evaluating the internal audit. The principles of remuneration for members of the Eesti Energia Audit Committee are regulated by the State Assets Act. The work

of the committee is organised by Risk Management and Internal Audit Service Director of Eesti Energia. Subsidiaries do not have audit committees. The internal audit function of the Group allows the Audit Committee to get any information about subsidiaries that it needs for its analyses. Meetings of the Audit Committee take place to an agreed schedule, and at least once a quarter. In the financial year 2013, eight ordinary meetings were held. The Audit Committee submits a report to the Supervisory Board twice a year. The Audit Committee submits the annual report to the Supervisory Board before approval by the Supervisory Board approves the annual report. In the financial year 2013 the Audit Committee fulfilled its duties set forth in procedural rules.

The Audit Committee's approval is presented on page 63. The financial audit is based on the International Standards on Auditing. Under Eesti Energia's Articles of Association, the financial auditor is appointed by the General Meeting, which confirmed PwC as the financial auditor for the financial years 2011–2013 following a competition. Depending on the country where the company is located the signatory auditor may be different. Sworn Auditor Ago Vilu signs the consolidated annual report. Eesti Energia does not publish the fee paid for the audit service as we believe this could harm the results of the competition for the next period and thus have a negative financial impact on Eesti Energia.

PwC presented its results in two stages:

1. the results of the interim audit were presented at the meeting of the Audit Committee on 19 December 2013, and
2. the results of the final audit, at the meeting of the Audit Committee on 20 February 2014.

MEMBERS OF AUDIT COMMITTEE

		
ANDRES SAAME (54)	MEELIS ATONEN (47)	KALLE PALLING (28)
<i>Chairman</i>	<i>Member</i>	<i>Member</i>
<i>Date appointed</i> 20 December 2012	17 December 2009 16 December 2015	28 March 2013 27 March 2016
<i>Expiration of term</i> 21 September 2014		
		
JÜRI KÄO (48)	MEELIS VIRKEBAU (56)	KAIE KARNIOL (43)
<i>Member</i>	<i>Member</i>	<i>Member</i>
17 December 2009 16 December 2015	17 December 2009 16 December 2015	23 May 2013 18 June 2016

Participation of Audit Committee Members in Meetings and the Total Remuneration Paid:

Name	Participation in meetings	Total remuneration in 2013 (€)	Total remuneration in 2012 (€)	Change
Andres Saame	8	1,108	532	108%
Meelis Atonen	8	710	621	14%
Meelis Virkebau	8	1,578	1,424	11%
Jüri Kão	8	665	931	(29)%
Kalle Palling	5	444		
Kaie Karniol	5	1,000		

The auditor' opinion on the annual report is presented on page 142.

Eesti Energia considers it important to protect the independence of the auditor and avoid any conflicts of interest. The Audit Committee has drawn up a set of principles that are to be followed if the auditor intends to provide additional services to the companies in the Group. In the financial year 2013, PwC did not provide Eesti Energia any services that could have compromised the auditor's independence. We find that the audit for 2013 meets all regulatory standards, international standards and other expectations.

Internal Audit

The procedure of internal auditing is based on the international audit standards of the International Professional Practices Framework. The work of the internal audit service covers the entire Group.


The internal audit department is responsible for the internal audits. The department reports to the Audit Committee and the Supervisory Board and its plans and reports are also evaluated and approved by the Eesti Energia Audit Committee. The role of the internal audit department is to contribute to improving the internal control environment, risk management and the business management culture. The internal audit department personnel are guaranteed full independence and complete access to all the data they need. The management report for the financial year 2013 was submitted to the Audit Committee on 23 January 2014. The internal audit reports are available to the auditor as well. A system for reporting economic interests has been

introduced where employees who may have conflicts of interest in their work can declare their own economic interests and confirm their independence through regular self-assessment.

The handling of insider information in Eesti Energia is subject to requirements concerning insider information as the Group has issued Eurobonds listed on the London Stock Exchange. Proper handling of insider information is important to protect the interests of bondholders and ensure the fair trading of bonds. All bondholders and potential investors must have access to significant information on Eesti Energia and its subsidiaries in a timely, consistent manner and on equal conditions, so that they all get the same amount of information at the same time and in the same manner.

To the knowledge of Eesti Energia, the members of the Group's Management Board and of the Management Boards of subsidiaries had no conflicts of interest in the financial year 2013 nor have there been transactions with related parties which have not been concluded on market conditions. Details of transactions with related parties in the financial year 2013 can be found on page 136 of the financial statements.

It is inevitable that at certain times, due to their position, some people connected with Eesti Energia will have more information about the Group than investors and the public. To prevent the misuse of such information, we have established procedures to protect insider information. To our knowledge there were no cases of the misuse of insider information in the financial year 2013.

A man and a woman wearing white hard hats and work clothes are looking at a document together in an industrial setting. The man is on the left, wearing a grey and green jacket, and the woman is on the right, wearing a dark blue top. The woman's hard hat has the Eesti Energia logo on it. The background shows industrial equipment and pipes.

There are several types of combined heat and power plants which can use various fuels.

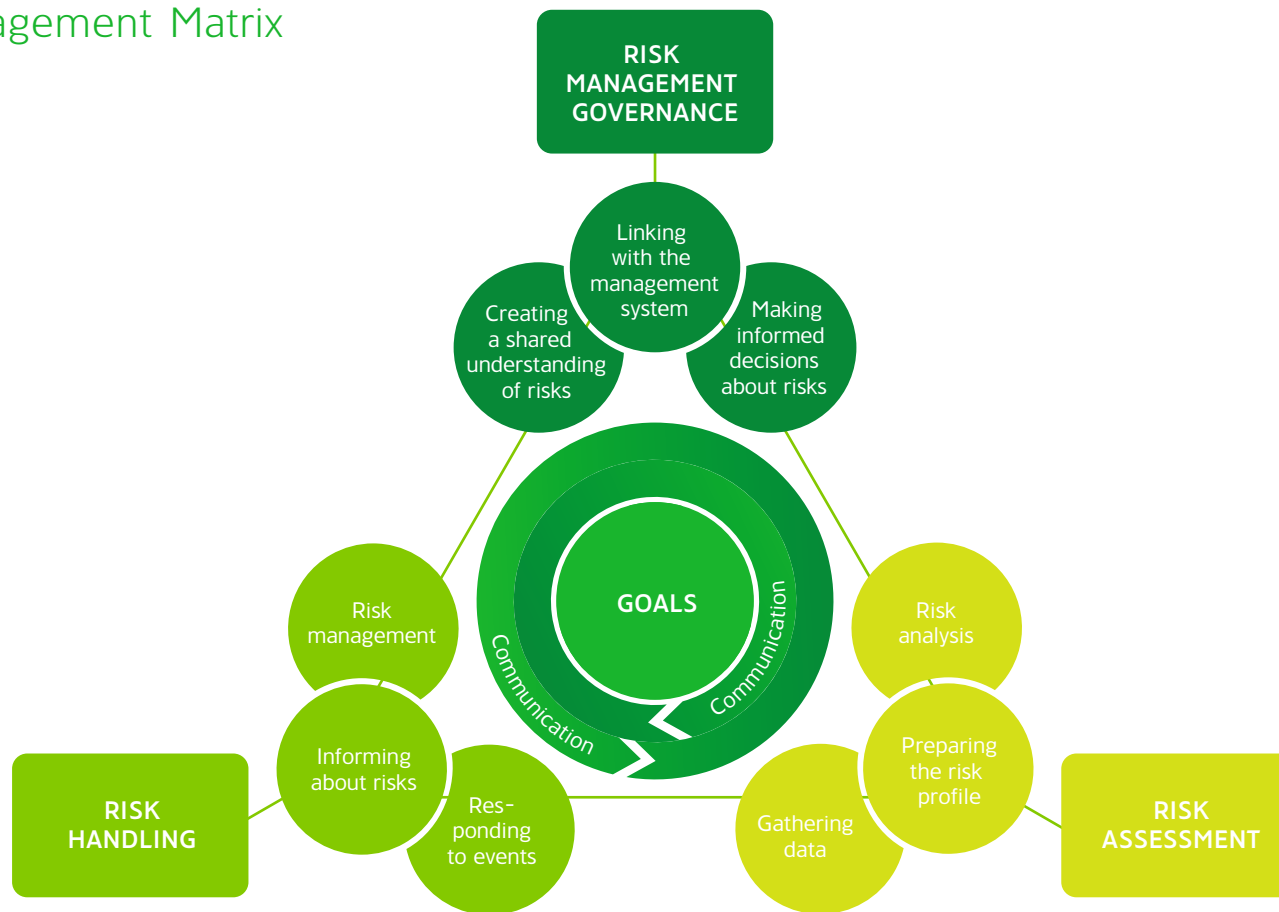
Co-generation is an efficient and environment friendly way to fuel use, since twice as much generated energy will be used compared to sole electricity production. The newest Eesti Energia combined heat and power unit is Iru Waste-to-Energy power unit, where mixed municipal waste is used to generate heat and power. Only generation unit Eesti Energia has outside Estonia is a small co-generation plant in Valka.

Risk Management

Group's operations are accompanied by business, financial, market and operational risks. The Group is constantly developing and improving its risk management to minimise the impact of mentioned risks.

The key role of Group's risk management is to ensure that the Group would not take or hold more unhedged risks than necessary to achieve the set goals.

Risk Management Matrix



Governance of risk management. The Group risk management is organized by Risk Management Department, part of Risk Management and Internal Audit Service that is directly reporting to Chairman of Management Board and Audit Committee. Risk Management Department is responsible for the development, implementation and maintenance of all processes for management of all important risks influencing the operations and results of Eesti Energia.

The Management Board has established the Committee of Financial Risks to ensure the management of market and financial risks in the Group in accordance with

existing management principles and strategy approved by the Management Board.

Each company and unit in the Group ensures that risks are managed on an ongoing basis, and that they do not jeopardise achievement of the company's goals. Taking risks is a normal part of business, but there should be certainty that each unit can continue to carry out its functions sustainably, should the risks materialise. In other words, the Group must not incur losses that exceed the limits of its risk tolerance

Risks affecting current business operations and development projects are assessed separately in the Group. We have distributed risks and our risk tolerance into four major categories. The Eesti Energia Group risk tolerance based on risk categories is as follows:

BUSINESS RISKS	Group takes well-considered risks to increase revenues.	
MARKET RISKS	Group controls and minimises these risks, as they are an integral part of the Group's business operations. However, taking these risks will not bring additional revenue to the Group or it is not the Group's core activity.	
FINANCIAL RISKS		
OPERATIONAL RISKS	Environmental risks	Risks the Group is not ready to take as taking them would threaten the environment, health of people and employees and the Group's reputation.
	Health and safety risks	
	Group controls and minimises these risks as they are an integral part of the business operations.	

Risk assessment and management. In each category, we have developed specific risk management strategies, risk measurement related reporting, and determined the parties responsible for the management of those risks within the Group.

BUSINESS RISKS

Group's business risks generally arise from changes in political and legal environments. Group's current operations and development projects in different markets depend on regulator actions and political decisions.

The main risk management tools include monitoring the changes and development of political and legal environment, participating in the development of new regulations, implementing the changes within the Group, ongoing compliance monitoring and identifying cases of non-compliance and working with them.

The identification of business risks is performed regularly by business and product managers and legal advisors.

MARKET RISKS

Price, currency and exchange rate risks have the most significant impact on the Group's results.

PRICE RISK affects the sale of goods produced and services provided by the Group and the purchase of resources used in production. The most important of these include the risks associated with sale of electricity and oil as well as CO₂ emission allowance. The Group uses different derivative financial instruments to hedge exposure from price risk. The purpose of hedging transactions is to ensure the predefined profit after variable expenses. The Committee of Financial Risks sets the target for closed positions based on the Group's risk analyses. The task of Energy Trading Department is to achieve the target based on strategy of hedging the risk of variable profit.

CURRENCY RISK is mostly related to the part of shale oil sales transactions denominated in US dollars and that is not hedged with future transactions. Currency risks are managed through avoiding the risk. Therefore all long-term borrowings and electricity export contracts are concluded in euros. All Group's free cash is also deposited in euros.

INTEREST RATE RISK arises from floating interest rate borrowings and lies in the danger that financial expenses increase when interest rates increase. For managing the Group's interest rate risks, the principle that the share of fixed interest rate borrowings in the portfolio should be over 50% is followed.

The Group's interest rate and currency risks are managed in the Financial Department of the parent company.

FINANCIAL RISKS

Liquidity and credit risks are financial risks affecting the Group's results.

Cash in bank deposits, available-for-sale financial assets, derivatives with a positive value, and trade and other receivables are exposed to **CREDIT RISK**.

The Group has a single approach to depositing available monetary funds and handling risk hedging transactions. The Group has set requirements on credit risk criteria of counterparty, term of transaction and maximum position of concentration risk based on the credit risk level of the counterparty. Credit risk positions can only be opened with the prior approval of counterparty by the Committee of Financial Risks.

The unpaid invoices of clients are handled in the departments specifically set up for this purpose. The reminders and warnings are sent to customers with overdue. It has been agreed when a collection petition is filed at the court or a collection agency.

LIQUIDITY RISK is considered in two dimensions. Short-term liquidity risk means that the Group bank accounts do not have sufficient cash to meet its financial obligations. Long-term liquidity risk means that the Group does not have sufficient cash and other liquid assets to meet its financial obligations for the next 12 months or that the Group needs to raise additional cash in non-optimal conditions or in a limited time period. Liquidity risk is managed through the use of various financial instruments such as loans, bonds and commercial papers in accordance to the internal liquidity risks measuring and managing regulation. The Group liquidity risk is managed in the Financial Department of the parent company.

OPERATIONAL RISKS

OPERATIONAL RISKS are caused by insufficient or malfunctioning processes, people, equipment, systems or external conditions.

The core aim of managing operational risks is to diminish the impact of unwanted events. In order to achieve this, the Group improves constantly the internal control system.

Considering the Group's field of operations the focus on managing the operational risks lies on improving and implementing safety requirements and regulations and increasing the control over environmental requirements. The implementation of quality and environment management systems is one of the tools to manage operational risks.

Tools to manage risks related to equipment and systems include maintenance planning, constant supervision and preparation of service continuity plan. All this is done to ensure the continuation of production.

The risks related to production, work safety and environment are assessed and managed in all Group units and all process phases (development projects, tenders, construction, commissioning, and maintenance).

The Group uses insurance to hedge major operational risks especially in case of risks that lack any other hedging options. Insurance is based on risk analysis. Risk Management department is responsible for developing, implementing and maintaining the insurance program.

Group risk analysis methodology. In 2013 we improved significantly the Group's risk analysis methodology. Risk analysis is based on simulation methods, which analyse the impact of uncertainty of different factors on Group's profit targets, cash flows necessary for investments, meeting necessary loan ratios and maintaining the optimum level of loan ratios. The results are used to choose appropriate hedging method.

Risk reporting. Group Management Board and Audit Committee are regularly reported about important risks impacting the Group goals. The Group ensures instant notification of Management Board of risks of high importance and reflection of those risks in the Group risk profile.

Overview of risks is a key input in the planning of internal audit activities.

Conformity to Principles of Good Corporate Governance

We have evaluated the structure and functioning of the Group's governance on the basis of the Combined Code on Corporate Governance of the United Kingdom's Financial Reporting Council. In the sections above, we described all aspects that are material from the standpoint of corporate governance.

Having evaluated the structure and the actual functioning of the Group's management system, we believe that, in essential part, the Group's arrangements and activities are in conformity with the Combined Code. Our activities are likewise in conformity with Estonian law, which provides in more detail for the regulation of the principles laid out in the Combined Code.

The following legislative non-conformities were found between the Combined Code and our activities in the 2013 financial year:

- no nomination committee has been set up, as under Articles 80 and 81 of the State Assets Act, the appointment of Supervisory Board members takes place at the decision of the Minister of Economic Affairs and Communications and the Minister of Finance;
- the regularity of and rules for the re-election of Supervisory Board members are at variance from the Combined Code, as under Articles 80 and 81 of

the State Assets Act, the appointment of Supervisory Board members takes place at the decision of the Minister of Economic Affairs and Communications and the Minister of Finance;

- the election of members of the Management Board and appointment of the Chairman of the Management Board takes place at the decision of the Supervisory Board;
- no remuneration committee has been set up, as the principles of remuneration of members of the management bodies of state-owned companies are governed by Articles 85 and 86 of the State Assets Act;
- the self-assessment of the activities of the Supervisory Board is at variance from the Combined Code, as under Subsection 84 (1) of the State Assets Act, a Supervisory Board member is obliged to report to the minister who appointed him or her;
- chapter D on dialogue with institutional investors and chapter E on dialogue with entrepreneurs do not apply to Eesti Energia, as it is a state-owned business.

We find that the governance of Eesti Energia complies with the Baltic Code recommendations on management, reporting and auditing.

Representation of the Management Board

In the financial year 2013, the Eesti Energia Management Board complied as required with the duties of members of the Management Board, and led the Eesti Energia Group to achieve its targets. The Management Board has regularly reported to the Supervisory Board, has acted within its powers and has submitted all of the information necessary for decision-making to the Supervisory Board. The Management Board is aware of and hereby confirms its responsibility for the preparation of the annual report and for the data therein.

20 February 2014

Chairman of the Management Board

Sandor Liive



Members of the Management Board

Margus Kaasik



Raine Pajo



Margus Rink



Representation of the Audit Committee

The work of the Audit Committee in the financial year 2013 has been based on the statutes of the Committee and its plan of activity. No restrictions have been imposed on our actions, and the Group's representatives have made all necessary information available to us. Well-defined reporting lines have ensured a fluent flow of necessary information to us. We have informed the members of the Management Board of our opinions and related suggestions based on the work of the Committee.

During the financial year 2013, we have assessed the following points that have an impact on the operations of the Group:


- adherence to accounting principles,
- the preparation and approval of the financial budget and statements,
- the sufficiency and effectiveness of the external audit and assurance of its independence,
- the development and functioning of the internal audit system,
- the legality of the company's activities, and
- the organisation of the internal audit.

The Audit Committee as the body that creates confidence and is responsible for supervision finds that the activities of the Eesti Energia Group do not show any flaws of which the management is unaware or which could have a material impact on the Annual Report for the financial year 2013.

We have submitted our assessments with the activity report to the Supervisory Board of Eesti Energia on 20 February 2014.



Andres Saame
Member of the Audit Committee
20 February 2014



An average of between 300–400 hopper wagons, or in cold winter up to 600 wagons, of oil shale is delivered from the mines every day.

That is to say 11.4 km of trains are needed each day to bring oil shale to the power plants.

The total length of the oil shale trains that visit the power plants in one year is the same as the distance from Tallinn to London and back.

Consolidated Financial Statements

Consolidated Income Statement

<i>in million EUR</i>	1 January - 31 December		Note
	2013	2012	
Revenue	966.4	822.1	5, 25
Other operating income	8.8	46.4	26
Change in inventories of finished goods and work-in-progress	(11.4)	9.9	
Raw materials and consumables used	(419.6)	(380.4)	27
Payroll expenses	(148.2)	(151.6)	28
Depreciation and amortisation	(118.9)	(115.0)	5, 6, 8, 32
Impairment	(16.1)	(63.3)	5, 6, 32
Other operating expenses	(85.5)	(68.0)	29
OPERATING PROFIT	175.5	100.1	
Financial income	3.2	3.2	30
Financial expenses	(4.4)	(8.4)	30
Net financial income (-expense)	(1.2)	(5.2)	5, 30
Profit (loss) from associates using equity method	(0.8)	(0.2)	5, 9, 32

<i>in million EUR</i>	1 January - 31 December		Note
	2013	2012	
PROFIT BEFORE TAX	173.5	94.7	5
Corporate income tax expense	(14.0)	(17.8)	31
PROFIT FOR THE YEAR	159.5	76.9	
PROFIT ATTRIBUTABLE TO:			
Equity holder of the Parent Company	159.5	77.3	
Non-controlling interest	0.0	(0.4)	
<i>Basic earnings per share (euros)</i>	0.26	0.14	36
<i>Diluted earnings per share (euros)</i>	0.26	0.14	36

Consolidated Statement of Comprehensive Income

<i>in million EUR</i>	1 January - 31 December		Note
	2013	2012	
PROFIT FOR THE YEAR	159.5	76.9	
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Revaluation of hedging instruments	35.5	11.9	20
Currency translation differences attributable to foreign subsidiaries	(1.6)	(1.1)	
Other comprehensive income for the year	33.9	10.8	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	193.4	87.7	
ATTRIBUTABLE TO:			
Equity holder of the Parent Company	193.4	88.1	
Non-controlling interest	0.0	(0.4)	

Consolidated Statement of Financial Position

in million EUR

	31 December		Note
	2013	2012	
ASSETS			
Non-current assets			
Property, plant and equipment	2,258.1	1,988.4	6
Intangible assets	62.2	58.7	8
Investments in associates	22.4	21.3	5,9
Derivative financial instruments	6.2	7.5	11, 13, 14
Long-term receivables	19.4	26.0	12
Total non-current assets	2,368.3	2,101.9	
Current assets			
Inventories	39.1	48.3	10
Greenhouse gas allowances	100.4	11.6	8
Trade and other receivables	185.1	174.6	12
Derivative financial instruments	41.4	9.2	11, 13, 14
Financial assets at fair value through profit or loss	-	1.7	11, 15
Deposits at banks with maturities of more than three months	21.0	90.0	11, 14, 16
Cash and cash equivalents	62.6	60.1	11, 14, 17
Total current assets	449.6	395.5	
Total assets	2,817.9	2,497.4	5

in million EUR

	31 December		Note
	2013	2012	
EQUITY			
Capital and reserves attributable to equity holder of the Parent Company			
Share capital	621.6	621.6	18
Share premium	259.8	259.8	
Statutory reserve capital	51.0	47.2	18
Hedge reserve	47.0	11.5	20
Unrealised exchange rate differences	0.8	2.4	
Retained earnings	566.1	465.6	18
Total equity and reserves attributable to equity holder of the Parent Company	1,546.3	1,408.1	
Non-controlling interest	1.4	1.0	
Total equity	1,547.7	1,409.1	
LIABILITIES			
Non-current liabilities			
Borrowings	826.5	731.4	11, 21
Other payables	3.3	2.4	22
Derivate financial instruments	1.5	0.3	11, 13
Deferred income	151.0	136.6	23
Provisions	28.8	23.9	24
Total non-current liabilities	1,011.1	894.6	
Current liabilities			
Borrowings	1.4	1.4	11, 21
Trade and other payables	178.4	174.9	22
Derivative financial instruments	2.5	2.1	11, 13
Deferred income	3.5	2.4	23
Provisions	73.3	12.9	24
Total current liabilities	259.1	193.7	
Total liabilities	1,270.2	1,088.3	
Total liabilities and equity	2,817.9	2,497.4	

The notes on pages 70-141 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

<i>in million EUR</i>	1 January - 31 December		Note
	2013	2012	
Cash flows from operating activities			32
Cash generated from operations	285.9	227.4	
Interest and loan fees paid	(31.8)	(26.2)	
Interest received	0.6	1.1	
Corporate income tax paid	(10.1)	(17.1)	
Net cash generated from operating activities	244.6	185.2	
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	(387.4)	(499.4)	
Proceeds from connection and other fees	13.9	15.0	23
Proceeds from sale of property, plant and equipment	13.5	5.0	
Proceeds from grants of property, plant and equipment	4.4	2.2	
Dividends received from long-term financial investments	1.5	1.4	9
Net change in deposits at banks with maturities of more than 3 months	69.0	(90.0)	11, 14, 16
Net change in cash restricted from being used	9.4	(16.4)	12
Loans granted	(3.8)	(5.2)	
Loans repayments	-	2.9	
Purchase of short-term financial investments	(4.7)	(19.3)	15
Purchase of shareholding in associate	(3.0)	-	35
Proceeds from sale and redemption of short-term financial investments	6.4	32.8	15
Acquisition of subsidiaries, net of cash acquired	(0.2)	-	
Proceeds from disposal of subsidiaries	-	22.1	34
Net cash used in investing activities	(281.0)	(548.9)	
Cash flows from financing activities			
Loans received	96.2	27.5	21
Proceeds from bonds issued	-	297.0	21
Repayments of bank loans	(1.3)	(26.4)	
Repayments of other loans	(0.8)	-	
Contribution to the share capital	-	150.0	18
Dividends paid	(55.2)	(65.2)	19
Net cash used in financing activities	38.9	382.9	
Net cash flows	2.5	19.2	
Cash and cash equivalents at beginning of the period	60.1	40.9	11, 14, 17
Cash and cash equivalents at end of the period	62.6	60.1	11, 14, 17
Net increase/(-)decrease in cash and cash equivalents	2.5	19.2	

The notes on pages 70-141 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

<i>in million EUR</i>	Attributable to equity holder of the Company						Non-controlling interest	Total equity	Note
	Share capital	Share premium	Statutory reserve capital	Other reserves	Retained earnings	Total			
Equity as at 31 December 2011	471.6	259.8	47.2	3.1	453.5	1,235.2	1.4	1,236.6	
Profit for the year	-	-	-	-	77.3	77.3	(0.4)	76.9	
Other comprehensive income for the year	-	-	-	10.8	-	10.8	-	10.8	
Total comprehensive income for the year	-	-	-	10.8	77.3	88.1	(0.4)	87.7	
Contribution to the share capital	150.0	-	-	-	-	150.0	-	150.0	
Dividends paid	-	-	-	-	(65.2)	(65.2)	-	(65.2)	19, 31
Total contributions by and distributions to owners of the company, recognised directly in equity	150.0	-	-	-	(65.2)	84.8	-	84.8	
Equity as at 31 December 2012	621.6	259.8	47.2	13.9	465.6	1,408.1	1.0	1,409.1	
Profit for the year	-	-	-	-	159.5	159.5	-	159.5	
Other comprehensive income for the year	-	-	-	33.9	-	33.9	-	33.9	
Total comprehensive income for the year	-	-	-	33.9	159.5	193.4	-	193.4	
Dividends paid	-	-	-	-	(55.2)	(55.2)	-	(55.2)	19, 31
Transfer of retained earning to statutory reserve capital	-	-	3.8	-	(3.8)	-	-	-	
Increase of non-controlling interest due to the conversion of subsidiary's debt into equity	-	-	-	-	-	-	0.4	0.4	
Total contributions by and distributions to owners of the company, recognised directly in equity	-	-	3.8	-	(59.0)	(55.2)	0.4	(54.8)	
Equity as at 31 December 2013	621.6	259.8	51.0	47.8	566.1	1,546.3	1.4	1,547.7	

The notes on pages 70-141 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. General Information

The consolidated financial statements of Eesti Energia Group for the year ended 31 December 2013 include the financial information concerning Eesti Energia AS (parent company, legal form: public limited company) and its subsidiaries (the Group) and the Group's participation in associated entities.

Eesti Energia is an international company that provides customers with complex energy solutions from heat, electricity and fuel to sales, maintenance and additional services. The Group operate in the Baltics, Finland, the USA and Germany. The Group has investments in associates which operate in Jordan.

The registered address of the Parent Company is Laki 24, Tallinn 12915, Republic of Estonia. The sole shareholder of Eesti Energia AS is the Republic of Estonia. The bonds of Eesti Energia AS are listed on London Stock Exchange.

These consolidated financial statements of the Group were authorised for issue by the Management Board on 19 February 2014. Under the Commercial Code of the Republic of Estonia, the annual report must additionally be approved by the Supervisory Board of the Parent Company and authorised for issue by the General Meeting of Shareholders.

2. Summary of Principal Accounting and Reporting Policies

The principal accounting and reporting policies used in the preparation of these consolidated financial statements are set out below. These accounting and reporting policies have been consistently used for all reporting periods presented, unless otherwise stated.

2.1 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with the **International Financial Reporting Standards (IFRS)** and IFRIC Interpretations, as adopted by the European Union.

The consolidated financial statements have been prepared under the historical cost convention, as modified by available-for-sale and financial assets and liabilities (including derivative financial instruments) at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting and reporting policies. The areas involving a higher degree of judgement and where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.2 Changes in Accounting Policy and Disclosures

(a) Adoption of New or Revised Standards and Interpretations

The following new or revised standards and interpretations became effective for the Group from 1 January 2013:

- „*Presentation of Items of Other Comprehensive Income, amendments to IAS 1*. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to ‘statement of profit or loss and other comprehensive income.

The amended standard resulted in changed presentation of the comprehensive income, but did not have any impact on measurement of transactions and balances.

- *IFRS 13, Fair Value Measurement*. The standard aims to improve consistency and reduce complexity by providing a revised definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.

The standard resulted in additional disclosures in Note 3.3 about the estimation of the fair value of the derivative financial instruments.

- *Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7*. The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

The amendments resulted in additional disclosures in Note 3.4 in these financial statements.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1. January 2013 that would be expected to have a material impact to the Group.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the group, except the following set out below:

- *IFRS 9, Financial Instruments: Classification and Measurement*. Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are as follows:

1. Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
2. An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only “basic loan features”). All other debt instruments are to be measured at fair value through profit or loss.

3. All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
4. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
5. Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9.

- *IFRS 10, Consolidated Financial Statements.* The standard will be mandatory for the Group from 1 January 2014. The standard replaces all of the guidance on control and consolidation in IAS 27 “Consolidated and separate financial statements” and SIC-12 “Consolidation - special purpose entities”. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.

The standard may have an effect on the recognition of subsidiaries and associated companies.

- *IFRS 12, Disclosure of Interest in Other Entities.* The standard will be mandatory for the Group from 1 January 2014. The standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28 “Investments in associates”. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on share of non-controlling

interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities.

The standard requires additional information to be disclosed in the consolidated financial statements.

- *IAS 27 (revised 2011), Separate Financial Statements.* The amended standard will be mandatory for the Group from 1 January 2014. The objective of the revised standard is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements.

The standard may have an effect on the disclosures in the parent company's separate financial statements.

- *Offsetting Financial Assets and Financial Liabilities, amendments to IAS 32.* The standard will be mandatory for the Group from 1 January 2014. The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

The standard may have an effect on the recognition of the financial assets and financial liabilities in the statement of financial position.

- *Transition Guidance - Amendments to IFRS 10, IFRS 11 and IFRS 12.* The standard will be mandatory for

the Group from 1 January 2014. The amendments clarify the transition guidance in IFRS 10, Consolidated Financial Statements. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11, Joint Arrangements, and IFRS 12, Disclosure of Interests in Other Entities, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied.

The standard may have an effect on the recognition of subsidiaries and associated companies.

- *Amendments to IAS 36 - Recoverable amount disclosures for non-financial assets.* The standard will be mandatory for the Group from 1 January 2014. The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment.

The standard may have an effect on the disclosures in the financial statements.

- *Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting.* The standard will be mandatory for the Group from 1 January 2014.

The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e. parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met.

The standard may have an effect on the recognition of the derivatives in the financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.3 Preparation of Consolidated Financial Statements

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of

non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

In preparation of consolidated financial statements, the financial statements of the Parent Company and its subsidiaries are consolidated on a line-by-line basis. The receivables, liabilities, income, expenses and unrealised profits which arise as a result of transactions between the Parent Company and its subsidiaries are eliminated. The accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

In the Parent Company's separate financial statements the investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains and losses on disposals to non-controlling interests are also recorded in equity. .

(c) Disposal of subsidiaries

When Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when

the control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets and liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the comprehensive income (loss) of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in the associate's other comprehensive income is recognised directly in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's

share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to “Share of other profit/loss of the associates” in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group’s financial statements only to the extent of unrelated investor’s interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

2.4 Segment Reporting

For the purpose of segment reporting, operating segments and information regarding operating segments is disclosed in the same manner that reporting is performed internally to the chief operating decision-maker in order to make management decisions and analyse the results. The chief operating decision-maker, which makes decisions regarding the allocation of resources to the segment and evaluates the results of the segment, is the Management Board of the Parent Company.

2.5 Foreign Currency Transactions and Assets and Liabilities Denominated in a Foreign Currency

(a) Functional and presentation currency

Group entities use the currency of their primary economic environment as their functional currency. The consolidated financial statements are presented in euros, that is the functional currency of the parent company and presentation currency of the Group. The financial statements have been rounded to the nearest million, unless stated otherwise.

(b) Foreign currency transactions and assets and liabilities denominated in a foreign currency

Foreign currency transactions are translated into the functional currency using the official exchange rates of the European Central Bank prevailing at the transaction date. When the European Central Bank does not quote a particular currency, the official exchange rate against the Euro of the central bank issuing the currency is used as the basis. Exchange rate differences resulting from the settlement of such transactions are reported in the income statement. Monetary assets and liabilities denominated in foreign currencies are translated using the official exchange rate of the European Central Bank prevailing at the balance sheet date or on the basis of the official exchange rate of the central bank of the country issuing the foreign currency when the European Central Bank does not quote the particular currency. Profits and losses from translation are recognised in the income statement, except for gains and losses from the revaluation of cash flow hedging instruments recognised as effective hedges, which are recognised in other comprehensive income. Gains and losses from the revaluation of borrowings and cash and cash equivalents are reported as finance income and costs; other foreign exchange gains and losses are recognised as other operating income or other operating expenses.

(c) Consolidation of foreign subsidiaries

When the subsidiary's functional currency is different from the presentation currency of the Group, the following exchange rates are used to translate the financial statements:

- assets and liabilities are translated at the closing rate of the European Central Bank at the date of that balance sheet;
- income and expenses are translated at the average exchange rate of the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing at the transaction dates, in which case income and expenses are translated at the rate at the dates of the transactions); and
- the resulting exchange differences are recognised as a separate equity item "Unrealised exchange rate differences".

Goodwill which arose on the acquisition of a subsidiary and the adjustments to the fair value of the carrying amounts of the assets and liabilities are treated as the assets and liabilities of the subsidiary and are translated using the closing exchange rate prevailing at the balance sheet date.

None of the subsidiaries in the Group operates in a hyper-inflationary economy.

2.6 Classification of Assets and Liabilities as Current or Non-current

Assets and liabilities are classified in the statement of financial position as current or non-current. Assets expected to be disposed of during the next financial year or during the normal operating cycle of the Group are considered as current. Liabilities whose due date is during the next

financial year or that are expected to be settled during the next financial year or during the normal operating cycle of the Group are considered as current. All other assets and liabilities are classified as non-current.

2.7 Property, Plant and Equipment

Property, plant and equipment (PPE) are tangible items that are used in the operating activities of the Group with an expected useful life of over one year. Property, plant and equipment are presented in the statement of financial position at historical cost less any accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of purchased non-current assets comprises the purchase price, transportation costs, installation, and other direct expenses related to the acquisition or implementation of the asset. The cost of the self-constructed items of property, plant and equipment includes the cost of materials, services and payroll expenses.

If an item of property, plant and equipment consists of components with significantly different useful lives, these components are depreciated as separate items of property, plant and equipment.

When the construction of an item of property, plant and equipment lasts for a substantial period of time and is funded with a loan or other debt instrument, the related borrowing costs (interest) are capitalised in the cost of the item being constructed. Borrowing costs are capitalised if the borrowing costs and expenditures for the asset have been incurred and the construction of the asset has commenced. Capitalisation of borrowing costs is ceased when the construction of the asset is completed or when

the construction has been suspended for an extended period of time.

Subsequent expenditures incurred for items of property, plant and equipment are added to the carrying amount of the item of property, plant and equipment or are recognised as a separate asset only when it is probable that future economic benefits associated with the assets will flow to the Group and the cost of the asset can be measured reliably. The replaced component or proportion of the replaced item of PPE is de-recognised. Costs related to ongoing maintenance and repairs are charged to the income statement.

Land is not depreciated. Depreciation of other property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset. The estimated useful lives are as follows:

Buildings	30–40 years
Facilities, including	
electricity lines	12.5–50 years
other facilities	10–40 years
Machinery and equipment, including	
transmission equipment	5–40 years
power plant equipment	7–20 years
other machinery and equipment	3–30 years
Other property, plant and equipment	3–8 years

The expected useful lives of items of property, plant and equipment are reviewed during the annual stocktaking, when subsequent expenditures are recognised and in the case of significant changes in development plans. When

the estimated useful life of an asset differs significantly from the previous estimate, it is treated as a change in the accounting estimate, and the remaining useful life of the asset is changed, as a result of which the depreciation charge of the following periods also changes.

Assets are written down to their recoverable amount when the recoverable amount is less than the carrying amount (Note 2.9).

To determine the gains and losses from the sale of property, plant and equipment, the carrying amount of the assets sold is subtracted from the proceeds. The resulting gains and losses are recognised in the income statement items under “Other operating income” or “Other operating expenses” respectively.

2.8 Intangible Assets

Intangible assets are recognised in the statement of financial position only if the following conditions are met:

- the asset is controlled by the Group;
- it is probable that the future economic benefits that are attributable to the asset will flow to the Group;
- the cost of the asset can be measured reliably.

Intangible assets (except for goodwill) are amortised using the straight-line method over the useful life of the asset.

Intangible assets are tested for impairment if there are any impairment indicators, similarly to the testing of impairment for items of property, plant and equipment (except for goodwill). Intangible assets with indefinite useful lives and

intangible assets not yet available for use are tested for impairment annually by comparing their carrying amount with their recoverable amount.

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

Goodwill acquired in a business combination is not subject to amortisation. Instead, for the purpose of impairment testing, goodwill is allocated to cash-generating units and an impairment test is performed at the end of each reporting period (or more frequently if an event or change in circumstances demands it). The allocation is made to those cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose. Goodwill is allocated to a cash generating unit or a group of units, not larger than an operating segment. Goodwill is written down to its recoverable amount when this is lower than the carrying amount. Impairment losses on goodwill are not reversed. Goodwill is reported in the statement of financial position at the carrying amount (cost less any impairment losses) (Note 2.9). When determining gains and losses on the disposal of a subsidiary, the carrying amount of goodwill relating to the entity sold is regarded as part of the carrying amount of the subsidiary.

(b) Development costs

Development costs are costs that are incurred in applying research findings for the development of specific new products or processes. Development costs are capitalised

if all of the criteria for recognition specified in IAS 38 have been met. Capitalised development costs are amortised over the period during which the products are expected to be used. Expenses related to starting up a new business unity, research carried out for collecting new scientific or technical information and training costs are not capitalised.

(c) Contractual rights

Contractual rights acquired in a business combination are recognised at fair value on acquisition and are subsequently carried at cost less any accumulated amortisation. Contractual rights are amortised using the straight-line basis over the expected duration of the contractual right.

(d) Computer software

Costs associated with the ongoing maintenance of computer software programs are recognised as an expense as incurred. Acquired computer software which is not an integral part of the related hardware is recognised as an intangible asset. Software development costs that are directly attributable to the design of identifiable software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is a capability to use the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources for completing the development and using the software product are available;

- the expenditure attributable to the software product during its development can be reliably measured.

Capitalised software development costs include payroll expenses and an appropriate portion of related overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Expenditures incurred for software which are initially recognised as expenses are not recognised as intangible assets in a subsequent period. Computer software development costs are amortised over their estimated useful lives (not exceeding seven years) using the straight-line method.

(e) Right of use of land

Payments made for rights of superficies and servitudes meeting the criteria for recognition as intangible assets are recognised as intangible assets. The costs related to rights of use of land are depreciated according to the contract period, not exceeding 99 years.

(f) Greenhouse gas emission allowances

Greenhouse gas emission allowances controllable by the Group are accounted for as current asset. Greenhouse gas emission allowances received from the state free of charge are recognised at zero cost. Any additionally purchased allowances are recognised at purchase cost or at the market price, if the Group has acquired the greenhouse gas emission allowances more than presumably needed and the Group has a plan to sell the allowances. The provision for greenhouse gas emissions is set up in the average price of the greenhouse gas emission allowances that are owned by the Group or that will be allocated to the Group free of charge. (Note 2.24).

(g) Exploration and evaluation assets of mineral resources

Expenditures that are included in the initial measurement of exploration and evaluation assets include the acquisition of rights to explore; topographical, geological, geochemical and geophysical studies; exploratory drilling; sampling and activities related to evaluation of the technical feasibility and economic viability of extracting a mineral resource.

Exploration and evaluation assets are initially recognised at cost. Depending on the nature of the asset, the exploration and evaluation assets are classified as intangible assets or items of property, plant and equipment. Expenditure on the construction, installation and completion of infrastructure facilities is capitalised within items of property, plant and equipment, other exploration and evaluation assets are recognised as intangible assets. After initial recognition, exploration and evaluation assets are measured using the cost model.

Exploration and evaluation assets are tested for impairment (Note 2.9) when one or more of the following circumstances are present:

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on future exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area;

- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

(h) Mining rights

Mining rights controllable by the Group are accounted for as current or non-current intangible assets depending on the expected realisation period. Mining rights received from the state free of charge are recognised at zero cost. The fee for extracted natural resources that is paid according to the volume of natural resources extracted is recognised in expenses as incurred (Note 2.22).

2.9 Impairment of Non-financial Assets

Assets that have indefinite useful lives (for example goodwill or intangible assets not ready to use) are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation/depreciation and land are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets are written down to their recoverable amount if the latter is lower than the carrying amount. The recoverable amount is the higher of the asset's:

- fair value less costs of selling; and
- value in use.

If the fair value of the asset less costs to sell cannot be determined reliably, the recoverable amount of the asset is its value in use. The value in use is calculated by discounting the expected future cash flows generated by the asset to their present value.

An impairment test is carried out if any of the following indicators of impairment exist:

- the market value of similar assets has decreased;
- the general economic environment and the market situation have worsened, and therefore it is likely that the future cash flows generated by assets will decrease;
- market interest rates have increased;
- the physical condition of the assets has considerably deteriorated;
- revenue generated by assets is lower than expected;
- results of some operating areas are worse than expected;
- the activities of a certain cash generating unit are planned to be terminated.

If the Group identifies any other evidence of impairment, an impairment test is performed.

Impairment tests are performed either for an individual asset or group of assets (cash-generating unit). A cash-generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows generated by other assets or groups of assets. An impairment loss is recognised immediately as an expense in the income statement.

At the end of each reporting period, it is assessed whether there is any indication that the impairment loss recognised in the prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication

exists, the recoverable amount is estimated. According to the results of the estimate, the impairment loss can be partially or wholly reversed. An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

2.10 Non-Current Assets (or Disposal Groups) Held-for-sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs of selling.

2.11 Financial Assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, available-for-sale and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading, acquired for the purpose of selling in the short term. Derivatives are also recognised at fair value through profit or loss unless they are designated and effective hedging instruments. Assets in this category are classified as current assets.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting periods.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets, except for those with maturities of more than 12 months after the end of reporting period. In such case, they are classified as non-current assets. The Group's loans and receivables are included in the statement of financial position lines "Cash and cash equivalents", "Deposits at banks with maturities of more than three months", "Trade and other receivables".

2.11.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised or de-recognised using the trade-date accounting method. Investments which are not carried at fair value through profit or loss are initially recognised at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards incidental to ownership. Financial assets at fair value through profit or loss and available-for sale are subsequently carried at fair value.

Loans and receivables are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the income statement line “Net financial income (-expense)” in the period in which they arise or are incurred (Note 30). Interest income on available-for-sale financial assets and on loans and receivables is reported in the income statement line “Financial income” (Note 30). The Group has not received any interest income or dividend income on financial assets recognised at fair value through profit or loss in the current and comparative reporting period.

The profit/loss from the changes in the fair value of the available-for-sale financial assets is recognised in other comprehensive income.

The fair values of quoted investments are based on the bid prices prevailing at the end of the reporting period. To find the fair value of unquoted financial assets, various valuation techniques are used. Depending on the type of financial asset, these include the listed market prices of instruments that are substantially the same, quotes by intermediaries and estimated cash flow analysis. The Group uses several different measures and makes assumptions which are based on the market conditions at the end of each reporting period. The fair value of derivatives is based on the quotes of exchange.

2.12 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.13 Impairment of Financial Assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future

cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Assets classified as available for sale

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity

instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

2.14 Derivative Financial Instruments and Hedging Activities

Derivatives are initially recognised at fair value at the date a derivative contract is entered into. After initial recognition they are re-measured to their fair value at the end of each reporting period. The method for recognising the resulting gains or losses depends on whether the derivative is designated as a hedging instrument, and if it is, the nature of the item being hedged. The Group uses cash flow hedging instruments in order to hedge the risk of changes of the prices of shale oil and electricity.

The Group documents at the inception of the transaction the relationship between the hedging instruments and the hedged items, and also its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment and tests, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged items.

The fair values of derivative financial instruments used for hedging purposes are disclosed in Note 13. The movements of the hedge reserve reported in equity are disclosed in

Note 20. The full fair value of hedging derivatives is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months. Derivatives held for trading are classified as current assets or liabilities.

(a) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss from the ineffective portion is recognised immediately in the income statement as a net amount within other operating income or operating expenses.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately recognised as other operating income or operating expenses in the income statement.

Hedging instruments, which are combined from various components of derivative instruments, are recognised at fair value with changes through profit or loss until the acquisition of all components.

(b) Derivatives at fair value through profit or loss

Derivatives which are not designated as hedging instruments are carried at fair value through profit or loss. The gains and losses arising from changes in the fair value of such derivatives are included within other operating income or operating expenses in the income statement.

(c) Derivatives at own use

Derivative contracts that are entered into use and continue to be held for the purpose of the receipt of the underlying commodity in accordance with the Group's expected purchase requirements are accounted for as regular purchases of underlying commodities. For example, any futures contracts for buying greenhouse gas emissions allowances that are necessary for the Group's electricity production purposes are not recognized as derivatives on the balance sheet; the emissions allowances purchased are recognized as intangible assets when settlement of future contract occurs and emissions allowances are transferred to the Group. Any payments made to the counterparty before the settlement date are recognized as prepayments for intangible assets.

If the terms of the contracts permit either party to settle it net in cash or another financial instrument or the commodity that is the subject of the contracts is readily convertible to cash, the contracts are evaluated to see if they qualify for own use treatment. Contracts that do not qualify for own use treatment, are accounted for as derivatives as described above.

2.15 Inventories

Inventories are stated in the statement of financial position at the lower of cost or net realisable value. The weighted average method is used to expense inventories. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity), but it excludes borrowing costs. The cost of raw and other materials consists of the purchase price, expenditure on transportation and other costs directly related to the purchase.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.16 Trade Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. A provision for the impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired.

Material receivables are assessed individually. The rest of the receivables are collectively assessed for impairment, using previous years' experience of impairment which is adjusted to take account of current conditions. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within other operating expenses. When a receivable is classified as uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement against other operating expenses.

If collection is expected within one year or less, the receivables are classified as current assets. If not, they are presented as non-current assets. Long-term receivables from customers are recognised at the present value of the collectible amount. The difference between the nominal value and the present value of the collectible receivable is recognised as interest income during the period remaining until the maturity date using the effective interest rate.

2.17 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, bank account balances and cash in transit as well as short-term highly liquid investments with original maturities of 3 months or less.

2.18 Share Capital and Statutory Reserve Capital

Ordinary shares are included within equity. No preferred shares have been issued. The transactions costs directly related to the issuance of shares are recognised as a reduction of equity under the assumption that they are treated as directly attributable incremental costs. Shares approved at the General Meeting but not yet registered in the Commercial Registry are recognised in the equity line "Unregistered share capital".

The Commercial Code requires the Parent Company to set up statutory reserve capital from annual net profit allocations, the minimum amount of which is 1/10 of share capital. The amount of allocation to annual statutory reserve capital is 1/20 of the net profit of the financial year until the reserve reaches the limit set for reserve capital. Reserve capital may be used to cover a loss that cannot be covered from distributable equity, or to increase share capital.

2.19 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

2.20 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred, and are subsequently

measured at amortised cost. Any difference between the cost and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred and treated as a transaction cost when the draw-down occurs.

Borrowings are recognised as current liabilities unless the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the end of reporting period.

2.21 Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.22 Taxation

(a) Corporate income tax on dividends in Estonia

Under the Income Tax Act, the annual profit earned by entities is 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. From 1 January 2008, the tax rate on the net dividends paid out of retained earnings is 21/79. In certain circumstances, it is possible to distribute dividends without any additional income tax expense. The corporate income tax arising from the payment of dividends is accounted for as a liability and expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the

dividends are paid. The income tax liability is due on the 10th day of the month following the payment of dividends.

Due to the nature of the taxation system, the entities registered in Estonia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise. A contingent income tax liability which would arise upon the payment of dividends is not recognised in the statement of financial position. The maximum income tax liability which would accompany the distribution of retained earnings is disclosed in the notes to the financial statement.

(b) Other taxes in Estonia

The following taxes had an effect on the Group's expenses:

Tax	Tax rate
Social security tax	33% of the payroll paid to employees and of fringe benefits
Unemployment insurance tax	1.0% of the payroll paid to employees (in 2012 1.4%)
Fringe benefit income tax	21/79 of fringe benefits paid to employees
Pollution charges	Paid for contamination of the air, water, ground water, soil and waste storage, and based on tonnage and type of waste
Fee for extraction right for oil shale	1.39 euros per tonne of oil shale extracted (in 2012 1.32 euros per tonne of oil shale extracted)
Water utilisation charges	1.59-152.74 euros per 1000 m ³ of pond or ground water used (in 2012 1.59-145.46 euros per 1000 m ³ of pond or ground water used).
Land tax	0.1-2.5% on taxable value of land per annum
Tax on heavy trucks	3.50 - 232.60 euros per truck per quarter
Excise tax on electricity	4.47 euros per MWh of electricity
Excise tax on natural gas	23.45 euros per 1000 m ³ of natural gas
Excise tax on shale oil	15.01 euros per 1000 kg of shale oil
Excise tax on oil shale	0.30 euros per giga-joule (in 2012 0.15 euros per giga-joule)
Corporate income tax on non-business related expenses	21/79 on non-business related expenses

(c) Income tax rates in foreign countries in which the Group operates

Jordan	Income earned by resident legal persons in Jordan is taxed at an income tax rate of 14-30%
Latvia	Income earned by resident legal persons is taxed at an income tax rate of 15%
Lithuania	Income earned by resident legal persons is taxed at an income tax rate of 15%
Finland	Income earned by resident legal persons is taxed at an income tax rate of 24.5%
the USA	Income earned by resident legal persons is taxed at an income tax rate of 35%

(d) Deferred income tax

Deferred income tax assets and liabilities are recognised in foreign subsidiaries when temporary differences have arisen between their carrying amounts and tax bases. Deferred income tax assets and liabilities are recognised under the liability method. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if they arise from initial recognition of assets and liabilities in a transaction other than a business combination and that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using the tax rate that is expected to be enacted in the period when the asset is realised or the liability is settled using the tax rates and tax laws effective at the end of the reporting period.

Deferred income tax assets are recognised only to the extent that is probable that future taxable profit will be available against which the temporary differences can be utilised.

The Group recognises deferred income tax on all temporary differences arising on investments in subsidiaries and associates, except where the Group can control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

As at 31 December 2013 and 31 December 2012, the Group had neither any deferred income tax assets nor deferred income tax liabilities.

2.23 Employee Benefits

Short-term employee benefits

Short-term employee benefits include wages and salaries as well as social security taxes, benefits related to the temporary halting of the employment contract (holiday pay or other similar pay) when it is assumed that the temporary halting of the employment contract will occur within 12 months from the end of the period in which the employee worked, and other benefits payable after the end of the period during which the employee worked.

If during the reporting period the employee has provided services in return for which benefits are expected to be paid, the Group will set up a liability (accrued expense) for the amount of the forecast benefit, from which all paid amounts are deducted.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value. Redundancy provisions are set up for redundancies occurring in the course of restructuring (Note 2.24).

Other employee benefits

Provisions have been set up to cover the benefits arising from collective agreements and other agreements and the compensation for work-related injuries (Note 2.24).

2.24 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at the present value of the expenditures necessary to settle the obligation using an interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

Provisions are recognised based on management's estimates. If required, independent experts may be involved. Provisions are not set up to cover future operating losses.

If there are several similar obligations, the probability that an outflow of resources will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of an outflow of resources may be small for any individual item, it may be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, the provision is recognised (if the other recognition criteria are met).

Provisions are reviewed at the end of each reporting period and adjusted to reflect current best estimates. The costs

related to setting up provisions are charged to operating expenses or are included within the acquisition cost of an item of PPE when the provision is related to the dismantlement, removal or restoration obligation, incurred either when the item is acquired or as a consequence of use of the item during a particular period.

Provisions are used only to cover the expenses for which they were set up.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the Group settles the obligation. The reimbursement shall be treated as a separate asset. The amount of the reimbursement may not exceed the amount of the provision.

(a) Provisions for post-employment benefits and work-related injury compensation

If the Group has the obligation to pay post-employment benefits to their former employees, a provision is set up to cover these costs. The provision is based on the terms of the obligation and the estimated number of people eligible for the compensation.

Provisions for work-related injuries are recognised to cover expenditure related to future payments to former employees according to court orders over the estimated period of such an obligation.

(b) Environmental protection provisions

Environmental protection provisions are recognised to cover environmental damages that have occurred before the end of the reporting period when this is required by

law or when the Group's past environmental policies have demonstrated that the Group has a constructive present obligation to liquidate this environmental damage. Experts' opinions and prior experience in performing environmental work are used to set up the provisions.

(c) Provisions for the termination of mining operations

Provisions for the termination of mining operations are set up to cover the costs related to the closing of mines and quarries, if it is required by law. Experts' opinion and prior experience gained from the termination of mining operations is used to set up the provisions.

(d) Provision for termination benefits

Provisions for termination benefits have been recognised to cover the costs related to employee redundancy if the Group has announced a restructuring plan, identifying the expenditure, the business or part of a business concerned, the principal locations affected, the location, function and approximate number of employees who will be compensated for termination of their services, the timing of the implementation of the plan; and if the Group has raised a valid expectation among those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

(e) Provision for the dismantling cost of assets

The provisions for the dismantling of assets are set up to cover the estimated costs relating to the future dismantling of assets if the dismantling of assets is required by law or if the Group's past practice has demonstrated that the Group has a present constructive obligation to incur these costs. The present value of the dismantling costs of assets is included within the cost of property, plant and equipment.

(f) Provisions for greenhouse gas emissions

A provision for greenhouse gas emissions is set up in the average price of the greenhouse gas emission allowances that are owned by the Group or that will be allocated to the Group free of charge to meet the obligations arising from legislation relating to greenhouse gas emissions. When the Group surrenders the greenhouse gas emission allowances to the state for the greenhouse gases emitted, both the provision and the intangible assets are reduced by equal quantities and amounts (Note 2.8).

(g) Provisions for onerous contracts

A provision for onerous contract is set up if the Group has concluded a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The provision is set up in the amount which is the lower of the cost of fulfilling it (revenues received less expenses occurred of fulfilling the contract) and any compensation or penalties arising from failure to fulfill it.

(h) Provision for obligations arising from treaties

Provision for obligations arising from treaties is set up to meet the obligations arising from treaties, in which realization of timing or amount is uncertain.

2.25 Contingent Liabilities

Possible obligations where it is not probable that an outflow of resources will be required to settle the obligation, or where the amount of the obligation cannot be measured with sufficient reliability, but which may become in certain circumstances liabilities, are disclosed in the notes to the financial statements as contingent liabilities.

2.26 Revenue Recognition

Revenue comprises the fair value of consideration received or receivable for the sale of goods and provision of services in the ordinary course of business. Revenue is shown net of value-added tax and discounts after the elimination of intra-group transactions. Revenue is recognised only when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Group, all significant risks and rewards incidental to ownership have been transferred from the seller to the buyer, and the additional criteria presented below have been met. The amount of revenue can be measured reliably only when all the conditions related to the transaction are evident.

(a) Sale of electricity and grid services

Revenue is recognised on the basis of meter readings of customers. Meter readings are reported by customers, read by remote counter reading systems based on actual consumption, or estimated based on past consumption patterns. Additionally, estimates are made of the potential impact of readings either not reported or incorrectly reported by the end of the reporting period, resulting in a more precise estimation of the actual consumption and sale of electricity.

(b) Recognition of connection fees

When connecting to the electricity network, the clients must pay a connection fee based on the actual costs of infrastructure to be built in order to connect them to the network. The revenue from connection fees is deferred and recognised as income over the estimated average useful lives of assets acquired for the connections. The amortisation period of connection fees is 32 years. Deferred connection fees are carried in the statement of financial position as long-term deferred income.

(c) Revenue recognition under the stage of completion method

Revenue from unfinished and finished but undelivered services is recognised using the stage of completion method. Under this method, contract revenue and profit is recognised in the proportion and in the accounting periods in which the contract costs associated with the service contract were incurred. Unbilled but recognised revenue is recorded as accrued income in the statement of financial position. Where progress billings at the end of the reporting period exceed costs incurred plus recognised profits, the balance is shown as due to customers on construction contracts, under accrued expenses.

(d) Interest income

Interest income is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably. Interest income is recognised using the effective interest rate, unless the receipt of interest is uncertain. In such cases the interest income is accounted for on a cash basis.

(e) Dividend income

Dividend income is recognised when the Group has established the right to receive payment.

2.27 Government Grants

Government grants are recognised at fair value, when there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Grants are recognised as income over the periods necessary to match them with the costs which they are intended to compensate.

Assets acquired through government grants are initially recognised in the statement of financial position at cost. The amount received as a government grant is recognised as deferred income related to the government grant. Related assets are depreciated and the grant is recognised as income over the estimated useful life of the depreciable asset.

2.28 Leases

A lease is an agreement whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments. Leases which transfer all significant risks and rewards incidental to ownership to the lessee are classified as finance leases. Other leases are classified as operating leases.

(a) The Group as the lessee

Payments made under operating leases are charged to the income statement over the lease term in equal portions, reduced by incentives granted by the lessor.

(b) The Group as the lessor

The accounting policies for items of property, plant and equipment are applied to assets leased out under operating lease terms. Rental income is recognised in the income statement on a straight-line basis over the lease term.

2.29 Dividend Distribution

Dividends are recognised as a reduction of retained earnings and a payable to shareholders at the moment the dividends are announced.

2.30 Related Party Transactions

For the purposes of preparing the consolidated financial statements, the related parties include the associates of the Group, the members of the Supervisory and Management Boards of Eesti Energia AS and other individuals and entities who can control or significantly influence the Group's financial and operating decisions. As the shares of Eesti Energia AS belong 100% to the Republic of Estonia, the related parties also include entities under the control or significant influence of the state.

3. Financial Risk Management

3.1 Financial Risks

The Group's activities are accompanied by a variety of financial risks: market risk (which includes currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

The purpose of financial risk management is to mitigate financial risks and minimise the volatility of financial results. The risk and internal audit department under the Chairman of the Management Board and auditing committee is engaged in risk management and is responsible for the development, implementation and maintenance of the Group's risk management system. The Group's financial risks are managed in accordance with the principles established

by the Management Board at the Group level. The Group's liquidity, interest rate and currency risks are managed in the finance department of the Parent Company.

(a) Market risks

1) Currency risk

Currency risk is the risk that the fair value of financial instruments or cash flows will fluctuate in the future due to exchange rate changes. The financial assets and liabilities denominated in euros are considered to be free of currency risk. All long-term borrowings and electricity export contracts are also concluded in euros to avoid currency risk.

The Group's main currency risk arises in connection with the part of the sales transactions of shale oil denominated in US dollars that is not hedged with future transactions (Note 13). In addition, a few other procurement and other contracts have been concluded in a currency other than the functional currency of the Group companies. The majority of these transactions included the transactions concluded in US dollars.

At the end of reporting period, the Group had the following balances of financial assets and liabilities denominated in US dollars.

	31 December	
	2013	2012
Cash and cash equivalents (Note 17)	0.3	7.3
Trade and other receivables	29.2	15.3
Trade and other payables	0.3	0.2

Had the US dollar's exchange rate at 31 December 2013 been 8% (31 December 2012: 10%) higher or lower (with other factors remaining constant), the Group's profit

for the financial year would have been EUR 2.5 million higher/lower (2012: EUR 2.2 million higher/lower) as a result of the revaluation of the balances of cash and cash equivalents, trade and other receivables and trade and other payables.

The cash and cash equivalents by currencies is disclosed in Note 17.

2) Price risk

Price risk is the risk that the fair value and cash flows of financial instruments will fluctuate in the future for reasons other than changes in the market prices resulting from interest rate risk or foreign exchange risk. The sale of goods produced and services provided by the Group under free market conditions, the purchase of resources used in production, and financial assets recognised at fair value through profit or loss are impacted by price risk.

2.1) The price risk of commodities

The most significant price risks of goods and services are the price risks related to the sale of electricity and shale oil, and to the purchase of greenhouse gas emission allowances. The Group uses various derivatives to hedge the price risks related to the sale of goods and services and purchase of greenhouse gas emission allowances. To hedge the risk related to changes in the price of electricity, forward and option contracts are used which are entered into for the sale of a specific volume of electricity at each trading hour. The volume of derivative transactions for sales of electricity through the power exchange Nord Pool depends on the price difference between the market price of electricity and the price level of greenhouse gas emission allowances.

Swap and option transactions are used to hedge the risk in the price of shale oil. With these transactions, the Group or a transaction partner undertakes to pay the difference between the fixed price and the market price in the reporting period. According to the risk hedging principles of the Group, the goal of hedging transactions is to ensure pre-defined profits after variable expenses. The volume of the underlying assets, the risks of which are being hedged, is determined separately for each period. The minimum price level is set for price risk hedge transactions, after which transactions can be concluded. The volume of transactions depends on the time horizon of the underlying period and the contract price offered.

The need to buy greenhouse gas emission allowances arises when CO₂ emissions exceed the number of greenhouse gas emission allowances allocated free of charge by the state. To lower the risk from changes in the price of the amount of greenhouse gas emissions allowed, the Group uses option and future transactions (Note 13). According to the trading rules concerning greenhouse gas emission allowances approved by the Management Board, the missing quantity is purchased on a dispersed basis throughout the year based on the expected shortage of greenhouse gas emission allowances.

2.2) The price risk of financial assets at fair value through profit or loss

The price risk of financial assets at fair value through profit or loss means that the market value of interest and money market funds may change as a result of a change in the market value of the fund's net assets.

As at 31. December 2013 the Group did not have any financial assets at fair value through profit or loss.

3) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value of financial instruments or cash flows will fluctuate in the future due to changes in market interest rates. Cash flow interest rate risk arises to the Group from floating interest rate borrowings and lies in the danger that financial expenses increase when interest rates increase.

Sensitivity analysis is used to assess the interest rate risk. For managing the Group's interest rate risks, the principle that the share of fixed interest rate borrowings in the portfolio should be over 50% is followed. As at the financial year-end, 94% of the Group's borrowings were fixed and 6% had floating interest rates (31 December 2012: fixed 99% and floating 1%). Due to that the changes in the market interest rate don't have material effect on the Group's borrowings, however they may affect the fair value of the borrowings.

Overnight deposits and term deposits have been entered into with fixed interest rates and they do not result in an interest rate risk for cash flows to the Group. Any reasonably possible change in the fair value of financial assets at fair value through profit or loss would not have had significant impact on the Group's net profit.

(b) Credit risk

Credit risk is the risk that the Group will incur a monetary loss caused by the other party to a financial instrument because of that party's inability to meet its obligations. Cash in bank deposits, derivatives with a positive value and trade and other receivables are exposed to credit risk.

According to the principles of depositing of available monetary funds of the Group, the following principles are followed

- preserving capital
- ensuring liquidity at the right moment for the needs of business;
- optimal return considering the previous two goals.

Short-term monetary funds can be deposited in the following domestic and foreign financial instruments:

- money market funds and interest rate funds in which holdings or shares can be redeemed or sold on a regular basis;
- deposits of credit institutions;
- freely negotiable bonds and other freely negotiable debt instruments.

Requirements for the level of credit risk of emitents and partners of financial instruments (including hedge transactions) and maximum positions of each partner are approved by the Group's committee of the financial risks.

The available monetary funds can be deposited only in financial instruments nominated in euros. In addition there are certain requirements for the maturities of the financial instruments and diversification.

The unpaid invoices of clients are handled on a daily basis in the departments specifically set up for this purpose. The automated reminder and warning system sends messages to customers about overdue invoices with the warning that if they are not paid, the clients will be cut off from the

electricity network. After that, a collection petition is filed at the court or a collection agency. Special agreements are in the jurisdiction of special credit committees.

The maximum amount exposed to credit risk was as follows as at the end of the reporting period:

<i>In million EUR</i>	31 December	
	2013	2012
Deposits at banks with maturities of more than three months (Notes 11 and 16)	21.0	90.0
Trade and other receivables (Notes 11 and 12)*	158.9	160.3
Bank accounts and term deposits with maturities lower than 3 months at banks (Note 11 and 17)	62.6	60.1
Nominal amount of financial guarantee (Note 33)	-	20.4
Derivatives with positive value (Notes 3.3, 11, 13 and 14)	47.6	16.7
Total amount exposed to credit risk	290.1	347.5

* Total trade and other receivables less prepayments

Trade receivables are shown net of impairment losses. Although the collection of receivables can be impacted by economic factors, management believes that there is no significant risk of loss beyond the provisions already recorded. The types of other receivables do not contain any impaired assets.

More detailed information on credit risk is disclosed in Notes 12 and 14. Information about the financial guarantee is disclosed in Note 33.

(c) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations due to insufficient cash inflows. Liquidity risk is managed through the use of various financial instruments such as loans, bonds and commercial papers.

In order to finance its extensive capital expenditure programme, the Group has issued 6- year international bonds for EUR 300 million and (31 December 2012: 300 million EUR) and 15-year international bonds for EUR 300 million (31 December 2012: 300 million EUR) (Note 21) and has drawn loans for a total of EUR 238.5 million (31 December 2012: EUR 144.9 million) (Note 21). To lower the level of the interest rate on the borrowings, the Group has obtained credit ratings from the agencies Standard & Poor's and Moody's; as at 31 December 2013, the ratings were BBB+ stable and Baa1 negative, respectively (31 December 2012: BBB+ stable ja Baa1 stable). On the 21th of January 2014 Moody's changed the outlook of the Group's credit rating from Baa1 negative to Baa2 stable. Among the reasons for the change, the rating agency highlighted the increased risk of the competitiveness of the production of electricity from oil shale and profitability in long term perspective. For the bond transaction which took place in March 2012, Standard & Poor's assigned the rating BBB+ and Moody's assigned the rating Baa1.

As at 31 December 2013, the Group had undrawn loan facilities of EUR 250.0 million (31 December 2012: EUR 495.0 million) (Note 21). As at the end of the financial year, the Group had spare monetary balances (including cash and cash equivalents, deposits at banks with maturities of more than three months and financial assets at fair value through profit or loss) of EUR 83.6 million (31 December 2012: EUR 151.8 million). The cash flow forecasts are prepared for a 12-month period and approved by the Supervisory Board once a year. Bank account limits are used within the Group to manage the liquidity of subsidiaries.

The following liquidity analysis includes the division between the Group's current and non-current liabilities (including derivatives with net payments) by the maturity date of liabilities. All amounts shown in the table are contractual undiscounted cash flows. The payables due within 12 months after the end of the reporting period, except for borrowings, are shown at their carrying amount.

Division of liabilities by maturity date as at 31 December 2013 (in million EUR):

	Less than 1 year	Between 1 and 5 years	Later than 5 years	Total undiscounted cash flows	Carrying amount
Borrowings (Notes 3.2, 11 and 21)*	26.8	192.2	816.3	1,035.3	827.9
Derivatives (Notes 3.3, 11 and 13)	2.5	1.5	-	4.0	4.0
Trade and other payables (Notes 11 and 22)	124.0	3.3	-	127.3	127.3
Tax liabilities and payables to employees (Note 22)	53.9	-	-	53.9	53.9
Total	207.2	197.0	816.3	1,220.5	1,013.1

* Interest expenses have been estimated on the basis of the interest rates prevailing as at 31 December 2013.

Division of liabilities by maturity date as at 31 December 2012 (in million EUR):

	Less than 1 year	Between 1 and 5 years	Later than 5 years	Total undiscounted cash flows	Carrying amount
Borrowings (Notes 3.2, 11 and 21)*	25.3	152.4	784.5	962.2	732.8
Derivatives (Notes 3.3, 11 and 13)	2.1	0.3	-	2.4	2.4
Trade and other payables (Notes 11 and 22)	123.3	2.4	-	125.7	125.7
Tax liabilities and payables to employees (Note 22)	50.9	-	-	50.9	50.9
Potential financial guarantee obligations (Notes 11, 22 and 33)	2.2	18.2	-	20.4	0.1
Total	203.8	173.3	784.5	1,161.6	911.9

* Interest expenses have been estimated on the basis of the interest rates prevailing as at 31 December 2012.

The information about the dividends that will be declared and become payable after the end of the reporting period is disclosed in Note 19.

3.2 Management of Equity Risk

All shares of Eesti Energia AS belong to the state. Decisions concerning dividend distribution and increases or decreases of share capital are made by the Republic of Estonia through the Ministry of Finance. Each financial year, the dividends payable by Eesti Energia AS to the state budget are defined by order of the Government of the Republic of Estonia (Notes 18 and 19).

The Group follows a strategy according to which net debt should not exceed EBITDA more than three times and equity should be at least 50% of the total assets. As at 31 December 2013 and 31 December 2012, the net debt to EBITDA ratio and the equity to assets ratio were as follows (in million EUR):

	31 December	
	2013	2012
Debt (Notes 3.1, 11 and 21)	827.9	732.8
Less: cash and cash equivalents, deposits at banks with maturities of more than three months, financial assets at fair value through profit or loss and available-for-sale financial assets (Notes 3.1, 11, 15, 16 and 17)	(83.6)	(151.8)
Net debt	744.3	581.0
Equity	1,547.7	1,409.1
EBITDA	310.5	278.4
Assets	2,817.9	2,497.4
Net debt/EBITDA	2.40	2.09
Equity/assets	55%	56%

3.3 Fair Value

The Group estimates that the fair values of assets and liabilities reported at amortised cost in the statement of financial position as at 31 December 2013 and 31 December 2012 do not materially differ from the carrying amounts reported in the consolidated financial statements, with the exception of bonds (Note 21). The carrying amount of current accounts receivable and payable less impairments is estimated to be approximately equal to their fair value. For disclosure purposes, the fair value of financial liabilities is determined by discounting the contractual cash flows at the market interest rate which is available for similar financial instruments of the Group.

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

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (Level 2);
- inputs for the asset or liability that are not based on observable market data (Level 3).

The following tables present the Group's assets and liabilities that are measured at fair value by the level in the fair value hierarchy as at 31 December 2013 and 31 December 2012:

In million EUR

	31 December 2013			
	Level 1	Level 2	Level 3	Total
Assets				
Trading derivatives (Notes 13 and 14)	-	4.8	0.2	5.0
Cash flow hedges (Notes 13 and 14)	42.5	0.1	-	42.6
Total financial assets (Notes 3.1, 11, 13, and 14)	42.5	4.9	0.2	47.6
Liabilities				
Trading derivatives (Notes 11 and 13)	-	0.6	-	0.6
Derivatives used for hedging (Notes 3.1, 11 and 13)	-	3.4	-	3.4
Total financial liabilities (Notes 3.1, 11 and 13)	-	4.0	-	4.0

In million EUR

	31 December 2012		
	Level 1	Level 2	Total
Assets			
Financial assets at fair value through profit or loss (Notes 11 and 15)	-	1.7	1.7
Trading derivatives (Notes 13 and 14)	-	3.2	3.2
Cash flow hedges (Notes 13 and 14)	12.5	1.0	13.5
Total financial assets (Notes 3.1, 11, 13, 14 and 15)	12.5	5.9	18.4
Liabilities			
Trading derivatives (Notes 11 and 13)	-	0.1	0.1
Cash flow hedges (Notes 3.1, 11 and 13)	-	2.3	2.3
Total financial liabilities (Notes 3.1, 11 and 13)	-	2.4	2.4

Valuation techniques and inputs used on measurement in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price.

In level 1 are classified the Group's electricity derivatives that have been cleared in Nasdaq OMX.

Valuation techniques and inputs used on measurement in level 2

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. An instrument is included in level 2 if all the significant inputs required to establish the fair value of the instrument are observable. If one or more significant inputs are not based on observable market data, an instrument is included in level 3. The value of trading derivatives and cash flow hedges are found using notations of ICE EUA, Platt's European Marcetscani and Nymex.

- The fair value of forward, swap and future contracts is determined using forward prices at the balance sheet date, with the resulting value discounted back to present value.

- The fair value of options is found using analytical solution of turnbull-wakeman Asian-type option pricing.
- Valuation of financial assets at fair value through profit or loss is based on discounted cash flow method.

3.4 Offsetting Financial Assets and Financial Liabilities

(a) Financial assets

The following financial assets are subject to offsetting:

In million EUR

	As at 31 December	
	2013	2012
	Derivative financial instruments	
Gross amounts of recognised financial assets	70.1	24.7
Gross amounts of recognised financial liabilities set off in the balance sheet	(22.5)	(8.0)
Net amounts of financial assets presented in the balance sheet (Notes 3.1, 3.3, 11, 13 ja 14)	47.6	16.7
Related amounts not set off in the balance sheet	(0.5)	(0.1)
Net amount	47.1	16.6

(b) Financial liabilities

The following financial liabilities are subject to offsetting:

In million EUR

	As at 31 December	
	2013	2012
	Derivative financial instruments	
Gross amounts of recognised financial liabilities	26.5	10.4
Gross amounts of recognised financial assets set off in the balance sheet	(22.5)	(8.0)
Net amounts of financial liabilities presented in the balance sheet (Notes 3.1, 3.3, 11, 13 ja 14)	4.0	2.4
Related amounts not set off in the balance sheet	(0.5)	(0.1)
Net amount	3.5	2.3

Agreements between the Group and the counterparties allows for offsetting in concrete single transaction when mutual claims are in the same currency. In some agreements offsetting between two or more transactions is allowed.

4. Critical Accounting Estimates and Assumptions

Accounting estimates and assumptions

The preparation of the financial statements requires the use of estimates and assumptions that impact the reported amounts of assets and liabilities, and the disclosure of off-balance sheet assets and contingent liabilities in the notes to the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from these estimates. Changes in management's estimates are recognised in the income statement of the period of the change.

The estimates presented below have the most significant impact on the financial information disclosed in the financial statements.

(a) Determination of the useful lives of items of property, plant and equipment

The estimated useful lives of items of property, plant and equipment are based on management's estimate of the period during which the asset will be used. Previous experience has shown that the actual useful lives have sometimes been longer than the estimates. As at 31 December 2013, the net book amount of property, plant and equipment of the Group totalled EUR 2.3 billion (31 December 2012: EUR 2.0 billion), and the depreciation charge of the reporting period was EUR 113.3 million (2012: EUR 110.5 million) (Note 6). If depreciation rates were changed by 10%, the annual depreciation charge would change by EUR 11.3 million (2012: EUR 11.1 million).

(b) Evaluation of the recoverable amount of property, plant and equipment

As needed, the Group performs impairment tests to determine the recoverable amount of items of property, plant and equipment. When carrying out impairment tests, management uses various estimates for the cash flows arising from the use of the assets, sales, maintenance, and repairs of assets, as well as estimates for inflation and growth rates and likelihood of getting grants. The estimates are based on forecasts of the general economic environment, consumption and the sales price of electricity. If the situation changes in the future, either additional impairment could be recognised, or previously recognised impairment could be partially or wholly reversed. The recoverable amounts of fixed assets used for network services are impacted by the Competition Board which determines the reasonable rate of return to be earned on these assets. If the income, expenses and investments related to the sale of network services remain within the expected limits, the revenue derived from the sale of goods and services guarantees a reasonable rate of return for these assets. Until the complete opening of Estonian electricity market from 1 January 2013 the price limit for oil shale for the production of heat and electricity, the price limit for electricity sold from Narva Elektriijaamad to the closed market and the weighted average price limit for electricity sold to meet sales obligations needed to be approved by the Estonian Competition Authority. Information about impairment losses incurred in the reporting period and the comparative period is disclosed in Note 6.

(c) Recognition and revaluation of provisions

As at 31 December 2013, the Group had set up provisions for environmental protection, termination of mining

operations, employees related and greenhouse gas emissions totalling EUR 102.1 million (31 December 2012: EUR 36.8 million) (Note 24). The amount and/or timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of provisions, including the amount of future expenditure, inflation rates, and the timing of settlement of the expenditure. The actual expenditure may also differ from the provisions recognised as a result of possible changes in legislative norms, technology available in the future to restore environmental damages, and expenditure covered by third parties.

(d) Inventory valuation

When valuing inventories, the management relies on its best knowledge and it takes into consideration historical experience, general background information and potential assumptions and the conditions of future events. When the impairment of inventories is determined, the sales potential and the net realisable value of goods for resale are considered. As at 31 December 2013, the Group had inventories totalling EUR 39.1 million (31 December 2012: EUR 48.3 million) (Note 10).

(e) Contingent assets and liabilities

When estimating contingent assets and liabilities, the management considers historical experience, general information about the economic and social environment and the assumptions and conditions of possible events in the future based on the best knowledge of the situation. Further information is disclosed in Note 33.

(f) Recognition of connection and other service fees

Connection and other service fees are recognised as

income over the estimated average useful lives of the assets acquired for connections, which is 32 years. In the reporting period, connection and other service fees totalled EUR 5.5 million (2012: EUR 4.7 million). If the estimated average useful lives of the assets acquired for connections were reduced by 10%, the annual income from connection fees would increase by EUR 0.6 million (2012: EUR 0.5 million) (Notes 23, 25 and 32).

(g) Evaluation of doubtful receivables

The collection of material receivables is assessed individually. The remaining receivables are assessed as a group. The circumstances indicating an impairment loss may include the bankruptcy or major financial difficulties of the debtor and the debtor's inability to meet payment terms (delay of payment of over 90 days). As at the end of the reporting period, the Group had over 500 000 invoices outstanding (including receivables not yet due). Regularly receivables which are 90 days overdue are written down in full. The amount of doubtful receivables is adjusted as at the end of each reporting period using previous years' experience on how many doubtful receivables will be collected in subsequent periods and how many doubtful receivables overdue more than 90 days as at the end of reporting period will not be collected in a subsequent period. As at 31 December 2013, the Group's doubtful receivables totalled EUR 2.2 million (31 December 2012: EUR 3.2 million) (Note 12).

(h) Effectiveness testing of hedging instruments

The Group has conducted a significant number of future transactions to hedge the risk of the changes in the prices of electricity and shale oil with regard to which hedge accounting is applied, meaning that the gains and losses

from changes in the fair value of effective hedging instruments are accounted through other comprehensive income. The evaluation of the effectiveness of hedging is based on management's estimates for future sales transactions concerning electricity and liquid fuels. When hedging instruments turn out to be ineffective, the total gain/loss from the changes in the fair value should be recognised in the income statement. As at 31 December 2013, the amount of the hedge reserve was EUR 47.0 million (31 December 2012: EUR 11.5 million) (Note 20).

5. Segment Reporting

From 1 January 2013, for the purposes of monitoring the Group's performance and making management decisions, the Management Board uses product-based reporting instead of previously used reporting that was based on legal structure. The Group has determined main products and services, i.e. value-creating units that generate external revenues and profit, and has built up a methodology of allocation of revenues and expenses, and assets to the products.

The Group has distinguished three main products and services, which are presented as separately reportable segments, and a number of minor products and services that are presented together as "Other segments" (none of them meeting the quantitative thresholds that would require reporting separate information):

1. Electrical Energy (production and sale of electricity generated from renewable and non-renewable sources, and electricity trading);
2. Network Services (sale of electricity distribution network services on regulated market);

3. Liquid Fuels (production and sale of liquid fuels, and development and sale of related technology);
4. Other segments (including production and sale of heat, sale of oil-shale, construction of electrical network, power engineering equipment and services, telecommunication services, sale of old metal, ash of oil-shale, other products and services).

Segment revenues include revenues from external customers only, generated by the sale of respective products or services.

All operating expenses of the Group are allocated to the products and services to which they relate. If a product (eg electricity) is created by several Group entities in a vertically integrated chain, then the related expenses include the production cost of each entity involved in preparation of the product (eg the cost of electricity includes the cost of oil shale used for its production). Group overheads are allocated to products and services proportionally to the services provided.

The Management Board assesses the performance of the segments primarily based on EBITDA and it also monitors operating profit. Finance income and expenses, and income tax are not allocated to the segments.

The Group's assets are allocated to the segments based on the same proportion as the related expenses. Liabilities are not allocated to the segments as they are managed centrally by the Group's finance department.

As the segments are based on externally sellable products and services (as opposed to legal entities), there are no transactions between segments to be eliminated.

5. Segment reporting, continued

For Network Services segment, the sales prices need to be approved by the Estonian Competition Authority as stipulated by the Electricity Market Act of Estonia. The Estonian Competition Authority has an established methodology for approving the prices that considers the costs necessary to fulfil the legal obligations and ensures justified profitability on invested capital. Generally, the Estonian Competition

Authority considers the annual average residual value of non-current assets plus 5% of external sales revenue as invested capital. The rate for justified profitability is the Company's weighted average cost of capital (WACC). The sales prices for all other segments are not regulated by the law.

The revenue from external customers reported to the management board of the parent company is measured in a manner consistent with that in the consolidated income statement.

Revenue

in million EUR

	1 January - 31 December	
	2013	2012
	Revenue from external customers	Revenue from external customers
Electrical Energy	534.1	415.7
Network Services	244.4	228.6
Liquid Fuels	91.1	77.8
Other	96.8	100.0
Total	966.4	822.1

EBITDA

in million EUR

	1 January - 31 December	
	2013	2012
	EBITDA	EBITDA
Electrical Energy	136.3	104.7
Network Services	90.6	89.2
Liquid Fuels	31.9	32.1
Other	51.7	52.4
Total	310.5	278.4
Depreciation and amortisation	(126.6)	(115.0)
Impairment	(8.4)	(63.3)
Net financial income (-expense)	(1.2)	(5.2)
Profit (loss) from associates using equity method	(0.8)	(0.2)
Profit before tax	173.5	94.7

5. Segment reporting, continued

Other Profit and Loss Disclosures

in million EUR

	1 January - 31 December			1 January - 31 December		
	2013			2012		
	Depreciation and amortisation	Impairment	Recognition (-) and reversal (+) of provisions	Depreciation and amortisation	Impairment	Recognition (-) and reversal (+) of provisions
Electrical Energy	(56.1)	(8.2)	(64.8)	(57.5)	(56.3)	(4.6)
Network Services	(46.4)	-	(1.1)	(42.7)	-	(0.1)
Liquid Fuels	(6.8)	(7.7)	(3.8)	(5.3)	-	(0.2)
Other	(9.6)	(0.2)	(0.2)	(9.5)	(7.0)	(0.1)
Total	(118.9)	(16.1)	(69.9)	(115.0)	(63.3)	(5.0)

Interest income and expenses, corporate income tax expense and profit (loss) from associates using equity method are not divided between segments and the information is not provided to the management board of the parent company.

Additional information about the impairment is disclosed in Note 6 and recognition and change in provisions in Note 24.

Assets

The amounts provided to the management board of the parent company with respect to total assets are measured in a manner consistent with that of the consolidated financial statements.

in million EUR

	1 January - 31 December			1 January - 31 December		
	2013			2012		
	Total assets	Investments in associates	Capital expenditure	Total assets	Investments in associates	Capital expenditure
Electrical Energy	1,268.6	16.1	217.7	1,023.5	12.8	298.3
Network Services	851.1	-	116.4	833.0	-	109.7
Liquid Fuels	343.3	4.2	41.5	326.0	8.5	73.4
Other	354.9	2.1	43.1	314.9	-	32.0
Total	2,817.9	22.4	418.7	2,497.4	21.3	513.4

The Group operates mostly in Estonia, but electricity and some other goods and services are also sold in other countries. The Group's main geographical regions are Estonia, Latvia and Lithuania.

5. Segment reporting, continued

Entity-wide information

External Revenue by Location of Clients

<i>in million EUR</i>	1 January - 31 December	
	2013	2012
Estonia	751.1	642.5
Latvia	72.0	50.1
Lithuania	70.0	44.5
Nordic countries	16.2	9.4
Other countries	57.1	75.6
Total external revenue (Note 25)	966.4	822.1

Allocation of Non-current Assets by Location*

<i>in million EUR</i>	31. December	
	2013	2012
Estonia	2,263.7	1,994.7
Latvia	9.6	10.0
Lithuania	0.1	0.1
Nordic countries	-	-
Other countries	46.9	42.3
Total (Notes 6 and 8)	2,320.3	2,047.1

* other than financial instruments and investments in associates

The Group did not have in the reporting period nor in the comparable period any clients whose revenues from transactions amounted to 10% or more of the Group's revenues.

6. Property, Plant and Equipment

<i>in million EUR</i>	Land	Buildings	Facilities	Machinery and equipment	Other	Total
Property, plant and equipment as at 31 December 2011						
Cost	42.2	150.6	756.8	1,289.2	4.9	2,243.7
Accumulated depreciation	-	(87.8)	(311.6)	(627.9)	(4.3)	(1,031.6)
Net book amount	42.2	62.8	445.3	661.3	0.6	1,212.1
Construction in progress	-	1.3	33.3	355.7	-	390.3
Prepayments	-	-	-	56.2	-	56.2
Total property, plant and equipment as at 31 December 2011 (Note 4)	42.2	64.1	478.5	1,073.2	0.6	1,658.6
Movements, 1 January - 31 December 2012						
Purchases (Note 5)	1.3	8.9	79.7	414.8	0.7	505.4
Depreciation charge (Notes 4, 5 and 32)	-	(5.1)	(26.0)	(79.1)	(0.3)	(110.5)
Impairment loss (Notes 4, 5 and 32)	-	(5.0)	(1.5)	(56.8)	-	(63.3)
Disposals	(0.8)	(0.8)	-	(0.2)	-	(1.8)
Total movements, 1 January - 31 December 2012	0.5	(2.0)	52.2	278.7	0.4	329.8
Property, plant and equipment as at 31 December 2012						
Cost	42.7	157.1	815.3	1,455.6	5.5	2,476.2
Accumulated depreciation	-	(95.9)	(321.5)	(726.7)	(4.5)	(1,148.6)
Net book amount	42.7	61.2	493.8	728.9	1.0	1,327.6
Construction in progress	-	0.9	36.9	581.4	-	619.2
Prepayments	-	-	-	41.6	-	41.6
Total property, plant and equipment as at 31 December 2012 (Notes 4)	42.7	62.1	530.7	1,351.9	1.0	1,988.4

6. Property, plant and equipment, continued

<i>in million EUR</i>	Land	Buildings	Facilities	Machinery and equipment	Other	Total
Movements, 1 January - 31 December 2013						
Purchases (Note 5)	-	21.9	50.8	334.8	0.4	407.9
Depreciation charge (Notes 4, 5 and 32)	-	(4.8)	(23.6)	(84.5)	(0.4)	(113.3)
Impairment loss (Notes 4, 5 and 32)	-	(0.2)	(1.3)	(14.6)	-	(16.1)
Disposals	(0.5)	(7.8)	-	(0.4)	-	(8.7)
Exchange differences	(0.1)	-	-	-	-	(0.1)
Total movements, 1 January - 31 December 2013	(0.6)	9.1	25.9	235.3	-	269.7
Property, plant and equipment as at 31 December 2013						
Cost	42.1	153.7	859.6	1,643.7	5.5	2,704.6
Accumulated depreciation	-	(93.5)	(340.1)	(789.7)	(4.5)	(1,227.8)
Net book amount	42.1	60.2	519.5	854.0	1.0	1,476.8
Construction in progress	-	11.0	37.1	691.5	-	739.6
Prepayments	-	-	-	41.7	-	41.7
Total property, plant and equipment as at 31 December 2013 (Note 4)	42.1	71.2	556.6	1,587.2	1.0	2,258.1

In 2013 the assets of Aulepa Wind Plant were tested for impairment, according to which an impairment loss of EUR 8.2 million was recognised. The recoverable amount was determined based on the value in use of the assets. The expected future cash flows were discounted using the discount rate of 9%. The impairment is caused mainly by the lower operational reliability of production assets. In addition the construction in progress of oil refinery project in the amount of EUR 7.7 million was written down.

In 2012 the assets of Iru Power Plant and Narva Power Plant were tested for impairment. According to the results of the test an impairment loss of EUR 2.8 million of Iru Power Plant and EUR 58.3 million of Narva Power Plant was recognised. The recoverable amount was determined based on the value in use of the assets. The expected future cash flows were discounted using the discount rate of 10% for Iru Power Plant and discount rate of 11% for Narva Power Plant. In addition, the value of Painkula

co-generation plant project was written down of EUR 2.2 million to the fair value of the assets.

Impairment of Narva Power Plant was caused mainly by three reasons. The most important was the decision of the European Commission, according to which from the year 2013 free carbon dioxide (CO₂) allowances will be no longer allocated to the Group and majority of allowances must be purchased from the market or at auction. Also use of biomass for the electricity generation in the Baltic Power Plant is no longer supported from the beginning of the year 2013. In addition several oil shale mining and using environmental tax rates have increased considerably.

Assessing the value of the assets, prices for electricity and greenhouse gas emission allowances were found using forward curve of the market at the moment of calculation. Until the

6. Property, plant and equipment, continued

year 2015 environmental charges were based on rates fixed by the law and from the year 2016 environmental charges were increased by the evaluation of the management. Operating costs of the power plant for the year 2013 were based on the approved budget and for the following years costs were increased by expected inflation.

The impairment of the other assets in 2012 was caused by the decreased demand on the production capacities of those assets.

In 2013 new impairment tests were performed for assets that were impaired in the prior periods. No need to reverse the previously recognised impairment loss partially or wholly was identified.

The amount of construction in progress and prepayments as at 31 December 2013 includes EUR 431.9 million (31 December 2012: EUR 278.0 million) construction costs of new Auvere Power Plant which value in use in the future will greatly depend upon the receipt of renewable energy subsidy.

During the year, the Group has capitalised borrowing costs amounting to EUR 31.5 million (2012: EUR 24.3 million) on qualifying assets. The capitalisation rate of 4.5% (2012: 4.7%) was used to determine the amount of borrowing costs eligible for capitalisation (Note 30).

Buildings and Facilities Leased out under Operating Lease Terms

	31 December	
	2013	2012
Cost	5.4	5.4
Accumulated depreciation at the beginning of the financial year	(2.8)	(2.7)
Depreciation charge	(0.1)	(0.2)
Net book amount	2.5	2.5

Leased assets are partly used in the Group's own operations and partly for earning rental income. Cost and depreciation have been calculated on the basis of the part of the asset leased out. Income from lease assets is disclosed in Note 7.

7. Operating Lease

	1 January - 31 December	
	2013	2012
Rental and maintenance income		
Buildings	1.1	1.2
<i>of which contingent rent</i>	<i>0.7</i>	<i>0.8</i>
Facilities	-	0.1
Total rental and maintenance income (Note 25)	1.1	1.3
Rental expense		
Buildings	2.3	1.3
Transport vehicles	0.6	0.6
Other machinery and equipment	1.5	1.6
Total rental expense (Note 29)	4.4	3.5

Future Minimum Lease Receivables under Non-cancellable Operating Lease Contracts by Due Dates

	1 January - 31 December	
	2013	2012
Rental income		
< 1 year	0.7	0.8
1 - 5 years	3.0	3.0
> 5 years	10.7	11.6
Total rental income	14.4	15.4

The oil terminal has been leased out under non-cancellable lease agreement.

Operating lease agreements, where the Group is lessee, are mostly cancellable with short-term notice.

8. Intangible Assets

Intangible Non-current Assets

in million EUR

	Goodwill	Computer software	Right of use of land	Exploration and evaluation assets for mineral resources	Contractual rights	Total
Intangible assets as at 31 December 2011						
Cost	3.5	21.8	2.5	1.1	30.7	59.6
Accumulated amortisation	-	(5.5)	(0.5)	-	-	(6.0)
Net book amount	3.5	16.3	2.0	1.1	30.7	53.6
Intangible assets not yet available for use	-	2.5	-	-	-	2.5
Total intangible assets as at 31 December 2011	3.5	18.8	2.0	1.1	30.7	56.1
Movements, 1 January - 31 December 2012						
Purchases (Note 5)	-	4.6	-	3.1	0.3	8.0
Amortisation charge (Notes 5 and 32)	-	(4.5)	-	-	-	(4.5)
Exchange differences	-	-	-	(0.3)	(0.6)	(0.9)
Total movements, 1 January - 31 December 2012	-	0.1	-	2.8	(0.3)	2.6
Intangible assets as at 31 December 2012						
Cost	3.5	23.6	2.5	3.9	30.4	63.9
Accumulated amortisation	-	(9.3)	(0.5)	-	-	(9.8)
Net book amount	3.5	14.3	2.0	3.9	30.4	54.1
Intangible assets not yet available for use	-	4.6	-	-	-	4.6
Total intangible assets as at 31 December 2012	3.5	18.9	2.0	3.9	30.4	58.7
Movements, 1 January - 31 December 2013						
Purchases (Note 5)	-	6.0	-	4.8	-	10.8
Amortisation charge (Notes 5 and 32)	-	(5.6)	-	-	-	(5.6)
Exchange differences	-	-	-	(0.4)	(1.3)	(1.7)
Total movements, 1 January - 31 December 2013	-	0.4	-	4.4	(1.3)	3.5
Intangible assets as at 31 December 2013						
Cost	3.5	29.1	2.5	8.3	29.1	72.5
Accumulated amortisation	-	(14.8)	(0.5)	-	-	(15.3)
Net book amount	3.5	14.3	2.0	8.3	29.1	57.2
Intangible assets not yet available for use	-	5.0	-	-	-	5.0
Total intangible assets as at 31 December 2013	3.5	19.3	2.0	8.3	29.1	62.2

8. Intangible assets, continued

Goodwill

Allocation of goodwill by cash-generating units

<i>in million EUR</i>	Mining	Paide co-generation plant	Valka co-generation plant
Carrying amount at 31 December 2013	2.5	0.6	0.4
Carrying amount at 31 December 2012	2.5	0.6	0.4

The recoverable amount of assets is determined on the basis of their value in use and using the cash flow forecast prepared up to the next 20 years. The selection of the periods is based on an investment horizon regularly used in the electricity business. The cash flow forecasts are based on historical data and the forecasts of the Estonian energy balance. The weighted average cost of capital (WACC) is used as the discount rate, which is being determined on the basis of area of operations of the Company and its risk level. No impairment was identified during these tests.

Key Assumptions Used in Determining Value in Use

Discount rate

	31 December	
	2013	2012
Mining	11.0%	11.0%
Valka co-generation plant	10.0%	10.0%
Paide co-generation plant	10.0%	10.0%

Exploration and evaluation assets of mineral resources

The costs related to the exploration of an oil shale mine located in the state of Utah, USA are recognised as exploration and evaluation assets of mineral resources. The assets were reviewed for impairment. No impairment was identified during these tests.

Contractual rights

The costs related to the mining rights acquired in the state of Utah are recognised as contractual rights, which estimated useful life is 20 years. Management has evaluated the need for the evaluation of the assets. No indicators were identified, that would indicate impairment of the assets.

Intangible current assets - greenhouse gas allowances

The value of greenhouse gas allowances acquired is recognised as intangible current assets. In 2013 27 392 207 tonnes (2012: 2 109 141 tonnes) of greenhouse gas allowances were acquired and 11 000 000 tonnes (2012: 3 454 141 tonnes) were sold. In 2013 10 979 989 tonnes (2012: 12 304 855 tonnes) of greenhouse gas emission allowances were surrendered to state.

<i>in million EUR</i>	1 January - 31 December	
	2013	2012
Greenhouse gas allowances at the beginning of the period	11.6	28.0
Acquired	139.2	17.8
Sold	(50.0)	(25.8)
Surrendered to state for the greenhouse gas emissions (Note 24)	(0.1)	(10.0)
Surrendered to other legal person	-	(0.2)
Revaluation (Note 27)	-	1.8
Other movements	(0.3)	-
Greenhouse gas allowances at the end of the period	100.4	11.6

9 Investments in Associates

Change in Investments in Associates

in million EUR

	1 January - 31 December	
	2013	2012
Book value at the beginning of the period	21.3	23.3
Profit (loss) from associates using equity method	(0.4)	(0.5)
<i>of which recognised in the income statement (Notes 5 and 32)</i>	(0.8)	(0.2)
<i>of which recognised in other comprehensive income</i>	0.4	(0.3)
Dividends declared by the associate	(1.7)	(1.5)
Consideration for the acquired shareholding (Note 35)	3.0	-
Negative goodwill (Note 35)	0.2	-
Book value at the end of the period (Note 5)	22.4	21.3

9. Investments in associates, continued

Information on Associates

in million EUR

Company	Location	Assets	Liabilities	Operating income	Net profit	Ownership (%)
		31 December 2013		1 January - 31 December 2013	31 December 2013	31 December 2013
Nordic Energy Link Group	Estonia, Finland	33.6	1.4	16.4	4.0	50.0
Enefit Jordan B.V. Group	Netherlands, Jordan	17.0	29.5	-	(7.0)	65.0
Orica Eesti OÜ*	Estonia	17.1	11.2	27.2	5.3	35.0
		67.7	42.1	43.6	2.3	

* The financial year of Orica Eesti OÜ is from 1 October to 30 September

in million EUR

Company	Location	Assets	Liabilities	Operating income	Net profit	Ownership (%)
		31 December 2012		1 January - 31 December 2012	31 December 2012	31 December 2012
Nordic Energy Link Group	Estonia, Finland	81.2	52.9	14.4	1.7	39.9
Enefit Jordan B.V. Group	Netherlands, Jordan	15.3	21.3	-	(4.0)	65.0
Orica Eesti OÜ*	Estonia	13.4	8.0	25.0	4.3	35.0
		109.9	82.2	39.4	2.0	

* The financial year of Orica Eesti OÜ is from 1 October to 30 September

Enefit Jordan B.V. Group is recognised as associate as according to the Shareholders' Agreement, the Group does not have the right to make any relevant decisions regarding Enefit Jordan B.V. Group without the consent of one or, in cases, both of other shareholders who hold the remainder of the 35% shares. Based on voting quorum requirements for different decisions joint control is not established.

10. Inventories

<i>in million EUR</i>	31 December	
	2013	2012
Raw materials and materials at warehouses	19.9	17.7
Work-in-progress		
Stored oil shale	14.8	24.7
Stripping works in quarries	2.0	1.7
Other work-in-progress	1.2	1.1
Total work-in-progress	18.0	27.5
Finished goods		
Shale oil	0.7	2.7
Other finished goods	0.2	0.2
Total finished goods	0.9	2.9
Prepayments to suppliers	0.3	0.2
Total inventories (Notes 4 and 32)	39.1	48.3

In the reporting period, the Group wrote down damaged and slow-moving inventories of raw materials and materials totalling EUR 0.6 million (2012: EUR 1.6 million).

11. Division of Financial Instruments by Category

<i>in million EUR</i>	Loans and receivables	Financial assets at fair value through profit or loss	Derivatives for which hedge accounting is applied	Total
As at 31 December 2013				
Financial asset items in the statement of financial position				
Trade and other receivables excluding prepayments (Notes 3.1 and 12)	158.9	-	-	158.9
Derivative financial instruments (Notes 3.1, 3.3, 13 and 14)	-	2.3	45.3	47.6
Term deposits at banks with maturities of more than 3 months (Notes 3.1, 3.2 and 16)	21.0	-	-	21.0
Cash and cash equivalents (Notes 3.1, 3.2, 14 and 17)	62.6	-	-	62.6
Total financial asset items in the statement of financial position	242.5	2.3	45.3	290.1
As at 31 December 2012				
Financial asset items in the statement of financial position				
Trade and other receivables excluding prepayments (Notes 3.1 and 12)	160.3	-	-	160.3
Derivative financial instruments (Notes 3.1, 3.3, 13 and 14)	-	3.2	13.5	16.7
Term deposits at banks with maturities of more than 3 months (Notes 3.1, 3.2 and 16)	90.0	-	-	90.0
Financial assets at fair value through profit or loss (Notes 3.1, 3.2, 3.3 and 15)	-	1.7	-	1.7
Cash and cash equivalents (Notes 3.1, 3.2, 14 and 17)	60.1	-	-	60.1
Total financial asset items in the statement of financial position	310.4	4.9	13.5	328.8

11. Division of financial instruments by category, continued

in million EUR

	Liabilities at fair value through profit or loss	Derivatives for which hedge accounting is applied	Other financial liabilities	Total
As at 31 December 2013				
Financial liability items in the statement of financial position				
Borrowings (Notes 3.1, 3.2 and 21)	-	-	827.9	827.9
Trade and other payables (Notes 3.1 and 22)	-	-	127.3	127.3
Derivative financial instruments (Notes 3.1, 3.3 and 13)	1.0	3.0	-	4.0
Total financial liability items in the statement of financial position	1.0	3.0	955.2	959.2
As at 31 December 2012				
Financial liability items in the statement of financial position				
Borrowings (Notes 3.1, 3.2 and 21)	-	-	732.8	732.8
Trade and other payables (Notes 3.1 and 22)	-	-	125.7	125.7
Derivative financial instruments (Notes 3.1, 3.3 and 13)	0.1	2.3	-	2.4
Total financial liability items in the statement of financial position	0.1	2.3	858.5	860.9

12. Trade and Other Receivables

in million EUR

	31 December	
	2013	2012
Short-term trade and other receivables		
Trade receivables		
Accounts receivable	117.1	115.3
Allowance for doubtful receivables (Note 4)	(2.2)	(3.2)
Total trade receivables (Note 32)	114.9	112.1
Accrued income		
Amounts due from customers under the stage of completion method (Note 14)	4.3	5.5
Accrued interest (Note 14)	-	0.2
Other accrued income (Note 14)	4.6	5.9
Total accrued income	8.9	11.6
Prepayments	45.3	28.3
Receivables from associates (Note 14)	2.8	2.4
Cash restricted from being used (Note 14)	9.3	18.7
Other receivables (Note 14)	3.9	1.5
Total short-term trade and other receivables	185.1	174.6
Long-term receivables		
Prepayments	0.3	12.0
Receivables from associates (Note 14)	18.1	13.0
Other long-term receivables (Note 14)	1.0	1.0
Total long-term receivables	19.4	26.0
Total trade and other receivables (Notes 3.1 and 11)	204.5	200.6

Prepayments include prepayments for greenhouse gas emission allowances totalling EUR 38.8 million (31 December 2012: EUR 34.3 million). The receivables from associates include the termless loan granted to the associate Enefit Jordan B.V. with the interest rate 15% (2012: 15%).

Under cash restricted from being used are recognised financial resources that are held on SEB Futures account as a guarantee for the transactions. The fair values of receivables and prepayments do not significantly differ from their carrying amounts. Collection of receivables and prepayments for services and goods is not covered by securities. Most of the Group's receivables and prepayments are in euros. The amount of receivables denominated in US dollars is disclosed in Note 3.1.

Analysis of Accounts Receivable

in million EUR

	31 December	
	2013	2012
Accounts receivable not yet due (Note 14)	105.9	97.7
Accounts receivable due but not classified as doubtful		
1-30 days past due	2.7	9.9
31-60 days past due	1.6	0.7
61-90 days past due	0.8	0.3
Total accounts receivable due but not classified as doubtful	5.1	10.9
Accounts receivable written down		
3-6 months past due	0.8	1.2
more than 6 months past due	5.3	5.5
Total accounts receivable that are more than 3 months past due	6.1	6.7
Total accounts receivable	117.1	115.3

Under the accounting policies of the Group, receivables 90 days past due are usually written down in full. The total amount of allowance for receivables 90 days past due is adjusted using prior experience of how many of the receivables classified as doubtful are collected in a later period

12. Trade and other receivables, continued

and how many of the receivables not more than 90 days past due are not collected in a later period. Also other individual and extraordinary impacts like the global economic recession are taken into account during evaluation.

Changes in Allowance for Doubtful Receivables

<i>in million EUR</i>	1 January - 31 December	
	2013	2012
Allowance for doubtful receivables at the beginning of the period	(3.2)	(3.5)
Classified as doubtful and collections during the accounting period	(0.8)	(0.4)
Classified as irrecoverable	1.8	0.7
Allowance for doubtful receivables at the end of the period (Note 4)	(2.2)	(3.2)

The other receivables do not contain any impaired assets.

Revenue under the Stage of Completion Method

<i>in million EUR</i>	31 December	
	2013	2012
Unfinished projects at the end of the period		
Revenue of unfinished projects	42.2	42.4
Progress billing submitted	(38.0)	(37.0)
Amounts due from customers under the stage of completion method (Note 14)	4.3	5.5
Amounts due to customers under the stage of completion method	(0.1)	(0.1)
Total expenses on unfinished projects	(40.1)	(39.2)
Gains/losses calculated on unfinished projects	2.1	3.2
Total revenue from construction projects in the financial year	11.9	20.7
Total expenses on construction projects in the financial year	(12.3)	(20.4)
Total gains calculated on construction projects	(0.4)	0.3

Long-term construction projects are mostly power equipment manufacturing and network equipment design and construction.

13. Derivative Financial Instruments

in million EUR

	31 December 2013		31 December 2012	
	Assets	Liabilities	Assets	Liabilities
Forward contracts for buying and selling electricity as cash flow hedges	42.5	0.4	12.5	-
Option contracts for buying and selling electricity as trading derivatives	-	-	-	0.1
Future and option contracts for buying and selling greenhouse gas emissions allowances as trading derivatives	2.3	0.6	3.2	-
Swap and option contracts for selling fuel oil as cash flow hedges	0.1	3.0	1.0	2.3
Swap and option contracts for selling fuel oil as trading derivatives	2.7	-	-	-
Total derivative financial instruments (Notes 3.1, 3.3, 11 and 14)	47.6	4.0	16.7	2.4
including non-current portion:				
Forward contracts for buying and selling electricity as cash flow hedges	6.2	-	7.1	-
Swap and option contracts for selling fuel oil as cash flow hedges	-	1.5	0.4	0.3
Total non-current portion	6.2	1.5	7.5	0.3
Total current portion	41.4	2.5	9.2	2.1

Forward and option contracts for buying and selling electricity

The goal of the forward and option contracts for buying and selling electricity is to manage the risk of changes in the price of electricity or earn income on changes in the price of electricity. All forward contracts have been entered into for the sale or purchase of a fixed volume of electricity at each trading hour and their price is denominated in euros. The transactions, the goal of which is to hedge the risk in the price of electricity, are designated as cash flow hedging instruments, where the underlying instrument being hedged is the estimated electricity transactions of high probability on the power exchange Nord Pool. The effective portion of the change in the fair value of transactions concluded for hedging purposes is recognised through other comprehensive income and is recognised either as revenue or reduction of revenue at the time the

sales transactions of electricity occur or other operating expenses when it is evident that sales transactions are unlikely to occur in a given period.

The forward contracts of buying and selling electricity the goal of which is to hedge the risk in the price of electricity will realise in 2014-2015 (31 December 2012: in 2013-2014). As at 31 December 2013 5 788 468 MWh had been hedged for the year 2014 and 3 144 840 MWh for the year 2015 (31 December 2012: 2 242 214 MWh had been hedged for the year 2013 and 5 904 240 MWh for the year 2014). Option transactions are classified as trading derivatives carried at fair value with changes through profit or loss.

The basis for determining the fair value of the instruments is the quotes on Nord Pool.

13. Derivative financial instruments, continued

Future and option contracts for buying and selling greenhouse gas emissions allowances

The future contracts (except for own use contracts) and option contracts for buying and selling greenhouse gas emission allowances are classified as trading derivatives. The fair value changes of these transactions are recognised as gains or losses in the income statement. The basis for determining the fair value of transactions is the quotes of ICE EUA. The prices are denominated in euros.

Swap and option contracts for selling fuel oil

The goal of the swap and option contracts for buying and selling fuel oil classified as hedges is to hedge the risk of price changes for shale oil. The transactions have been concluded for the sale of a specified volume of shale oil in future periods and they are designated as cash flow hedging instruments, where the underlying instruments to be hedged are highly probable shale oil sales transactions. The basis for determining the fair value of transactions is the quotes by Platt's European Marcetscan and Nymex.

Hedging instruments, which are combined from various components of derivative instruments, are recognised at fair value with changes through profit or loss until the acquisition of all components. Liquidity swap transactions, that have been concluded in order to transfer the value changes of previously concluded transactions to partners, where the trading doesn't require daily coverage of market values, are classified as trading derivatives. The prices are denominated in euros and US dollars.

The swap- and option contracts for selling fuel oil which aim to hedge the risk of price changes of shale oil will realise in 2014-2015. (31 December 2012: in 2013-2014). As at 31 December 2013 453 827 tonnes had been hedged for the year 2014 and 540 425 tonnes for the year 2015 (31 December 2012: 312 709 tonnes for the year 2013 and 468 519 tonnes for the year 2014).

14. Credit Quality of Financial Assets

The basis for estimating the credit quality of financial assets not due yet and not written down is the credit ratings assigned by rating agencies or, in their absence, the earlier credit behaviour of clients and other parties to the contract.

in million EUR

	31 December	
	2013	2012
Trade receivables		
Receivables from new clients (client relationship shorter than 6 months)	5.9	8.1
Receivables from existing clients (client relationship longer than 6 months), who in the last 6 months have not exceeded the due date	45.0	35.5
Receivables from existing clients (client relationship longer than 6 months), who in the last 6 months have exceeded the due date	55.0	54.1
Total trade receivables (Note 12)	105.9	97.7
Accrued interest		
Receivables from banks with Moody's credit rating of Aa3	-	0.1
Receivables from banks with Moody's credit rating of A1	-	0.1
Total accrued interest (Note 12)	-	0.2

Nasdaq OMX constitutes a clearing house that is subject to official financial regulation, in relation to whom various risk management measures are applied, the most important of which is the requirement for the clearing house members to issue warrants for their liabilities. Also the requirements for minimum equity amounts are applied on clearing houses and based on that the credit risk is considered to be very low.

in million EUR

	31 December	
	2013	2012
Bank accounts and short-term deposits in banks		
At banks with Moody's credit rating of Aa3	48.0	23.0
At banks with Moody's credit rating of A1	13.2	31.9
At banks with Moody's credit rating of A2	0.3	4.5
At banks with Moody's credit rating of A3	-	0.1
At banks with Moody's credit rating of Aa2	1.1	0.6
Total bank accounts and short-term deposits in banks (Notes 3.1, 3.2, 11 and 17)	62.6	60.1
Deposits at banks with maturities of more than 3 months		
At banks with Moody's credit rating of Aa3	16.0	36.0
At banks with Moody's credit rating of A1	5.0	39.0
At banks with Moody's credit rating of A2	-	15.0
Total deposits at banks with maturities of more than 3 months (Notes 3.1, 3.2, 11 and 16)	21.0	90.0
Other receivables and accrued income		
Other receivables with Moody's credit rating of A1	9.3	18.7
Receivables without credit rating from an independent party	34.7	29.3
Total other receivables (Note 12)	44.0	48.0
Derivative financial instruments		
Derivatives with positive value with Moody's credit rating of Aa3	0.3	0.3
Derivatives with positive value with Moody's credit rating of A1	-	3.2
Derivatives with positive value with Moody's credit rating of A2	4.8	0.7
Derivatives through Nasdaq OMX clearing house	42.5	12.5
Derivatives with positive value (Notes 3.1, 3.3, 11 and 13)	47.6	16.7

According to the estimate of the management the other receivables and accrued income without a credit rating from an independent party do not involve material credit risk, as there is no evidence of circumstances that would indicate impairment loss.

As at 31 December 2013 and 31 December 2012, the Group did not have any major credit risk concentrations.

15. Financial Assets at Fair Value Through Profit or Loss

in million EUR

	31 December	
	2013	2012
Unquoted financial assets:		
Units of Danske Invest Euro Interest Fund	-	1.7
Total unquoted financial assets (Notes 3.2, 3.3 and 11)	-	1.7

Changes in Financial Assets Reported at Fair Value Through Profit or Loss

in million EUR

	1 January - 31 December	
	2013	2012
Fair value at the beginning of the period	1.7	4.9
Acquired	4.7	19.3
Disposed	(6.4)	(22.5)
Fair value at the end of the period (Notes 3.2, 3.3 and 11)	-	1.7

The units of Danske Invest Euro Interest Fund were denominated in euros. The fair value of fund units was the net asset value of fund units based on the market value of the net assets of the fund. The change in the fair value of fund units was recognised as financial income in the income statement.

16. Deposits at Banks with Maturities of More than 3 Months

in million EUR

	31 December	
	2013	2012
Deposits at banks with maturities of more than 3 months	21.0	90.0
Total deposits at banks with maturities of more than 3 months (Notes 3.1, 3.2, 11 and 14)	21.0	90.0

In the financial year, the effective interest rates of term deposits with maturities of more than 3 months were between and 0.3-1.52% (2012: 0.5-1.52%). In the reporting period the due dates of deposits were 31 to 193 days (2012: 91-193 days), which was due to the fact that some of the deposits were terminated prematurely.

17. Cash and Cash Equivalents

in million EUR

	31 December	
	2013	2012
Bank accounts	8.9	17.5
Short-term deposits	53.7	42.6
Total cash and cash equivalents (Notes 3.1, 3.2, 11 and 14)	62.6	60.1

17. Cash and cash equivalents, continued

Cash and Cash Equivalents by Currencies

<i>in million EUR</i>	31 December	
	2013	2012
Euro	60.5	52.0
Latvian lat	1.7	0.8
US dollar	0.3	7.3
Lithuanian lit	0.1	-
Total cash and cash equivalents (Notes 3.1, 3.2, 11 and 14)	62.6	60.1

In the financial year, the effective interest rates of term deposits with maturities of up to 3 months were between 0.21 and 0.8% (2012: 0.2-1.8%).

18. Share Capital, Statutory Reserve Capital and Retained Earnings

As at 31 December 2013, Eesti Energia AS had 621 645 750 registered shares (31 December 2012: 621 645 750 registered shares). The nominal value of each share is 1 euro. The sole shareholder is the Republic of Estonia. The administrator of the shares and the exerciser of the rights of shareholders is the Estonian Ministry of Finance, represented by the Minister of Finance at the General Meeting of Shareholders. According to the articles of association of Eesti Energia AS, the minimum share capital is EUR 250,0 million and the maximum share capital is EUR 1000,0 million.

Under Order No. 196 of the Government of Estonia of 3 May 2012 the share capital of Eesti Energia AS was increased by EUR 150 million on 10 July 2012 by

a monetary contribution. As at 31 December 2013, the Group's statutory reserve capital totalled EUR 51.0 million (31 December 2012: EUR 47.2 million). As at 31 December 2013, Eesti Energia AS had an obligation to transfer an additional EUR 8.0 million to statutory reserve capital (31 December 2012: EUR 3.9).

As at 31 December 2013, the Group's distributable equity was EUR 558,1 million (31 December 2012: EUR 461.7 million). Corporate income tax is payable upon the distribution of dividends to shareholders. Income tax on dividends is 21/79 of the amount payable as net dividends. If all retained earnings were distributed as dividends, the corporate income tax would amount to EUR 117.2 million (31 December 2012: EUR 97.0 million). It is possible to pay out EUR 440.9 million (31 December 2012: EUR 364.7 million) as net dividends.

According to the dividend distribution plan disclosed by the Government of the Republic, Eesti Energia AS is required to pay EUR 113.6 million as dividends after the approval of the 2013 Annual Report by the General Meeting of Shareholders. The corresponding income tax totals EUR 30.2 million.

The following table presents the basis for calculating the distributable shareholders' equity, potential dividends and the accompanying corporate income tax.

<i>in million EUR</i>	31 December	
	2013	2012
Retained earnings (Note 39)	566.1	465.6
Statutory reserve capital	(8.0)	(3.9)
Distributable shareholder's equity	558.1	461.7
Corporate income tax on dividends if distributed	117.2	97.0
Net dividends available for distribution	440.9	364.7

19. Dividends per Share

In 2013, Eesti Energia paid dividends of EUR 55,2 million to the Republic of Estonia or EUR 0,09 per share (2012: EUR 65,2 million, dividends per share EUR 0,14) (Note 39).

The Management Board proposed to the Annual Meeting to pay dividends of EUR 0.18 per share for the financial year ended 31 December 2013, totalling EUR 113.6 million. These financial statements do not reflect this amount as a liability as the dividend had not been approved as at 31 December 2013.

20. Hedge Reserve

	1 January - 31 December	
	2013	2012
Hedge reserve at the beginning of the period	11.5	-0.4
Change in fair value of cash flow hedges	47.7	9.8
Recognised as a reduction of revenue	(12.2)	2.1
Hedge reserve at the end of the period	47.0	11.5

21. Borrowings

Borrowings at Amortised Cost

	31 December	
	2013	2012
<i>in million EUR</i>		
Short-term borrowings		
Current portion of long-term bank loans	1.4	1.4
Total short-term borrowings	1.4	1.4
Long-term borrowings		
Bonds issued	589.6	588.3
Bank loans	236.9	143.1
Total long-term borrowings	826.5	731.4
Total borrowings (Notes 3.1, 3.2 and 11)	827.9	732.8

Bonds

	31 December	
	2013	2012
<i>in million EUR</i>		
Nominal value of bonds (Note 3.1)	600.0	600.0
Market value of bonds on the basis of quoted sales price (Note 3.3)	658.3	653.2

The bonds are denominated in euros and listed on the London Stock Exchange. The fair value of the bonds is based on the input that is within level 1 of the fair value hierarchy.

In 2012 Eesti Energia AS issued new long-term bonds with a nominal value EUR 300 million and with the maturity date in 2018. The bonds have a fixed interest rate of 4,25%. Transaction costs related to the issuing of the bonds were EUR 3.0 million. Other long-term bonds are with the maturity date in 2020 and have a fixed interest rate of 4,5%.

21. Borrowings, continued

Long-term Bank Loans at Nominal Value by Due Date

in million EUR

	31 December	
	2013	2012
< 1 year	1.4	1.5
1 - 5 years	64.8	30.2
> 5 years	172.3	113.3
Total	238.5	144.9

All loans are denominated in euros. As at 31 December 2013 the interest rates of loans were between 0.9 and 3.2% (31 December 2012: 0.8-3.2%).

As at 31 December 2013, the weighted average nominal interest rate on loans was 2.60% (31 December 2012: 3.07%). The loan agreements concluded by Eesti Energia AS contain certain financial ratios that the Group needs to comply with. The Group has complied with all attached conditions.

In the fourth quarter of 2013 the Group took into use long-term investment loans from European Investment Bank (EIB) of EUR 95 million (agreements were made in 2011). Of which EUR 50 million was taken into use with fixed interest rate (2.528%), the repayments of principal will take place in annual equal instalments during the period November 2015- November 2023. The remaining part of the loan EUR 45 million was taken into use with a floating interest rate, the repayment of principal will take place in the year 2019.

As at 31 December 2013 the Group had undrawn loan facilities of EUR 250.0 million (31 December 2012: EUR 495.0 million), of which EUR 150 million were liquidity loan agreements with Nordea, SEB and Pohjola bank contracted in September 2013. Mentioned liquidity loans can be taken into use until August 2018 and have a floating interest rate. In October 2013 the Group contracted new investment loan agreement with EIB of EUR 100 million, which had not been taken into use as at 31 December 2013. The interest rate will become obvious when the loan is taken into use. The loan can be taken into use until October 2014.

Management estimates that the fair value of the loans with a floating interest rate at the end of reporting period does not significantly differ from their carrying amounts as the risk margins have not changed. The fair values of the loans with fixed interest rate do not also significantly differ from their carrying amounts, as the impact of discounting is not significant. The fair values are based on cash flows discounted using discount rates between 2.342%-2.609% that are within level 3 of the fair value hierarchy.

Borrowings by Period that Interest Rates are Fixed for

in million EUR

	31 December	
	2013	2012
< 1 year	52.4	8.6
1 - 5 years	356.5	24.7
> 5 years	419.0	699.5
Total (Notes 3.1, 3.2 and 11)	827.9	732.8

Period until earlier of next interest rate repricing date and maturity date.

21. Borrowings, continued

Weighted Average Effective Interest Rates of Borrowings

<i>in million EUR</i>	31 December	
	2013	2012
Long-term bank loans	2.6%	3.1%
Bonds	4.7%	4.7%

22. Trade and Other Payables

<i>in million EUR</i>	31 December	
	2013	2012
Financial payables within trade and other payables		
Trade payables	109.2	110.6
Accrued expenses	7.6	7.4
Payables to associates	6.6	4.9
Other payables	3.9	2.8
Total financial payables within trade and other payables (Note 3.1 and 11)	127.3	125.7
Payables to employees (Note 3.1)	21.4	21.9
Tax liabilities (Note 3.1)	32.5	29.0
Prepayments	0.5	0.7
Total trade and other payables	181.7	177.3
of which short-term trade and other payables	178.4	174.9
of which long-term trade and other payables	3.3	2.4

23. Deferred Income

Connection and Other Service Fees

<i>in million EUR</i>	1 January - 31 December	
	2013	2012
Deferred connection and other service fees at the beginning of the period	136.0	125.7
Connection and other service fees received	16.7	15.0
Connection and other service fees recognised as income (Notes 4 and 32)	(5.5)	(4.7)
Deferred connection and other service fees at the end of the period	147.2	136.0

Government Grants

<i>in million EUR</i>	1 January - 31 December	
	2013	2012
Deferred income from grant at the beginning of the period	3.0	0.9
of which short-term deferred income	2.4	0.2
which long-term deferred income	0.6	0.7
Grants received	5.1	3.1
Transferred grants	(0.4)	(0.5)
Recognised as income (Note 26)	(0.4)	(0.5)
Deferred income from grant at the end of the period	7.3	3.0
of which short-term deferred income	3.5	2.4
which long-term deferred income	3.8	0.6

Majority of the grants have been received from the Cohesion Fund (ISPA), Enterprise Estonia, Environmental Investment Center .

24. Provisions

in million EUR

	Opening balance 31 December 2012	Recognition and reversal of provisions (Note 5)	Interest charge (Note 30)	Use	Closing balance 31 December 2013	
					Short-term provision	Long-term provision
Environmental protection provisions (Note 29)	20.6	3.5	0.8	(2.8)	3.5	18.6
Provision for termination of mining operations (Notes 28 and 29)	1.9	1.2	-	(1.8)	0.7	0.6
Employee related provisions (Note 28)	5.7	(0.3)	0.1	(1.0)	0.8	3.7
Provision for dismantling cost of assets (Note 6)	2.8	-	0.2	-	-	3.0
Provision for greenhouse gas emissions (Notes 8 and 27)	5.8	56.7	-	(0.1)	62.4	-
Provision for onerous contracts	-	7.8	-	-	5.9	1.9
Provision for obligations arising from treaties	-	1.0	-	-	-	1.0
Total provisions (Notes 4 and 32)	36.8	69.9	1.1	(5.7)	73.3	28.8

in million EUR

	Opening balance 31 December 2011	Recognition and reversal of provisions (Note 5)	Interest charge (Note 30)	Use	Closing balance 31 December 2012	
					Short-term provision	Long-term provision
Environmental protection provisions (Note 29)	18.5	2.5	0.9	(1.3)	4.6	16.0
Provision for termination of mining operations (Notes 28 and 29)	10.7	(6.0)	0.4	(3.2)	1.2	0.7
Employee related provisions (Note 28)	4.3	2.0	0.2	(0.8)	1.3	4.4
Provision for dismantling cost of assets (Note 6)	2.7	-	0.1	-	-	2.8
Provision for greenhouse gas emissions (Notes 8 and 27)	9.3	6.5	-	(10.0)	5.8	-
Total provisions (Notes 4 and 32)	45.5	5.0	1.6	(15.3)	12.9	23.9

Recognition and change in the provisions during financial year 2013 in the amount of EUR 1,9 million (2012: EUR 0.8 million) resulted from the change in discount rate.

24. Provisions, continued

Environmental protection provisions and provisions for the termination of mining operations have been set up for:

- restoring land damaged by mining;
- cleaning contaminated land surfaces;
- restoring water supplies contaminated as a result of mining activities;
- closing landfills and neutralising excess water;
- maintenance of closed ash fields;
- eliminating asbestos in power plants;
- for dismantling and gathering of equipment and impregnated poles.

Long-term environmental protection provisions will be settled at the Eesti Energia Kaevandused in 2014 - 2035, and at Narva Elektriijaamad in 2014 - 2058.

Provisions related to the termination of mining operations will be settled in 2014 - 2035.

Employee related provisions have been set up for:

- payment of benefits laid down in collective agreements and other acts;
- compensation of work-related injuries;
- payment of termination benefits;
- payments of scholarships.

Long-term employee related provisions will be settled during the periods specified in the contracts or during the remaining life expectancy of the employees, period of which is determined using data from Statistics Estonia

on life expectancies by age groups. The provisions for payments of termination benefits in mines and quarries will be set up when the detailed plans for the closure of these mines and quarries have been announced.

The provision for the dismantling costs of assets has been set up to cover the future dismantling costs of the renovated power blocks No. 8 and 11 and industrial waste dump of the Narva power plants. The present value of the dismantling costs of the assets was included in the cost of property, plant and equipment. The provision for the dismantling costs is expected to be settled in 2034-2035.

The provision for greenhouse gas emissions has been set up in the average price of the greenhouse gas emission allowances that are owned by the Group or that will be allocated to the Group free of charge for heat production or for the purpose of modernisation of electricity production. According to the investments amount in 2013 the Group is expecting to receive 4 998 874 tonnes of greenhouse gas emission allowances free of charge during the year 2014. For heat production in 2013 the expected amount of greenhouse gas emission allowances to be received free of charge is 443 690 tonnes. For year 2012 10 301 645 tonnes of the greenhouse gas emission allowances were allocated to the Group free of charge. As the amount of greenhouse gas emission allowances allocated free of charge has reduced, the provision has increased (Note 33).

The provision for obligations arising from treaties has been set up for a part of contractual payment for automatic meter reading system installation works that will be paid after the implementation of the system. The provision will presumably be settled in 2017.

24. Provisions, continued

The provision for onerous contracts has been set up for the losses that will probably occur in Latvia and Lithuania in the future, which is driven by the fact that the purchase prices of electricity in the power exchange are expected to be higher than the fixed-prices of sales contracts. The above-mentioned situation has occurred due to the deficit of transmission capacities on the Estonian-Latvian border. All the losses that could occur until the expiring of the contracts (until the year 2018) have been taken into account when setting up the provision. Due to the contractual clauses and the requirements in the legal acts, it is not possible to terminate the contracts prematurely by paying penalties.

The provision are discounted at the rate of 1.55-4.98% (2012: 1.75-5.44%). From the year 2012 discount curve is used instead of average discount rate for discounting provisions. It allows more accurate evaluation of the provisions in different time horizons.

25. Revenue

in million EUR

	1 January - 31 December	
	2013	2012
By activity		
Sale of goods		
Electricity	527.0	406.5
Shale oil	91.1	77.8
Heat	38.2	35.5
Oil shale	24.7	28.7
Power equipment	6.8	10.8
Other goods	13.2	7.1
Total sale of goods	701.0	566.4
Sale of services		
Sales of network services	244.2	233.2
Repair and construction services	5.8	10.5
Connection fees (Notes 4, 23 and 32)	5.5	4.7
Rental and maintenance income (Note 7)	1.1	1.3
Sale of telecommunication services	-	1.8
Other services	8.8	4.2
Total sale of services	265.4	255.7
Total revenue (Note 5)	966.4	822.1

26. Other Operating Income

	1 January - 31 December	
	2013	2012
Gain on disposal of property, plant and equipment (Note 32)	4.6	3.1
Fines, penalties and compensations	1.9	8.0
Government grants (Note 23)	0.4	0.5
Sale of greenhouse gas allowances	-	19.7
Gain on disposal of subsidiaries and reclassification as associates (Notes 9, 33 and 36)	-	13.6
Other operating income	1.9	1.5
Total other operating income	8.8	46.4

In fines, penalties and compensations of the financial year 2012 are recognised an insurance compensation for the loss of income and repair due to the breakdown of the Energy Unit 8 in Eesti power plant in the amount of EUR 5 million. As at 31 December 2013 the insurance claim was still outstanding.

27. Raw Materials and Consumables Used

	1 January - 31 December	
	2013	2012
Transmission services	89.4	85.1
Electricity	85.0	60.9
Greenhouse gases emissions expense (Note 24)	56.7	6.5
Maintenance and repairs	36.7	33.2
Resource tax on mineral resources	28.3	30.4
Technological fuel	24.2	46.9
The greenhouse gas allowances sold	-	19.7
Revaluation of the greenhouse gas allowances (Note 8)	-	(1.8)
Other raw materials and consumables used	99.3	99.5
Total raw materials and consumables used	419.6	380.4

28. Payroll Expenses

	1 January - 31 December	
	2013	2012
Number of employees		
Number of employees at the beginning of the period	7,560	7,631
Number of employees at the end of the period	6,960	7,560
Average number of employees	7,314	7,573

	1 January - 31 December	
	2013	2012
Payroll expenses		
Wages, salaries, bonuses and vacation pay	121.0	118.4
Average monthly pay (in euros)	1,379	1,303
Other payments and benefits to employees	5.3	5.4
Payroll taxes	42.9	42.7
Recognition/reversal of employee related provisions (Note 24)	(0.3)	2.0
Total calculated payroll expenses	168.9	168.5
Of which remuneration to management and supervisory boards		
Salaries, bonuses, additional remuneration	2.3	1.8
Fringe benefits	0.1	0.1
Total paid to management and supervisory boards	2.4	1.9
Capitalised in the cost of self-constructed assets	(18.9)	(15.7)
Covered from the provisions for the termination of mining operations and environmental protection (Note 24)	(1.8)	(1.2)
Total payroll expenses	148.2	151.6

The Management Board members are appointed by the Supervisory Board. The term of appointment for 5 years.

29. Other Operating Expenses

	1 January - 31 December	
	2013	2012
Environmental pollution charges	24.5	17.8
Miscellaneous office expenses	12.0	14.1
Rental expense (Note 7)	4.4	3.5
Recognition of environmental and mining termination provisions (Note 24)	4.7	(3.5)
Research and development costs	2.3	2.7
Other operating expenses	37.6	33.4
Total other expenses	85.5	68.0

30. Net Financial Income (-expense)

	1 January - 31 December	
	2013	2012
Financial income		
Interest income	2.9	3.2
Total interest income	2.9	3.2
Other financial income	0.3	-
Total financial income (Note 32)	3.2	3.2
Financial expenses		
Interest expense		
Interest expenses on bonds and loans	(33.6)	(30.6)
Amounts capitalised on qualifying assets (Note 6)	31.5	24.3
Total interest expenses on borrowings (Note 32)	(2.1)	(6.3)
Interest expenses on provisions (Note 24)	(1.1)	(1.6)
Total interest expenses	(3.2)	(7.9)
Foreign exchange losses	(1.0)	(0.3)
Other financial expenses	(0.2)	(0.2)
Total financial expenses	(4.4)	(8.4)
Net financial income (-expense)	(1.2)	(5.2)

31. Corporate Income Tax

Under the Income Tax Act, the dividends payable out of retained earnings are taxed in Estonia. From 1 January 2008, the income tax rate is 21/79 of the net dividend paid. If the Group receives dividends from other companies registered in Estonia where the Group has at least 10% of the shares, then the amount of income tax paid to the state by the distributor of the dividends can be deducted by the Group from the corporate income tax payable once the Group distributes its dividends.

Average Effective Income Tax Rate

	1 January - 31 December	
	2013	2012
Estonia		
Net dividends	55.2	65.2
Income tax applicable for dividends	21/79	21/79
Theoretical income tax at applicable rates	14.7	17.3
Impact of dividends paid by associates	(0.4)	(0.4)
Effective income tax on dividends	14.3	16.9
Average effective income tax rate	20.4%	20.5%
Income tax from liquidation proceeds	(0.2)	0.2
Income tax expense arising from the subsidiaries in Finland and Latvia	(0.1)	0.7
Total income tax expense	14.0	17.8

As at 31 December 2013 and 31 December 2012, the Group did not have any deferred income tax assets and liabilities.

32. Cash Generated from Operations

in million EUR

	1 January - 31 December	
	2013	2012
Profit before income tax	173.5	94.7
Adjustments		
Depreciation and impairment of property, plant and equipment (Notes 5 and 6)	129.4	173.8
Amortisation of intangible assets (Notes 5 and 8)	5.6	4.5
Deferred income from connection and other service fees (Notes 4, 23 and 25)	(5.5)	(4.7)
Gain on disposal of subsidiaries (Note 26 and 34)	-	(13.6)
Gain on disposal of property, plant and equipment (Note 26)	(4.6)	(3.1)
Amortisation of government grant received to purchase non-current assets	(0.3)	-
Profit (loss) from associates using equity method (Note 9)	0.8	0.2
Unpaid/unsettled gain/loss on derivatives	6.2	7.9
Currency exchange gain/loss on loans granted	0.9	-
Interest expense on borrowings (Note 30)	2.1	6.3
Interest and other financial income (Note 30)	(3.2)	(3.2)
Adjusted net profit before tax	304.9	262.8
Net change in current assets relating to operating activities		
Change in receivables related to operating activities (Note 12)	(2.8)	(11.7)
Change in inventories (Note 10)	9.2	(10.4)
Net change in other current assets relating to operating activities	(93.7)	(10.4)
Total net change in current assets relating to operating activities	(87.3)	(32.5)
Net change in current liabilities relating to operating activities		
Change in provisions (Note 24)	65.3	(8.7)
Change in trade payables	2.6	1.2
Net change in liabilities relating to other operating activities	0.4	4.6
Total net change in liabilities relating to operating activities	68.3	(2.9)
Cash generated from operations	285.9	227.4

33. Off-Balance Sheet Assets, Contingent Liabilities and Commitments

(a) Off-balance sheet assets

Oil shale Resources

The overview of the resources of oil shale in the possession of the Group and its associates is presented in the table below. The resources of oil shale of Estonian Republic represent the resources of oil shale in the official balance of natural resources. The resources of oil shale of international development projects are recognised based on the disclosure requirements of international standards of evaluation of resources and reserves. The classification of the resource is performed by the authorized experts and is proved appropriate according to the standard both by the level of exploration and economical perspective. Depending on the development phase the known technical, environmental and social-economical restrictions have been adjusted and taken into account when recognising the resources.

in millions of tonnes

	31 December	
	2013	2012
Estonia		
Measured*	522	542
Jordan		
Measured*	930	930
Inferred**	2,604	2,604
USA**		
Measured **	3,680	3,680
Indicated**	2,540	2,540
Inferred**	368	368

* Resource represents a part of in place Resource, after it has been modified by desired cut-off grade, technical, economical and already defined modifying factors.

** Resource is defined as amount of total in place oil shale, that has high possibility for commercial interest. This definition is applied for resources before the pre-technical analyses, to which possible modifying factors have not been applied.

33. Off-balance sheet assets, contingent liabilities and commitments, continued

Emission rights

On implementation of article 10c of EU Emissions Trading System the Group may receive for the purpose of modernisation of electricity production up to 18 million tonnes of greenhouse gas emission allowances free of charge in the period 2013 to 2019. In addition it is possible for the Group according to the article 10a to receive in the period 2013 to 2020 up to 2.4 million tonnes of greenhouse gas emission allowances free of charge for heat production.

According to the investments amount in 2013 the Group is expecting to receive 4 998 874 tonnes of greenhouse gas emission allowances free of charge during the year 2014. For heat production in 2013 the expected amount of greenhouse gas emission allowances free of charge to be received is 443 690 tonnes. These quantities are taken into account when calculating the provision for greenhouse gas emissions (Note 24).

The allocation plan established by the decree of the Government of Estonia no. 183 of 22 December 2011 allocated to the companies of the Eesti Energia Group for the years 2008 - 2012 greenhouse gas emission allowances totalling 49.0 million tonnes (including 10.3 million tonnes for 2012).

(b) Contingent liabilities

Contingent liabilities arising from potential tax audit

Tax authorities have neither started nor performed any tax audits at the Company or single case audits at any group company. Tax authorities have the right to review

the Company's tax records within 5 years after the reported tax year and if they find any errors they may impose additional taxes, interest and fines. The Group's management considers that there are not any circumstances which may give rise to a potential material liability in this respect.

Collaterals, guarantees and court actions

The loan agreements concluded by the Group set certain covenants on the Group's consolidated financial indicators. The covenants have been adhered to.

As at 31 December 2012 the guarantee, according to which the Group had granted up to 39.9% for the obligations arising from the loan contracts entered into between its associate AS Nordic Energy Link and the banks if the banks should require full payment of loans from AS Nordic Energy Link due to breach of contractual terms (Note 3.1), was effective. As during the year 2013 AS Nordic Energy Link repaid all the loans to the banks, the guarantee is terminated.

Other disputes

Outotec GMBH has raised a claim against subsidiary Eesti Energia Õlitööstus AS in the amount of EUR 28 million for additional work performed during the construction of new Enefit280 shale oil plant. As the essence of the claim is not clear, the liability has not been recognised in the statement of financial position as at 31 December 2013. Based on management's estimates, the realization of the liability is not probable.

33. Off-balance sheet assets, contingent liabilities and commitments, continued

(c) Commitments

Requirement to comply with the environmental norms

According to the legislation of European Union and Estonia, the pollutants from oil shale boilers into atmospheric air need to comply with the environmental requirements which will become more rigorous from year 2016. Completing this obligation requires additional investment to be made.

Capital commitments arising from construction contracts

As at 31 December 2013, the Group had contractual liabilities relating to the acquisition of non-current assets totalling EUR 168.4 million (31 December 2012: EUR 404.9 million).

Contracts for buying greenhouse gas emissions allowances

As at 31 December 2013 the group had concluded contracts for buying greenhouse gas emissions allowances in December 2014, 2015 and 2016 in the amount of EUR 108.0 million (31 December 2012: EUR 136.6 million).

34. Disposal of Subsidiaries

(a) Televõrgu AS

On 17 February 2012 the transaction of the sale of the 100% shareholding in Televõrgu AS was completed.

Net Assets of the Subsidiary Disposed

<i>in million EUR</i>	17 February 2012
Cash and cash equivalents	0.3
Trade and other receivables	2.0
Inventories	0.1
Property, plant and equipment	10.2
Intangible assets	0.1
Trade and other payables	(3.9)
Total net assets of th subsidiary disposed	8.8
Sales price	22.4
Gain on sale (Note 32)	13.6
Cash in flows in transaction	
Proceeds from sale	22.4
Cash and cash equivalents of subsidiary in bank accounts	(0.3)
Total cash inflows in transaction	22.1

35. Acquisition of an Additional Interest in an Associate

On 30 December 2013 the Group acquired an additional interest (10.1%) in an associate AS Nordic Energy Link. After the acquisition of an additional interest the Group now holds 50% of the share capital of AS Nordic Energy Link.

Information about the transaction

in million EUR

Consideration for the acquired shareholding (Note 9)	3.0
Fair value of equity interest	3.2
Negative goodwill (Note 9)	(0.2)

36. Earnings per Share

Basic earnings per share are calculated by dividing profit attributable to the equity holders of the company by the weighted average number of ordinary shares outstanding. As there are no potential ordinary shares, diluted earnings per share equal to basic earnings per share all the periods. Under Order No. 196 of the Government of Estonia of 3 May 2012, the share capital of Eesti Energia AS was increased in 2012 by EUR 150 million by releasing 150 million new shares with the nominal value of one euro per share (Note 18). In 2013 there were no changes in the share capital.

in million EUR

	1 January - 31 December	
	2013	2012
Profit attributable to the equity holders of the company (million EUR)	159.5	77.3
Weighted average number of shares (million)	621.6	571.2
Basic earnings per share (EUR)	0.26	0.14
Diluted earnings per share (EUR)	0.26	0.14

37. Related Party Transactions

The sole shareholder of Eesti Energia AS is the Republic of Estonia. In preparing the Group's financial statements, the related parties include associates, members of the management and supervisory boards of the parent company, and other companies over which these persons have control or significant influence. Related parties also include entities under the control or significant influence of the state.

in million EUR

	1 January - 31 December	
	2013	2012
Transactions with associates		
Purchase of goods and services	26.5	26.5
Proceeds from sale of goods and services	4.7	2.9
Financial expenses	2.4	1.7
Loans granted	3.8	4.2
Transactions with entities over which the members of Management and Supervisory Board have significant influence		
Purchases of goods and services	3.3	2.3

The sales of electricity, network services and heat to the entities over which the state has control or significant influence have been taken place under normal business activity. In 2013 the Group didn't conclude any individually-significant transactions with the entities over which the state has control or significant influence.

The remuneration paid to the members of the Management and Supervisory Boards is disclosed in Note 28.

Receivables from associates are disclosed in Note 12 and payables to associates in Note 22. No impairment

37. Related party transactions, continued

loss from receivables was recognised in the reporting period or in the comparative period. Upon premature termination of the service contract with a member of the Management Board, the service contracts stipulate the payment of 3 months' remuneration as termination benefits. In purchasing and selling network services, the prices set by the Estonian Competition Authority are used. All other transactions are concluded using agreed prices.

38. Events After the Reporting Period

On 23 January 2014 the Group completed an additional issue of Eurobonds due in 2018 and with a coupon rate 4.25%, with a nominal value of EUR 100 million and yield of 2.181%. This additional issue raised total volume of the Group's bonds to EUR 700 million, of which EUR 400 million are with the maturity date in 2018 and other long-term bonds are with the maturity date in 2020.

39. Financial Information on the Parent Company

Financial information disclosed on the parent company includes the primary separate financial statements of the parent company, the disclosure of which is required by the Accounting Act of Estonia. The primary financial statements of the parent company have been prepared using the same accounting policies that have been used in the preparation of the consolidated financial statements. Investments in subsidiaries and associates are reported at cost in the separate financial statements of the parent company.

Income Statement

<i>in million EUR</i>	1 January - 31 December	
	2013	2012
Revenue	427.9	412.3
Other operating income	7.7	28.3
Government grants	0.1	0.1
Raw materials and consumables used	(369.0)	(355.7)
Other operating expenses	(23.8)	(27.2)
Payroll expenses	(33.3)	(30.6)
Depreciation, amortisation and impairment	(10.3)	(12.5)
Other expenses	(6.0)	(8.4)
OPERATING PROFIT	(6.7)	6.3
Financial income	65.7	107.1
Financial expenses	(36.0)	(31.5)
Total financial income and expenses	29.7	75.6
PROFIT BEFORE TAX	23.0	81.9
Corporate income tax expense	(5.4)	-
NET PROFIT FOR THE FINANCIAL YEAR	17.6	81.9

Statement of Comprehensive Income

<i>in million EUR</i>	1 January - 31 December	
	2013	2012
PROFIT FOR THE YEAR	17.6	81.9
Other comprehensive income		
Revaluation of risk hedge instruments	30.0	2.9
Other comprehensive income for the year	30.0	2.9
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	47.6	84.8

39. Notes to the consolidated financial statements, continued

Statement of Financial Position

in million EUR

	31 December	
	2013	2012
ASSETS		
Non-current assets		
Property, plant and equipment	216.6	194.8
Intangible assets	9.6	9.6
Investments in subsidiaries	505.5	497.1
Investments in associates	25.2	22.0
Derivative financial instruments	6.2	7.0
Receivables from subsidiaries	230.5	221.9
Total non-current assets	993.6	952.4
Current assets		
Greenhouse gas allowances	88.8	-
Inventories	-	0.1
Trade and other receivables	954.2	992.7
Derivative financial instruments	41.1	8.7
Financial assets at fair value through profit or loss	-	1.7
Deposits at banks with maturities of more than 3 months	21.0	90.0
Cash and cash equivalents	53.7	45.1
Total current assets	1,158.8	1,138.3
Total assets	2,152.4	2,090.7
EQUITY		
Share capital	621.6	621.6
Share premium	259.8	259.8
Statutory reserve capital	51.0	47.2
Hedge reserve	42.4	12.4
Retained earnings	257.7	299.1
Total equity	1,232.5	1,240.1

in million EUR

	31 December	
	2013	2012
LIABILITIES		
Non-current liabilities		
Borrowings	826.5	731.3
Other payables	1.2	0.1
Deferred income	0.1	0.2
Provisions	0.9	0.9
Total non-current liabilities	828.7	732.5
Current liabilities		
Borrowings	1.4	1.4
Trade and other payables	88.7	116.1
Derivative financial instruments	1.0	0.4
Provisions	0.1	0.2
Total current liabilities	91.2	118.1
Total liabilities	919.9	850.6
Total liabilities and equity	2,152.4	2,090.7

39. Notes to the consolidated financial statements, continued

Cash Flow Statement

	1 January - 31 December	
	2013	2012
<i>in million EUR</i>		
Cash flows from operating activities		
Profit before tax	23.0	81.9
Adjustments		
Depreciation of property, plant and equipment	7.7	10.5
Amortisation of intangible assets	2.6	2.0
Amortisation of government grant received to purchase non-current assets	(0.1)	-
Profit/loss from sale of property, plant and equipment	(1.2)	(1.1)
Profit from sale of a subsidiary	-	(20.8)
Other gains/losses on investments	(34.1)	(65.8)
Gain/loss on unpaid/unsettled derivatives	(1.1)	7.9
Currency exchange gain/loss on loans granted	2.6	-
Interest expense on borrowings	33.4	30.4
Interest income	(31.6)	(41.9)
Adjusted net profit	1.2	3.1
Net change in current assets relating to operating activities		
Loss from doubtful receivables	1.0	0.4
Change in receivables relating to operating activities	3.2	(14.9)
Change in inventories	-	0.1
Net change in current assets relating to other operating activities	(68.9)	(22.8)
Total net change in current assets relating to operating activities	(64.7)	(37.2)
Net change in liabilities relating to operating activities		
Change in provisions	(0.2)	0.2
Change in trade payables	(0.4)	4.0
Net change in liabilities related to other operating activities	(31.2)	30.2
Total net change in liabilities relating to operating activities	(31.8)	34.4
Interest paid and borrowing costs	(31.7)	(26.2)
Interest received	27.5	35.9
Net cash flows from operating activities	(99.5)	10.0

	1 January - 31 December	
	2013	2012
<i>in million EUR</i>		
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(43.0)	(53.9)
Proceeds from sale of property, plant and equipment	10.7	8.9
Net change in cash restricted from being used	9.4	(16.5)
Dividends received from subsidiaries	34.1	65.2
Net change in term deposits with maturities of more than 3 months	69.0	(90.0)
Purchase of short-term financial investments	(4.7)	(19.3)
Contribution to the share capital of subsidiaries	(7.8)	-
Proceeds from sale and redemption of short-term financial investments	6.4	32.8
Proceeds from sale of subsidiaries	-	22.4
Proceeds from liquidation of subsidiary	-	0.7
Purchase of subsidiary	(0.2)	-
Purchase of shareholding in associate	(3.0)	-
Loans granted to subsidiaries	(2.0)	(3.6)
Repayments of loans granted to subsidiaries	3.9	0.6
Change in overdraft granted to subsidiaries	(1.0)	(325.3)
Other loans granted	(3.8)	(4.2)
Repayments of other loans	-	3.0
Net cash used in investing activities	68.0	(379.2)
Cash flows from financing activities		
Proceeds from bonds issued	-	297.0
Bank loans received	95.0	25.0
Repayments of bank loans	(1.4)	(26.4)
Change in overnight deposit received from subsidiaries	1.7	-
Contribution to the share capital	-	150.0
Dividends paid	(55.2)	(65.2)
Total cash generated from financing activities	40.1	380.4
Net cash flows	8.6	11.2
Cash and cash equivalents at the beginning of the period	45.1	33.9
Cash and cash equivalents at the end of the period	53.7	45.1
Net increase/decrease in cash and cash equivalents	8.6	11.2

39. Financial information on the parent company, continued

Statement of Changes in Equity

in million EUR

	Share capital	Share premium	Statutory reserve capital	Hedge reserve	Currency translation differences	Retained earnings	Total
Equity as at 31 December 2011	471.6	259.8	47.2	9.5	-	282.4	1,070.5
Carrying amount of holdings under controlling and significant influence						(498.8)	(498.8)
Carrying amount of holdings under controlling and significant influence using equity method				(9.9)	3.5	669.9	663.5
Adjusted unconsolidated equity as at 31 December 2011				(0.4)	3.5	453.6	1,235.2
Profit for the year	-	-	-	-	-	81.9	81.9
Other comprehensive income for the year	-	-	-	2.9	-	-	2.9
Total comprehensive income for the year	-	-	-	2.9	-	81.9	84.8
Contribution to the share capital	150.0	-	-	-	-	-	150.0
Dividends paid (Note 19)	-	-	-	-	-	(65.2)	(65.2)
Total contributions by and distributions to owners of the company, recognised directly in equity	150.0	-	-	-	-	(65.2)	84.8
Total transactions with owners of the company, recognised directly in equity	150.0	-	-	-	-	(65.2)	84.8
Equity as at 31 December 2012	621.6	259.8	47.2	12.4	-	299.1	1,240.1
Carrying amount of holdings under controlling and significant influence						(497.1)	(497.1)
Carrying amount of holdings under controlling and significant influence using equity method				(0.9)	2.4	663.6	665.1
Adjusted unconsolidated equity as at 31 December 2012 (Note 18)				11.5	2.4	465.6	1,408.1

39. Financial information on the parent company, continued

Statement of Changes in Equity

in million EUR

	Share capital	Share premium	Statutory reserve capital	Hedge reserve	Currency translation differences	Retained earnings	Total
Equity as at 31 December 2012	621.6	259.8	47.2	12.4	-	299.1	1,240.1
Carrying amount of holdings under controlling and significant influence						(497.1)	(497.1)
Carrying amount of holdings under controlling and significant influence using equity method				(0.9)	2.4	663.6	665.1
Adjusted unconsolidated equity as at 31 December 2012 (Note 18)				11.5	2.4	465.6	1,408.1
Profit for the year	-	-	-	-	-	17.6	17.6
Other comprehensive income for the year	-	-	-	30.0	-	-	30.0
Total comprehensive income for the year	-	-	-	30.0	-	17.6	47.6
Contribution to the share capital	-	-	-	-	-	-	-
Dividends paid (Note 19)	-	-	-	-	-	(55.2)	(55.2)
Transfer of retained earnings to statutory reserve capital	-	-	3.8	-	-	(3.8)	-
Total contributions by and distributions to owners of the company, recognised directly in equity	-	-	3.8	-	-	(59.0)	(55.2)
Total transactions with owners of the company, recognised directly in equity	-	-	3.8	-	-	(59.0)	(55.2)
Equity as at 31 December 2013	621.6	259.8	51.0	42.4	-	257.7	1,232.5
Carrying amount of holdings under controlling and significant influence						(505.5)	(505.5)
Carrying amount of holdings under controlling and significant influence using equity method				4.6	0.8	813.9	819.3
Adjusted unconsolidated equity as at 31 December 2013 (Note 18)				47.0	0.8	566.1	1,546.3

Under the Accounting Act of Estonia, adjusted unconsolidated retained earnings are the amount from which a public limited company can make payments to its shareholders.



INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder of Eesti Energia AS

We have audited the accompanying consolidated financial statements of Eesti Energia AS and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2013 and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Eesti Energia AS and its subsidiaries as of 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

Ago Vilu
Auditor's Certificate No.325

20 February 2014

Kristi Hörrak
Auditor's Certificate No.548

* 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.

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Profit Allocation Proposal

The retained earnings of Eesti Energia Group as at 31 December 2013 were 566 084 644.56 EUR. Paragraph 1 of § 77 of the State Assets Act states that the dividends payable by an entity where the state has controlling interest shall be approved by the Government of Estonia at the proposal of the Minister of Finance. According to the dividend distribution plan disclosed by the Government of the Republic, Eesti Energia AS is required to pay 113 600 000.00 EUR as dividends in 2014.

The Management Board thus proposes under section 332 of the Commercial Code of Estonia to allocate the retained earnings of Eesti Energia Group as at 31 December 2013 as follows:

1. to pay 113 600 000.00 EUR as dividends to shareholder;
2. to transfer to the statutory reserve capital 7 975 247.54 EUR;
3. not to distribute the remaining retained earnings of 444 509 397.02 EUR, due to the continuing financing needs of the Eesti Energia Group.

Signatures of the Management Board to the Annual Report for Financial Year 2013

The Annual Report of the Eesti Energia Group for the financial year ended on 31 December 2013 consists of the management report, the consolidated financial statements, the auditor's report and the profit allocation proposal. The Management Board has prepared the management report, the consolidated financial statements and the profit allocation proposal.

MANAGEMENT BOARD

20 February 2014

Chairman of the Management Board

Sandor Liive



Members of the Management Board

Margus Kaasik



Raine Pajo



Margus Rink



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