Annual Report 2010

Creating new energy!

Eesti Energia

Contents

Sandor Liive
Chairman of the Management Board

Owner, Partners and Customers

In the past financial year Eesti Energia undertook a lot and achieved a lot. Many of our long-planned projects were under construction or approaching completion. We were recognised as a reliable and strong company, a respected employer and client service provider and a socially responsible company

Eesti Energia's total revenue for 2010 was a record 796 million euros, one-fifth more than in the previous year. Operating profit increased by 45% and reached 149 million euros, and we achieved total EVA of 33 million euros.

Half of the increase in revenue, 66 million euros, came from strong sales of electricity on the open markets and from the launch of the power exchanges in Estonia and Lithuania. The other main motor of growth was the rise in sales of liquid fuels and

their high sales price, which led to revenue that was almost a third higher and 12 million euros better than in the previous year.

Sales of network services grew by 15 million euros, mostly as a consequence of the lower temperatures during the year and the recovery of the economy. We earned the same amount by renting out the Estlink undersea cable to Nord Pool.

Capital expenditures continue to increase. In the past financial year we invested 219 million euros in the security of supply in Estonia and in improving the reliability of the distribution network that supplies the domestic market.

Eesti Energia's strong current position is underpinned by the highest generation output for almost two decades and improved efficiency. Our production of oil shale, electricity and shale oil are at levels last seen in 1992. What is more, this time round we reached that record figure with only one-third of the number of employees, which shows how much progress we have made in adding value. Our efficiency is also illustrated by network losses, which hit a record low of 6.6%.

The other defining characteristic of 2010 was the opening of the first part of the Estonian electricity market. When the open market was launched we gave our share of the Estlink undersea cable over for use to the Nord Pool power exchange, along with the Finnish and Lithuanian parts, to help it set up its Estonia price area.

We retained a market share in Estonia of 87%, even after the market opened. At the same time we increased our presence in foreign markets, for example gaining around 6% of the Lithuanian market under our Enefit brand, and ending the year with a market share of 34% for the whole Baltic region.

Eesti Energia has successfully widened the range of services we offer in recent years, entering the market for small household electrical work and providing energy efficiency services. This year we issued a total of 583 energy labels, which gave us a 42% share of the market, and we carried out 60 energy audits and 2487 small electrical jobs in the homes or offices of our customers.

Almost half of our revenues and over 60% of our profit came from the open market in 2010, from electricity and related services, shale oil, telecommunications services, and sales of metal engineering products. This shows that Eesti Energia today is a strong, modern, market-oriented company, but even with our sales success in the open market, we still pay a great deal of attention to our regulated businesses, and particularly to improving the quality and efficiency of our network services.

In the past financial year Jaotusvõrk invested almost 60 million euros in the Estonian electricity network, which is more than three and a half times its own net profit. Two major storms in August and December meant that we had to reconnect around 190,000 households whose electricity was cut off. We were able to get more advance information and guidance from clients than ever before about places where the forces of nature risked interrupting the electricity supplies for days.

- Half of the increase in revenue, came from strong sales of electricity on the open markets and from the launch of the power exchanges in Estonia and Lithuania.
- In the past financial year we invested 219 million euros in the security of supply in Estonia and in improving the reliability of the distribution network that supplies the domestic market.

Eesti Energia's fundamental strategy is to allow each business unit to use the resources it has available to gain the maximum possible added value. To get the best use of our current assets we have steadily expanded our generation portfolio with new technologies and sources of electricity generation.

The best examples of the improvement in value added for the last year are the increase in shale oil production in Estonia and the expansion of the Iru heating plant through the addition of the country's first waste-to-energy unit. The first of these means that with the new Enefit-280 technology we can use our natural resource of oil shale even better, while the second means that waste that had so far been discarded in landfills around Estonia can now be used to generate electricity while sparing the environment.

The heart of the new, efficient and environmentally sound Enefit-280 oil plant is the retort, which was designed by Eesti Energia engineers and has been installed in Auvere. Construction work on the plant and its infrastructure are ongoing and are expected to be completed in 2012 at a total cost of 189 million euros. Work is also under way on the waste-to-energy unit at the Iru power station, which is expected to be ready for 2013 and which represents a total investment of over 104 million euros.

Work continues at the power plants near Narva to make electricity generation cleaner by installing desulphurisation equipment. The total cost of this project is around 111 million euros. The 39-MW wind park on the closed ash field near Narva is the largest renewable energy project currently under construction, and is expected to be ready in 2012 after an investment of over 70 million euros.

At the start of this year we signed the biggest contract in Estonian history with Alstom for almost 950 million euros of power engineering work. Building the new 600 MW capacity power plant in Narva using technology with a lower environmental impact than before will help ensure Estonia's security of supply. The investment requires permission to be granted by the European Commission for a state support scheme that is needed before work can be started.

We believe in making the most of our unique skills in oil shale processing and in increasing the value of our natural resources, and this belief has led us to expand our activities into other countries with oil shale. In Jordan we received the exclusive right of exploitation for the largest oil shale reserves in the country of over two billion tonnes, which is more than five times the amount that we have mining licences for in Estonia. It is estimated that the reserves available to us in Jordan contain around 1.5 billion barrels of oil.

We are working on an oil plant in Jordan that can produce 38,000 barrels a day and a power station with generating capacity of up to 900 MW. In the past financial year we brought in a strategic partner, the Malaysian energy group YTL Power International.

We believe in making the most of our unique skills in oil shale processing and in increasing the value of our natural resources, and this belief has led us to expand our activities into other countries with oil shale.

We took our Estonian experience of oil shale to a new level in March 2011 when we took control of the American oil shale processing company Oil Shale Exploration Company. This company has oil shale assets of 3.1 billion tonnes in Utah containing 2.1 billion recoverable barrels of oil. Our goal in the USA is to develop our Enefit-280 technology up to a capacity of 57,000 barrels a day in the country which has 70% of the world's oil shale reserves and which imports around 12 million barrels of liquid fuels a day.

The reality at the moment is that oil reserves are shrinking and the price of oil is rising. Eesti Energia's development work for oil shale in the areas of the world with the richest oil shale reserves is well placed to meet the world demand for non-traditional fuel sources and for raw materials for the chemical industry.

Unlike many of the big energy companies, Eesti Energia is only a big company in a small market. In the Estonian context we may seem very big but in Europe or the world we are a small player who needs to compensate for a lack of bulk with speed and flexibility.

In the next few years we particularly expect value to grow from the expansion of liquid fuel production, and the new oil plant that will be ready in 2012 should be a major contributor to growth in Eesti Energia's profit.

The opening of the market and its impact on our market share continues to challenge us. We have so far been successful in the open electricity market, and this gives us confidence that we can also succeed in the next round of market opening in the Baltic States.

The biggest challenge facing Eesti Energia is to accommodate the European Union's climate policy. Generating electricity from oil shale releases a lot of CO_2, and for this reason policies that restrict CO_2 emissions have a major impact on us. Our solution is to lower the CO_2 emission level of our generation portfolio by increasing diversity in the portfolio.

In December 2010 the EU directive on industrial emissions was adopted, which allows old sulphur-emitting energy units to be used in limited amount after 2015 if it is necessary to ensure security of supply. We are looking carefully at the implications of this directive, and it may affect our investment programme for the next years.

Eesti Energia is continuing to carry out capital intensive electricity generation projects to ensure security of supply in Estonia and to allow us to be able to compete successfully in the open market. At the same time we need to invest large sums in improving the quality of the distribution network as the peace of mind of half a million clients in our home market depends on this. This means that the company's need for capital will increase in the short term and in future we will need to concentrate on making carefully chosen projects succeed.

Eesti Energia has been and will continue to be driven by efficiency, innovation and flexibility. Our success makes our people smarter, more dynamic and better able to carry through well-planned projects.

As it is clear that not only Eesti Energia but also the wider Estonian nation need active people to continue our success story, we launched last year a programme called Entrum that aims to promote entrepreneurship among young people.

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We started the programme in the region where we do most of our work, Ida Virumaa in eastern Estonia, and it uses an active and engaging format to teach young people to be entrepreneurial, to make plans and to carry them through.

As a company and as the people who work for it, we have chosen to invest in youth and in enterprise, and this will help our society to make the changes it needs. We believe that the taste of success that these young people will get while carrying out their projects with some of the top experts in Estonia will give them the desire and the courage to become leaders in our society in the future.

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IN BRIEF

Eesti Energia is an international energy company. We operate in the steadily unifying Baltic States and Nordic electricity market. Our knowledge, skills and technology for processing oil shale are held in high regard around the world.

Our unified business makes us a professional and reliable partner for our customers in all energy-related matters. We are the only Estonian energy company that mines oil shale, generates electricity and heat, produces oil and provides services and products to customers. We export our long experience under the Enefit brand. We sell energy to customers in Latvia, Lithuania and Finland and we can offer the world a unique, efficient and environmentally sound integrated technology for oil shale processing.

Fast facts

- established in 1939, Eesti Energia uses the Enefit brand in international markets
- the largest employer in Estonia, with over 7400 employees
- the most preferred employer (TNS Emor, 2009)
- the most valuable company in Estonia (Gild Bankers, ranked first in 2009 and second in 2010)
- the most prestigious state-owned business entity in Estonia (TNS Emor, 2009)
- the second best customer service company in Estonia (TNS Emor, 2010)
- the winner of the Estonian round of the European Employee Volunteering Award (Business in the Community, 2010)
- ranked third in the Corporate Responsibility Index (Responsible Business Forum, 2010)
- holder of credit ratings with stable outlook – S&P rating BBB+ and Moody's rating A3

Main products and services

- we sell electricity, network services, heat and shale oil
- we offer energy related services – we do electrical work and carry out energy audits and thermal performance reviews, we issue energy labels and operate the Kõu internet service
- we export oil shale processing know-how and technology

VALUES

Enterprising spirit
finding opportunities and using initiative and hard work to realise them

Expertise
being experts in our field, giving our best and striving to develop

Teamwork
working together towards a common goal, the best way to achieve the best results;

Responsibility
taking responsibility for keeping our promises and being accountable for the consequences of our actions and decisions.

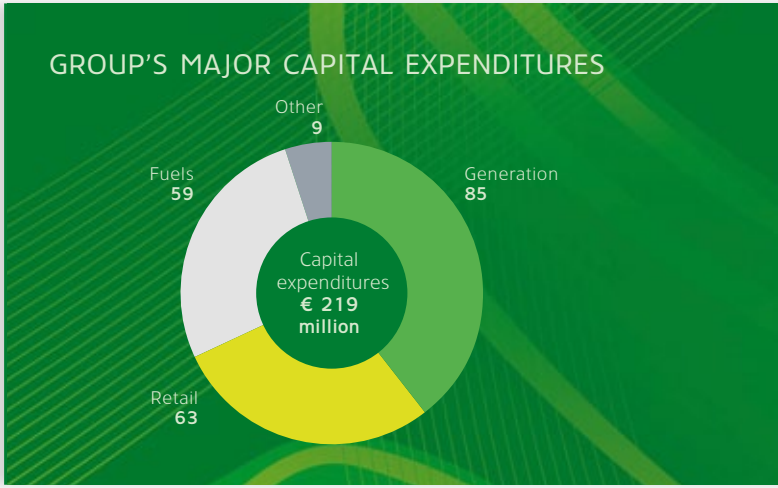
The 2010 Financial Year in Brief

Best ever financial results:

- revenues of 796 million euros, + 20%
- EBITDA of 242 million euros, +17%
- operating profit of 149 million euros, +45%
- net profit of 117 million euros, +32%
- investments of 219 million euros, +5%
- Sales of electricity of 410 million euros, +22%

Best production results since 1992:

- Sales of electricity of 10.7 TWh
- Network losses of 6.5%
- Electricity generation of 11.5 TWh
- Oil shale production of 17 million tonnes
- Liquid fuels production of more than 190 thousand tonnes, a record since liquid fuels production was started 30 years ago



Key events

- Sale of the transmission system operator Elering in January 2010
- Opening of Nord Pool Estonia and achievement of an 87% market share in the Estonian open electricity market
- Signing of a concession agreement with the Jordanian government, bringing in minority investor YTL Power International to the Jordanian shale oil and power station project
- Construction agreement with Alstom for a new €950m power plant with either one or two shale-fired power units

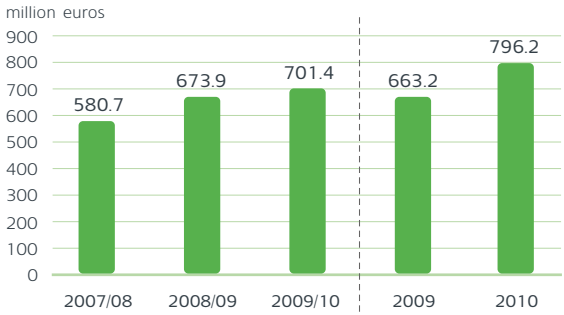
Most significant capital expenditures

- Distribution networks, 60 million euros
- Desulphurisation equipment in Narva power plant, 46 million euros
- New Enefit-280 oil plant, 32 million euros
- Oil shale mining, 22 million euros
- Iru waste-to-energy plant construction, 10 million euros
- Aulepa wind park, 9 million euros

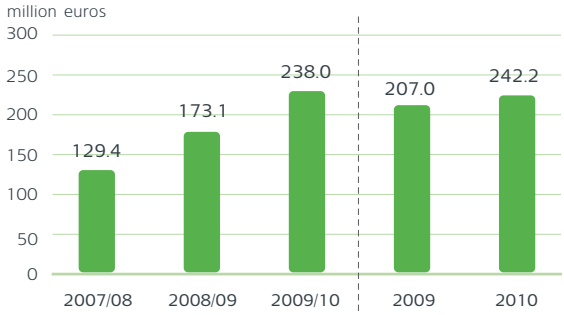
Key Figures for the Group*

		2010	2009	2009/10	2008/09	2007/08
Total electricity sales, of which	GWh	10 714	9 541	9 760	10 025	10 121
Sales of heat	GWh	1 428	1 381	1 412	1 689	1 739
Sales of oil shale	thousand tonnes	1 966	1 662	1 689	1 730	1 796
Sales of shale oil	thousand tonnes	181	154	171	139	128
Distribution grid losses	%	6.6	7.8	7.4	6.7	7.8
Net profit	MEUR	117,0	88,9	115,0	69,0	23,0
Cash flow from operating activity	MEUR	150,8	174,5	217,0	122,0	111,0
Investments	MEUR	218,5	208,4	199,0	189,0	159,0
Assets at the end of the year	MEUR	1 844,1	1 760,6	1 834,0	1 802,0	1 694,0
Debt obligations at the end of the year	MEUR	358,7	362,4	363,0	329,0	337,0
Equity at the end of the year	MEUR	1 107,1	1 103,4	1 190,0	1 160,0	1 055,0
Equity / assets at the end of the year	%	60.0	62.7	64.9	64.4	62.3
ROIC**	%	12.7	7.5	11.8	7.6	4.2
Net debt / EBITDA		0.5	1.6	-0.4	1.0	0.8
Interest coverage ratio***		13.7	11.7	13.4	9.4	7.0
Average number of employees		7 423	7 812	7 613	8 221	8 290

REVENUES



EBIDTA



* data for continuing operations

** ROIC = EBIT / average invested capital during fi nancial year
Invested capital = equity + borrowings + provisions + derivative financial instruments (current and non-current liabilities) - fi nancial investments - derivative fi nancial instruments (current and non-current assets) - cash and cash equivalents - deposits at banks with maturities of more than three months

*** Interest coverage ratio = EBITDA / (interest expenses on bonds and loans + interest expenses on provisions)

Eesti Energia's success in the retail business is based on the quality of our network services, our active product development and the electricity services we supply to residential and corporate customers. Our retail strategy can be summarised quite simply as More Products; More Customers; More Business.

STRATEGY

We operate in the unifying Baltic and Nordic electricity market. Our knowledge, skills and technology for processing oil shale are held in high regard around the world. We operate responsibly and transparently. We seek, retain and reward staff, specialists and managers who embody our values: teamwork, expertise, an enterprising spirit, and responsibility.

We are developing simultaneously the production of electricity and liquid fuels and many other energy-related services. Our integrated approach to energy generation and the energy-related needs of our customers gives them a greater sense of security in a volatile energy market. Our unified management of our business operations with different risk profiles lets us achieve faster growth and create more value to our shareholders.

In Estonia we are known as Eesti Energia, but internationally our long experience goes by the brand name Enefit.

Eesti Energia is an international energy company operating across the whole value chain.

Retail Business

Eesti Energia's success in the retail business is based on the quality of our network services, our active product development and the electricity services we supply to residential and corporate customers. Our retail strategy can be summarised quite simply as More Products; More Customers; More Business.

In Estonia we sell electricity, network services and Green Energy, we operate the KÕU internet connection service, we carry out electrical work and energy audits, and we issue energy labels. We aim to become the market leader in energy conservation in Estonia and to expand the sale of our services in other countries in our home

We aim to become the market leader in energy conservation in Estonia and to expand the sale of our services in other countries in our home market area.

market area. We are developing data services between Northern and Central Europe. We are preparing for the final full opening of the electricity market in Estonia in 2013.

We are focused on increasing customer loyalty in the Baltic electricity market with the aim of achieving and maintaining a market share of 35%. Our advantages over our competitors are a more stable production portfolio, flexible product offers and active local sales work.

In improving our network service, our main focus is on reducing the number and the duration of power outages for customers. We are implementing new-generation systems for managing the power grid, measuring electricity and reducing losses. As of 2011, we will no longer require customers to report electrical meter readings. Our distribution network company ensures all market participants have equal access to network services and that all the quality requirements set by the regulator are met.

Continuous improvement of the quality and efficiency of our customer service is very important to us. Alongside customer service offices and the call centre, we are developing our e-business environment and implementing a new customer information system. Our corporate clients have personal service from our customer account managers and network account managers.

Electricity and Heat Generation

Eesti Energia's success in generating electricity and heat is based on a diverse generation portfolio that conforms to increasingly strict European Union environmental requirements and is competitive in the regional electricity market.

In order to ensure our clients a sufficient electricity supply, we make maximum use of our current generation portfolio and are investing in new power plants so as to reduce the CO_2 emissions from generation and diversify our electricity generation. Our generation capacity covers Estonia's electricity consumption at a minimum, helping ensure energy security in Estonia. We have given our share of the power cable linking Estonia and Finland over for the Nord Pool Spot power exchange to use in order to boost the development of the regional electricity market.

To make better use of our capacity, our power generation is closely linked to the buying and selling of electricity on the regional electricity market. We are an active and conscientious participant in power exchanges and use bilateral contracts to ensure regional security of supply. We follow a conservative risk management policy. We follow exemplary management principles in operating our power plants.

We are the largest producer of electricity from renewable resources in Estonia. We are reducing the CO_2 emissions of our electricity generation to 0.8 t/MWh by 2016, down from 1.1 t/MWh in 2007. We are engaged actively in the development of major electricity generation projects that will significantly reduce the CO_2 emissions from the generation of electricity. Investment decisions are made one at a time,

We make maximum use of our current generation portfolio and are investing in new power plants.

dependant on the legislative environment and the electricity market.

To reduce the environmental impact of electricity generation in the power plants in Narva, we are investing in increasing the environmental safety of ash handling and removing sulphur and nitrogen emissions from exhaust gases. This will ensure compliance with our obligations and ensure our power generation capacity even

after more stringent environmental requirements come into effect in 2012 and 2016.

In Iru, we are building a combined heat and power (CHP) plant that runs on waste. Across the Baltic States we are building up to 100 MW of mini-CHP plants and up to 350 MW of wind parks.

In Narva, we are planning to build a new circulating fluidised bed power plant burning oil shale and other fuels, in order to increase security of supply. We ensure that the town of Narva is equipped for the long term with the cheapest distance heating system in Estonia.

By 2015, we will increase the amount of oil shale ash sold as a construction material at least tenfold from the level of 2009.

Minerals, Oil and Biofuels

Eesti Energia's success in producing fuels is based on the efficient mining of oil shale and the development of the technology for producing liquid fuels, maximising the value of our oil shale resources and minimising the environmental impact.

In mining and transporting oil shale, we are enhancing efficiency through the entire supply chain right up to the customer's door. We plan the sustainable and maximum use of natural resources skilfully and ensure reclamation of mined areas. The significantly wider use of calcareous mine waste and the crushed stone produced from this waste in construction reduces the need to open new limestone quarries and helps lessen the impact on the Estonian environment.

We want to ensure the oil shale resources at least for our electricity generation and liquid fuels production in Estonia, so as to guarantee Estonia's security of supply in these two strategic sources of energy. To do this, we must have the mining rights and capacity to mine 17 million tonnes of oil shale per year.

We are building a new generation of Enefit shale-oil production plant. By 2016 we aim to produce liquid fuels that are suitable for refining and priced at least the same as North Sea oil (Brent Crude). To achieve this we will build a shale oil processing plant in Estonia with a production capacity of at least 20,000 barrels per day.

We have the world's best technology for producing liquid fuels from oil shale, allowing all of the oil shale that is mined to be used efficiently for production, even the fine oil shale.

We are perfecting our solid heat carrier technology for liquid fuel production together with our strategic partner Outotec. Under the Enefit trademark, we are selling our patented technology know-how and our turnkey technological solutions to countries interested in utilising their oil shale reserves.

> We plan the sustainable and maximum use of natural resources skilfully and ensure reclamation of mined areas.

We aim to increase significantly our sales of energy equipment design, manufacturing, installation and maintenance and to start up at least one Enefit technology based oil production system outside Estonia by 2015.

We have mining rights in Jordan and the USA, where we are preparing to start production of liquid fuels and electricity generation from oil shale. In other countries with oil shale resources our focus is on sales of technology and project management for the use of oil shale. We work with other companies as partners and investors in our foreign projects.

Eesti Energia have the world's best technology for producing liquid fuels from oil shale, allowing all of the oil shale that is mined to be used efficiently for production.

CORPORATE GOVERNANCE REPORT

The main basis for the governance of Eesti Energia is the Commercial Code with particular requirements specified in the State Assets Act. Clause 88 (1) 10 of this act states that when shareholders of a public company are executing their shareholder rights, one thing that they must guarantee is that the Articles of Association include an obligation to follow a Corporate Governance Code and to describe the compliance with this code in a separate Corporate Governance Report as part of the Annual Report. The new Articles of Association of Eesti Energia, which comply with this clause, were approved by the sole shareholder on 30 June 2010.

In addition, it is very important for us to follow good corporate governance principles so as to allow comparison with other similar companies. We have found that the best set of rules for us to follow is the Combined Code on Corporate Governance of the United Kingdom's Financial Reporting Council.

We have analysed and compared the principles of the Combined Code with the Corporate Governance Code drawn up in 2005 by the Estonian Financial Supervision Authority and the Tallinn Stock Exchange. In our opinion, the Combined Code covers all the principles of the Corporate Governance Code, and so by following it we also adhere to the recommendations of the Corporate Governance Code.

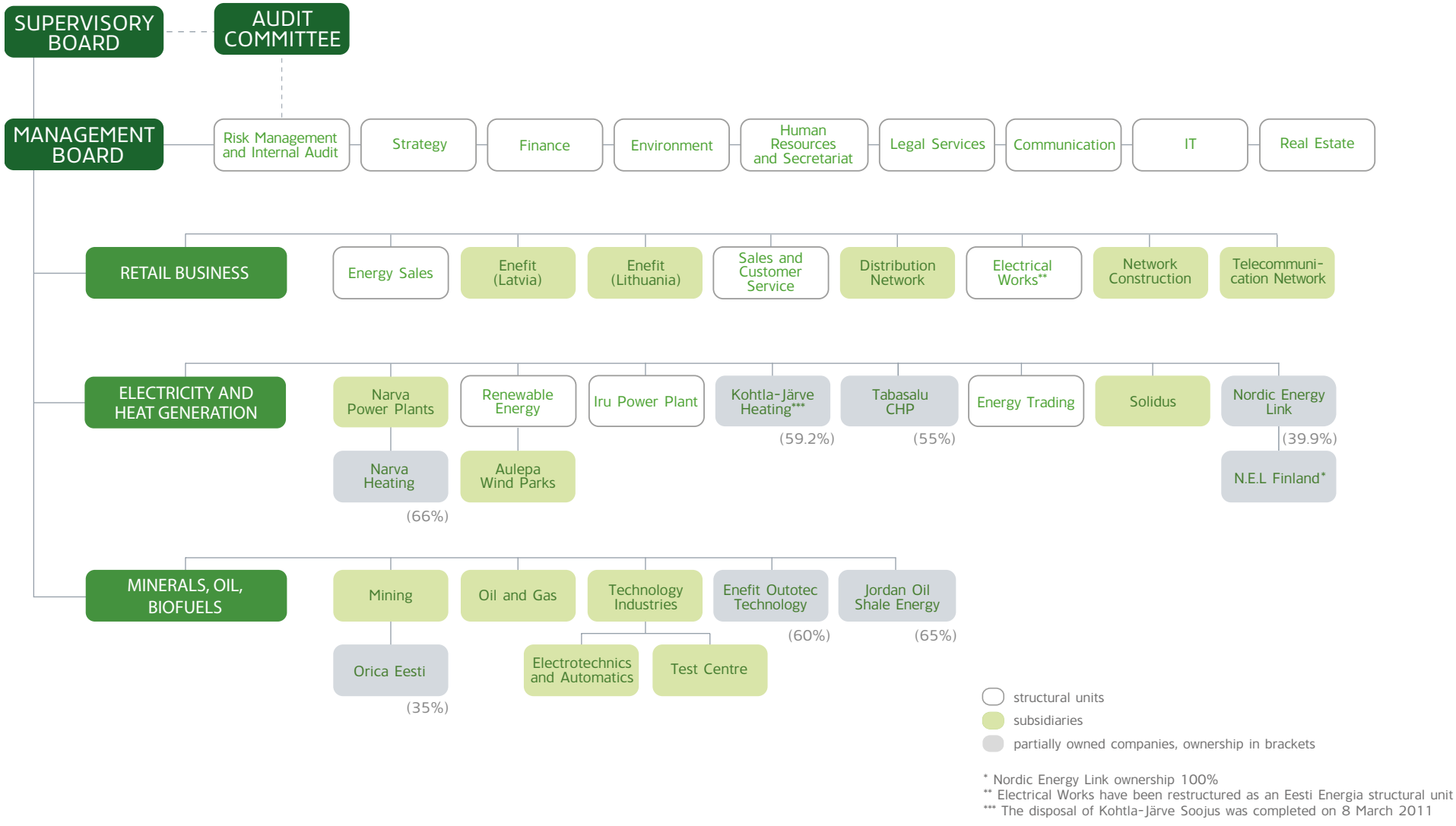
Additionally, we have analysed the principles of the Combined Code in comparison *with the Baltic Guidance on the Governance of Government-owned Enterprises*, which gives recommendations for management, financial reporting and auditing. Those parts that cover recommendations to government and Supervisory Board of state-owned entity were not included in the analysis.

The new Articles of Association of Eesti Energia were approved by the sole shareholder on 30 June 2010.

In the following sections we cover the main points of the implementation of the agreement on the management and control environment and the Combined Code, and the most important events of the 2010 financial year. A list and assessment of non-conformities with the Combined Code accompanied by explanations can be found at the end of the chapter.

Structure

as at 31 December 2010



* Nordic Energy Link ownership 100%
** Electrical Works have been restructured as an Eesti Energia structural unit
*** The disposal of Kohtla-Järve Soojus was completed on 8 March 2011

Owner and Organisation

The shares of Eesti Energia are owned by the Republic of Estonia and shareholder rights are exercised by the Ministry of Economic Affairs and Communications, represented at the shareholders' meeting by the Minister of Economic Affairs and Communications. This chain of command has been governed at national level by the State Assets Act since 1 January 2010, and before 31 December 2009 by the Participation in Legal Persons in Private Law by the State Act.

The Eesti Energia Group consists of Eesti Energia AS and its subsidiaries. The subsidiaries in which Eesti Energia has a majority holding are consolidated in the Group and are reflected in our governance model.

The following material changes were made to the structure of the Group in the 2010 financial year:

- OÜ Elering (formerly OÜ Põhivõrk) was sold to the Estonian state (27 January 2010);
- Eesti Energia Elektritööd OÜ was reorganised as a structural unit of Eesti Energia, a process that will be completed during the 2011 financial year;
- An 11% stake in Oil Shale Energy of Jordan was sold (13 December 2010);
- The sole shareholder approved the disposal of a 59.2% stake in Kohtla-Järve Soojus AS (17 December 2010, transaction completed on 8 march 2011)

Management Structure and Responsibilities

General Meeting

The State Assets Act and the Articles of Association of Eesti Energia give shareholder rights to the Ministry of Economic Affairs and Communications, represented at the shareholders' meeting by the Minister of Economic Affairs and Communications. The procedure for convoking the meeting and the rules for adopting resolutions are set out in the Eesti Energia Articles of Association.

The annual general meeting is generally held once a year and is convoked by the Management Board no later than six months after the end of the financial year, at the time and in the place appointed by the Management Board. An extraordinary general meeting may be convoked with one week of advance notice.

Six general meetings took place in the 2010 financial year, in which the sole shareholder decided:

- to approve the annual report of Eesti Energia for the financial year 2009/10;
- to harmonise the Articles of Association of Eesti Energia with the amendments to the State Assets Act;
- to approve PricewaterhouseCoopers AS (PwC) as the auditor of the Eesti Energia Group;
- to bring in to the Jordanian project the international energy group YTLPI;
- to change the financial year of Eesti Energia so that it follows the calendar year and to convert the share capital to euros;
- to sell the majority stake in Kohtla-Järve Soojus;
- to approve the statutes of the Eesti Energia Supervisory Board.

Supervisory Board

The rights and responsibilities of the Eesti Energia Supervisory Board are set forth in the Articles of Association, the State Assets Act and the rules of procedure of the Supervisory Board. The 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 directive of the Ministry of Finance.

The primary functions of the Supervisory Board are to enforce he strategy of 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.

No changes took place during the 2010 financial year in the membership of the Supervisory Board.

Supervisory Board meetings generally take place once a month, except during the summer. In the 2010 financial year the Supervisory Board held 10 meetings. The Supervisory Board fulfilled all its legal obligations and approved the following strategically important decisions:

- to launch the second phase of Aulepa wind power plant (22 April 2010)
- to build a wind energy park on the closed ash field in Narva (17 June 2010)
- to acquire SIA Valkas Bioenergo Kompanija (23 September 2010)
- to exchange the Sompa mining licence for the Usnova mining licence held by VKG (23 September 2010)
- to sell an 11% stake in Eesti Energia's Jordan project to YTL Power International (18 November 2010)
- to build a waste-to-energy plant in Iru (18 November 2010)
- to invest in new power units in the Narva power plants (16 December 2010)

The work of the Supervisory Board is organised by attorney at law Sven Papp of the law firm of Raidla Lejins & Norcous.

Participation of Supervisory Board members in meetings:

Name	Number of times mandated to attend meetings	Participation in meetings	Participation %
Jüri Käo	10	10	100
Rein Kilk	10	10	100
Rein Kuusmik	10	10	100
Kalle Palling	10	10	100
Janek Parkman	10	10	100
Aivar Reivik	10	10	100
Meelis Atonen	10	8	80
Toomas Luman	10	5	50

THE SUPERVISORY BOARD ON 31 DECEMBER 2010 WAS

JÜRI KÄO (45)
Chairman
Date appointed 30 May 2007
Expiration of term 29 May 2010

MEELIS ATONEN (44)
Member
16 May 2005
19 May 2011

REIN KILK (58)
Member
30 May 2007
25 May 2013

REIN KUUSMIK(62)
Member
25 November 2009
24 November 2012

TOOMAS LUMAN (51)
Member
17 March 1998
5 July 2012

KALLE PALLING (26)
Member
26 November 2009
25 November 2012

JANEK PARKMAN (41)
Member
26 November 2009
25 November 2012

AIVAR REIVIK (54)
Member
30 May 2007
25 May 2013

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. Exceptions are Eesti Energia Kaevandused AS, which has additional Supervisory Board members Toomas Luman and Indrek Saluvee, and Eesti Energia Narva Elektrijaamad AS, which has additional Supervisory Board members Ants Pauls and Meelis Atonen.

Meetings of the Supervisory Boards of subsidiaries take place as needed. They are convoked in accordance with the Group's internal rules, the subsidiary's Articles of Association, and the law.

Audit Committee

The work of the Eesti Energia Audit Committee is governed by the Articles of Association of Eesti Energia, the rules of procedure of Supervisory Board, the statutes of Audit Committee, and the Authorised Public Accountants Act and the regulation of the Minister of Finance on the procedures for setting up and remunerating and organising the work of the Audit Committees of state-owned or state-controlled companies and foundations established by the state. The Audit Committee has four members. The number of committee members is decided by the Eesti Energia Supervisory Board, which also nominates the chairman.

The primary function of the committee is to provide consultation to the Supervisory Board in matters related to management review. The Committee reviews and monitors (a) adherence to accounting policies; (b) the preparation and approval of the financial budget and statements; (c) the sufficiency and efficacy of the external audit; (d) the development and functioning of the internal audit system, including risk management; and (e) the 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.

No changes took place during the 2010 financial year in the membership of the Audit Committee. The mandate is valid for three years.

Meetings of the Audit Committee take place to an agreed schedule, and at least once a quarter.

In the 2010 financial year, seven ordinary meetings were held, in which the participation of the members was:

Name	Number of times mandated to attend meetings	Participation in meetings	Participation %
Jüri Käo	7	7	100
Meelis Virkebau	7	7	100
Rein Kuusmik	7	6	86
Meelis Atonen	7	4	57

The Audit Committee's report is submitted to the Supervisory Board before the Supervisory Board approves the annual report.

The work of the committee is organised by Heikko Mäe, Risk Management and Internal Audit Service Director of Eesti Energia.

THE AUDIT COMMITTEE ON 31 DECEMBER 2010 WAS

JÜRI KÄO (45)
Chairman
Date appointed 12 June 2007
Expiration of term 16 December 2012

MEELIS ATONEN (44)
Member
17 December 2009
16 December 2012

REIN KUUSMIK (62)
Member
17 December 2009
16 December 2012

MEELIS VIRKEBAU (54)
Member
12 June 2007
16 December 2012

THE MANAGEMENT BOARD ON 31 DECEMBER 2010 WAS

SANDOR LIIVE (40)

Chairman, CEO

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

Expiration of term
30 November 2014

Experience: Mr Liive has been in business for over 21 years, and has 15 years of experience in financial and management roles at major Estonian companies. Mr Liive was Chief Financial Officer of Eesti Energia from 1998 to 2005. Between 1995 and 1998 he held the positions of Head of Treasury and Chief Financial Officer at Tallinna Sadam (the Port of Tallinn). From 1990 to 1995 he was a board member and finance manager in various private companies.

Education: Mr Liive graduated in Accounting and Finance from the Faculty of Economics at Tallinn University of Technology and is currently studying for a doctorate at the same university. He also studied chemistry for two years at the same university, and has taken courses at the international business schools INSEAD and IMD.

MARGUS KAASIK (37)

Member, CFO

Date appointed
1 December 2005

Expiration of term
30 November 2014

Experience: Mr Kaasik has over 18 years of experience in financial roles at major Estonian companies. He has worked for companies in the Eesti Energia Group since 1999 and was Financial Manager of the distribution network from 2000 to 2001 and Head of the Company's management accounting department from 2001 to 2005. Between 1994 and 1999 Mr Kaasik was a Financial Manager at FKSM (formerly Kogeri & Sumbergi Grupp) and from 1993 to 1994 he was a Consultant at the accountancy firm Concordia Konsultant.

Education: Mr Kaasik has a diploma and a Master's degree in Business Administration from the Faculty of Economics at Tallinn University of Technology.

MARGUS RINK (38)

Member,
Head of the Retail Business division

Date appointed
14 April 2008

Expiration of term
13 April 2011

Experience: Mr Rink has over 15 years of experience in the retail business. From 1996 to 2008, Mr Rink worked in various roles at Hansapank, including Head of Private Banking and Head of Retail Banking. Between 1994 and 1996, he worked as an accountant at Eesti Ühispank and Magnum Medical.

Education: Mr Rink has a BA in Financial Management and a Master of Business Administration degree from Tartu University.

RAINE PAJO (34)

Member,
Head of the Electricity and Heat Generation division

Date appointed
1 December 2006

Expiration of term
30 November 2014

Experience: Mr Pajo has 14 years of experience in engineering and management. From 2001 to 2006, Mr Pajo worked in various roles within Elering (formerly Põhivork, a former subsidiary of Eesti Energia), and was a member of the Management Board of Elering, a director of the development department and a director of the electrical grid planning section. He has also worked for Fingrid (the Finnish TSO) and Ecomatic.

Education: Mr Pajo has a degree in Electrical Engineering and a Master's degree and a Doctorate in Engineering from the Faculty of Power Engineering at Tallinn University of Technology. He also has a Master's degree in Business Administration from Tallinn University of Technology.

HARRI MIKK (37)

Member,
Head of the Minerals, Oil and Biofuels division

Date appointed
1 December 2006

Expiration of term
30 November 2014

Experience: Mr Mikk has 17 years of experience of management. From 2001 to 2006, he was General Counsel of Eesti Energia. From 2000 to 2001, he was a Domestic Policy Advisor to the Office of the President and between 1994 and 2000 he held various positions at the Ministry of Justice of the Republic of Estonia.

Education:
Mr Mikk has a BA in Law from the University of Tartu and a Master of Laws from the University of Hamburg.

Management Board and Managing Director

Under the Commercial Code and the Articles of Association, the Management Board of Eesti Energia is responsible and liable for fulfilling the objectives of the Group.

The Management Board has five members, who are selected by the Supervisory Board, and a Chairman of the Management Board, who is appointed separately. The Chairman of the Management Board has the function of Chief Executive Officer.

There were no changes with regard to the Management Board or the areas of responsibility of the members of the Management Board in the 2010 financial year.

The work of the management board Management Board is organised in accordance with the procedure for convoking and holding meetings of the Management Board. Management Board meetings generally take place once a week, and if necessary voting can take place electronically. During the 2010 financial year, 49 meetings and 5 electronic ballots were held, in which the participation of the Management Board members was:

Name	Participation in meetings	Participation in electronic ballots
Sandor Liive	44 (90%)	2 (40%)
Margus Kaasik	48 (98%)	4 (80%)
Margus Rink	45 (92%)	4 (80%)
Raine Pajo	45 (92%)	5 (100%)
Harri Mikk	43 (88%)	5 (100%)

The directors or Management Boards of each subsidiary are appointed by the subsidiary's Supervisory Board.

Business Division Management Groups

Management in Eesti Energia is based on business divisions. Each division has a management group, which comprises the head of the division, members of the Management Boards of the subsidiaries and entities within the division, and representatives of key central services.

The role of the management groups of the divisions is to implement strategy and organise the daily work within the divisions. For this purpose, the management group's functions are:

- to coordinate and monitor the implementation of key decisions;
- to ensure cooperation between the companies in the division;
- to develop a strategic plan for the division;
- to approve the strategic decisions of the division;
- to approve transactions exceeding 300,000 euros in value, except for sales policy transactions and transactions in the Electricity and Heat Generation division, for which the limit is 60,000 euros (see also *Exception from the management structure* below);
- to approve investment projects exceeding 300,000 euros in value and add such projects to the strategic plan, starting preliminary analyses and investigations, before discussion of the projects in the Group's Management Board or the company's Supervisory Board (see also *Exception from the management structure* below);
- to establish transfer prices within the division;
- to monitor strategic projects within the division;
- to monitor the results of the division and the division's companies, and to update forecasts;
- to give feedback to companies in the division;
- to organise the exchange of information and cooperation between the companies in the division, and to resolve disagreements between them.

Each division's management group is headed by the member of the Eesti Energia Management Board responsible for the division.

The meetings of the division management groups generally take place once a week.

No material changes took place during the 2010 financial year in the work of the division management groups.

Exception from the Management Structure

Under the Electricity Market Act and because part of Estonian electricity market is now open since 1 April 2010, Eesti Energia Jaotusvõrk, as the network operator, must ensure the equal

treatment of market participants and protect the network operator's restricted information.

Eesti Energia is aware of this obligation and has organised management-related segregation of duties to ensure full compliance with the law and best practice. These provisions ensure that Jaotusvõrk is completely independent when deciding on investments, conducting procurements and maintaining the confidentiality of information about market participants. Eesti Energia has put limits in place to restrict access to customer and business information by network operators and energy sales personnel.

In the annual report on Estonian gas and electricity market that it submitted to the European Commission, the Competition Authority confirmed that the management of the distribution network company is sufficiently distinct from that of the rest of the Group, and that there has been no intervention by the parent company in situations where there is a risk of conflict of interest. Nevertheless, the Competition Authority recommended that the number of members of the Management Board of Jaotusvõrk be increased to strengthen its independence.

Compensation and Motivation Programmes

The principles for remunerating the members of the Eesti Energia Supervisory Board, Management Board and Audit Committee are governed by the State Assets Act (Articles 85 and 86).

The limits of remuneration for the members of the Supervisory Board and Audit Committee and the precise procedures for remuneration were established by Regulation no. 10 of the Minister of Finance of 22 February 2010, which came into effect on 5 March 2010. The new regulation superseded the earlier Regulation no. 117 of the Minister of Finance of 14 June 2004. The members of Audit Committee must also follow the regulation of the Minister of Finance of 1 December 2010 on the procedures for setting up and remunerating and organising the work of the Audit Committees of state-owned or state-controlled companies and foundations established by the state.

The regulation provides for a fee for participation in a sub-committee of a Supervisory Board in addition to the remuneration paid to the members of the Supervisory Board. This means that Supervisory Board members who participate in the Audit Committee will be paid an additional 25% of the remuneration of a Supervisory Board member; the committee chairman receives additional remuneration of 50% of the remuneration of a Supervisory Board member. Severance pay and other additional remuneration apart from the remuneration for participation in supervisory body are Supervisory Board is not to be paid to Supervisory Board members.

The remuneration of the Management Board members is decided by the Supervisory Board. Remuneration of Management Board members is based on their performance of their duties. 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.

The limits for additional remuneration and severance pay are set out in Article 86 of the State Assets Act, which states that the additional remuneration paid to a Management Board member may not exceed four months' salary of the member of the Management Board. The additional remuneration must be justified and must consider fulfilment of the Group's objectives, value added and market position. 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.

There is no remuneration committee at Eesti Energia; remuneration is based on Estonian standards and legal restrictions.

Transactions with Associated Parties

We consider the following to be associated parties: a) entities in which the shareholder of Eesti Energia has a material holding (>50%); b) Eesti Energia's associated companies and c) members of the Management Board and Supervisory Board and companies associated with them.

Details of transactions with associated parties in the 2010 financial year can be found on page 163 of the financial statements.

The Group has a system for reporting economic interests, under which employees who may develop a conflict of interest in the course of their work declare their economic interests and confirm their independence in regular self-evaluations.

Information

Insider Information

The Group has issued Eurobonds that are listed on the London Stock Exchange, and so Eesti Energia is subject to requirements concerning insider information. 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 any information on Eesti Energia and its subsidiaries that may affect their decisions 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.

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 2010 financial year.

Release of Information

Eesti Energia releases information that is significant and of public interest to the media and Eurobond investors.

We give out information that concerns company operations and is presumed to have a potential impact on the price of the Eurobond in accordance with the rules of the London Stock Exchange. Information is submitted primarily through the exchange's information system. We release information that is presumed not to impact the Eurobond price through our website and domestic media channels. In both cases, we adhere to the Group's rules for handling insider information before releasing the information.

In the 2010 financial year we put out 23 stock exchange through the London Stock Exchange information system, of which six were regular notices of financial results and 17 were non-scheduled announcements.

We will release the Group's consolidated interim reports for the 2011 financial year as follows:

- 1st quarter – 28 April 2011
- 2nd quarter – 29 July 2011
- 3rd quarter – 28 October 2011

The audited results for the full 2011 financial year will be released on 27 February 2012.

Assurance and Audit

Audit

The Articles of Association of Eesti Energia give the responsibility for appointing an auditor to the General Meeting. The selection process is led by the Audit Committee and the results of the process are submitted to the General Meeting for approval.

The Eesti Energia auditor is PwC which conducts an audit of the annual report in all Group companies. Depending on the country where the company is located the signatory auditor may be different. Sworn auditor Ago Vilu signs the consolidated annual report.

The sole shareholder approved the decision on 7 December 2010 to make the calendar-based year the financial year of Eesti Energia. To ensure comparability of the financial measures of the financial years the financial results are presented for the periods 1 January 2009 to 31 December 2009 and 1 January 2010 to 31 December 2010, which means that the comparative period has been changed.

An additional audit of the financial statements for the 2009 calendar year was carried out in order to provide comparative information for the annual report for the 2010 calendar year. Other than that the audit followed standard practice and international auditing standards.

The auditor briefed the meeting of the Supervisory Board of Eesti Energia on 17 December 2010 on the results of the interim audit. The auditor's opinion on the annual report is on page 170 of this report.

Eesti Energia considers it important to protect the independence of the auditor and avoid any conflicts of interest, and the Audit Committee has drawn up a set of principles that are to be followed if the auditor wishes to provide additional services to the companies in the Group.

In the 2010 financial year, PwC did not provide Eesti Energia any services that could have compromised the auditor's independence.

PwC Advisors, which belongs to the same network of companies as the auditor, provided the following services to Eesti Energia in the financial year: portfolio management of the Group's IT projects, assessment of financial reporting process and assessment of the market value of a subsidiary. Before these services were provided, the Audit Committee evaluated them and found that provision of the services would not compromise the independence of the financial auditor.

Internal Audit

Eesti Energia has an internal audit function that covers the entire Group. The internal audit department, which is part of the risk management and internal audit service, is responsible for the internal audits.

The department reports to the Audit Committee and its plans and reports are also evaluated and approved by the Eesti Energia Supervisory Board. 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.

In the 2010 financial year, the internal audit department employed five internal auditors and two controllers.

The reports of the internal audit department were submitted to the Audit Committee on two occasions in the 2010 financial year. The consolidated report for the 2009 calendar year was submitted to the Eesti Energia Supervisory Board on 27 January 2010 and the

consolidated report for the 2010 calendar year on 27 January 2011. The internal audit reports are available to the auditor as well.

The Group ensures that the management is notified promptly of all highly significant risks and that these risks are reflected in the Group's risk profile. In the financial year, the Management Board ensured that all risks were hedged within a reasonable period.

Risk Management

Risk management at Eesti Energia is based on the Group's unified risk management principles. The process is coordinated by the risk management department, which is part of the risk management and internal audit service.

Each company in the Group must ensure that risks are managed on an ongoing basis, and that they do not jeopardise achievement of the company's targets. 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.

The risk management department consolidates, analyses and compares the Group's exposure to risks and prepares risk reports twice a year for the whole Group and for each division. The reports are submitted to the division management groups, the Group's Management Board and the Audit Committee. If it is necessary, the Group risk report is first presented to the Eesti Energia Supervisory Board. The risk report is a key input in the planning of internal audit activities.

There were no material or extraordinary changes in the organisation of the Group's risk management in the 2010 financial year.

Prevention of Conflict of Interest and Fraud

The internal audit department, which is part of risk management and internal audit service, is responsible for implementing the plan of action based on the fraud risk management strategy of the Group.

The strategy focuses on fraud prevention and detection, and on mitigating any potential exposure to fraud. Prevention and detection are expected to prevent losses of income and profit, damage to reputation, customer dissatisfaction, loss of customers, and the theft of business secrets, and to guard against the misuse of insider information and the manipulation of information.

In the 2010 financial year Eesti Energia continued taking measures to avoid any possible conflicts of interest its employees might have.

To the knowledge of Eesti Energia, the members of the Group's Management Board and of the Management Boards of subsidiaries, there were no conflicts of interest in the 2010 financial year.

Regulators

The nature of Eesti Energia's business means that its activities are covered by a variety of regulations. Our primary partners in state supervision are the Competition Board, the Technical Surveillance Authority and the Environmental Inspectorate.

Among the main legal acts that govern and impact our activities are the Earth's Crust Act, the Mining Act, the Liquid Fuel Act, the Chemicals Act, the Electricity Market Act, the Grid Code (a government regulation), the Electrical Safety Act, the Metrology Act, the District Heating Act, the Competition Act, the Water Act and the Environmental Impact Assessment and Environmental Management System Act.

In the 2010 financial year, a number of amendments were made to these legal acts which had a material effect on our business and which led us to reorganise the work of the Group.

The following amendments to the Electricity Market Act had an impact on Eesti Energia:
- eligible consumers were prohibited from buying

electricity using the maximum price ceiling established by the Competition Authority,
- the power exchange was created and the licence for importing electricity was abolished,
- the maximum output of 100 MW for renewable energy generating equipment to receive subsidies was abolished on 6 July 2009. At the same time, from 1 July 2010, a restriction was placed on the subsidy for generating electricity from biomass so that only combined heat and power mode is eligible for subsidy. The terms and conditions of this assistance were set out in a government regulation.

Amendments to the Water Act and related legislation led to a regulation that allows wind generators to be built on public bodies of water.

The European Union's Third Energy Market Package on internal market regulation made it obligatory for member states to separate transmission system operators from large energy groups. Estonia's TSO, Elering OÜ, along with the transmission grid, was separated from Eesti Energia completely in early 2010.

In the 2010 financial year, the Competition Authority decided in a misdemeanour procedure against Eesti Energia Narva Elektrijaamad for abuse of its dominant market position when it refused to sell a fixed supply of electricity to Kulon AS and Sagro Elekter OÜ. Narva Elektrijaamad appealed the decision of the Competition Authority. The proceedings have not yet finished.

Representation of the Management Board

In the 2010 financial year, 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.

Representation of the Audit Committee

The work of the Audit Committee in the financial year 2010 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 and, if needed, also the management of subsidiaries about the results of our work and any recommendations arising from it.

Following the change of the Group's financial year we have altered our work so that this would not limit the scope of our activity and that we would be able to give as before our assessment in the way that the Supervisory Board and owner of Eesti Energia need, and that is demanded of us by legal and regulatory norms.

During the financial year 2010, 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 operation 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 2010.

Jüri Käo
Chairman of the Audit Committee

21 April 2011

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 2010 financial year:

- no nomination committee has been formed (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 by Supervisory Board decision,
- no remuneration committee has been formed, 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-evaluation 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 that appointed him or her,
- Chapter D (Dialogue with Institutional Shareholders) and E (Dialogue with Companies) do not apply to Eesti Energia as a state-owned company.

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

The price of electricity in Estonia for residential and business consumers remains among the lowest in the European Union. It is only lower in Bulgaria. The opening of the electricity market in Estonia has raised the price for business consumers.

BUSINESS ENVIRONMENT

The Main Drivers of the Global Business Environment

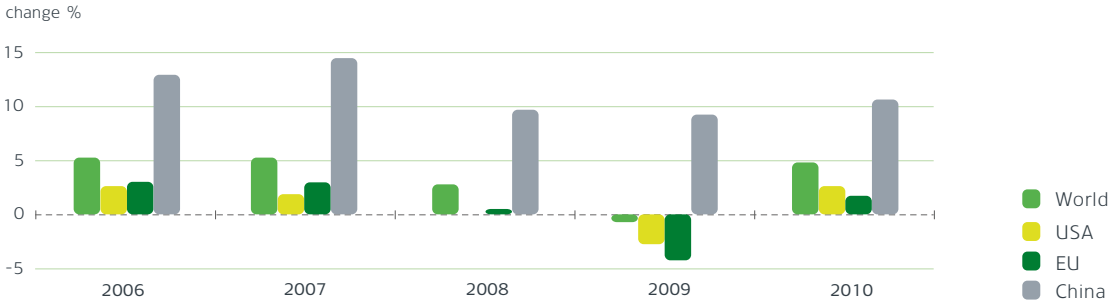
Global Economy

The world economy recovered in 2010 following the financial crisis that started in 2008. The speed of the recovery varied from region to region, with slow growth in developed countries, mainly due to weak labour markets, while growth in developing countries continued at its earlier rate, leading to increased inflationary pressures.

Growth started to resume in Europe in 2010 mainly due to exports. High levels of unemployment and restrictions on the availability of credit kept domestic demand weak. The fiscal policy packages that European countries had enacted also helped the economic recovery. However, the fiscal problems in some eurozone countries caught the spotlight in 2010, particularly the high levels of national debt, which also led the risk levels of the government bonds of some countries to rise sharply.

The main features of the global business environment in 2010 were the recovery of the global economy and a rise in the world market prices for energy and fuels.

CHANGES IN GDP GLOBALLY AND BY REGION



Source: IMF

Liquid Fuels Market

The global economic recovery was one of the factors behind the rise in the world oil price. In 2010 the average world price for Brent crude oil was 60 €/barrel (80 $/barrel), which was 37.1% (29.5%) higher than in 2009. The price changes were primarily driven by the

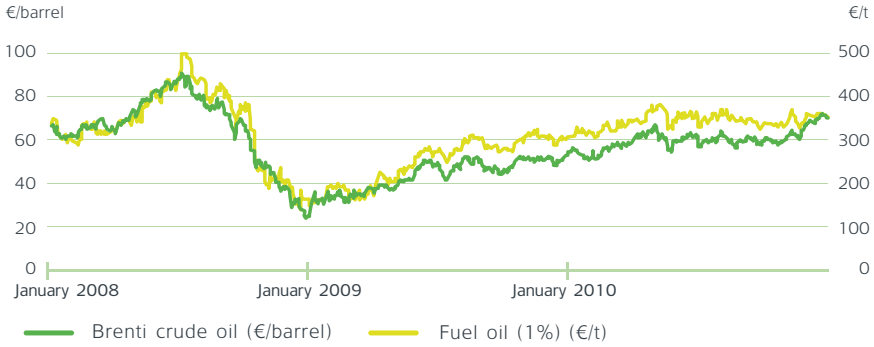
macroeconomic data of the world's two largest energy consumers, China and the USA, which in most cases were better than expected and raised expectations of increased consumption of petroleum products in the future. The main negative influence on the price was the fiscal crisis in Europe, which pulled the oil price down from 65 €/barrel at the beginning of May 2010 to 54 €/barrel by the end of May. The average world price of fuel oil was 344 €/t (456 $/t), following a trend similar to the world market price for crude oil.

However, the rise in the price of crude oil did not lower consumption of petroleum products. According to OPEC, demand in 2010 ran at 86.3 million barrels a day or 2.1% more than in 2009, exceeding most market participants' expectations. As in previous years, the largest contribution to growth in demand came from China, where consumption grew by 8.4%. Demand in North America increased by 2.3%, while in Western Europe it fell by 0.7%.

In the near future growth is expected to continue in both crude and heating oil prices and in consumption. Brent crude oil futures for 2011 traded at an average of 64 €/barrel (84 $/barrel) in 2010[1], and the futures for fuel oil for 2011 were at 379 €/t (501 $/t). OPEC predicts growth of 1.6% in world crude oil consumption in 2011.

While there are sufficient reserves to cover the growing world demand for oil in the short term without production costs rising significantly from current levels, there is no guarantee that this will hold true in the longer term. The International Energy Agency (IEA) forecasts[2] that demand for refined petroleum products will grow to 99.0 million barrels per day by 2035, which is 17.9% more than in 2009. However, crude oil production will rise to 68.5 million barrels per day by 2020, or 0.9% more than in 2009, and will remain at this level through to 2035.

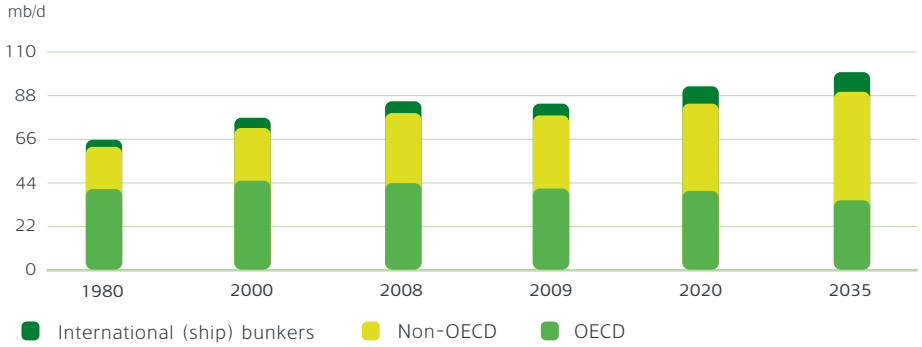
PRICES OF LIQUID FUELS*



Source: Reuters

* End of day closing prices

DEMAND FOR CRUDE OIL



Source: World Energy Outlook 2010

[1] Source: Reuters 3000xtra
[2] World Energy Outlook 2010

The more pessimistic forecasts see 2020-2030 as the period of peak oil, when oil production will begin to decrease.

The main alternative sources for liquid fuel production that could replace crude oil are heavy crude, tar sands and oil shale, also known as unconventional resources. So far, the profitable production of liquid fuels from these resources has been hindered by the low price of petroleum products and lack of effective and environmentally sound technology. However, the need for alternative sources and expectations that world oil prices will remain at a high enough level have raised interest and investment in the development of the technology needed. Since Eesti Energia has, in the opinion of many experts developed the world's best technology for producing liquid fuels from oil shale, Enefit, we are also interested in the world's oil shale reserves. Furthermore, using oil shale to produce fuel helps ensure the country's energy independence.

Today, shale oil is produced industrially in only three countries in the world, Estonia, Brazil and China. In total there are more than 600 known oil shale deposits around the world, which could together supply more than 2800 billion barrels of shale oil. Various sources put the world's oil shale reserves at between three and nine times the level of proven oil reserves.

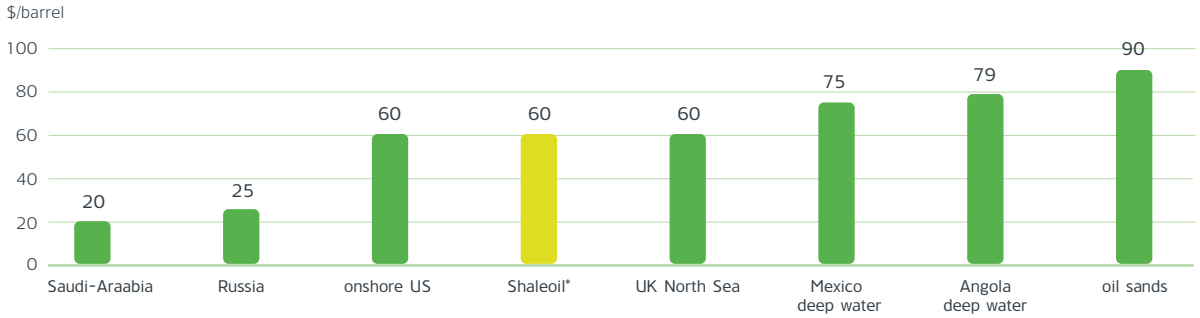
The largest known oil shale reserves are in the United States. Most US oil shale reserves are located in two regions, with higher calorific value reserves in the west in Colorado, Utah and Wyoming, and most of the eastern resources in Kentucky, Ohio, Tennessee and Indiana. The oil shale in the east has a lower calorific value. In the longer term these oil shale reserves offer the USA, as the world's largest consumer and importer of liquid fuels, a way to increase the country's energy independence.

The importance of oil shale as a resource has also been emphasised by the World Energy Council's plan to update its report on oil shale reserves, and produce a study of the technologies for exploiting oil shale.

Electricity

Reducing the negative effect of human activities on the global climate is one of the biggest factors impacting the electricity sector. The United Nations Climate Change Conference was held in 2010, although it did not lead to binding commitments for national governments. The conference did not reach agreement on how to move forward after the Kyoto Protocol's first period, which set binding targets for developed countries for greenhouse gas emissions. Although the European Union is committed to reducing emissions within the Union, China and the USA, the world's largest greenhouse gas emitters which together account for around 40% of total global emissions, have not done so. The most important agreements reached

SHALE OIL AND CRUDE OIL PRODUCTION COSTS



Sources: Cambridge Energy Research Associates, Eesti Energia

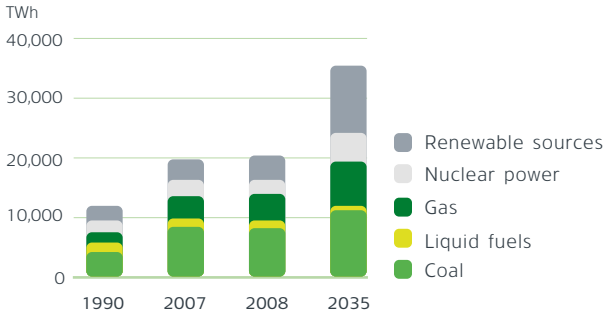
* Eesti Energia estimate

at the conference were the decisions to limit global warming to two degrees Celsius, to cut greenhouse gas emissions from the richest countries to the levels given in the final Copenhagen agreement, and to set up a 'Green Climate' fund to help finance reductions in greenhouse gas emissions in poorer countries.

The most recent data shows that the main fuel used for electricity generation around the world and also in the European Union continues to be coal. In 2008 total global electricity generation was 20,183 TWh, a rise of 2.2% from 2007, of which 3339 TWh was in the European Union, a rise of 0.4%. The share of electricity generated from coal globally has grown since 1990, but in the European Union there have been substantial changes in the last two decades. Coal is still the main source of electricity, but since 1990 its share has fallen from 41% to 28%. At the same time, the share of electricity generated from natural gas has increased from 7% to 24%. The share of electricity generated from renewable sources has remained at around 20% around the world since 1990, but in the European Union it has increased from 12% to 17%. The IEA predicts that in the long term the structure of generation sources will diversify around the world, including the European Union, with the shares of natural gas and renewable sources in particular increasing. Renewable sources will be boosted above all by increased use of wind-powered generation.

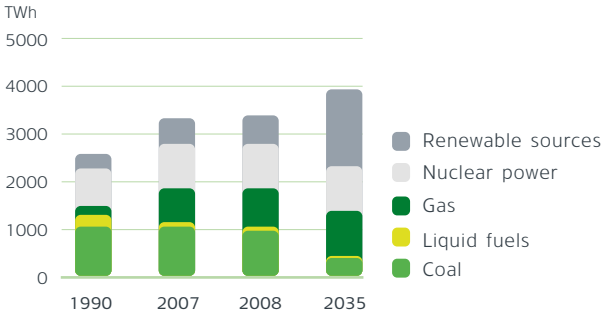
The main motor for the growth in the generation of electricity from renewable sources in the European Union is the target the EU has set of supplying at least 20% of energy consumption with energy generated from renewable sources by 2020. The biggest contribution to achieving this goal has so far been made by wind-powered generation, which has seen the real growth

WORLD'S ENERGY GENERATION SOURCES

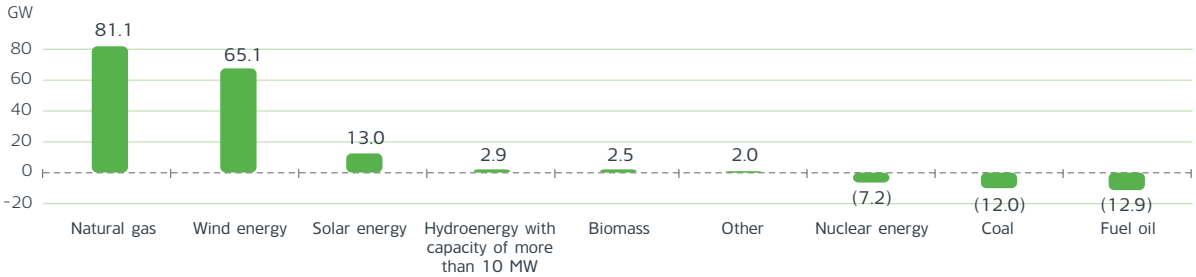


Source: World Energy Outlook 2010

EUROPEAN UNION ENERGY GENERATION SOURCES



CHANGE* IN THE EUROPEAN UNION'S CAPACITY, 2000–2009



Sources: Wind in Power, 2009 European Statistics, EWEA

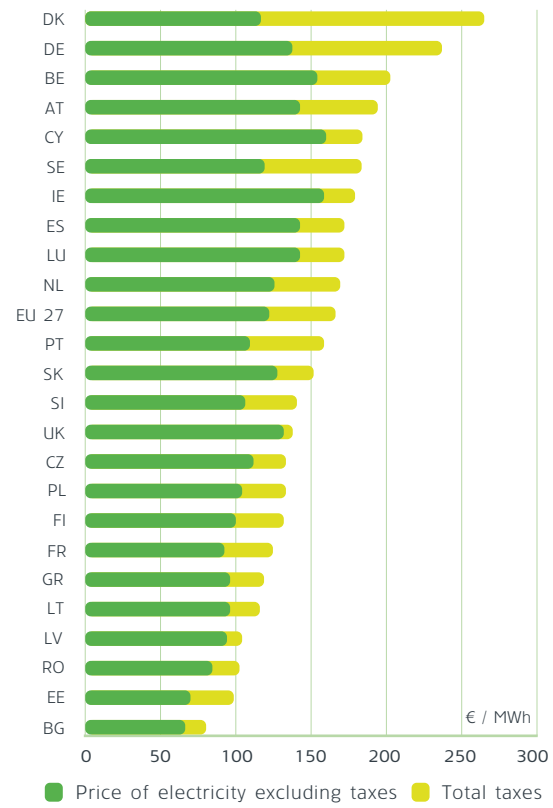
* Additional capacity minus written-off capacity

in its share of generation reflected in the net change in generation capacity in the EU[3]. Between 2000 and 2009, over 50% of the net change in generation came from wind energy. In 2009 a total of 26 GW of new capacity was added in the European Union, of which 16 GW was supplied from renewable sources, including 10 GW of wind energy.

Electricity prices for end consumers in the European Union in the first half of 2010 were 2.0% higher for household consumers and 2.7% lower for business customers than in the first half of 2009 according to Eurostat figures. However, the price of electricity in Estonia for residential and business consumers remains among the lowest in the European Union.
In the first half of 2010 the price of electricity including taxes was lower only in Bulgaria. The opening of the electricity market in Estonia has raised the price for business consumers. In the first half of 2010 the price of electricity without taxes was 7.7% higher for business consumers than in the same period of 2009.

AVERAGE ELECTRICITY PRICE FOR EUROPEAN UNION RESIDENTAL CUSTOMERS,

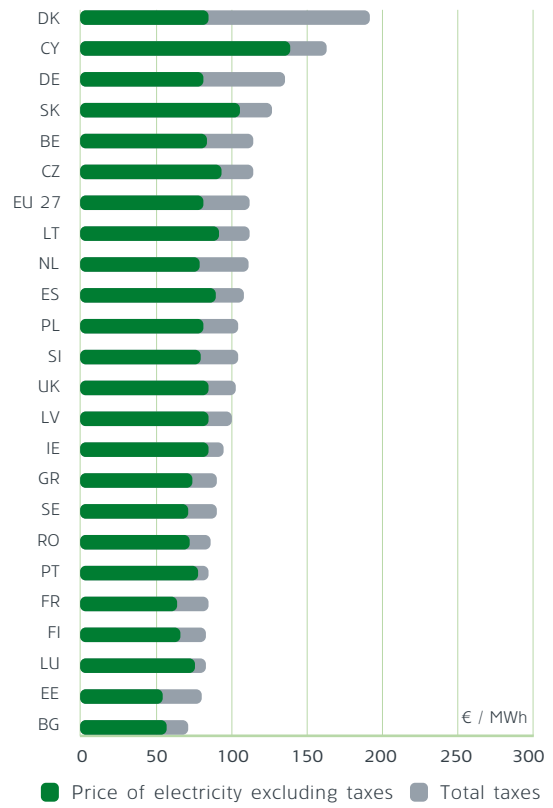
with an annual consuption of 2500–5000 kWh, during January–June 2010



Source: Eurostat

AVERAGE ELECTRICITY PRICE FOR EUROPEAN UNION INDUSTRIAL CUSTOMERS,

with an annual consuption of 2–20 GWh, during January–June 2010



Source: Eurostat

[3] Additional capacity minus written-off capacity

The Main Drivers of the Regional Business Environment

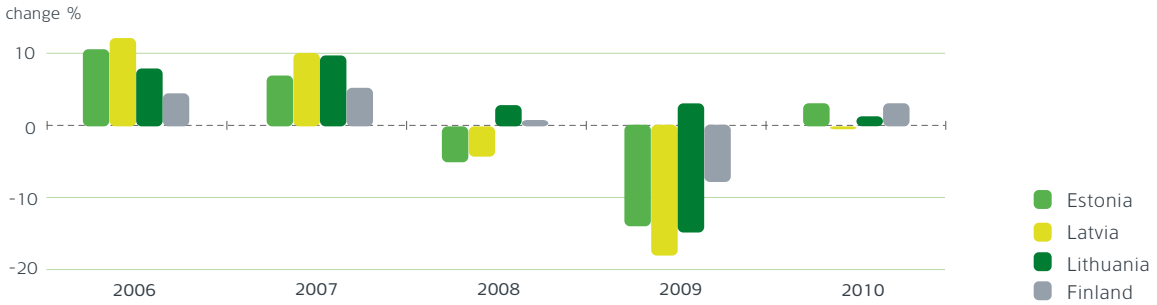
The Economy

The economic circumstances are improving in the Baltic countries and Finland, like in the rest of the world. Gross Domestic Product (GDP) growth in 2010 in the Baltic States and Finland was positive again following the crisis that started in late 2007 and early 2008. Recovery has been faster in Finland and Estonia, with preliminary data showing that GDP growth in 2010 was 3.1% in both countries.

Economic growth in Estonia in 2010 was underpinned by exports, which grew by 35%. At the same time, domestic demand remained weak, falling by 4% in 2010. Private consumption is affected by high unemployment and by incomes, which have remained at levels similar to the previous year. Government consumption is affected by cuts designed to keep public finances within the Maastricht criteria, by capital investment and by low domestic consumption.

The situation in the Estonian labour market did not significantly improve in 2010, since there is generally a lag in the labour market's reaction to changes in the economy. Quarterly average gross wages in Estonia began to decline in the first quarter of 2009, while GDP started to shrink in the first quarter of 2008. National average gross wages in 2010 remained at around the same level as in 2009, rising by 0.9%.

CHANGE IN GROSS DOMESTIC PRODUCT IN THE BALTIC STATES AND FINLAND



Source: Eurostat

Economic recovery in the region, the opening of electricity markets and the launch of power exchanges in Estonia and Lithuania in 2010 were the key features in the regional business environment.

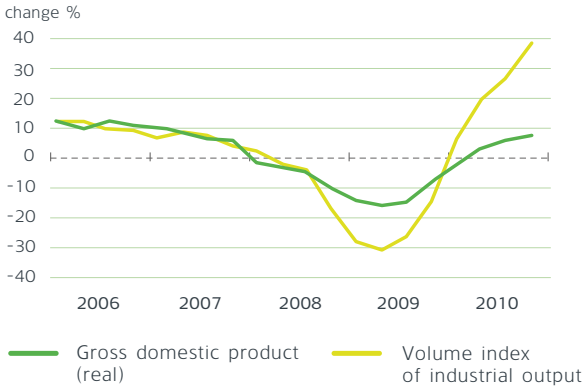
Unemployment peaked in the first quarter of 2010, reaching 19.8%. The average annual unemployment rate in 2010 was 16.9%, which was 3.1 percentage points more than in 2009.

Global rises in food and energy prices and tax changes intended to improve the government's fiscal position led increases in consumer prices to accelerate to 3.0% in 2010. The deflationary environment of the first months of the year became inflationary in the following months, driven mostly by external factors, leading to a monthly inflation rate of 5.3% in December 2010. Comparisons with 2009 were also affected by a low comparison base.

Increased opportunities for exporting and higher export volumes supported the growth in industrial output, which rose to 22.7% in 2010. This was mainly brought about by increased competitiveness in manufacturing and rising demand in foreign markets.

The European Commission's autumn forecast 2010 predicts that economic growth should step up in the Baltic States and Finland. Growth in these countries in 2011 is predicted to be around 3-4%.

ECONOMIC ENVIRONMENT IN ESTONIA



Source: Statistics Estonia

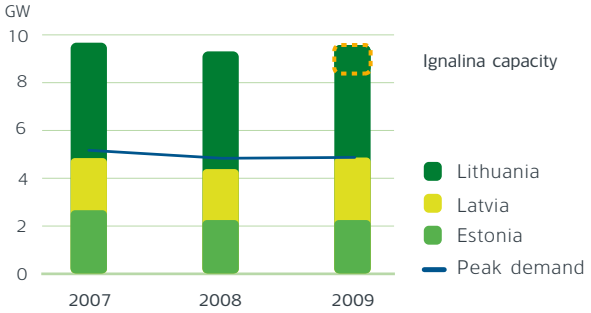
Electricity Market

Wholesale Electricity Market

The most important event for the development of the Baltic regional electricity market was the implementation of the measures agreed in the Baltic Energy Market Interconnection Plan (BEMIP) signed in 2009. The main events affecting the market in 2010 were: the launch of the day-ahead power exchange in Estonia on 1 April 2010 and its connection to the Finnish power exchange, initially under the name of the Estlink price area and from 1 October as the Estonian price area; the unification of the Estonian and Finnish intra-day electricity markets from October 2010; the launch of the BaltPool power exchange on 1 January 2010, using Nord Pool's calculation algorithms; the intention of the Estonian and Lithuanian governments to bring 35% of electricity consumption to the open market, although the actual share brought to the market was smaller due to the recession; the decision by the owners of the Estlink 1 undersea cable to put its entire capacity up for trading on the Nord Pool exchange; and the decision by the Estonian and Finnish Transmission System Operators to invest in and build the Estlink 2 cable.

The closure of the Ignalina nuclear power plant at the end of 2009 cut power generation in the Baltic States by 1 183 MW, but did not lead to any capacity shortages. In 2009 the installed net generating capacity in the Baltic States was 9 339 MW, while peak demand was 4 741 MW. Lithuania also has sufficient capacity to cover domestic demand, with maximum annual electricity generation capabilities of around 12 TWh and demand of 9 TWh. However, the closure of the nuclear power plant significantly reduced the amount of low variable cost and CO_2-free generation capacity.

ELECTRICITY GENERATION CAPACITY AND PEAK DEMAND IN THE BALTIC STATES



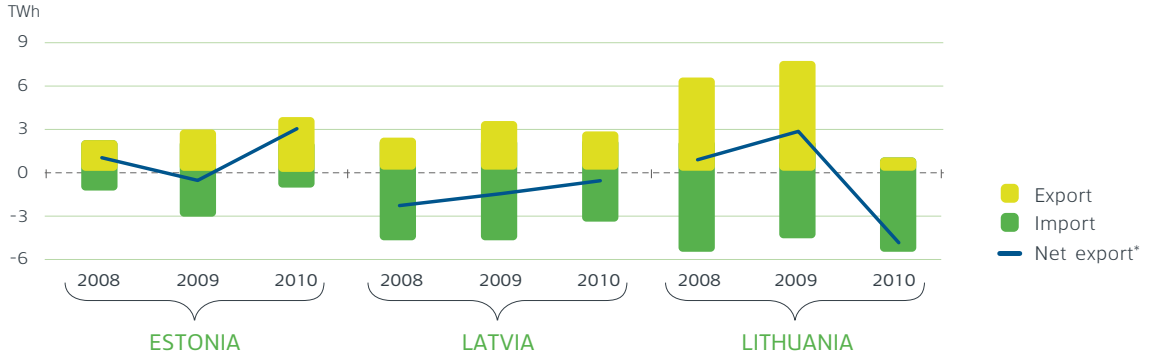
Source: BALTSO

The biggest change in energy trading in the Baltic States in 2010 was that Lithuania became a net importer following the closure of the Ignalina nuclear power plant. The Ignalina closure significantly reduced Estonian imports from Lithuania, while Estonia's exports grew at the same time through the Estlink cable to Finland, and also to the other Baltic States.

In 2010 the price in the Nord Pool Estonia price area after its launch on 1 April 2010 was 46.3 €/MWh. Prices in the Estonia price area are directly linked to prices in Nord Pool's Nordic price areas, although the price in the Estonia price area is not yet used in setting the Nord Pool system price. The price of the Estonia price area is likely to be used in setting the system price once the Latvian and Lithuanian price areas have been launched.

As the Estonian price area is linked by international connections to neighbouring countries, the price in the Estonia price area is affected by regional generation capacity, transmission limits, and electricity imports from outside the European Union. Additionally, the electricity price in the Estonia price area is also affected by local factors such as economic activity, the temperature and the electricity supply in Estonia. But. A total of 2.8 TWh of electricity were purchased in the Nord Pool Estonia price area in 2010. Of this, 1.8 TWh were bought to supply Estonia's domestic demand, which accounted for around a third of total consumption in April-December 2010.

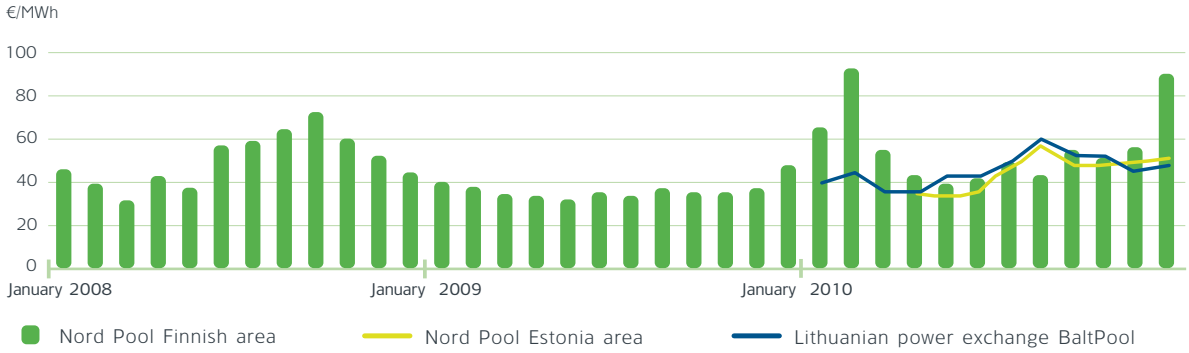
ENERGY TRADING IN THE BALTIC STATES



Sources: Estonian, Latvian and Lithuanian Statistical Offices

* Exports minus imports

MONTHLY AVERAGE PRICE OF ELECTRICITY



Sources: Nord Pool, BaltPool

The average daily price in the Estonia price area was between 31-60 €/MWh 91% of the time, and there were only two days with very high daily average prices: 13 July when the price was 122 €/MWh and 24 August when it was 462 €/MWh. The price spike on 24 August was caused by demand from Latvia and Lithuania with no price limits, which was covered by generation capacity in Estonia and the free transmission capacity of the Estlink undersea

cable. At the time there was unused capacity of over 100 MW in Latvia and around 1000 MW in Lithuania which has a much lower generation cost than the peak price that was reached and which would have been sufficient to prevent the price spike. However, generation companies in Latvia and Lithuania are not obliged to make sales offers on the power exchange, so this resulted in the use of generation capacity on non-market terms in these countries. The price spike was experienced probably due to the inexperience of market participants, and demand from outside Estonia for easy access to the power exchange, which meant that for a short time demand for electricity at any price exceeded supply on the exchang

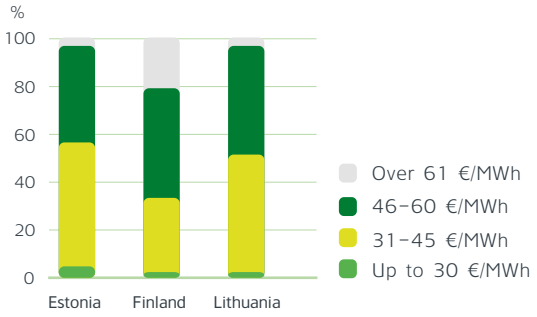
The average price for the year in the Nord Pool Finland price area was 53.5% higher than the previous year and reached 56.6 €/MWh. Prices in the Finland price area were considerably higher than average in February and December, when the monthly average price was over 90 €/MWh. The high prices in these months were caused by low temperatures leading to high demand while supply fell due to maintenance work at nuclear power plants in Sweden and low levels in reservoirs for hydro plants.

The hourly prices in the Estonian and Finland price areas were equal 48% of the time or 3209 hours in 2010. The rising prices converged until August 2010, when prices were equal 82% of the time. After August the prices in Finland started to rise faster than those in the Estonia price area, and the difference in hour prices increased markedly. In peak hours of the intra-day period, 8 am – 8 pm, the prices in Estonia and Finland were equal 55% of the time, and in non-peak hours they were equal 42% of the time.

Prices for future transactions in the Finland price area at the end of 2010 were relatively high, reaching 55-60 €/MWh. The average price for futures for 2011 was around 47 €/MWh in 2010.

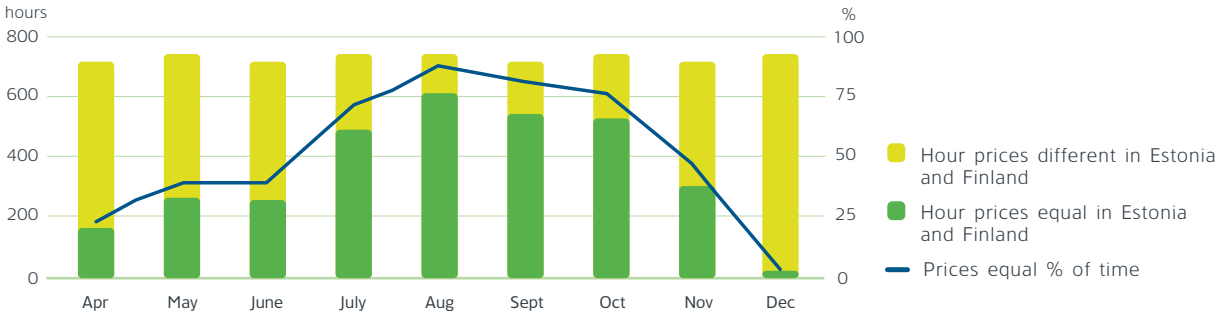
In Lithuania the average electricity price for the year for 2010 was 46.4 €/MWh. In the first year of operation of the exchange, 8.1 TWh of electricity were traded on BaltPool. Electricity from Latvia and Belarus can only be imported into Lithuania through the power exchange. However, the Russian region of Kaliningrad is considered part of the Lithuanian market so supplies of electricity between Lithuania and Kaliningrad do not have to go through the power exchange.

AVERAGE DAILY PRICES IN POWER EXCHANGES IN 2010



Sources: Nord Pool, BaltPool

HOUR PRICES IN ESTONIA AND FINLAND



Source: Nord Pool

A strong production portfolio and the ability to offer fixed prices distinguished Eesti Energia from competitors and have guaranteed the company around 87% market share in Estonian open market.

There are not yet sufficient reference points for futures prices in the Nord Pool Estonia price area or on BaltPool.

Electricity Retail Market

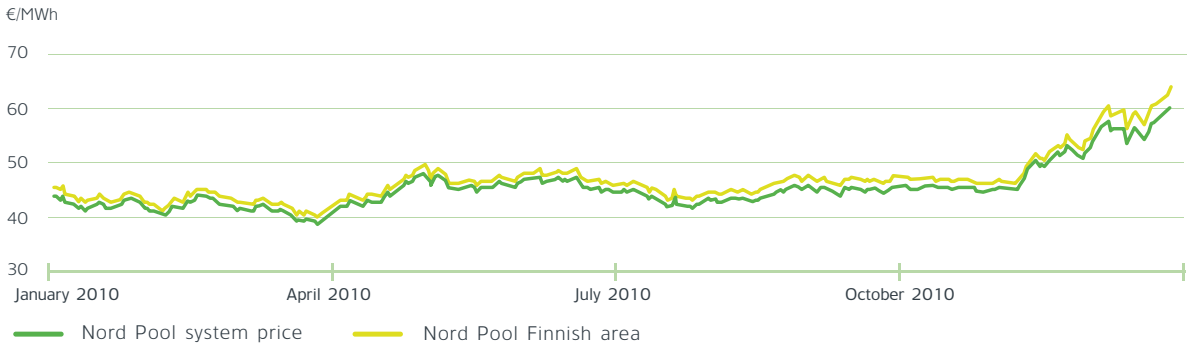
Estonia. The open market became a reality in Estonia on 1 April 2010. Although the electricity market was formally opened to large customers before 1 April 2010, the Electricity Market Act allowed consumers to buy electricity at the regulated price, setting an upper limit for the open market price, and essentially preventing the operation of an open market. However, from 1 April the Electricity Market Act obliges all consumers who consume more than 2 GWh through a single connection point to buy their electricity on the open market.

The real opening of the electricity market from 1 April 2010 was decided by amendments to the Electricity Market Act which came into force on 27 February 2010. Although the interval between the law being changed and the market being properly opened was short, the market opening happened smoothly. There were minor problems in interpreting the law for multiple consumption points, electricity wholesalers and for eligible customers who didn't have a current supply contract. These problems were solved promptly by the Estonian authorities and network operators.

When the market opened in Estonia, the power exchange also started up. The price in the Nord Pool Estonian price area gave a sufficient point of reference for the prices on the open market. Eesti Energia found that as the market opened, our clients preferred fixed prices and a simple pricing structure. Over time, however, customer confidence in the market price increased, and this was reflected in their preferences moving towards market-based products.

We estimate that Eesti Energia's average market share on the open market in the period April to December 2010 was around 87%. A strong production portfolio and the ability to offer fixed prices distinguished Eesti Energia from competitors. In total there are four or five companies offering electricity sales services on the open market in Estonia.

YEAR 2011 FORWARD CONTRACTS FOR NORD POOL SYSTEM PRICE AND FOR FINNISH PRICE AREA



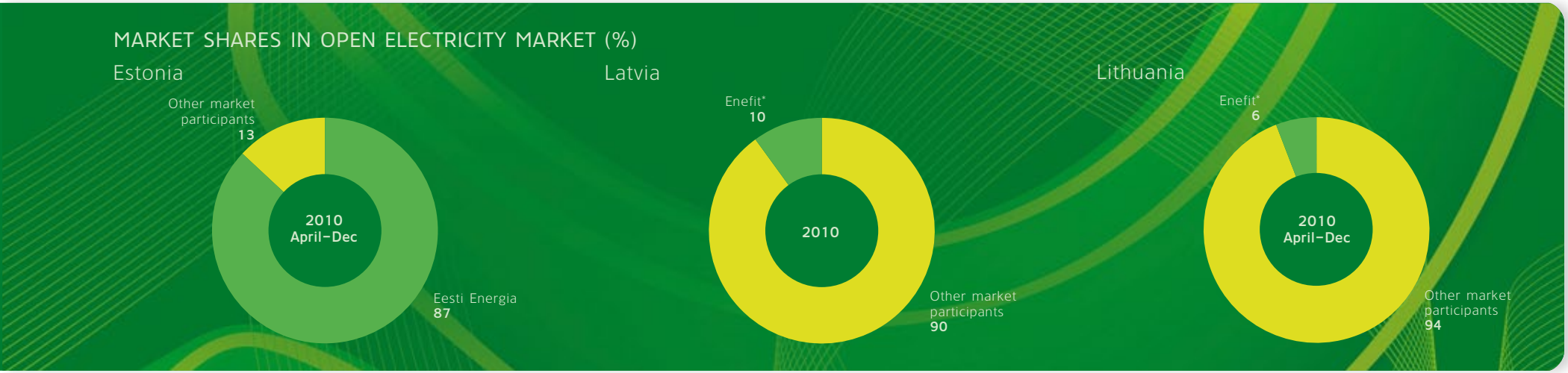
Latvia. Since the market opened in Latvia in May 2008 it has been dominated by two large electricity sellers. Enefit (Eesti Energia's brand outside Estonia) is the second largest seller, with a market share of around 10% of the open market in 2010.

The Latvian retail electricity market opened to competition in May 2008 when changes to the law came into force that obliged companies with more than 50 employees or turnover of more than 10 million euros to buy electricity from the open market. Essentially, this means that 35% of the electricity market opened and the decision concerned about 1400 consumers. The remaining consumers are entitled to use the tariff approved by the regulator under the principle of universal service. All consumers have the right to change their electricity supplier.

For the market to develop further it is important to increase competition between electricity suppliers. Achieving this would help in the launch of a power exchange in Latvia and a real separation of electricity infrastructure companies from sales and generation. Competition would also help in getting rid of bias towards the biggest seller of electricity in the country in the laws concerning the purchase of all the electricity generated in Latvia, and in releasing the sale and purchase of balancing electricity from under the control of the same electricity seller.

Lithuania. Lithuania opened its electricity market on 1 January 2010, when consumers with connection points of more than 400 kW capacity, whose consumption accounts for 35% of projected total consumption, had to start buying electricity on the open market. The law gave consumers in the open market a transition period from 1 January to 30 June 2010 in which they had to choose an independent supplier with bilaterally agreed prices. The transition period significantly inhibited the launch of the market, as many open market consumers decided to continue to purchase electricity from the earlier supplier at a price which was close to the regulated electricity price of 44.9 €/MWh. Rises in the price of electricity on the Lithuanian power exchange did nothing to increase consumers' interest in switching supplier. A similar tendency is noticeable with the additional opening of the market from 2011, with many customers waiting until January 2011 when the regulated price is announced before deciding about participating in the open market.

In 2010 there was no clear set of rules about what price the national supplier[4] should sell electricity at to open market consumers who don't have a supply contract with an independent supplier. The approved price formula stated that the price would be based on the actual price paid for the electricity by the distribution network. However, this method was not transparent because there were quite large differences between the price on the power exchange and the selling price of the national supplier. The draft of the new electricity law, which should be passed in March 2011, contains a clear formula which will be used for eligible customers that have not chosen an independent supplier – in 2011 the price on the open market will be 20% higher than the regulated price and in future years it will be set by open bidding.



[4] The national supplier is the Lithuanian distribution company LESTO

It can be expected that interest in participation in the open market will increase when the law is passed, since the sales price for suppliers using the regulated price will be 55.7 €/MWh.

The opening of the Lithuanian electricity market as a competitive environment has in general been successful. There are ten companies operating in Lithuania that sell electricity to consumers on the open market. Four of them can rely on their own generation capacity in tender processes, including Eesti Energia with its 6% share of the open market.

In 2011 consumers with connection points of more than 100 kW capacity will have to purchase electricity from the open market and in 2012 so will consumers with connection points of 30 kW capacity. From 2013 the regulated prices of the closed market will only apply for household consumers and from 2015 the market will be fully opened.

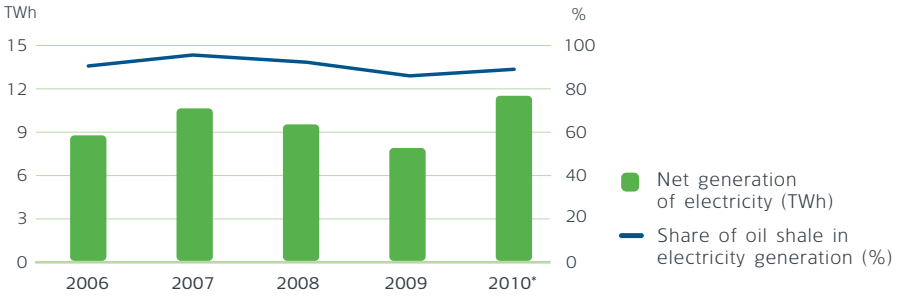
Electricity Generation in Estonia

According to preliminary data, 11.5 TWh of electricity was generated in 2010 in Estonia, around 89% of which was produced from oil shale and 8% from renewable sources of energy. Using oil shale as its main source of fuel has allowed Estonia to ensure its security of supply and the independence of its electricity price from movements in world prices for energy sources.

Electricity generation from renewable sources has increased significantly in recent years in Estonia. This has been helped by new wind park developments and the use of biomass as a source of energy. In 2010, 862 GWh of electricity was generated from renewable sources that qualified for the renewable energy subsidy, and this was 69.6% more than in the previous year. A major part of this rise was accounted for by the use of wood chips for electricity generation in the Eesti and Balti power plants near Narva.

Although the main source for energy generation in Estonia today and in the near future will remain oil shale, which has an environmental impact similar to that of coal, the state subsidies aimed at meeting the targets set by the European Union will bring a sharp increase in the amount of electricity generated from renewable sources. Estonia's energy policy is not conducive to the large-scale use of natural gas, because the supply coming from just one country poses a problem for security of supply and transparency of pricing. Policies may change if it is decided to build an LNG terminal either for Estonia alone or for all three of the Baltic States.

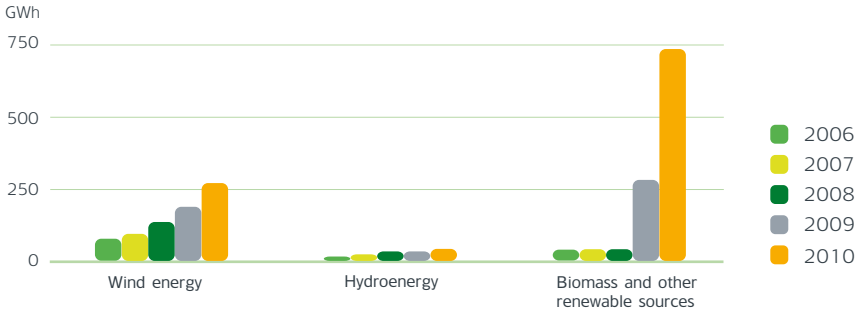
NET GENERATION OF ELECTRICITY IN ESTONIA



Sources: Statistics Estonia, Elering, Eesti Energia

* Preliminary data

RENEWABLE ENERGY GENERATION IN ESTONIA



Sources: Statistics Estonia, Eesti Energia

The main factor affecting oil shale as a source of energy is the tightening of environmental requirements and the European Union's aim of reducing greenhouse gas emissions.

To achieve the European Union targets for reducing environmental impacts, greater emphasis is being placed in the development of new generation capacity on combined heat and power generation and on the wider use of biomass and wind energy. It is possible to import enough electricity from outside the EU to cover 80% of consumption in the Baltic States. In such a market region, it is important to establish legislative mechanisms that will encourage electricity generation companies to invest in generation facilities that will ensure security of supply.

Under the Estonian Electricity Market Act, electricity generated outside the European Union can be supplied to Estonia without limitation if it is sold on the power exchange operating in Estonia or under a separate electricity import licence. There are no restrictions on the import of electricity to Latvia, and it can be imported to Lithuania if it is sold on the power exchange.

The leaders of the Baltic Sea states agreed when they signed the Baltic Energy Market Interconnection Plan (BEMIP) in June 2009 that the Baltic States and Finland would together decide joint principles for electricity trade with countries outside the European Union. The international agreement makes it possible to predict that there will be fairer competition in the electricity market in future than at present. The Estonian, Latvian and Lithuanian prime ministers agreed that the three states will harmonise their rules for electricity imports from outside the EU in 2011.

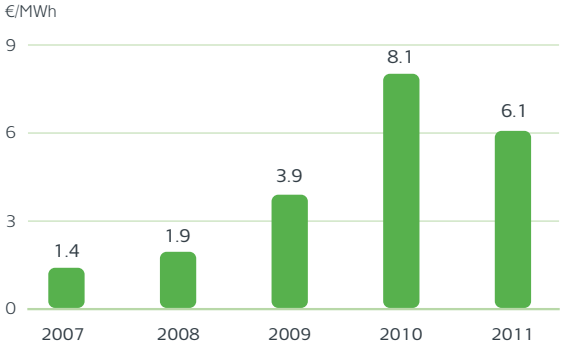
On 4 February 2011 the European Council tasked the European Commission with ensuring a level playing field for electricity generation companies in border areas to compete with imports of electricity generated outside the EU.

The continued growth in the electricity generation from renewable sources is impacted by discussions about the level of subsidies for renewable energy and the possibility of administrative restrictions. The current uniform subsidy in Estonia has allowed new generation capacity to come to the market, and supports the development of more efficient renewable energy technologies. At the same time the uniform subsidy programme makes it possible to earn a higher return on investment than forecast if market prices rise. However, there have been worrying signs for renewable energy power plants from certain administrative restrictions, such as the unwillingness of local authorities to launch planning processes, unreasonable designations of buffer zones between wind parks and residential areas, the non-implementation of competition law, and a lack of supervision over access to district heating networks.

Renewable Energy Support Mechanisms in the Baltic States

National subsidy mechanisms are a key requirement for the development of renewable energy capacity across Europe. An important challenge for Estonia, Latvia and Lithuania in creating a Baltic regional electricity market is harmonising the subsidy mechanisms.

RENEWABLE ENERGY CHARGE* IN ESTONIA



Source: Elering

* Excluding VAT

From 27 February 2010 the fixed-price feed-in tariffs in Estonia were abolished. In future a premium price feed-in payment will be added as a fixed subsidy to the market price. The subsidy is paid for 12 years after the new generation capacity has been started up. The Electricity Market Act states that the subsidy paid for electricity generated from renewable sources is 53.7 €/MWh. From 1 July 2010

electricity generated from biomass only qualifies for the subsidy if it is generated in a plant running in CHP mode. Electricity generated in CHP mode from waste, peat and oil shale retort gas or in generating installations with a capacity of less than 10 MW receives a subsidy of 32.0 €/MWh.

The subsidy for renewable energy is paid in accordance with the level of network services used. Optimistic forecasts by Elering, the Estonian Transmission System Operator, led to the renewable energy charge for 2010 being set at 8.1 €/MWh, which will fall in 2011 to 6.1 €/MWh. The excessive renewable energy payments for 2010 will be partly offset by the new rate for the charge for 2011.

Latvia bases its subsidies on generation volumes and uses fixed-price feed-in tariffs. Renewable energy generation companies are guaranteed sales of fixed volumes of electricity by the state. The level of the feed-in tariff depends on the type of renewable energy source and its installed capacity. The feed-in tariff for combined heat and power generation depends on the price of natural gas, adjusted for various factors. Renewable energy generated in power plants using biomass or biogas with a capacity of more than 1 MW and working more than 8000 hours a year is subsidised at a fixed-price feed-in tariff even above the state generation quota. The feed-in tariff applies for all of the renewable energy generation from CHP plants with a capacity of more than 20 MW. The feed-in tariff calculation is also based on the capacity of the power station. The subsidy level for the feed-in tariff is calculated using a formula based on the price of natural gas. The tariff is paid only for electricity that is sold in Latvia by a company holding a public electricity supplier licence, which can only be the largest seller of electricity. The additional costs raised by the tariff paid to producers are financed from a public service obligation fee which is added to the electricity bills of all consumers, and which was 16.36 €/MWh at the end of 2010. The tariffs being paid only through the biggest electricity seller has led to one market participant gaining control of all the electricity generated in Latvia, which has given that participant a considerable advantage in the market as a trader of electricity in the whole of the Baltic regional electricity market.

Lithuania uses a fixed-price feed-in tariffs system. Hydro electricity is purchased at 75.3 €/MWh, wind energy and biomass electricity at € 87.0 €/MWh, and solar electricity at 437-472 €/MWh depending on the capacity of the installation. The tariff has been guaranteed for generation companies until 2020 and only applies for electricity that is sold to distribution networks. Renewable energy is also subsidised through additional measures, such as lower costs for connection to the electricity grid, loans on favourable terms from the Lithuanian Environmental Investment Fund, and the waiving of pollution charges for biofuels.

It was agreed in BEMIP that Latvia and Lithuania would need to change their payment principle for subsidies for electricity from renewable sources and allow subsidies that are paid for electricity sales to the free market alongside feed-in tariffs for sales to designated buyers.

Oil Production

Consumption of liquid fuels fell during the recession in Estonia. Diesel is consumed most, its share rising from 44% in 2005 to 48% in 2009. Shale oil consumption has decreased since 2005, and dropped from 130,000 tonnes in 2004 to 70,000 tonnes in 2009. The main reason for the drop was the changeover to gas and biofuels.

The import of liquid fuels is the main source of Estonia's energy dependence. Around 80% of the liquid fuels used in Estonia are imported, because those produced here at the moment do not meet the chemical requirements for wide-scale use. Consumption of liquid fuels makes up a larger part of Estonia's energy consumption than does that of any other type of energy, while domestic production is lower than for any other fuel. Estonia's energy independence from imported energy is above the European Union average. The potential to increase energy independence

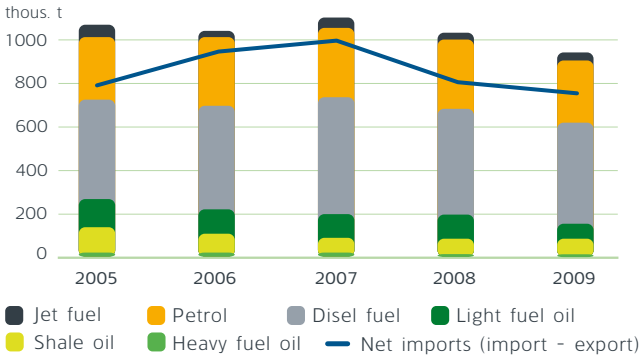
lies in shale oil and in local production of liquid fuels from biomass.

Production volumes for liquid fuels continue to grow in Estonia, and the preliminary data for 2010 show production volumes around 10% higher than in 2009 and reaching 530,000 tonnes. This increase in production volumes comes primarily from increased reliability of the current production equipment. Eesti Energia's share of production has risen steadily over the years and accounted for around 40% in 2010.

In the near future the growth in production of liquid fuels in Estonia is expected to speed up, because fuel producers, including Eesti Energia, plan to increase capacity. In 2009 Eesti Energia began to build the first Enefit-280 plant, and by the end of 2010 the main construction work on the production buildings had been completed and the retort installed. Building a new oil plant is a very important step for Eesti Energia towards producing high-quality liquid fuels in Estonia.

The purpose of the Eesti Energia refining plant is to get maximum added value from oil shale and shale oil and at the same time take account of an ever more demanding market.

LIQUID FUELS CONSUMPTION IN ESTONIA



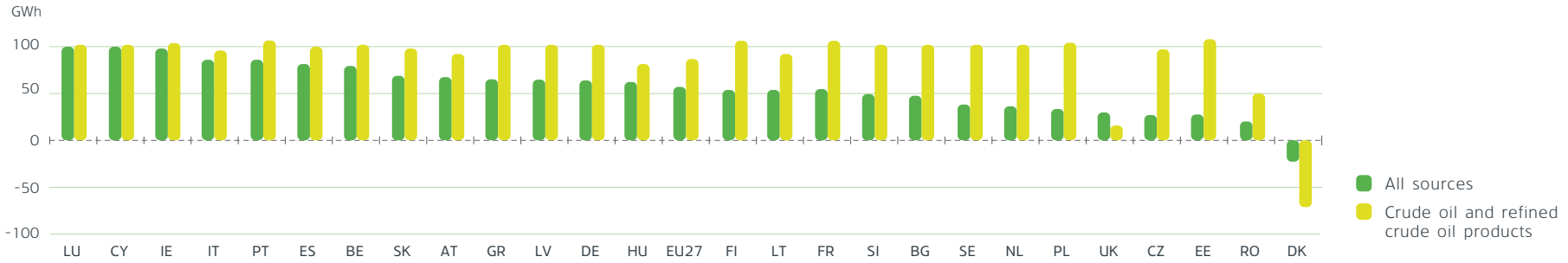
Source: Statistics Estonia

PRODUCTION AND EXPORT OF LIQUID FUELS IN ESTONIA

Source: Statistics Estonia

* Eesti Energia estimate

ENERGY DEPENDENCY* IN EUROPEAN UNION IN 2009



Source: Eurostat

* Net imports of energy as a proportion of gross consumption

The need for alternative sources and expectations that world oil prices will remain at a high enough level have raised interest in our Enefit technology, which in the opinion of many experts is the world's best technology for producing liquid fuels from oil shale.

The Main Drivers of the Regulated Business Environment in Estonia

Oil Shale Mining

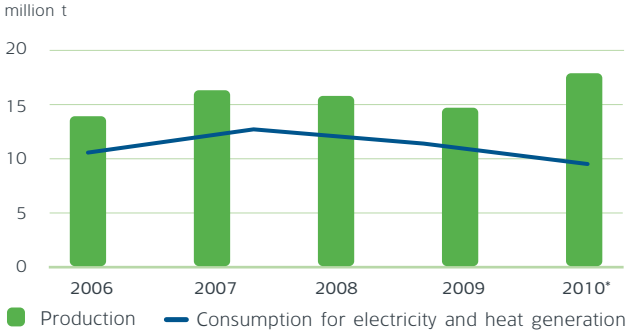
Mining of commercial oil shale[5] in Estonia rose in 2010 by around 20% and reached 18 million tonnes, their highest level for 18 years. Mining level had fallen in the previous two years, but it rose again due to the increase in electricity generation in Estonia. Around 88% of the oil shale that is mined is used for electricity and heat generation, the rest going for liquid fuel production and, to a lesser extent, for cement production. In the future the production of liquid fuels will account for an ever larger share of oil shale. Eesti Energia extracts around 94% of all the oil shale mined in Estonia.

In the near future one of the key issues relating to oil shale mining will be a review of the mining volume limits imposed by the state. The Earth's Crust Act permits mining of 20 million tonnes of oil shale per year in Estonia, of which Eesti Energia extracts around 15 million tonnes. One objective of the National Development Plan for Oil Shale Use in Estonia for 2008-2015 is to find ways to reduce oil shale mining volumes to 15 million tonnes a year by 2015. The National Energy Sector Development Plan for 2020 foresees a ceiling of 15 million tonnes by 2020. It is important to harmonise the various development goals and to create flexible rules that allow a real and appropriate guarantee of the fuel supply for the new power blocks and allow an oil industry to be built in Estonia that would increase Estonia's energy independence for liquid fuels.

Eesti Energia's commercial oil shale reserves that are covered by mining permits amounted to 299 million tonnes at the start of 2011. To ensure the supply of oil shale in the future, we want to start using a mine in Uus-Kiviõli, where the potential oil shale reserves are around 160 million tonnes.

The Electricity Market Act obliges any company mining oil shale in Estonia to sell it to electricity generation companies in Estonia that have at least 500 MW of net installed capacity generation equipment at a price that does not exceed the limits approved by the Competition Authority. In reality this criterion is only met by Eesti Energia's power plants near Narva, which produce heat and electricity from oil shale and are the largest consumers of oil shale in Estonia. The price for the oil shale sold to Eesti Energia's oil plant and to clients outside the Group corresponds to the regulated price, differing only in connection with the calorific value of the oil shale. From 2011 the additional costs of oil shale production will be taken

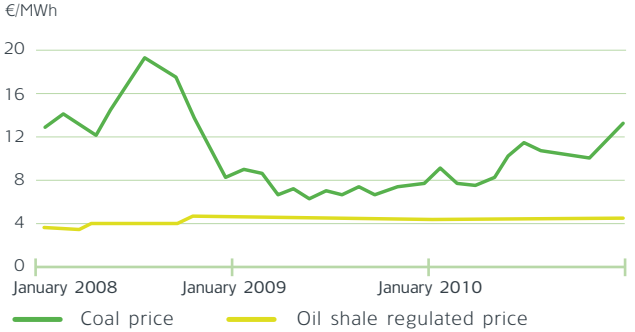
COMMERCIAL OIL SHALE PRODUCTION AND CONSUMPTION FOR ELECTRICITY AND HEAT GENERATION IN ESTONIA



Sources: Statistics Estonia, Eesti Energia

* Eesti Energia estimate

OIL SHALE AND COAL PRICES*



Sources: Eesti Energia, Reuters

* Oil shale with a calorific value of 2.33 MWh/kg, coal with a calorific value of 7.0 MWh/kg (traded in the port of Rotterdam)

[5] Commercial oil shale (the oil shale actually sold) contains limestone and moisture in addition to pure oil shale, which means the volume of commercial oil shale may be higher than the quantity provided for in the mining licence.

into account in setting the sales price, leading to pricing that is more in line with actual production costs. In the financial year 2010 the regulated price of oil shale did not change. This regulation will expire from 1 January 2013.

Electricity Sales

The electricity market in Estonia is divided into two parts, the closed market with regulated prices, and the open market where prices are set by market forces. Realistically, the market began to function in this way from 1 April 2010, when consumers consuming more than 2 GWh through one connection point lost the right to purchase electricity at regulated prices, and were obliged to purchase electricity on the open market.

The law requires there to be a ceiling for the sale of electricity to the closed market of the weighted average price of electricity. This limit was changed on 1 June 2010, when the new ceiling for the weighted average price was approved at 30.7 €/MWh. The change in the price ceiling was related to the removal of the open market consumption volumes from the closed market ceiling calculations, since the open market consumers started to buy electricity at market prices. The closed market ceiling was reset to reflect the consumption levels left in the closed market and client-related costs.

In coordinating closed market electricity prices, the Competition Authority takes into account the cost to the company of meeting its legal and licensing obligations, and a reasonable return on invested capital. The reasonable rate of return is the company's weighted average cost of capital (WACC). The price coordination methodology is published on the Competition Authority's website. Regulation of electricity prices in the closed market will end on 1 January 2013.

Sales of Network Services in Estonia

The operation of distribution networks is heavily regulated by the state in Estonia. Eesti Energia gets approval from the Competition Authority for the permitted sales revenue, reasonable costs and investment levels of its distribution network, which are used in a uniform method for calculating the network charges.

The current network tariffs have applied since 1 March 2008 when the three-year regulation period began. Network tariffs are adjusted once a year within the regulation period starting from one year after the beginning of the regulation period in accordance with the correction formula for network tariffs approved by the Competition Authority. Network tariffs can change more frequently than once a year though, as they can be corrected following a change in non-controllable costs such as the network tariffs paid to other network operators or the cost of electricity bought to cover losses of electricity.

The basis for the corrected network tariffs is the sales revenue permitted per year in the regulation period and the change in the division of network service sales compared to the previous period.

In the financial year 2010 network tariffs changed twice. On 1 March 2010 the average network tariff rose by 1.5% following the regular annual correction. On 1 June the average network tariff rose by 6.0% following a 19% rise in the network fee charged by the Transmission System Operator Elering.

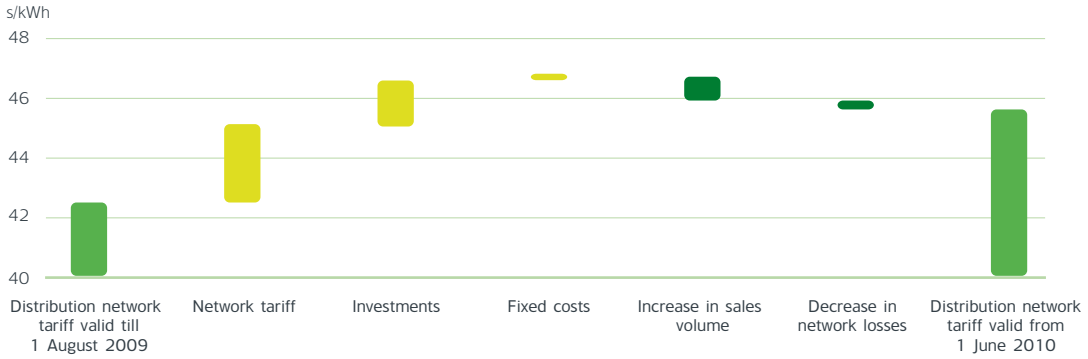
The cold and snowy winters at the beginning and end of 2010 and two thunderstorms in August raised the number of power outages per client in 2010 to 2.8, which is 0.8 outages more than in the 2009 financial year. The EU average for 2009 was 1.5 outages per client per year. The occurrence of outages depends above all on the weather, as 78% of our distribution network runs through overhead lines, and more than 35% of it goes through forests. The best way to reduce outages is to renovate the network and replace overhead lines with underground cables. Eesti Energia prioritises the use of underground cables in network construction work, especially for the medium voltage network. Medium voltage lines carry electricity

from major substations to the smaller substations in rural or village centres, and therefore making the medium voltage network less prone to failures improves the quality of network services for the largest number of customers. Underground power lines are not affected by fallen trees and branches landing on them after strong winds or heavy snow, or by the icing effect caused by alternating freezes and thaws in winter.

A large part of the distribution network is more than 40 years old, so each year the level of investment needed increases steadily, as do maintenance and repair costs. Just to maintain the reliability of the nearly 60,000 kilometres of lines in the network, around 2.5% of the network needs to be replaced each year. To improve the reliability of the network, the replacement rate would need to be lifted above 3% per year.

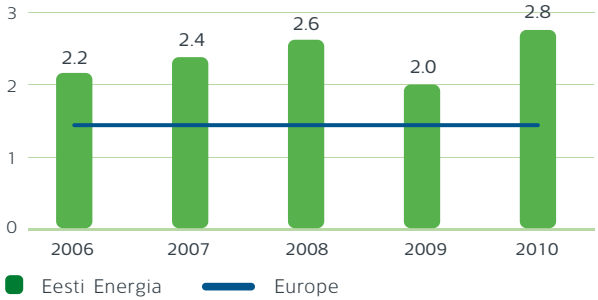
The Eesti Energia distribution network has relatively high fixed costs compared to other EU countries. Estonia trails most of Europe in terms of MWh of electricity sold per kilometre of lines. This is because Estonia has a medium sized electricity network, which caters to a widely spread and sparse population and a high proportion of buildings connected to the network. A negative consequence of this is that a much larger electricity network is needed for

REASONS FOR CHANGES IN EESTI ENERGIA JAOTUSVÕRK NETWORK TARIFFS IN 2010



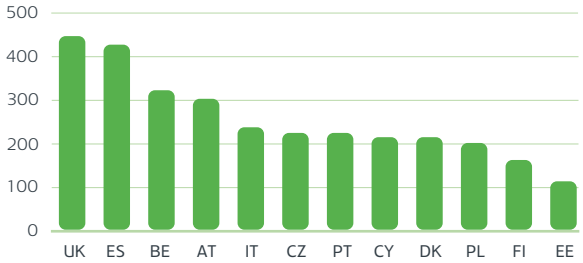
Source: Eesti Energia

POWER OUTAGES PER CLIENT IN EESTI ENERGIA DISTRIBUTION NETWORK AND ON AVERAGE IN EUROPE



Sources: Eesti Energia, CEER 2008, Eurelectric 2009

DISTRIBUTION OF NETWORK SERVICES MWh PER KILOMETER



Sources: Eesti Energia, CEER 2008, Eurelectric 2009

each MWh of electricity consumed than is the case in other European countries, and this has a serious impact on distribution tariffs in Estonia.

Eesti Energia Jaotusvõrk has a market share of 87% of the distribution market in Estonia. Distribution services operate in a single area with the same pricing system and sales conditions.

Heat Generation and Sales in Estonia

The price of heat sold in Estonia is regulated and is set by the Competition Authority. The price ceiling for heat is set to ensure the producer can meet the necessary operating costs, investment needs, operating and development obligations, and environmental, quality and safety standards, and realise a reasonable profit.

Heat generation in Estonia increased in 2010 according to preliminary data for the first time after five years of decline. The increase was around 6%. In recent years, there has been a decline in output due to increased energy savings and higher average temperatures, and also as a consequence of the recession. The main factor driving the increase in 2010 was the low temperature.

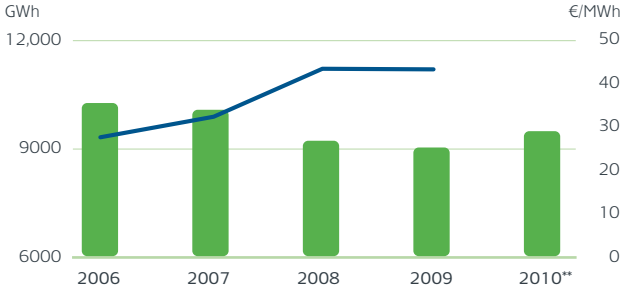
The proportions of heat generated by power plants and heating plants have remained almost unchanged over the years, with a little over a third generated in power plants and the remainder in heating plants. Around half the heat generated by heating plants comes from natural gas and a quarter from wood. This balance has not changed significantly in recent years. The biggest change, however, has been in the heat generated by power plants, as the share of heat energy generated from renewable sources increased in 2009 to 21% from 8% in 2008.

Heat generation capacity has been increased in recent years by the construction of CHP plants. CHP plants have the advantage of higher efficiency and lower CO_2 emissions for the amount of energy produced. CHP generation technologies have evolved significantly in recent decades, and especially for small single-unit power stations. A small single-unit CHP plant makes combined generation possible even in heating networks that need only small amounts of heat, like almost all of Estonia's small towns and industrial plants.

The price of heat energy sold by the Kohtla-Järve Soojus and Narva Soojus heating networks was the same in 2010 as in 2009.

The main factor affecting the price of heat energy generated in the Iru power plant is the price of natural gas, which accounts for more than 85% of the generation cost. The price of natural gas is calculated using the world market price of various heating oils for the previous six months in a method approved by the Competition Authority, so the price of natural gas changes every month meaning the price of heat energy sold to Tallinna Küte, the heating company, also changes every month. In the financial year 2010 the average generation price of heat energy from the Iru power plant was higher than in the previous year, as the price of natural gas was 4% higher.

HEAT GENERATION AND AVERAGE PRICE* IN ESTONIA



Sources: Statistics Estonia, Eesti Energia

* Ratio between the cost and volume of fuel or energy consumed during the year
** Eesti Energia estimate

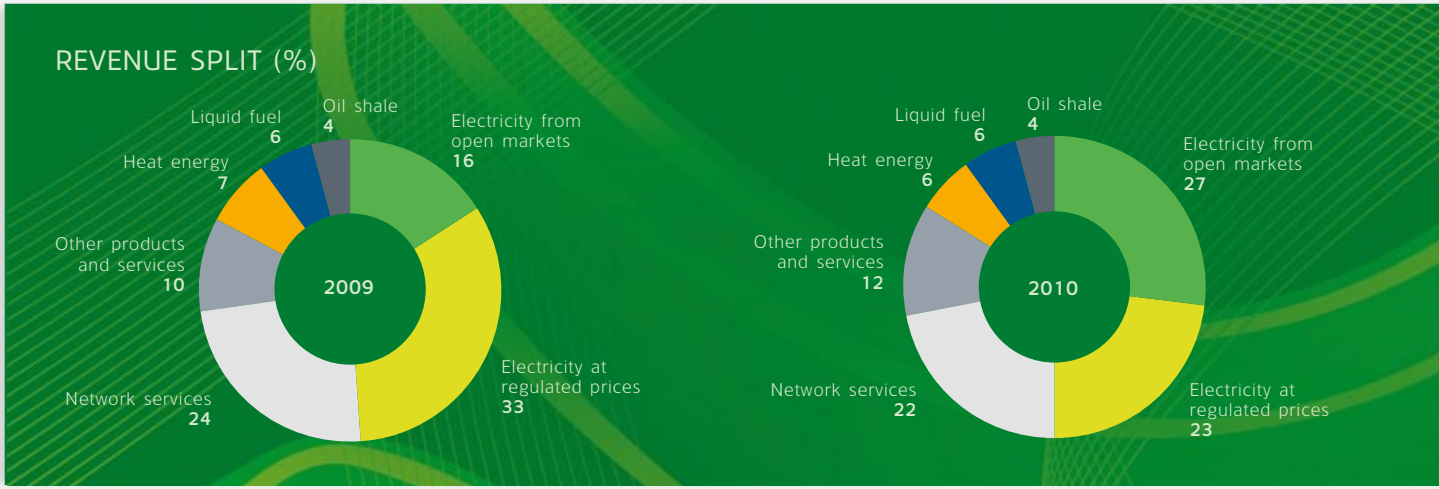
FINANCIAL RESULTS

Eesti Energia Group's total revenue for the financial year 2010[6] was 796.3 million euros, which was 20.1% more than in the previous financial year, while operating profit was 148.9 million euros, an increase of 45.0%, and net profit from continuing operations was 117.0 million euros, up 31.6%. The main reasons behind the increase in profits were flexible and competitive electricity and oil shale production, the attractiveness of the Group's products and services on the open market, effective organisation and a recovering economy. Discontinued operations increased the net profit for FY 2010 by 27.4 million euros.

Eesti Energia Group's total revenue for the financial year 2010 increased 20.1% compared to the previous financial year.

Total Revenues

The Group's revenue for FY 2010 was 20.1% higher than for the previous financial year, and amounted to 796.3 million euros. Altogether, 55% of total revenues were earned in the regulated market[7] while 45% originated from the open market, compared to a 69% / 31% split in the previous year. The change in the structure of total revenues came from the increase in sales of electricity after a partial opening of the electricity market and the launch of power exchanges in Estonia and Lithuania.



[6] Data refer to continuing operations, unless otherwise stated.
[7] Sales of electricity at regulated prices in Estonia to residential and business clients and sales of network services and oil shale to network operators.

External sales

	Unit	2010	2009	Change %
Electricity, of which	GWh	10 714	9 541	12.3
at regulated price	GWh	6 084	7 074	(14.0)
on the open market	GWh	4 630	2 466	87.7
Sales of network services	GWh	6 311	5 964	5.8
Sales of heat	GWh	1 428	1 381	3.4
Sales of oil shale	million tonnes	2.0	1.7	16.4
Sales of liquid fuels	thousand tonnes	181	154	17.7

The main factors affecting the revenues of the Retail Business division were successful participation in the open Estonian electricity market, a strong client base, a rise in sales prices in the Lithuanian retail market, and growth in electricity consumption in the Estonian distribution network. The division's revenues grew in 2010 by 10.9% and reached 475.6 million euros, of which 267.2 million euros came from sales of electricity and 179.4 million euros from sales of network services, an increase of 13.4% and 9.0% respectively from the previous year.

The Retail Business division sold a total of 7.7 TWh of electricity in FY 2010, an increase of 5.8% year-on-year. In previous years, 100% of the electricity sold in Estonia was sold at regulated prices, but from 1 April 2010 the market was opened in reality for customers consuming more than 2 GWh annually through a single connection point. This change was the main reason sales at regulated prices dropped by 16.9% in 2010. At the same time, the decline in the sales of electricity at regulated prices were offset by temperatures 1.0 degrees colder compared to the previousyear, and by increasing economic activity. Eesti Energia's active sales efforts helped us maintain our market share of 87% in the open market, and our open market sales in Estonia amounted to 1.0 TWh. Our Green Energy product, which supplies clients with electricity generated only from renewable sources, gained 2432 new clients, and total consumption by Green Energy clients was 34 GWh of electricity in the year. As at the end of the financial year Green Energy had 3700 clients.

The average regulated price of electricity in Estonia in FY 2010 was 30.7 €/MWh. The sales price changed on two separate occasions during the year. Firstly on 1 April the price of the most popular price packages fell by around 3% when the packages were adjusted, and then on 1 June a new ceiling was set for electricity prices of 30.7 €/MWh, which was about 1% higher than the previous limit.

The number of clients in the Latvian electricity market remained stable with 6 new clients bringing the total up to 116. However, competitive pressure pushed sales volumes to large customers down by 4.5%. In Latvia we sold 341 GWh of electricity to end consumers.

Our client numbers and sales volumes in the open market in Lithuania grew significantly in 2010. In the previous year Eesti Energia carried out trial sales in Lithuania with one client and an annual sales volume of less than 1 GWh. By the end of 2010 client numbers had risen to 83 and the annual sales volume to end consumers was 223 GWh[8].

Electricity sales by the Retail Business division

GWh	2010	2009	Change %
Electricity sales at regulated prices, of which	5 663	6 812	(16.9)
External sales	5 589	6 557	(14.8)
Electricity sales at unregulated prices, of which	2 073	490	323.5
Estonian open market	976	-	-
Latvian open market	341	354	(3.6)
Lithuanian open market	485	-	-
Intra-Group sales	272	136	99.7
Total electricity sales	**7 737**	**7 302**	**6.0**

Low temperatures and increasing economic activity in Estonia were the main factors behind growth of 6.0% in the sale of distribution network services in FY 2010. Sales of network services to residential customers increased by 8.3%, while sales to business customers and network operators rose by 5.1%. In total we sold 6.6 TWh of network services in Estonia.

[8] Under Lithuanian law, electricity imported into Lithuania is mainly sold to the Lithuanian power exchange, from where it is then bought back and sold on to end consumers.

Sales of network services by Eesti Energia Jaotusvõrk

GWh	2010	2009	Change %
Electricity distributed by Jaotusvõrk, of which	6 552	6 184	6.0
External sales	6 311	5 964	5.8

A one-off adjustment of distribution network tariffs on 1 March 2010 and a rise in transmission network charges of around 19% on 1 July 2010 raised the average network tariff for FY 2010 to 26.7 €/MWh, which was 3.0% more than in the previous financial year.

In the last financial year the Retail Business division added two energy efficiency products to its portfolio, energy audits and energy labels. Customer interest in energy efficiency products increased throughout FY 2010. Particularly significant growth was achieved with energy labels, where the sales increased by 42% by the end of the year. The number of electrical services provided rose as we provided services to some 2300 customers, but revenues from them fell by 89 thousand euros.

Sales of communication services were 12.9 million euros in the financial year, a year-on-year increase of 3.5% or 0.4 million euros. At the end of 2010, Kõu mobile internet services had around 25,000 active subscribers.

Successful trading in the power exchanges helped boost the operating income of the **Electricity and Heat Generation** division by 20.2% to 503.7 million euros. Sales of electricity accounted for 423.5 million euros of revenue, 18.4% more than in 2009, while sales of heat reached 48.7 million euros, a rise of 5.8%.

Sales of electricity by the division in FY 2010 were 11.3 TWh, which was 7.4% more than in the previous financial year. The opening of the electricity market decreased the share of sales at regulated prices in the total portfolio and they were replaced by sales to the open market. The majority of sales to the open markets were conducted through the Nord Pool power exchange Estonia price area, a total of 2.4 TWh in FY 2010. In the Nord Pool Finland price area we sold 0.3 TWh in the first quarter of the financial year. After the launch of the Estonia price area, Eesti Energia stopped selling electricity in the Nord Pool Finland price area. In Lithuania we sold a total of 0.9 TWh of electricity through bilateral contracts and the Lithuanian power exchange in FY 2010.

The average sales price in FY 2010 was 15.3% higher than in the previous financial year. The increase in sales price reflects the increased share in the sales portfolio of higher-priced sales to the open market and the rise in prices in the regional wholesale electricity market.

Sales of electricity by the Electricity and Heat Generation division

GWh	2010	2009	Change %
Electricity sales at regulated prices, of which	6 599	7 917	(16.6)
External sales	491	518	(5.2)
Electricity sales at unregulated prices, of which	4 721	2 565	84.0
External sales	3 922	2 113	46.1
Total electricity sales	**11 320**	**10 482**	**7.4**

In FY 2010 we generated 304 GWh of electricity from renewable sources, which was 112.8% more than in the previous year. Renewable generation increased firstly as a result of increased biofuel use in the Narva power plants and secondly due to the high output of the Aulepa wind park, for which 2010 was the first full year of operation. The Group received subsidies of 16.4 million euros for generating electricity from renewable sources, an increase of 135.9% or 9.5 million euros. Eesti Energia accounted for around 35.6% of all the electricity generated in Estonia from renewable sources in 2010.

Sales of heat rose in Estonia, after falling for three years, and reached 1.5 TWh. The main driver of sales growth was low temperatures during the heating season. In the first quarter of 2010 the temperature was -7.3 degrees, its lowest in 22 years, and in the fourth quarter it was -0.3, the lowest for eight years.

Retail Business division added two energy efficiency products to its portfolio – energy audits and energy labels. Particularly significant growth was achieved with energy labels, where the sales increased by 42% by the end of the year.

The regulated price of heat rose mainly because of a 2.3%-increase in the purchase price of gas, and reached 31.5 €/MWh

Sales of heat by the Electricity and Heat Generation division

GWh	2010	2009	Change %
Sales of heat, of which	1 545	1 493	3.5
sales outside the Group	1 428	1 381	3.4

At the launch of the Nord Pool power exchange, the Group gave its part of the Estlink undersea cable to the exchange for trading, getting in return rental income from the difference in prices between the Estonia and Finland price areas. This rental income totalled 13.5 million euros in FY 2010.

High sales volumes for oil shale and liquid fuels and rising prices for liquid fuels on the back of high oil prices were the main factors driving revenues in the **Minerals, Oils and Biofuels division**. The division's revenues grew in 2010 by 38.6% and reached 276.8 million euros, of which 180.0 million euros came from sales of oil shale and 55.6 from sales of liquid fuels, rises of 41.0% and 27.6% respectively from the previous year.

The dramatic growth in the Group's generation of electricity and the increase in production of liquid fuels drove sales of oil shale up to 17.9 million tonnes. Sales to external customers increased as well, since higher oil shale production means more oil shale concentrate can be produced, and this is sold externally. As well as this, a new client started buying oil shale from September 2010. The average sales price for oil shale in FY 2010 was 0.6% lower than in the previous financial year, as the share of sales of oil shale at a lower price for electricity and heat generation increased in the portfolio.

Sales of oil shale by Eesti Energia Kaevandused

Million tonnes	2010	2009	Change %
Intra-Group sales of oil shale for electricity and heat generation	14.2	9.7	46.4
Intra-Group sales of oil shale for oil production	1.7	1.5	12.3
Oil shale sales outside the Group	2.0	1.7	16.4
Total oil shale sales	**17.9**	**12.9**	**38.4**

Sales volumes for liquid fuels rose following improvements in the reliability of the oil plant, and reached 197,317 tonnes. The sales price of liquid fuels rose 11.1%, mainly because of a rise in the global market price of fuel oil. Futures contracts for 63,000 tonnes of liquid fuel were entered into in FY 2010 to hedge the price risk, at an average price of 314 €/t.

Sales of liquid fuels by Eesti Energia Õlitööstus

Thousand tonnes	2010	2009	Change %
Sales of liquid fuels, of which	197	173	14.4
sales outside the Group	181	154	17.7

Revenue from sales of other products and services by the division was 26.9 million euros in the financial year, a rise of 39.1% or 7.5 million euros. Weak demand reduced exports of machinery by 29.9%, but in Estonia Eesti Energia Tehnoloogiatööstus built the retort for the new Enefit-280 oil plant. Revenues from sales of retort gas reached 4.2 million euros in FY 2010, a rise of 1.3% or 63.9 thousand euros. The continuing slump in the construction market reduced revenue from sales of gravel by 20.0% or 191.7 thousand euros to 703.0 thousand euros.

Operating Expenses and Operating Profit

The Group's EBITDA in FY 2010 was 242.3 million euros, an increase of 35.2 million euros or 17.0%, and operating profit was 148.9 million euros, up 46.2 million euros or 45.0% on the previous year. The regulated market accounted for 36% of the operating profit, and 64% came from open market products.

The operating profit of the Retail Business division rose to 39.3 million euros or 11.0%, the majority of this coming from Eesti Energia Jaotusvõrk's (Distribution Network) operating profit of 31.8 million euros, which was up 5.6%. The opening of the electricity markets in Estonia and Lithuania increased the profitability of the division, but the impact of the market opening was limited by the high price of electricity bought from the wholesale exchanges for resale. The reduction in sales on the Latvian open market led to a fall in sales margins too. In total the growth in electricity sales and profitability in the open markets of the Baltic States raised the division's operating profit by 0.5 million euros. Profitability increased due to improved payment behaviour by customers, which added 2.0 million euros to EBIT, and electrical work becoming profitable and adding 2.0 million euros. The profitability of Jaotusvõrk was mainly raised by increased sales volumes, which added 4.5 million euros, and improved margins, which saw an 0.7 million euro rise. The costs of extraordinary storm damage of 2.6 million euros had an adverse effect on profitability.

Operating profit (million euros)	2010	2009	Change	(%)
Retail Business, of which	39.3	35.4	3.9	11.4
Eesti Energia Jaotusvõrk	31.8	30.1	1.7	5.9
Electricity and Heat Generation	77.2	49.2	28.0	56.9
Minerals, Oil and Biofuels, of which	38.8	27.5	11.3	41.2
Eesti Energia Kaevandused	19.4	15.6	3.8	24.1
Other, including eliminations	(6.4)	(9.4)	3.0	(29.9)
Consolidated operating profit	**148.9**	**102.7**	**46.2**	**45.0**

The operating profit of the Electricity and Heat Generation division reached 77.2 million euros in 2010, an improvement of 56.9% year-on-year. The main factors behind the increased profitability of the division were the launch of the power exchanges, which added 17.2 million euros to operating profit, the rise in sales prices following the reduction in the obligation to buy at regulated prices, which brought in 8.8 million euros, increased sales volumes with 9.2 million euros, an increase in subsidies received for renewable energy generation of 5.0 million euros, and one-off revenues of 3.4 million euros. The largest negative impact on operating profit was the ending of favourable power purchase agreements

for electricity, which lowered profit by 18.7 million euros compared to the previous year.

The operating profit of the Minerals, Oil and Biofuels division rose by 41.2% to 38.8 million euros, with 19.4 million euros coming from Eesti Energia Kaevandus's operating profit, which was up 24.0%. The profitability of sales of oil shale rose due to the sharp rise in sales of oil shale, adding 21.1 million kroons euros to the division's operating profit. At the same time, higher environmental charges and electricity purchases together had a negative impact of 10.5 million euros in on profitability, while environmental provisions reduced profit by 5.0 million euros and a rise in depreciation reduced it by 1.7 million euros. The profitability of sales of liquid fuels was boosted by the higher sales price of liquid fuels brought about by the higher oil price, which added 6.3 million euros. In addition, operating profit was boosted by lower environmental charges for ash depositing and lower purchase prices for electricity. The rise in the division's profit was also aided by a sales contract for machinery which added 1.5 million euros.

Net Profit

Eesti Energia's net profit for FY 2010 was 117.0 million euros, which was 31.6% higher year-on-year.

The Group's financial income for FY 2010 was 7.5 million euros. The largest part of the financial income was interest income from bank accounts and deposits, which totalled 7.3 million euros. Deposits grew significantly in FY 2010 due to the sale of the Transmission System Operator Elering in January 2010. However, the average interest rate earned was lower than in the previous financial year due to low interest rates in the euro-zone and the convergence of the Estonian kroon interest rates with those of the euro-zone. Financial expenses in FY 2010 were 12.8 million euros, a decrease of 0.9 million euros from the previous year. The largest contributor to interest expenses is the interest paid on the Eurobonds issued by the Group, which was 14.3 million euros in 2010. In the previous financial year the Group applied the requirement to capitalise interest expenses on assets acquired since 1 April 2009. In FY 2010 the amount of capitalised interest increased by 0.9 million euros to 5.0 million euros, due to an increase in the volume of capital expenditure, principally in building the oil plant and the new renewable energy generation capacity.

Income tax in FY 2010 was 28.8 million euros due to an increased dividend payouts.

Net profit (million euros)	2010	2009	Change	(%)
Operating profit	**148.9**	**102.7**	**46.2**	**45.0**
Interest on debt	16.2	16.2	-	0.2
Interest provisions, and other liabilities	1.6	1.6	-	-
Other net financial income	12.6	17.1	(4.5)	(26.5)
Profit from investments in associates	2.1	1.6	0.6	35.7
Income tax	28.8	14.7	14.1	96.1
Net Profit	**117.0**	**88.9**	**28.1**	**31.6**
Net profit from discontinued operations	**27.4**	**11.0**	**16.4**	**148.8**

Economic Value Added

The Group uses a balanced scorecard system to manage its business units. The most important of the financial criteria is EVA[9], which compares business units' operating profit to the amount and cost of capital invested in the unit. The goal is to have positive EVA for the Group.

The Group's EVA for FY 2010 was positive and was 33.2 million euros. Invested capital decreased in FY 2010, increasing investments by 8.7% and operating profit by 45.0%. We revise the inputs used for calculating the Group's weighted average cost of capital usually on an annual basis, but if there is a significant change in the structure of the Group's balance sheet, then we do it more often.

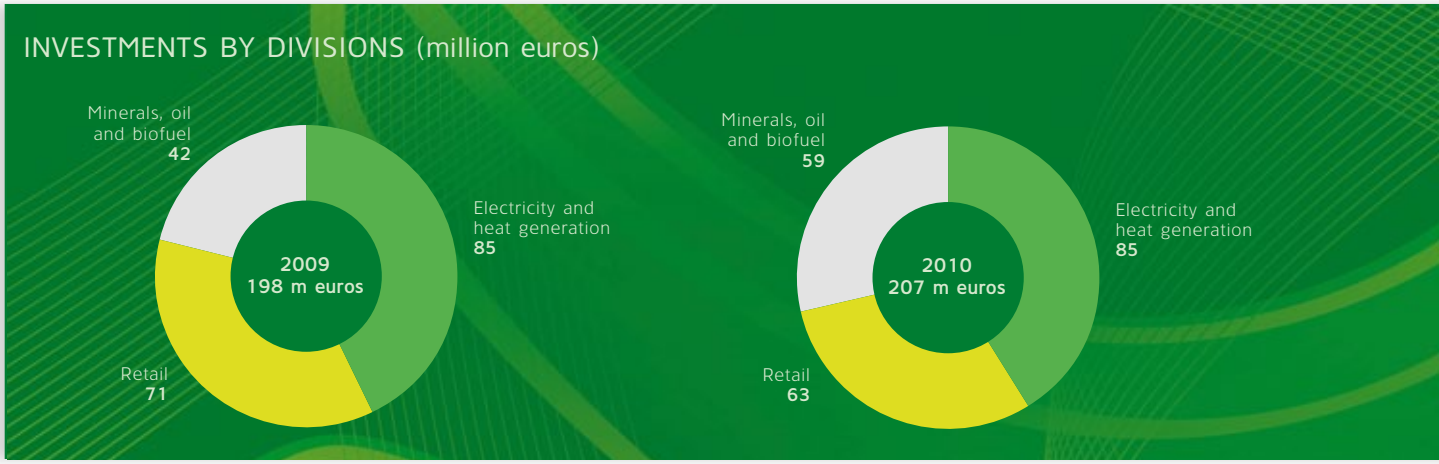
The biggest increase in EVA was in the Electricity and Heat Generation division as a result of large sales volumes and high sales prices. However, favourable electricity purchase agreements ended in 2010. The growth in EVA in the Minerals, Oil and Biofuels division was due to the increase in profitability of both oil shale production and sales of liquid fuels. The biggest impact on EVA in the Retail Business division came from the increase in sales of network services and the opening of the electricity markets in Estonia and Lithuania.

EVA (million euros)	2010	2009	Change
Retail Business, of which	(6.5)	(8.3)	1.8
Eesti Energia Jaotusvõrk	(9.2)	(9.1)	0.1
Electricity and Heat Generation	28.8	7.7	21.1
Minerals, Oil and Biofuel, of which	19.6	12.5	7.1
Eesti Energia Kaevandused	8.8	5.6	3.2
Other, including eliminations	(8.7)	(22.6)	13.9
Group	**33.2**	**(10.8)**	**44.0**

Investments

In FY 2010 the Group invested 218.5 million euros, which was 4.9% more than in the previous year. Capital expenditure was primarily geared towards renovating the distribution network, developing new electricity generation capacity, reducing the environmental impact of current generation capacity, and building the new oil plant.

Jaotusvõrk invested 60.3 million euros in its electricity networks. Of this, 12.0 million euros was invested in the construction of power lines for the network, and 48.3 million euros was



[9] EVA = operating profit − annual average invested capital * weighted average cost of capital

targeted at improving the reliability and quality of the network. In FY 2010 we built a total of 579 new substations and 791 kilometres of power lines, of which 571 kilometres were underground cables. We replaced 303 kilometres of medium-voltage overhead transmission lines with underground cables, as these lines supply electricity to larger groups of consumers and mostly run through forested areas. Furthermore, we also replaced 268 kilometres of overhead low voltage lines with underground cables. In FY 2010 we renovated around 1.3% of the electricity distribution network.

The Electricity and Heat Generation division invested 45.6 million euros in the installation of desulphurisation equipment on the energy units of the Eesti power plant in Narva, and 10.2 million euros in a waste-to-energy unit at Iru Power Plant. We also invested 8.9 million euros in expanding the Aulepa wind park.

The largest capital expenditure by the Minerals, Oil and Biofuels division was the 31.6 million euros invested in the new oil plant that will use Enefit technology, while 22.4 million euros was invested in the existing and new equipment and facilities for oil shale mining.

The status of the largest investment projects at the end of 2010:

- the construction of the new oil shale power plant with up to 600 MW capacity in Narva - in January 2011 we signed a turnkey EPC agreement with Alstom. Before construction can begin, the approval of the European Commission is necessary to ensure that the planned subsidy for the construction support is in line with European Union legislation. A total of 952.3 million euros is being invested in the construction of two units, and the first 300-MW energy unit is expected to be commissioned in 2015.

- the building of the new Enefit-280 oil plant in Auvere – by the end of 2010 we had invested a total of 48.2 million euros in this project. During 2010 two new 10,000 m^3 liquid fuel tanks were built, the road to the storage tank area was repaired, the foundations were built for the retort building and retort platform, and the retort built by Eesti Energia Tehnoloogiatööstus was installed. We are planning to invest a total of 189.4 million euros in the project and to start the oil plant up in spring 2012.

- development of the waste-to-energy unit in Iru – we have invested a total of 10.2 million euros in this project. By the end of 2010 the design had been prepared, the building permits obtained and the building work started. The utilities cables and pipes under the construction site have been moved, foundations have been laid, and the digging work needed for the waste and ash bunkers has been completed. We are planning to invest a total of 104.6 million euros in the project and commission the waste-to-energy plant in 2013.

- installation of desulphurisation equipment on the power plants in Narva – we have invested a total of 62.0 million euros in this project. By the end of 2010, installation work had been done on Energy Unit 3 and the first commissioning tests had begun. Energy Unit 6 was shut down at the end of FY 2010 and installation work began there. Installation of the equipment will begin on Energy Units 4 and 5 in 2011. We are planning to invest a total of 104.3 million euros in the project and under current plans the equipment should be installed by 2012.

- development of the 39-MW wind park on the closed-down ash fields of Narva – we have invested a total of 6.7 million euros in this project. During the financial year construction started on the roads and crane sites of the wind park. It is planned that the wind turbines on the ash field will start work during 2012. The total investment will be 58.9 million euros.

- expansion of the Aulepa wind park with three more wind turbines, adding 9 MW of capacity – we have invested a total of 0.1 billion kroons in this project. By the end of 2010 all the roads, sites and concrete towers had been built and one of the three turbines erected. In total we plan to invest 12.8 million euros in the project and to start the wind turbines up in 2011.

Cash Flow

The Group's net cash flow was 18.9 million euros in FY 2010, an increase of 65.3 million euros from the previous financial year.

The Group's cash flow from operating activities was 150.8 million euros in FY 2010, a reduction of 23.6 million euros or 13.5% from the previous financial year. The Group's results from operations improved from 2009 and adjusted net profit increased by 24.4 million euros to 222.9 million euros. Higher sales volumes in FY 2010 resulted in an increase in trade receivables, the majority of which were not due, of 33.6 million euros, which had a negative impact on the cash flows from operating activities. Customers' payment behaviour improved during the year, which was reflected in a decline in doubtful receivables by 3.0 million euros to 4.3 million euros. The Group's trade payables at the end of the financial year were 27.4 million euros higher than in the previous year. At the end of 2010 a majority of the amounts were owed for the acquisition of fixed assets with the payment due dates later than in FY 2010. Reduction in inventories increased cash flow by 9.6 million euros. Relatively large hedging levels reduced the cash flow by 39.4 million euros, as the amount of cash needed for margin requirements was higher. Compared to last year the cash flow from operating activities was also reduced due to larger income tax expenses of 14.1 million euros due to larger dividend payments. Furthermore, interest income was decreased by 8.2 million euros compared to in the previous year, as interest income then included the interest paid by Elering, which at that time was part of the Group.

Amounts paid for the acquisition of fixed assets grew by 0.8% in the financial year and amounted to 204.8 million euros. The number of new clients joining the network remained low during the financial year, and fees for joining and other services fell by 24.6% to 9.4 million euros. Deposits with a maturity of over three months grew in FY 2010 in connection with the rise in liquid funds following the sale of the Transmission System Operator Elering in January 2010. The Group's cash flows also benefited when Elering's overdraft was repaid, while the cash flow of investments in discontinued operations increased following the sale of Elering

Million euros	2010	2009	Change
Total cash flow from operating activity	150.8	174.4	(23.6)
Paid for acquisitions of fixed assets	(204.8)	(203.2)	(1.7)
Net change in deposits of over 3 months	(176.3)	20.0	(196.3)
Change in overdraft	187.6	(33.1)	220.7
Dividend payments	(109.2)	(86.9)	(22.2)
Bank borrowings	2.6	41.0	(38.7)
Bank loan repayments	(3.5)	(9.0)	5.5
Cash flows from investments in discontinued operations	172.6	30.7	141.9
Other adjustments	(0.8)	19.6	(20.4)
Free cash flow	**18.9**	**(46.4)**	**65.3**

There were no significant transactions that affected the financing of the Group in FY 2010. The net change in cash flow from debt obligations was a fall of 0.9 million euros. Dividends of 109.2 million euros were paid out in FY 2010, which was 22 million euros more than in the previous financial year.

Credit Ratings

The Group's credit ratings at the end of the financial year were A3 with stable outlook from Moody's and BBB+ with stable outlook from Standard & Poor's. Moody's downgraded the Group's long-term obligations rating on 14 July 2010 in connection with the anticipated reduction in government support, one example of which is the unbundling of Elering. Standard & Poor's changed its rating for Eesti Energia on 8 July 2010 because of the separation of Elering and the expected increase in debt needed to finance a large-scale investment programme. The downgrading of the credit ratings did not have any significant impact on Eesti Energia's financial capability and the current ratings ensure sufficient financial flexibility for the company.

Financing

The nominal value of Eesti Energia's equity as at 31 December 2010 was 1107.1 million euros and the equity consisted of 471,645,750 ordinary shares. External financing consisted of drawn bank loans and bonds that have been issued with a nominal value of 369 million euros.

The Group's most significant long-term debt is a 300 million euro Eurobond listed on the London Stock Exchange maturing in 2020, with an interest rate of 4.5%. The outstanding balance of long-term bank loans taken by the end of FY 2010 was 69 million euros. The balance of loans from the Nordic Investment Bank was 58 million euros and the balance of loans from the European Investment Bank was 11 million euros.

The weighted average interest rate for borrowings was 4.16% at the end of December 2010, a rise of 0.1 percentage points over the year. Fixed interest rate borrowings made up 81% and floating interest rate borrowings 19% of the borrowings portfolio. The weighted average interest rate was 4.50% for fixed-rate borrowings and 1.53% for floating-rate borrowings, plus the last six-month Euribor. The base currency of all borrowings is the euro.

The Group's net debt as at 31 December 2010 was 122.5 million euros, a decrease of 198.6 million euros. In early 2010 the funds received from the sale of Elering improved the Group´s liquidity position, making the net debt balance negative. During the year, however, net debt increased as the Group's investments grew and exceeded cash flow.

External financing as at 31 December 2010	Nominal value (million euros)
Bank loans	69, of which NIB 58 EIB 11
Eurobonds	300
Total	**369.8**

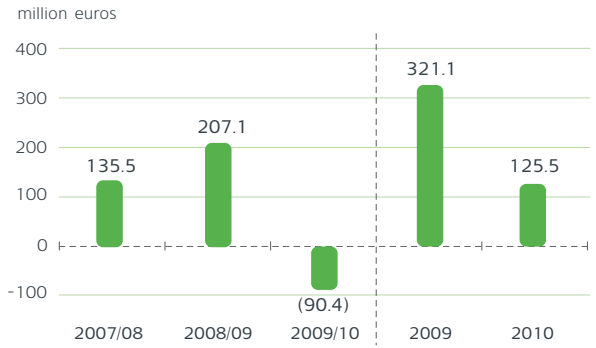
The Group's ability to cover its interest costs from funds received from operating activities has increased in recent years, as operating profit has increased while debt has remained at around the same level. The interest coverage ratio in FY 2010 was 13.9, an increase of 2.2 percentage points over the previous financial year.

In recent years, the Group's capital expenditure level has remained slightly above what we could finance from internal cash flow. This is also

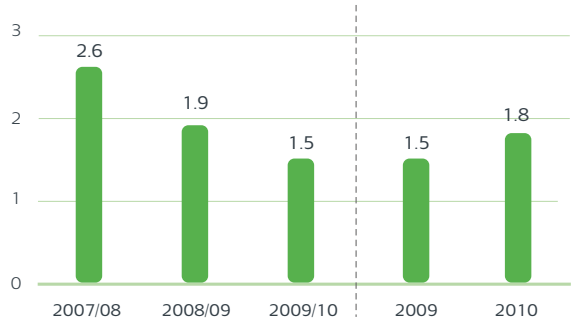
shown by the ratio of cash flow from operating activities (not including changes in current capital and net changes in liabilities associated with operating activities) to investments, which was 85.3% in FY 2010, down 1.8 percentage points from FY 2009.

The Group's balance sheet structure has remained conservative, since the volume of loans has been stable. At the end of FY 2010, financial leverage was 24.6%, a decrease from 2009 of 0.1 percentage points.

NET DEBT



DEBT / EBITDA



Dividends

The Group paid the shareholder dividends of 109.2 million euros in FY 2010, or all the net profit of the financial year 2009/10. The dividends were paid out in July 2010.

The Government of the Republic of Estonia has requested net dividends of 57.5 million euros for the results of FY 2010.

DIVIDENDS

* Dividends paid out by year

Investment outlook

The Group's capital expenditure is expected to reach around 550.0 million euros for FY 2011, which is 151.8% more than in the previous financial year.

We are planning to invest 134 million euros or 24% of our expected capital expenditure for FY 2011 in the maintenance and improvement of our existing assets. Of this, 76.7 million euros is expected to be invested in the Retail Business division, mostly to improve the quality and reliability of the distribution network. A further 32.0 million euros is expected to be invested in the Minerals, Oil and Biofuel division, particularly for oil shale mining equipment and buildings. Finally, 19.2 million euros is expected to be invested in the Electricity and Heat Generation division.

In addition to improving and maintaining our existing assets, we intend to invest 396.3 million euros in expanding our business operations in the financial year 2011. We expect to invest 166.2 million euros in completing the construction of the Enefit-280 oil plant. The investment programme for Electricity and Heat Generation division is for a total of 236.5 million euros, which is earmarked for wind parks on the closed ash field at Narva and in Paldiski, the waste-to-energy power plant in Iru, desulphurisation equipment for the power plants in Narva, and, if the state subsidy required for the new oil shale energy units is approved by the European Commission, a new oil-shale fired power station in Narva.

PERSONNEL

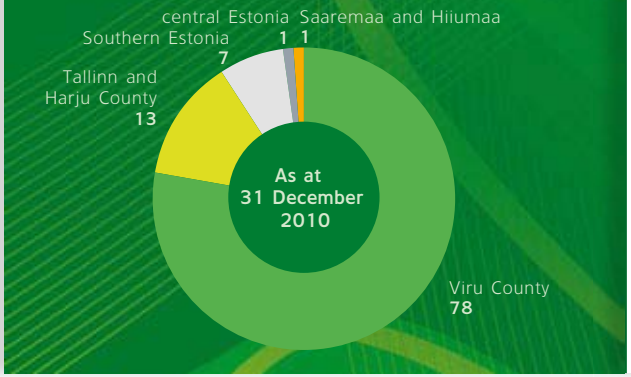
Employment Relations

The number of people working for Eesti Energia increased slightly in 2010 in all departments except Electricity and Heat Generation division. There was a lot of internal restructuring and reorganisation of employment positions within the Group during the year in order to make the Group more efficient and avoid work being duplicated. The number of employees has particularly increased in those parts of the business that have been developing and expanding, such as Fuels division.

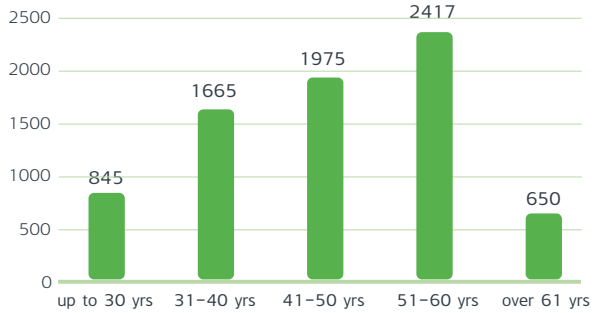
In 2010 we started two major development projects:
a) implementation of new software for planning and calculating working hours so that we can monitor working time more efficiently. This software significantly improves the quality of our planning for our workforce;
b) electronic document management, so that we can improve the efficiency of our employment relations management across the Group.

At the end of the financial year the Group employed a total of 7552 people, of whom 22 were working outside Estonia. The average age of the staff was 48 and each employee had on average worked for the Group for 15 years. Men made up 80% of the staff and women 20%. Among the Eesti Energia staff, 31% have been through higher education, 43% vocational education, 22% secondary school and 4% basic school.

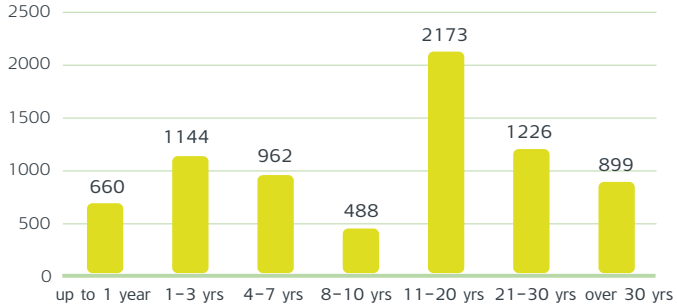
CONCENTRATION OF EMPLOYEES IN ESTONIA



DISTRIBUTION OF EMPLOYEES BY AGE, as at 31 December 2010



DISTRIBUTION OF EMPLOYEES BY LENGHT OF EMPLOYMENT, as at 31 December 2010



Human Resource Planning

To ensure Eesti Energia's competitiveness and sustainability we are focusing especially on planning our human resources and managing a reserve of future talent. We plan our human resources to fit with the Group's strategy, external influences and the age and skills of our current staff. We chart the needs for human resources that will arise from the business strategy, reflecting the skills needed and the total number of employees in the planning.

Developing a method for long-term human resource planning and a single framework for the process was one of the key priorities for the financial year 2010. A pilot project was set up to make long-term forecasts for each business division and company with regard to changes in the number of employees and the skill requirements. The forecasts showed that there are projects coming up in the near future that will demand a large workforce and showed the demand for future employees within the Group and from outside it.

The most critical areas for future human resources at Eesti Energia are mining and liquid fuel production. To expand liquid fuel production, our business strategy calls for a significant supply of new employees in the upcoming year. New staff are needed in Mining division because of the high average age of our current personnel. A generation which has made a major contribution to the success of the company is reaching retirement age. The upcoming change of generations is also noticeable in our other businesses. The Group's 7552 employees – the number of employees as at 31 December 2010 – include 855 people who will be over 61 by 2013. Bringing young specialists into the organisation at the right time and helping them gain experience of the business is of vital importance in Mining division and in the other operations of the Group.

Another challenge that faces all our businesses is the shortage of engineers and other professionals in the Ida-Virumaa region.

To solve these problems we are drawing up specific action plans, sketching scenarios and planning the systematic movement of people between the companies of the Group.

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Working with the Next Generation

In the 2010 financial year we gave stipends of a total of 21,730 euros to 19 young students for vocational education, further education, Master's studies and Doctoral studies. Our most important partner in paying the stipends was the Development Fund of Tallinn University of Technology, and during the financial year we started two new scholarship programmes. The goal of the stipend programme is to train specialists in the leading universities of the world to work in our rapidly expanding liquid fuel production business. There is also a young teacher scholarship to support highly qualified and motivated young people who want to start a teaching career in power engineering.

In addition to awarding scholarships we are trying above all to encourage young people to move into energy studies by making energy-related careers more attractive to young people, creating opportunities for people who have studied power engineering, and setting up partnerships with educational institutions to develop energy-related education.

To broaden their education last year, we offered around 170 of the best students on vocational and university courses in power engineering the chance to get work experience in Eesti Energia companies all over Estonia. We are also providing opportunities for young people studying power engineering to participate in research work with us during their studies.

Our educational work is supported by lectures given in schools by our executives and specialists, and for the third year running our personnel have been lecturing at Tallinn University of Technology (TUT) on the strategic development of the energy system. We are also participating as a partner in setting up curricula for power engineering in institutions of higher education, with joint curricula for a master's degree in nuclear energy at the University of Tartu and Tallinn University of Technology, a course in fuel chemistry at the TUT Virumaa College, and a Master's programme in distributed generation using renewable sources at the TUT Institute of Electrical Power Engineering.

Together with educational institutions, businesses and local authorities in Ida-Virumaa, we are working hard to develop an Oil Shale Centre of Excellence at the TUT Virumaa College in Kohtla-Järve. The aim of the project is to build an internationally competitive oil shale science and research institution and a centre providing knowledge and skills for the whole field, from the specifics of mining and processing oil shale to the oil shale energy and chemistry industry as a whole.

Development of Management and Managers

In 2010 we continued to assess and develop our managers. We looked at business and development needs, drawing from many long-running management development programmes. We had the programmes in our retail business establishments, the Narva power plants and the mines, each according to its specific needs. The remaining businesses will see the start of long-term management development programmes from 2011 onwards. There were also several short and specific training courses for particular management skills.

Our aim is to create an environment that allows managers to share and discuss their experience. As training materials we use films and case studies from business schools and from the participants, and the end result is a single set of values and a corporate culture that runs through the whole organisation. This means that management standards are the same for all our leaders and they can all speak the same language when talking about management. It also means that managers know their own role in the management of the organisation better and know what needs to be done to achieve their objectives as a manager.

Our management training programmes are led by our own managers, but we also use external partners.

This past financial year has confirmed that we are moving in the right direction. We are contributing to increasing organisational capacity and efficiency through the introduction of performance management. This means setting clear goals, supporting the day-to-day management with assessment and feedback, and setting performance-based development and remuneration plans.

During the year we carried out performance management for almost all levels of management and started to work with some groups of specialists as well. Eesti Energia's management development seems to have given a clear positive boost to employees' commitment and the company's reputation as an employer. In autumn 2010 we conducted a survey of employee commitment. The results show that despite the difficult economic climate, the rational and emotional commitment of our employees to the company has risen. The market research company EMOR classed Eesti Energia as the most preferred employer in the country last year.

The rise in commitment among our employees is also a consequence of us standing up for them during the recession, as we did not follow the standard practice of the market of cutting salaries. By doing this we also benefited the sustainability of the business and the future work of our staff. Our staff appreciated that salary cuts were avoided, and they gave higher marks for the fairness of remuneration in the survey. Fair remuneration is closely linked with a sense of being appreciated and valued, a feeling which has also increased. Staff can also take it as an appreciation of their value that their jobs have survived despite the difficult times.

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Remuneration

We as an employer pay our employees a competitive salary. Harmonised principles for remuneration across the Group have been a good starting point for developing greater transparency, simplicity and clarity in our pay systems. We worked hard in the past year to communicate much more about our pay policies, explaining to employees the Group's remuneration principles and the changes happening in the wage market.

We also paid close attention to developing and implementing appropriate performance-based pay systems for different employee groups. The introduction of an annualised performance pay system for managers and specialists has increased their interest in their business results. Performance bonuses are only paid for good and very good performance. The immediate result of the implementation of the performance-based remuneration system has been a rise in income from those skilled occupations that are directly related to production.

No company can isolate employment relations from the impact of the market, so a form of remuneration that is dependent on results is the best way to harmonise the interests of the employees and the company. We hope for clear support from the trade unions in this matter.

In the past financial year we developed a single motivation package that supports the Group's values. We want to give our workers incentives and rewards that support performance, value-based behaviour, learning and development, work-life balance and healthy lifestyles. Negotiations with the trade unions about the development of the single motivation package are ongoing.

As in previous years, in 2010 we participated in the salary market study by Fontes. Our goal is to keep abreast of market changes and to respond flexibly and quickly to changes, if necessary.

Analysis of the survey results gave us confidence that we have been able to continue offering competitive wages to our employees.

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Trade Unions

Eesti Energia has a total of eight collective agreements with trade unions. The number of collective agreements and their terms make negotiations complicated. We aim to introduce a uniform set of partnership principles for all the trade unions associated with the Group, and a single collective agreement that takes into account the specific nature of the work in each company and the market situation. We started last year to negotiate a single collective agreement for the Group with all partners and worked together to produce a draft agreement.

In 2010 we organised quarterly information days for the trade unions where we explained the background to changes taking place in the company, the Estonian energy industry and the Estonian economy. We worked together with the unions to assess occupational risks, enforce occupational safety rules, implement pay systems and organise events.

When business demands have led to restructuring or rationalisation of staff we always look to place the redundant employees in other companies within the Group. Mobility between companies depends to a large extent on our partnership with the trade unions.

Health and Safety

Eesti Energia's employees work in many different places, including mines, power plants, network companies, machine factories, oil production, electricity sales outlets and offices, and do many types of job there, from the unhealthy, hazardous or physically demanding, to office work. Many of our employees are exposed to physical, chemical, biological, physiological and even psychological risks.

It is a top priority for us to ensure that employees have as safe a working environment as possible, so that they can work without fear of occupational accident or illness. Constant occupational health and safety training and continuing education are part of our personnel policy. We train our people to analyse and prevent risks and find the best possible technical and economic solutions, so that they can do their work well.

Our risk analyses show that the most dangerous working environments for the health of our employees are mines, quarries and oil shale power plants. The risks in mines stem from strenuous work, humidity, low temperatures, drafts, dust and the threat of explosion; the risks in power plants come from the dust concentration in the air, noise, vibration, chemicals, high temperatures, drafts and humidity; employees in power plants also face risks associated with oil shale dust and ash and asbestos dust.

The working environment for employees who service and repair power network installations can be dangerous as they have to work out-of-doors and are exposed to weather, high places, various machinery, tick bites, and similar risks, and to the danger of electric shock.

To mitigate the risks to employees, we adhere to and comply attentively with all legal requirements, we invest continuously in safer working conditions and equipment, and we are steadily reducing the amount of insulation containing asbestos throughout the Group. During the renovation of the Eesti power plant generation blocks in the financial year 2010, more than 80 tonnes of insulation materials containing

hazardous asbestos were removed and disposed of.

In 2010 an occupational health and safety management system conforming to the OHSAS 18001 standard was introduced at Eesti Energia Tehnoloogiatööstus to match that already in use at Eesti Energia Kaevandused, Eesti Energia Jaotusvõrk, Eesti Energia Võrguehitus and Iru power plant.

In 2010 Eesti Energia Õlitööstus started the construction of the Enefit-280 oil plant using the new Enefit technology, and is responsible for organising and supervising healthy and safe working conditions on this major project, which is being undertaken in partnership with several construction companies.

The number of occupational accidents in the last decade has declined steadily, though this is partly because we are outsourcing technical services from partners. In the financial year 2010 there were no fatal accidents involving Eesti Energia employees, and the total number of accidents was significantly lower than in previous years.

OCCUPATIONAL ACCIDENTS

Human Rights

The Republic of Estonia is a signatory to most international and regional human rights conventions and adheres to European Union requirements. It is important for Eesti Energia that our work conforms completely with international and domestic standards and best practice.

We are particularly careful about:

- equal treatment of employees – discrimination on the basis of gender, race, mother tongue, political beliefs or age is prohibited;
- protection of children's rights – it is absolutely impermissible to use illegal child labour under any circumstances.

Internal rules at Eesti Energia ensure the protection of these rights. The management of Eesti Energia and its subsidiaries and all supervisory departments are fully aware of the need to protect human rights and respond immediately if any questions arise concerning the protection of rights.

In the financial year 2010, there were no cases in the Group that could be classified as human rights violations.

CORPORATE SOCIAL RESPONSIBILITY

Eesti Energia is a large company with more than seven thousand employees, half a million customers and a presence everywhere in Estonia. Unnoticed, we are part of the daily life of many people in Estonia, as we produce electricity, deliver it to customers and improve energy production. This means we must take responsibility for our decisions and the impact of what we do on our employees, clients and partners and also on local communities, the environment and the society as a whole.

In the financial year 2010 Eesti Energia was placed third in the Corporate Responsibility Index set up by the business newspaper Äripäev, the Responsible Business Forum, the Estonian Business School Ethics Centre and the Ministry of Economic Affairs and Communications. We were awarded the right to use the official logo of Estonian Responsible Business of 2010.

The British organisation Business in the Community judged us the winner of the Estonian round of the European Employee Volunteering Award competition and we were voted among the top five companies internationally. Companies from 22 European countries participated in the competition, which assessed the voluntary efforts of the staff to increase the professional skills of a particular social group and make them more competitive for finding work. Eesti Energia received the award for the Entrum programme which we launched with the help of our staff to teach young people in Ida-Virumaa to be more entrepreneurial. The lectures and trainee supervision given by our employees to help and encourage future energy industry specialists in vocational schools and universities and their involvement in charity were also particularly noted.

In our sponsorship programmes we follow certain principles, we prefer long-term projects related to energy and the environment, but we also engage in initiatives where the whole of society benefits, for example helping to make young people more entrepreneurial. We support initiatives from which as many people in Estonia as possible benefit. In the financial year 2010 we put a total of 344 thousand euros into supporting various initiatives. When choosing our sponsorship projects we follow the rules for payment approved by the board, and the applications are reviewed by a specially-convened sponsorship committee. A detailed overview of the projects we support can always be found on our website.

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We contribute to the development of the community

Because we are present everywhere in Estonia we are concerned for the welfare of the communities affected by our business. We include local people in discussions, participate in regional initiatives and use our knowledge, skills and opportunities to help solve the problems communities face and help contribute to the local living environment.

We promote entrepreneurship among young people

In 2010 we launched the Entrum programme in order to help train young people to be more entrepreneurial. The programme supports the belief of the Estonian Chamber of Commerce and Industry entrepreneurship think tank that a society survives and grows thanks to the people who dare to dream and who want to and are able to turn their ideas into actions.

Within the Entrum programme people who have already achieved success use an active and engaging format to train young participants how to be entrepreneurial and active in their lives. The programme focuses on filling the extracurricular time of the participants in a content-rich way full of creative initiative, and promotes an active approach to life and career planning. Entrum provides the doers of the future with practical knowledge for bringing ideas to life and achieving goals and results. Eesti Energia staff contribute to the programme on a voluntary basis, participating as mentors and in the organising team.

We launched the programme in Ida-Virumaa, where more than 70% of Eesti Energia's employees live and work. In the first year more than half of the local governments of Ida-Virumaa were involved and more than 600 young people aged between 15 and 17 registered as participants. The plan is to put into practice 68 projects that will improve life within the local communities.

The plan is to expand the programme in 2011 in order to offer young people who are underprivileged or disabled more opportunities for personal development.

We spread information about electrical safety

In the spring of 2010 we conducted an Estonia-wide campaign on electrical safety in order to make children and parents more aware of electrical safety and show them how to act when there is a danger of electric shock. Higher awareness will help cut the number of accidents and deaths caused by electricity or its misuse. In addition to the information campaign in the media, Eesti Energia staff gave lectures on electrical safety in around 20 schools, the Electric Bunny character instructed children at various public events, and we distributed materials on electrical safety aimed at children in schools and kindergartens. The message of the campaign was also promoted by informative posters painted on substations in public places around Tallinn.

> We use our knowledge, skills and opportunities to help solve the problems communities face and help contribute to the local living environment.

We organise discussions on the key topics concerning energy

In order to ignite discussion in society on the subject of energy we organise public forums where topical issues related to the energy

sector are covered, development scenarios for the energy industry are discussed, and innovative solutions which could make energy more efficient and environmentally sustainable are presented.

At the spring 2010 Energy Forum, opinion leaders discussed the footprint of energy production and innovative ways to lower the environmental impact. At the 2010 autumn forum the first experiences of the open market for electricity in Estonia were debated. We organised the ninth Oil Shale Day in Maidla in Ida-Virumaa, where 160 specialists in the field discussed the trends and opportunities in the development of Estonian oil shale production.

During this year we sponsored several conferences promoting energy, for example the conference of the Society Of Mining Professors, the mining conference organised by the Estonian Mining Society and the conference of innovative solutions organised by the Virumaa College of the Tallinn University of Technology. We supported the organisation of these events and provided speakers.

We consider it important to involve affiliated groups in our activities. We regularly organise information events for major customers and meetings with local governments and the people living in the areas affected by our business in order to find together ways we can cooperate and to get feedback for our development plans. Our common interest is to guarantee the preservation and improvement of the living environment of the local residents. It is in all of our interests to preserve and improve the living environment for local residents. To this end we have reached an agreement with the local council of Maidla, a district where the environment and the community are affected by our mining. The agreement says that we will continue to support the quality of life locally after the Aidu quarry has closed and before the Uus-Kiviõli mine opens.

We develop the energy industry

Hands-on education in engineering, a scientific view of the world and the innovative thinking that we prize highly at Eesti Energia are needed for the whole of Estonia. That is why one of our targets is to get people more interested in the energy industry and help to widen knowledge and understanding of energy throughout society.

We consider it important to promote education in power engineering and popularise the subject among potential students. In order to supply the company with properly-trained future specialists in the subjects that are important to us we contribute to the education of students so that they can get modern and wide-ranging training. Among other things we offer students the opportunity to see and experience the real life of their chosen profession during their studies. You can read more about our work in training future specialists in the section Employee on page 68.

We are one of the founders of the Discovery Centre Energy, which organises exhibitions about energy for both children and adults interested in science. This year we organised an architectural competition to develop the Discovery Centre Energy and the renovation and refurbishment project of the building was completed. The future Discovery Centre Energy will help those who are interested learn about scientific issues based on national science curricula and make the facts learned in school more exciting and easily understandable with the help of hands-on examples.

> This year we organised an architectural competition to develop the Discovery Centre Energy and the renovation and refurbishment project of the building was completed.

We also helped the NGO 'Scientific Information' to organise a summer school 'Energetic Energy', and the student organisation Best-Estonia to prepare the tasks for young chemists in an engineering competition.

We support the systematisation, archiving and publication of the history of energy so that this history can be widely appreciated. We support the work of the Estonian Society of Heating Engineers, and we helped to publish a booklet The History of Kohtla Mine, and the biography of Leonid Ingar, a long-term head of Eesti Energia, written by Hilja Alak, who has worked for many years for our company.

We promote a healthy lifestyle and living environment

By giving all our energy for the good of the people, we promote a healthy lifestyle among the people of Estonia and a way of thinking that focuses on the future. This will bring a better tomorrow for both society and us as a company, because with the support of a strong society we can more easily achieve all that we want.

To help the Estonian people feel good, we participated in the Estonian Health Trails (Eesti Terviserajad) project for the sixth year running, together with Swedbank and Merko, bringing light to dim or unlit forest and countryside health trails. The aim of this is to develop health and sports trails in Estonia, promoting regular physical activity and ensuring an all-year-round free place for working out in a natural environment for anyone who wants it. By the end of 2010 more than 70 health trails across Estonia had been constructed or repaired as part of the project.

To attract people to use the health trails we have launched a series of fitness and sport events that are accessible for everyone. In addition to the traditional Eesti Energia Health Walk (Eesti Energia Tervisekõnd), we also became the patron of the Eesti Energia Health Jog (Eesti Energia Tervisejooks) aimed at fitness runners in 2010. More than 2000 fitness enthusiasts took part in the weekly events on the health trails from spring to autumn.

In order to promote an active lifestyle among our employees, we have organised sports clubs that offer opportunities for physical activity and help make our employees think more about enjoying a healthy lifestyle. More than 1300 people have joined different Eesti Energia Sports Clubs. In these clubs people can try various kinds of sports, and we also hold sports competitions and training sessions. In autumn 2010 the Eesti Energia Sports Club participated in the Healthy Estonia Foundation (Terve Eesti Sihtasutus) HIV social campaign, where the training sessions organised for employees in Tallinn and Narva focused on helping people protect themselves and their children from HIV. Lectures on healthy diets and fitness activities are also very popular among our employees.

In order to make the living environment of the people in Estonia more beautiful, we were helped by students of Product Design at the Estonian Academy of Arts and the City of Tallinn in organising a competition to find contemporary and graffiti-free solutions for substations. By the end of 2010 the first six substations in Tallinn and the surrounding areas were completed to the designs.

We support local initiatives in Ida-Virumaa

As most of the Eesti Energia's employees and our production are located in Ida-Virumaa, we have focused our attention on developing the area.

Working with the Ministry of Culture, the Estonian Olympic Committee, the Estonian Rowing Association and the Maidla rural municipality we are planning to build a water sports centre with a canal for rowing on the site of the Aidu oil shale mine, which will be closed shortly. We want to develop the mine site in such a way that would contribute considerable added value to the socio-economic environment of the Maidla rural municipality. The thematic planning of the renewal has been launched and if the

plans are realised, the site will be completed by 2013 with a rowing centre that meets international standards and a leisure area for visitors.

Together with the Kohtla-Nõmme Mining Museum and with the help of the European Union Structural Funds we will create a visitor centre in Ida-Virumaa to present modern energy. We want to develop the only museum in the European Union dedicated to oil shale energy into a theme park focusing on the mining and use of oil shale and broader energy-related subjects. We are helping to develop and set up an interactive permanent exhibition presenting the history and the contemporary story of oil shale energy in Estonia. In the financial year 2010 the design stage of the renewed visitor centre was completed, a building procurement for the underground part was announced and the involvement of experts in developing the exhibits was organised.

Among local actions in the financial year 2010 we supported the Purtse river summer festival How are you, Purtse river? in order to attract attention and explain to the representatives of the local community the pollution and environmental problems of the Purtse river. In cooperation with the Entrum youth programme we supported the Jõhvi education festival and the entrepreneurship and environmental education conference that took place within the festival.

Our employees do voluntary work in order to improve the living environment in Ida-Virumaa. In the summer of 2010 Eesti Energia employees organised a national community day to fix the benches in Oru park. Every year our employees organise a day of planting trees, and in the spring of 2010 we planted a forest in Vanaküla quarry. During the Teeme ära (Let's Do It) national community event the Eesti Energia volunteers cleared the adit entrance of the former Kukruse mine in Ida-Virumaa.

We preserve the environment

We want to give the future generations an Estonia that is in good condition. We can do this by consuming the natural resources with which we have been entrusted in a responsible way, by reducing the environmental impact of our activities and promoting the care for the environment as a way of thinking. A more detailed overview of our environmental activities can be found in the section Environmental Report on page 81.

In November last year we participated in the European Week for Waste Reduction. We spread the ideas among our employees about what any person can do in order to reduce waste, the simple principles we can follow to create less waste in the office and how to consider the environmental impact of our daily business decisions. In cooperation with the Recycling Centre Uuskasutuskeskus we organised a campaign to promote the ideology of recycling, where our employees brought from home items that are still good and usable but perhaps not in daily use any more. The contributions of our employees brought joy to almost

At the end of the financial year we began working with the Looduse Omnibuss (Nature Omnibus), to make trips together to the countryside and make an interest in nature a natural part of people's lives in Estonia.

a thousand less-privileged families across Estonia

At the end of the financial year we began working with the Looduse Omnibuss (Nature Omnibus), to make trips together to the countryside and make an interest in nature a natural part of people's lives in Estonia. For ten years already Looduse Omnibuss has taught people to love our natural environment, taken people on weekly nature trips under the guidance of the best experts, organised weekly nature evenings where those who have been at the forefront of popularising environmental issues make presentations with top musicians, organised an annual nature photo competition and published a nature photo yearbook. We are helping Looduse Omnibuss to broaden their activities so that even more people could share in the positive energy of the Estonian environment.

We value our people

As the biggest employer in Estonia we contribute to offering our employees an inspiring and safe working environment. We find ways for them to keep up their skills and for personal development. We use performance management so that our employees have clear and measurable goals and if they achieve good or very good results they can earn a performance bonus. We value the opinion of our employees and their involvement in discussions. Our employees can give feedback in many ways, for example through the loyalty survey which is organised every other year, by commenting on topics on the intranet and answering questions, and at personal development interviews.

The code of ethics, which was developed even further this year, helps our employees to follow the values of the company and act legally and ethically at all times in their work.

In the course of the year we organised various events for our employees. For example, employees and their whole families were invited to the summer day event held in Toila Oru park in August. We value performance and behaviour that fits with our values. We recognise the best specialists with awards for the best achievers of the year, for which employees can nominate candidates through the intranet.

If there is a vacancy in the company we first look for a suitable candidate internally. If employment is terminated we help the person to get another job. We have offered people who have been made redundant training courses on CV writing and career counselling in cooperation with the regional Employment Offices and other partners.

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Read more in the section Employee of the annual report on page 65.

ENVIRONMENTAL REPORT

Despite the massive efforts by countries and companies to switch to renewable sources of energy, the modern energy industry is still mostly based on fossil fuels as the source of primary energy. The electricity, heat and liquid fuels we consume all impact the environment in many different ways, the main ones being the use of land and resources, the generation of waste, the emissions of pollutants to air and water and certainly the aggregated impact of all this, which is seen in climate change.

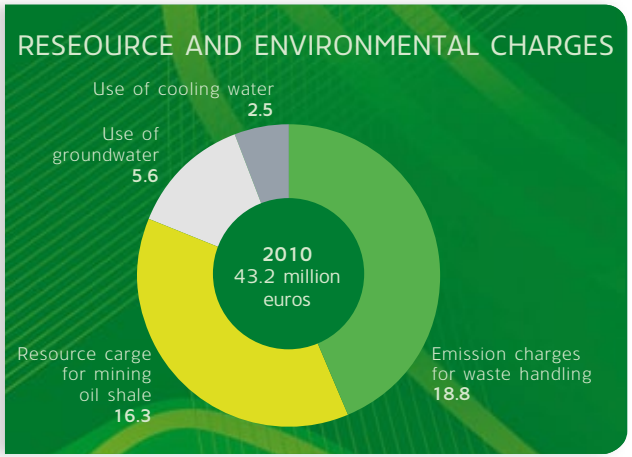
The situation in Estonia is not much different from that in the rest of the world. In order to lower our environmental impact, Eesti Energia takes important and expensive steps every year to increase the use of renewable resources, help to reduce environmental emissions and enable a more efficient use of our natural resources. Making our customers more aware of environmental sustainability is also important to reduce the overall environmental impact.

The basis for Eesti Energia's systematic environmental activities are the common principles laid out in the Group's single environmental policy:

- We use environmental management systems that conform to the international standards ISO 14001 and EMAS.
- We follow all relevant Estonian, European Union and international environment laws, conventions and agreements.
- We analyse the environmental impact of our everyday activities and any new project before starting it, and we look for technically innovative ways to reduce the negative environmental impact and to increase efficiency and the recovery and recycling of materials.
- We are reducing the CO_2 intensity of our produced energy for our clients. To do this we are diversifying our production portfolio and increasing the share of renewable sources of energy, using the best available techniques as far as is technically and economically possible.
- We are open to new solutions. We work with Estonian and international research institutions and consultation firms to achieve our environmental objectives.
- If all other conditions are equal in procurement tenders, we prefer suppliers with certified environmental management systems who use environmentally clean technologies and materials.

No human activity is ever completely without environmental impact. The best we can do to alleviate our impact is to carry out constant and conscious analysis of our activity and choose methods that have the lowest environmental impact possible.

In the past financial year Eesti Energia paid a total of 43.2 million euros in resource and environmental charges. The biggest environmental protection investment last year at 46 million euros was the instalment of DeSOx desulphurisation systems that aim to reduce air pollution in the Narva power plants. Several major investment projects to increase the environmental safety of waste handling and the recovery of waste are in the preparatory stage.



Eesti Energia primarily uses oil shale, a non-renewable fossil fuel source of energy, to produce electricity, heat and liquid fuels. The mining of Estonia's local source of primary energy does offer high security of supply and has a reasonable production cost, but causes specific environmental problems that countries importing primary energy do not have.

The generally widespread consequences of burning fossil fuels are added to mining environmental impact. The domestic environmental impact is felt in the use of resources, air pollution and waste handling, while on a global scale the high emissions of the most widely known greenhouse gas CO_2 and its possible effect on climate change are certainly added to this. We have set ourselves the long-term goal of considerably decreasing our emissions of greenhouse gases from production activities. The aim is to cut the relative importance of CO_2 emissions per MWh of electricity produced by 30% by the year 2015 compared to 2007. In order to achieve this goal we have introduced the oil shale and biomass co-incineration in electricity generation and developed this technology further , broadened the production of wind energy in a sustainable way, increased the importance of combined heat and power (CHP) generation, and taken other steps to diversify our generation portfolio.

In order to supply our customers with the electricity we generate, the total length of our electricity lines is enough to circle the world almost 1.5 times. In order to guarantee the distribution of electricity without failures, limitations of use are placed on the land under the power lines. Trees and shrubs under the power lines cannot grow too high, and every year considerable clearing work is done in order to maintain the land under the electricity lines.

In order to supply our customers with the electricity we generate, the total length of our electricity lines is enough to circle the world almost 1.5 times.

Electricity distribution uses equipment containing oil. In 2010 we continued rebuilding work of the spill container basins around our oil containing equipment to cut the risk of pollution in the leaks situations. In the past year we also disposed of the last equipment containing environmentally dangerous PCBs and handed it over to a specialised waste handling company. We continue to work to lower the environmental impact of our waste handling and to increase the proportion of our waste that is recycled.

An important role in diversifying Eesti Energia's production portfolio is played by the use of renewable sources of energy. However, even with new renewable sources it is important to be certain that they will not damage the environment. People's attitude towards these projects has changed as interest in the development of renewable energy projects increases, All types

of development have become more complicated due to the progressing NIMBY syndrome by local residents, which limits the range of potential sites and raises the cost of development.

To lower significantly the burden we place on the environment, energy generation and consumption have to work together. Our clients need to understand the environmental consequences of using energy and help maintain sustainable growth for the energy industry through responsible consumption. We have widened our promotion of energy audits and thermal imaging to our clients and we issue energy labels to support energy saving. We are using our successful Green Energy product to encourage the wider use of renewable sources of energy by our clients. In 2010 the number of clients specifically using Green Energy in Estonia rose to 3700, who between them in the year consumed a total of 34 GWh of specially bought renewable energy. To raise awareness of environmental issues we continue to sponsor the Energy Discovery Centre in Tallinn and at the end of 2010 we started to sponsor the work of the Looduse Omnibuss nature conservation organisation.

Land and Resource Use

Eesti Energia uses significant amounts of various resources in its work, just like any other energy company. The main resource we use to generate power and heat and to produce liquid fuel is oil shale. We ensure the diversity of our energy portfolio by constantly increasing the use of other sources of energy, such as wind, biomass and retort gas. Usage of water and land is unavoidable for a company operating across the whole energy chain.

Use of Energy Sources

In the past year Eesti Energia was again the largest energy company in Estonia, and oil shale remained the main source of primary energy in generating electricity, heat and liquid fuel. In this financial year Eesti Energia consumed 14.2 million tonnes of oil shale, 267,652 tonnes of biofuels, 123.6 million m^3 of natural gas and 59.8 million m^3 of retort gas in our business. From these sources we produced a total of 11,823 GWh of electricity, 1676 GWh of heat and 190,448 tonnes of shale oil. In total around 2% of all the fuel consumed was biofuel.

We are pleased to be able to say that despite various changes to rules and subsidy mechanisms, we have kept biomass at the same level within our energy portfolio. We plan to continue this trend as far as is economically rational, and will make the investments necessary for this. In addition to biomass, the renewable resources we use for generating electricity include also wind and, to a small extent, water. By 2013 we will have started the combined

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production of heat and electricity using mixed municipal and industrial waste, that also lessens the environmental impact of Estonian municipal waste management.

Oil Shale

Eesti Energia's primary energy resource is still oil shale. We are mining the oil shale which we need to produce heat, power and liquid fuel in quarries and underground mines. We also sell oil shale to other Estonian producers of liquid fuels and construction materials.

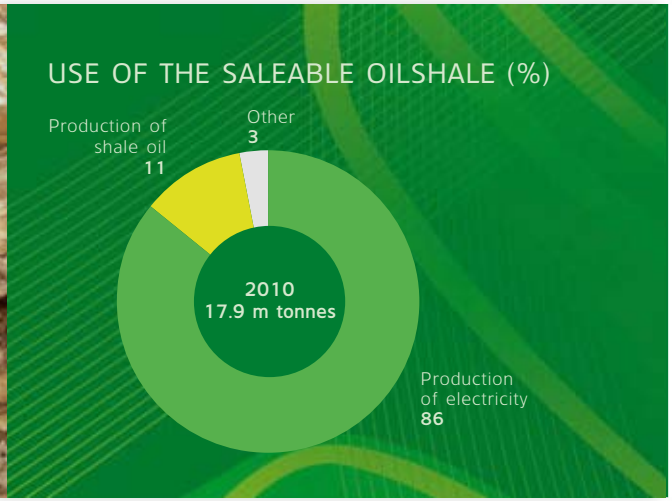
In this financial year we mined a total of 14.0 million tonnes of oil shale geological resource, of which 17.9 tonnes reached consumers after processing. The majority, or 14.2 million tonnes, was used in the power plants in Narva and Ahtme to produce electricity and heat, while 1.7 million tonnes were used in our oil plant to produce liquid fuel. In addition, we sold oil shale to other consumers outside the Group, with 1.8 million tonnes going for liquid fuel production and 88 thousand tonnes to the construction materials industry.

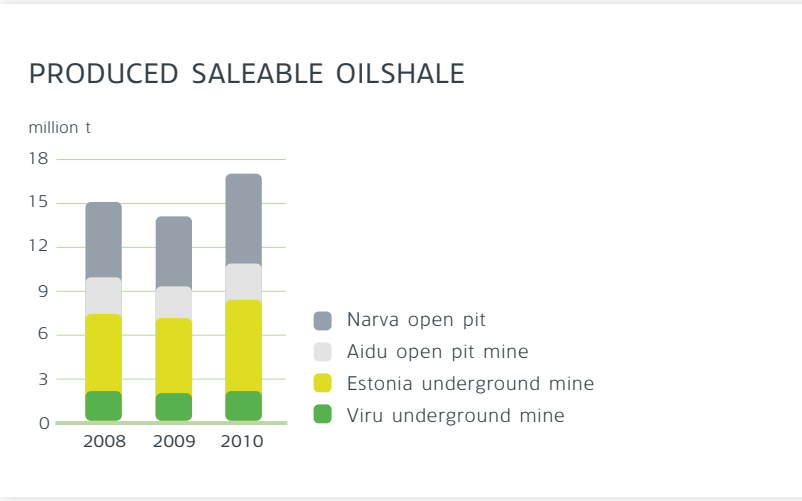
Biomass

Diversifying our production portfolio in order to lower our environmental impact is one of Eesti Energia's key environmental goals. Biomass is one of the best solutions for ensuring the security and availability of supply.

Modern combustion technology is becoming ever more flexible, and it allows different types of fuel to be burned at the same time in one boiler. The Balti and Eesti power plants near Narva use two circulating fluidised bed energy units which have this flexibility and so some of their oil shale fuel can be replaced with biomass. If it is suitably prepared, biomass can also be burned to a lesser extent in furnaces that use pulverised combustion technology.

A consequence of the new renewable energy subsidy system, which came in on 1 July 2010, was that it halved the use of biomass as a fuel being burned together with oil shale during the past financial year. At the start of 2010 we were burning biomass in the circulating fluidised





bed energy units of both the Balti and Eesti power plants and were preparing to switch our pulverised fuel boilers over to a large degree, but from the autumn it was only the Balti plant when working in CHP mode that used biomass. At the same time we have initiated additional investments in the Balti power plant to increase the use of the biomass as a fuel. The new circulating fluidised bed boilers being built in Narva in the near future will also allow for burning biomass alongside other fuel.

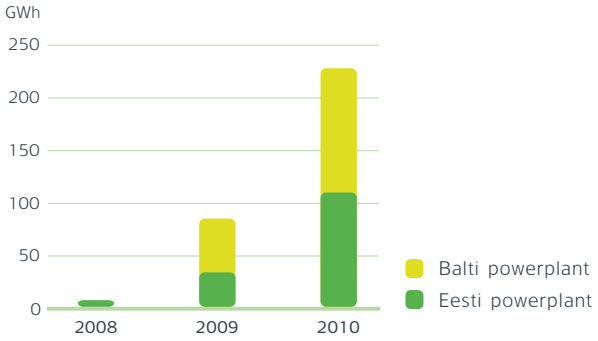
In the past financial year we produced from biomass 110,539 MWh electricity in the Eesti power plant and 118,553 MWh of electricity in the Balti power plant. The biomass we use continues to be primarily wood, as it is economically and technically the most reasonable option, and it needs the fewest technical changes in our system. For biomass to be usable on a large-scale, a good-quality stable supply network needs to be set up. Our largest biomass supplier in the past financial year was the State Forest Management Centre (RMK). Steady supply networks have also been set up with other, smaller suppliers. We have a clear strategy for the next few years to research and develop the potential for using the biomass that is on our own land.

Our power plants are capable of burning wood chips, wood pellets, wood briquettes, sawdust, wood chippings and other waste wood that is free of hazardous materials together with the oil shale. Other types of biomass could also be used, though no large-scale test burning has yet been carried out into this. It is very important that the quality of the biomass is monitored constantly.

The advantages that biomass offers over oil shale include its higher heating value of 9.98 MJ/kg, compared to around 8.4 MJ/kg for oil shale, and its significantly lower ash content of around 1-2%, compared to 45% for oil shale. Burning biomass also creates substantially lower SO_2 emissions, which is important for the environment.

As biomass is a renewable energy source, it has been agreed that the CO_2 emissions from burning it are not considered. This means that using more biomass to replace oil shale will help lower the CO_2 emissions of our electricity generation.

USE OF BIOMASS
IN ELECTRICITY GENERATION



Other Fuels

As well as oil shale and biomass, Eesti Energia also generates heat and power using natural gas and retort gas, liquid fuels, wind and water. From 2013, mixed municipal and industrial waste will be added to this list as we plan to start using it to generate heat and electricity.

The fossil-fuelled Iru power plant, with lowest environmental impact in the Eesti Energia

Group, generated electricity and heat from 115.5 million m³ of natural gas in the past financial year. Natural gas is also the main fuel of the reserve boilerhouse at the Balti power plant near Narva, which is used to ensure the supply of heat to Narva. The boilers of the Eesti power plant near Narva burned together with oil shale 59.8 million m³ of retort gas, which has a high heating value and is a by-product of the liquid fuel production process.

We mainly use liquid fuels as reserve fuel in electricity generation and for pre-heating the boilers at the power plants. The main fuels are shale oil and fuel oil. In summer, when the demand for heat is low, we use liquid fuel instead of oil shale for generating heat in the Ahtme power plant. In the past financial year we consumed a total of 13,448 tonnes of liquid fuels.

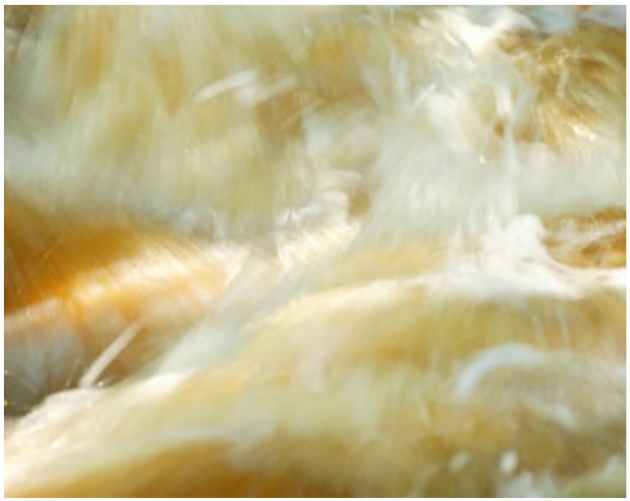
As part of our increasing diversity of sources of energy, we have been looking more and more into using municipal and industrial waste, which has a heating value equal to or even exceeding that of oil shale. It is calculated that about 300 thousand tonnes of municipal waste and some industrial waste still make it into landfills each year, enough to fuel about 50 MW power plant a year. During the recession the amount of waste produced fell, but as the economy recovered last year, so did the amount of waste. Active recycling efforts need to be accompanied by an increase in energy generation from waste to help cut the amount being stored in landfills.

As part of our programme to diversify our energy sources and lower our CO_2 emissions, we plan to build a new energy unit fuelled by unsorted municipal and industrial waste at the Iru power plant, which has so far only operated on natural gas. New unit will be able to produce 17 MW of electricity and 50 MW of heat. We signed the construction contract with the French company Constructions Industrielles de la Méditerranée in March 2010. This will be the first waste to energy unit in Estonia or the Baltic states, and so the preparation time is a little longer than otherwise, and the new generating unit will be completed in 2013.

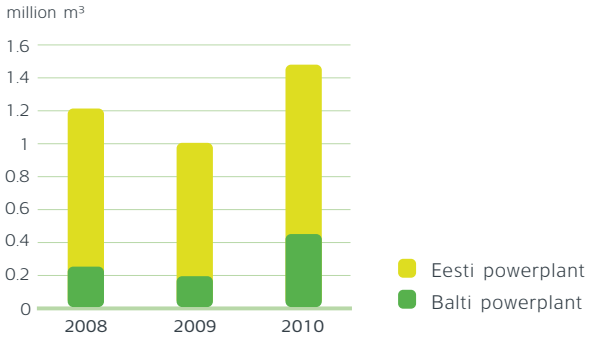
Water Use in Generating Energy

Eesti Energia is Estonia's largest consumer of water. We mainly use water as cooling water in power plants. Also pumping of water during mining is classified as water usage. A smaller volume of water is also used by Eesti Energia's two working hydro-power stations, the 1.2-MW Linnamäe and 365-kW Keila-Joa hydro-plants, and will also be used by the hydro-power station currently being renovated in Põltsamaa.

Water used in power plants for cooling and technical purposes depends directly on production levels. We draw the water for the operation of the Eesti and Balti power plants near Narva from the Narva river; for the Ahtme power



USE OF COOLING WATER IN ELECTRICITY GENERATING



plant from Konsu lake; and for the Iru power plant from the Pirita river. It is possible to lower somewhat the amount of water we take from the environment. At the Iru power plant the cooling water circulates through a cooling tower in order to reduce water consumption in condensation mode. At the Ahtme power plant and the new peak-load boiler plant, we have carried out research into using the water that collects in closed underground mines and is otherwise unused instead of the surface water we currently use.

In the past financial year we used 1.6 million m^3 of cooling water in our power plants and 162,520 m^3 of water for other purposes in generation.

When surface water is used for cooling and technical purposes or as a source of energy in hydro-electric power plants, the question of increasing its volume becomes very important, as does minimising the environmental impact of this and increasing safety in general. The renovation project for the Põltsamaa hydro-electric plant includes the reconstruction of the fish ladders, and this is also important for the Linnamäe hydro plant. In the past financial year the rebuilding project for the Nehatu dam on the Pirita river was made. The dam is needed to protect the water supplies for the Iru power plant, and rebuilding it will make it safer and allow access for fish. The project is being primarily funded by the EU.

Use of Land

Eesti Energia's distribution network uses a lot of land, but mining and wind parks also have an impact on land use.

Power Lines

Eesti Energia distributes electricity to customers practically everywhere in Estonia. Most of the distribution lines are overhead lines, a total of 47,336 km, while there are also 13,239 km of underground cables. As we prefer using underground cables than overhead lines, the share of underground lines is growing. Overhead lines require wider safety corridor than underground cables, and it varies with the voltage they carry. For example, for 35 kV overhead lines land use is restricted in a corridor of more than 50 metres, while the corridor for underground cables is only two metres wide. Besides their narrower protected zone, underground cables also have the advantage that their operating reliability is better and they don't have any other environmental impact.

The corridors of overhead lines must regularly be cleared of trees and brush. Each year, we do clearing work on land under about 3000 km of lines. The clearing work is coordinated with the land owners and follows all environmental restrictions.

We clear the wood manually with saws and trimmers and with machines such as tractors and mechanical brush-cutters. The felled trees and brush are the property of the land owner, and we cut the timber to the size agreed with each land owner, but the land owner is then responsible for organising further transport. Land owners are becoming more and more interested in collecting the branches, tree crowns and brush left as waste from cutting for use as biomass. If a land owner does not need the brush, we leave it heaped tidily by the edge of the clearance after the work is done.

Quarries

Mining in quarries has a significant impact on the landscape. For this reason we work constantly to recultivate and restore mined areas, as this can even make the restored land notably more valuable than it was before. We plant forests on recultivated quarries and we have also made artificial lakes and even farmland. The Estonian Defence League uses restored quarries as a training area. The planned closure of Aidu quarry is creating a large restored area which will contain a rowing centre, a leisure area, possibly a wind park and other features. It is also important to consider whether the restored and reforested quarry areas can be used as a good site for growing biomass.

The largest Estonian wind parks are currently under development on the mainland but the idea of building wind parks in the sea continues to be discussed.

Wind Parks

The largest Estonian wind parks are currently under development on the mainland but the idea of building wind parks in the sea continues to be discussed. Producing electricity from wind on land generally requires a lot of land, because the wind generators are large machines and they cannot stand too close to each other. Wind parks are mostly built on empty farmland or similar territory, and European experience, for example from Denmark, shows that it is possible to use the territory of former wind parks for agriculture, among other uses. The main limitation on the development of wind parks is their noise and the visual interference they create for people. Eesti Energia's wind parks adhere strictly to all applicable limits.

Making Our Use of Resources More Efficient

Enhancing Oil Shale

- We are analysing more deeply than ever the possibilities for enriching oil shale in the project and development work for new oil shale mines, by ordering work from Estonian research institutions.
- We are trying to put more focus than ever on extracting more value from oil shale by producing liquid fuels. By starting to use the new Enefit-280 technology we will significantly reduce environmental discharges and increase the efficiency of the production process. Producing liquid fuels creates less greenhouse gas emissions per tonne of oil shale than does producing electricity from oil shale, as the majority of the carbon ends up in the liquid fuel and is not released during the production process into the atmosphere as CO_2.

Restoring the Environment

- Each year, we restore just as much former quarry land as we use for mining. We reshape the landscape and restore mine areas as directed by local governments, and we usually reforest the area. After the State Forest Management Centre, we are one of the biggest planters of forests in Estonia.
- We hand reconditioned former mine areas over to the local government. Before the quarries are closed, we already start working together with various interest groups to ensure that the industrial landscape is transformed into a desirable living environment.
- We are preparing to close the Aidu quarry. After mining operations finish, it may become the first rowing centre in Estonia to meet international requirements, or a wind farm, or a shooting range for the Defence League volunteer reserve. The successful recultivation of Aidu shows that there are no permanently spoiled areas as a result of mining.
- Reclaimed former quarries could in future be important sites for producing biomass.

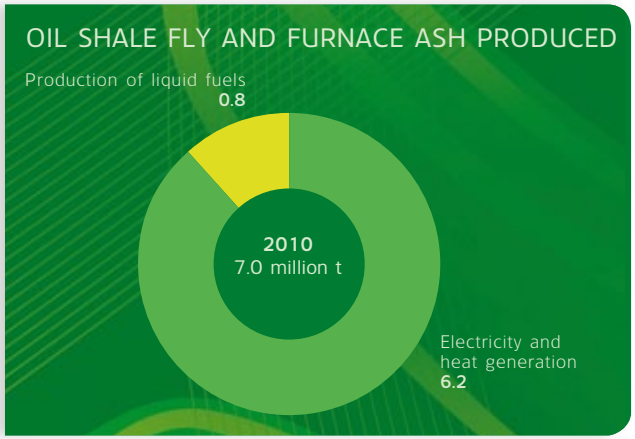
Use of Land Under Power Lines

- The land underneath the power lines used by Eesti Energia has great potential for growing biomass.
- To date the use of land has been slowed by the difficulty of access to the material and the high transport costs for reaching the place where the biomass will be used.
- The increase in the number of small-scale consumers of biomass and the general increase in its consumption will raise the potential of the land under the lines in future.

Waste Handling

Eesti Energia's primary energy source, oil shale, has a high mineral content, which generates a lot of waste when used and also in mining process. We are reducing the environmental impact of our waste handling operations and are looking for new ways to reuse the waste created in the production and generation processes.

Up to half of the mass of the oil shale used to produce energy is mineral rock. When we produce electricity or liquid fuels from oil shale, each tonne of oil shale we process creates up to half a tonne of mineral residue - ash, most of which is currently deposited in ash fields. The Balti and Eesti power plant ash fields near Narva are Estonia's largest waste handling sites and cover a total of 13 km^2. In the past financial year our activities led us to deposit a total of 7.0 million tonnes of oil shale fly and furnace ash. During the work to close the Ahtme power plant ash field, we reused 82,290 tonnes of the oil shale fly and furnace ash produced during electricity and heat production.



Oil shale is not found under the ground clean and isolated, it is mixed together with limestone. The rock that is mined is then enriched, and waste rock is created as up to 40% of the mined material is removed to raise the oil shale to the quality needed. In quarries, the residue from enrichment is transported back to the mining site and used for recultivation. In this case no waste rock is created. In underground mines, the enrichment residue is deposited onto heaps and this is classified as waste depositing. In the past financial year we deposited in enrichment residuals heaps a total of 3.4 million tonnes of waste rock created in the oil shale enrichment process.

As well as oil shale ash and mine waste, our activity also creates other types of waste, both hazardous and non-hazardous. For instance wood pylons impregnated with chemicals have been removed during maintenance and improvements to the distribution grid, and they are processed by licensed waste handling companies. We deposit waste containing asbestos and inert industrial waste created during the maintenance of major production machinery in our own industrial waste landfill, or we use the services of waste handling companies. In the past financial year, we removed a total of 250 tonnes of waste containing asbestos. We always use licensed waste handling services to process the hazardous waste we produce.

We are reducing the environmental impact of our waste handling operations and are looking for new ways to reuse the waste created in the production and generation processes.

Reducing the Environmental Impact of Waste Handling

Eesti Energia is the largest waste generating company in Estonia, and this demands that we

make great efforts to minimise the environmental impact of our waste handling operations. We follow internationally accepted principles for waste handling and are developing two parallel solutions, firstly to recover as much as possible from the waste we produce and secondly to reduce the environmental impact of the technical systems we use for the waste depositing.

It is obvious that the best option for the environment is to ensure that all waste is recovered, as this would remove the need to exploit new natural resources and would help avoid the negative environmental impact of dumping waste in landfills. However, full recovery is not yet realistically feasible, and so we are making sure that the waste handling systems we use have the lowest possible environmental impact by using the technology with the lowest environmental footprint.

Reducing the Environmental Impact of Oil Shale Ash Depositing

At both Narva and Ahtme, we are working to increase the environmental safety of our fly and furnace ash deposits. We are applying for European Union co-financing for the implementation of the two projects.

In the past financial year we finished preparatory work to increase the environmental safety of the oil shale ash storage fields near Narva. We had already found a solution in 2009 that would satisfy everyone, as hydro transport still proved to be the most reliable and economically justifiable solution. In hydro transport, the fly and furnace ash from the power plants are mixed with water and transported as a slurry to the processing zone of the ash field, where the solid material is allowed to settle so that the water can then be re-routed back to the transport system through an intermediate pond. In this process, the water also acts as a coolant and helps to stabilise chemically the material being deposited.

The best way to reduce the environmental impact of ash removal is to isolate the transport system from the environment thoroughly so that the transport water cannot infiltrate to the surrounding environment. To isolate the system, the transport water buffer pool under the ash field and the return water canals around the ash field are surrounded by retaining walls that extend down to the impermeable layer of bedrock. As production levels fall and the amount of ash produced falls, the size of the buffer basin next to the ash field of the Balti plant will be reduced to optimise the quantity of circulating water. As the chemical properties of the circulating water change during the transport process, the water can under no circumstances be directly released into the environment. To maintain stability in the system, the water being released is neutralised before it is diverted into the environment. To minimise the environmental impact of neutralisation, we have replaced a large part of the strong acid that we used previously with CO_2.

The ash depositing site at the Ahtme power plant has not been used since summer 2009. Using material produced in the pre-processing of the ash slurry, we will give the ash field the surface relief needed before its closure and this will be a case of reuse of material, not waste depositing. Current plans expect the Ahtme ash field to be finally closed in summer 2013 and preparatory work for this has already started.

Recycling Instead of Landfill

Eesti Energia's primary goal in waste handling is to increase recycling of waste. The large flows of waste which we currently send into landfills can be a valuable raw material. Making much more use of this resource than we have so far will lessen the negative environmental impact of waste depositing. It will also lessen overall need to develop new quarries for raw materials, which will make our use of irreplaceable resources more efficient and lower its environmental impact.

Waste Rock as a Valuable Raw Material

Oil shale enrichment produces a waste rock that contains limestone, which is widely used

as a resource. In quarries we use the enrichment residue for re-cultivating and landscaping the site, but the waste rock currently deposited in heaps in underground mines can be used as filler or gravel substitute in the construction industry. The largest use of it in the past financial year was the major reconstruction work on the Jõhvi bypass, partly financed by the EU. We sold a total of 389,775 tonnes of oil shale waste rock and 46,493 tonnes of sand removed during mining. As the material was of an appropriate quality for the road, we are hopeful that it can be used in other road construction projects in the future as well.

To increase the recovery of waste rock, the Aidu quarry and the Estonia mine have gravel production units. Together they are capable of producing up to 1.5 million tonnes of gravel, which is of better quality than unprocessed waste rock and widens the ways in which the raw material can be used. We continue to hope that a revival in the construction sector, the exhaustion of limestone deposits in the Tallinn area, and the complexity of opening new mines because of stringent environmental requirements will all combine to restore demand and growth in future.

While we are reusing as much as we can of the waste rock, we are sending the rest that we cannot process to waste rock heaps that can later be used as motor sport centres or other recreational areas. We have started the first of these projects near to the Estonia mine, where waste rock from the mine is being reused to make a motorbike track.

Oil Shale Ash as a Raw Materia

The chemical composition of oil shale ash gives it great potential as a raw material in many ways. The fly ash generated in power plants is already being used in cement production, but only a very small amount of the total produced is used in this way. It is mostly done in Kunda Nordic Tsement's factories, where a special portland cement is produced from our fly ash. Our efforts have also led to a small amount of oil shale ash being exported as a raw material as well.

The main factor that holds back the wider use of oil shale ash is the lack of standards and of experience in its use. To solve this issue, we have started several research and development projects which aim to increase the use of oil shale ash many-fold. For instance, in the past financial year we completed laboratory testing of a mixture of oil shale ash and waste rock that can be used for backfilling underground mines, and we will begin half-scale industrial experiments in our mines soon. The immediate goal of the project is to fill in underground mining chambers and make the ground more stable, but a more distant objective is to develop and deploy a lossfree mining technology that will ensure the stability of the surface of the ground.

In the past financial year we worked with our partners to develop a project for enhancing oil shale ash recycling with 1.1 million euros of funding from the EU LIFE+ programme. The project tested various mixtures of oil shale ash for use in road building, and we developed standards to control and describe the process. As part of the SMOCS project for countries from around the Baltic sea we are looking into the use of oil shale ash to stabilise the environmentally hazardous sediments that are removed during the dredging of ports, as this could be a major use for ash as cement replacement. We are working with Estonian scientists on using oil shale ash to neutralise acidic soils in agriculture and adding microelements to soil and on several other promising projects.

Our long-term goal for this is to increase tenfold the amount of ash recycled compared to today's levels. As well as researching all these possibilities we want to increase our capacity to remove ash without using water and to store and process it in dry form before sending it for reuse.

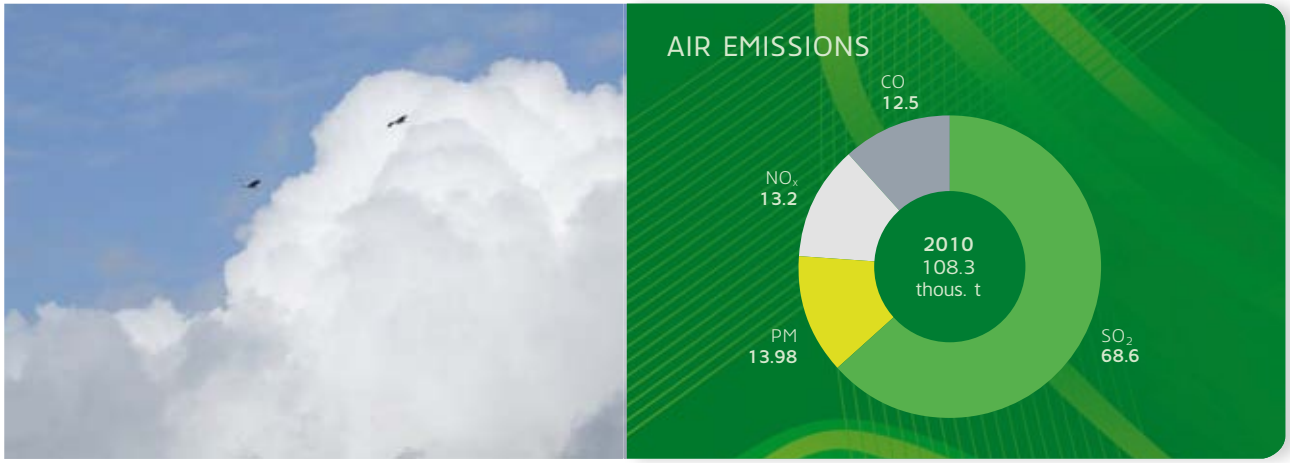
Air Pollution

Eesti Energia impacts air quality primarily by burning fuel during the process of generating electricity and producing liquid fuels. The main pollutants released are SO_2, NO_X, solid particulates and CO_2. Air pollution is also caused by heavy metals, CO and the volatile organic compounds that are released both in the production of electricity and liquid fuels from oil shale. To a lesser degree there is also air pollution from the explosives involved in mining and emissions from vehicles, but this is small-scale local pollution.

Reducing Air Pollution

People want a clean environment for living, and so environmental requirements for emissions of fluegases into the atmosphere have grown more stringent. The greatest task facing Eesti Energia in the next few years will be to reduce significantly the air pollution from each unit of electricity, heat and liquid fuel produced. Enhanced methods and investments will allow us to keep our electricity and heat production capacity at or close to its current level while reducing the emissions.

The first serious limits will come in in 2012 when restrictions are tightened so that our production plants will not be allowed to discharge annually more than 25,000 tonnes of SO_2. This means that emissions will have to be cut by half at least from today's levels.



From 2016, our production plants will have to conform to the environmental requirements of the EU directive for Industrial Emissions, which restricts the emissions of SO_2, NO_X and solid particles and which will oblige us to reduce our current emission levels significantly.

Narva Power Plants

Reducing SO_2 emissions

In order to cut significantly our SO_2 emissions while maintaining our production output at Narva's Eesti power plant, we will install desulphurisation ($DeSO_X$) systems on four 200 MW energy units. The cleaning technology will allow us to reduce the concentration of SO_2 in the exhaust gases of those units to as little as one-sixth of its present level. It will also help us reduce the solid particulate content in gases, and increase the amount of time the energy generation units are in operation.

Given the design of the power station buildings and the way that oil shale is burned, we decided to use the Alstom semi-dry NID (Novel Integrated Desulphurisation) technology, which uses the fly ash in the gas itself and does not require any additional compounds to bind the SO_2. The equipment design and installation

process ensures that the desulphurisation equipment will be able to operate at the required levels of efficiency and reliability for the next 15 years. By the end of the financial year the desulphurisation equipment was ready on the first energy units and testing had begun. All four of the planned sets of equipment should be ready by 2012 at the latest.

In addition to NID desulphurisation equipment, we are also looking for other economically rational ways of reducing the levels of SO_2 discharged in the exhaust gases of the other energy units and thus of extending the working life of the units.

Reducing NO_X Emissions

In 2016, the temporary derogations from EU environmental directives that Estonia was granted when it joined the EU will expire, and more stringent restrictions on the NO_X content in the exhaust gases at Eesti Energia's Narva plants will come into effect.

We have tested and analysed a number of solutions that can chemically reduce NO_X content in exhaust gases either with or without a catalyst. It is also possible, by optimising the combustion process in the boiler plants, to reduce the formation of NO_X compounds at high temperatures.

All of the technologies tested so far can cut NO_X emissions to the permitted level. In making our final choice, we will look at the reliability and cost of the equipment, and we will install it by the end of 2015.

The Ahtme Power Plant

From 2011, the Ahtme power plant must conform to all of the environmental requirements of the European Union for large combustion plants. If the old plant cannot fulfil the requirements, it can spend only a limited time in operation.

At the end of the past financial year a new 100-MW natural gas and liquid fuel-fired reserve and peak boiler plant was completed in Ahtme, and it conforms to all European Union requirements. Once final testing is completed the local residents will be able to get heat with a low environmental cost. To ensure supplies of heat at a stable price for consumers, we are using the Ahtme plant only partially from 2011 up to a maximum of 50 MW. The technical solutions for lower production levels were put in place during the financial year and will also help improve the local air quality by significantly reducing local air pollution. In March 2011 Eesti Energia signed a sales agreement under which it sold its share of Kohtla-Järve Soojus to Viru Keemia Grupp, which became the sole owner of the heating company. As a consequence Viru Keemia Grupp will be responsible for further development of the Ahtme power plant from March 2011.

The Iru Power Plant

The Iru CHP plant on the outskirts of Tallinn, which mainly burns natural gas, should by now comply with all the European Union environmental requirements. The Iru CHP plant is able to use liquid fuels as well as natural gas in emergencies, and it is now the cleanest fossil-fuel fired power plant operated by Eesti Energia.

To get NO_X emissions down to the required level we have replaced the low NO_X burners in the second energy unit at the Iru power plant. We also replaced the automation equipment controlling the generation system and the new continuous emissions monitoring equipment. By installing the new burners, we reduced the NO_X content in the fluegases by more than one-third and made the operation of the power plant more efficient. The first energy unit of the Iru power plant is now used for only limited amounts of time and is mainly used if there is a shortage of capacity.

Production of Liquid Fuels from Oil Shale

Eesti Energia has a long and unique expe-rience of producing liquid fuels from oil shale. Continuous development has let us expand the production volumes and stability of our Enefit-140 machinery. It is important for the environment that while we have increased production volumes we have equally managed to lower environmental emissions.

The new Enefit-280, which will be completed in 2012, is twice as powerful in comparison Enefit-140 and it uses the new circulating fluidised bed technology. Further development of it will allow SO_2 and NO_x emissions to be reduced even further and some of the pollu-tants from the exhaust gases to be eliminated completely. This new technology will allow us to increase liquid fuel production volumes sig-nificantly without harming the local air quality.

To make more effective use of the oil shale and to increase the mechanical efficiency of the production process, maximum use is made of the heat released by the new system; it will be used both to produce oil and to produce elect-ricity in a 35 MW steam turbine.

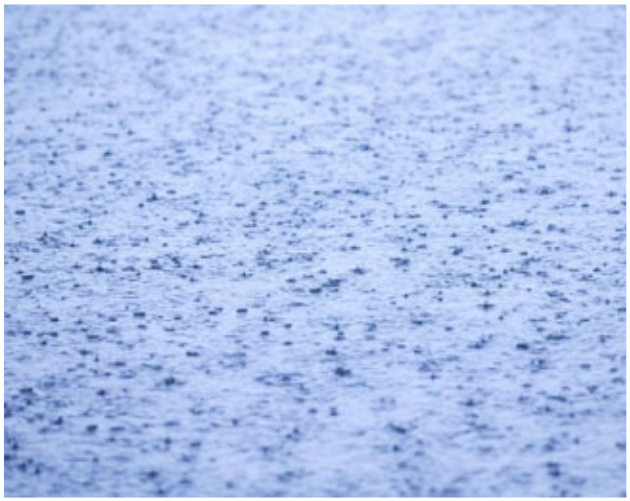
We emphasise significantly the reduction of environmental impacts from storing, loading and transportation of liquid fuels produced with different technical solutions.

Impact on the Aquatic Environment

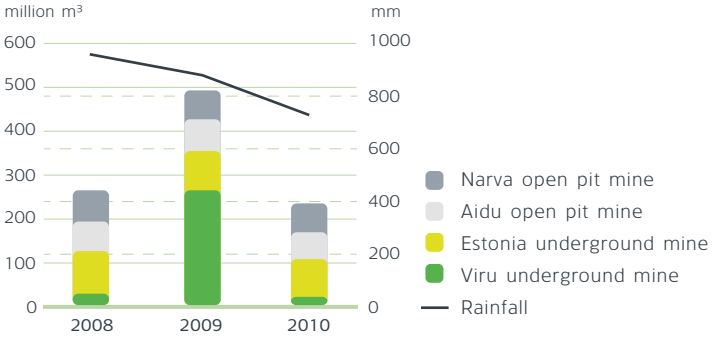
Eesti Energia's production requires a good deal of water, as already noted. Our large-scale water use always has the potential to impact water quality and the condition of the environ-ment. We are working hard to avoid problems by reducing the current and future impact of our activities.

Pumping of Water in Mining

Water is pumped out of mines and quarries to lower the water table and to create dry condi-tions for mining. The amount of water that is pumped out depends on the depth of the oil shale layers and how they lie. This is primarily dewatering work and during it, the water comes into contact with the oil shale and this changes its composition. The water pumped out of quar-ries and mines has higher than normal levels of sulphates and suspended particles. The oil shale's high limestone content and the neut-ral environment it creates mean that Estonia's



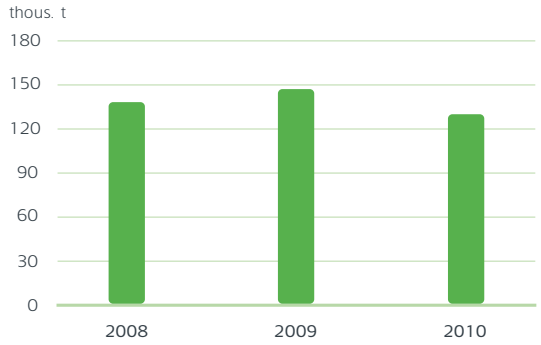
OUTPUMPED WATER VOLUMES AND RAINFALL



mines do not produce acidic waste water with high concentrations of heavy metals. We direct the water pumped out of mining areas back into the environment through ditches and rivers. Most of the water reaches the Gulf of Finland and a smaller amount flows into Lake Peipsi. There is little we can do to decide the amounts of water being pumped out, as these amounts are affected above all by weather conditions, particularly the amount of precipitation, the depth of snow and the temperature, and how frozen the ground is. In the past financial year we pumped a total of 232 million m^3 of water out of our mines and quarries.

The chemical content of Estonia's mining water is not hazardous to humans or the environment, as is shown by the fact that rainbow trout have been farmed successfully in the water pumped out of mines, even though the fish is very sensitive to its environment. A study we commissioned found that mining water, at the right temperature and with enough oxygen content, created a favourable environment for the fish and that the overall health of the fish was good.

EMISSIONS OF THE SULPHATES WITH MINING WATER



In the past financial year, close to 1557 tonnes of sulphates and 129,702 thousand tonnes of suspended particles were released into the environment as a result of mining. To avoid large concentrations of suspended particles being released into the environment we remove excess particles from mining water before it is discharged, in accordance with our published standards. We do not use chemicals to do this, but rather we use settling pools where the rate of flow of the water is slowed and the solid particles settle as gravity acts on them. There is no need to remove sulphates from the water, as water quality monitoring has shown that the quality of water that collects in closed mines improves by itself over a few years and the content of the sulphates lower quickly.

The water table cannot be lowered by ordinary pumping in mines near to nature reserves as this could endanger wetlands or water bodies. The Viivikonna branch of the Narva quarry lies next to the Kurtna protected landscape area, and so a special project has had to be set up for water pumping so that the impact on the nearby nature reserve would be minimal. The technical solutions employed are a short mining face and a filtration barrier with infiltration pools, allowing the oil shale reserves to be mined on the edge of the reserve without affecting the groundwater level.

We are working with our partners to carry out research to develop possible approaches and technical solutions for mining oil shale from underneath wetlands without impacting the environment. This will become a more salient topic in the near future, as the mines will soon reach the edges of the wetlands. It is also clear that we can only work in such areas if we do not damage the natural wetlands or change the water balance around them.

The Environmental Impact of Cooling Water

Using water for cooling in power plants does not change the water's chemical content, and nor are any pollutants introduced into the water during the cooling process under normal circumstances. However, the water re-routed into the environment is an average of seven or eight degrees warmer than when it is first abstracted.

Due to the high volumetric flow of the River Narva, the impact of the heat pollution from the local power plants is of local and limited nature, and is restricted to the area in which

the water is released. No negative environmental impact has been noted in the cooling water drainage channels under normal circumstances, and sturgeon, a thermophilic species of fish, have even been farmed successfully in the Eesti power plant cooling water canal. Problems may only arise if exceptional weather conditions give rise to a general and significant temperature rise in all groundwater.

Deposits of Fly Ash and Furnace Ash

We use stable hydro transport to deposit oil shale fly ash and furnace ash. This process changes the chemical properties of the water circulating in the system; the pH of the transport water can climb as high as 13 due to the high calcium oxide content in ash. The water circulating in the ash transport system also contains various chemical compounds (K, Na, SO_4^{2-},Cl-), which are not hazardous to the environment as the high pH prevents the precipitation of heavy metals from the solution.

The ash transport and depositing system is closed, which means that the transport water circulates within it without escaping into the environment. Changes in production levels and the amount of precipitation mean that excess transport water must sometimes be removed from the system in order to maintain stability in the system, but this water cannot be released directly into the environment. Before the water is released, it is brought to a pH of 9 or less, which is a level that is suitable for natural environments. We have replaced with CO_2 the strong acid that was previously used to neutralise the transport water and lessen its environmental impact. This prevents excessively low pH levels from being reached and the carbonates formed from the neutralisation have less impact on the environment than do the salts formed from the use of hydrochloric acid, and this all makes the whole process safer.

Countering Climate Change

Modern energy generation still involves burning large amounts of fossil fuels, and current thinking believes this has changed the earth's climate. Eesti Energia's work also leads to the discharge of a large amount of the greenhouse gas CO_2, 12.5 million tonnes in the past financial year.

In order to lessen the impact of the climate changes brought on by greenhouse gases, the European Union has set a target of reducing CO_2 emissions by 20% by 2020. This policy and the pan-European cap and trade system are having an impact on our activities. To preserve our long-term competitiveness against energy companies in other areas, we have set ourselves the target of a reduction in CO_2 emissions per MWh generated of 30% from the current level by 2015 and of 70% by 2025. There is no one single simple solution for how to achieve this target, and we will have to meet it by combining various solutions.

One answer is to burn biomass together with oil shale. Wider use of biomass needs technical work and development of sources of biomass. We are currently working on both these approaches, with consideration for financial arguments and the current subsidy system.

Another way is to reduce the furnace temperature by modifying the combustion process or using circulating fluidised bed technology. Lowering the furnace temperature lessens the

release of limestone from the oil shale and the creation of CO_2. Raising the efficiency of the operations is also an important way of producing more electricity from the same amount of fuel and with the same CO_2 emissions.

To reduce our own emissions we have started studies into partial CO_2 capture using ash and ash transport water. We can use technology to increase significantly the amount of CO_2 captured in ash fields and buffer basins, and this would reduce the need for additional CO_2 storage in special facilities. This method is not as efficient as other CO_2 capture and storage technologies being actively developed around the world, but it does provide a significant way of reducing the CO_2 output of power generation.

Diversifying our energy portfolio with CO_2-neutral production methods and solutions will also help significantly reduce our greenhouse gas emissions. We are doing this firstly by investing in various forms of renewable energy, using wind energy, biomass and waste as sources, and secondly by exploring clean and environmentally safe nuclear energy.

Promoting Energy Conservation

As well as aiming to cut CO_2 emissions, the European Union has set the target of a reduction in energy consumption of 20% by 2020. This is an ambitious goal and affects power generation, distribution and consumption. It is equally the best solution for the environment, because the environmentally cleanest energy is that which is not consumed. Estonia has great potential for saving energy, because it is estimated that it would be economically profitable for Estonia to conserve at least 20-30% of current energy consumption.

Eesti Energia has proposed three routes to follow to energy conservation:

- We conserve energy ourselves, for instance we have mapped the energy use of our buildings and are helping our employees to conserve energy in our offices, and we are developing energy-saving transport.
- We organise energy conservation information campaigns aimed at our customers, such as the energy conservation portal kokkuhoid.energia.ee and national advertising campaigns and other forms of communication.
- We are developing services for customers that generate value added and save money, for example energy audits, assessment of thermal losses and energy labels.

The passive house development project run by the University of Tartu's Energy Efficient Building Core Laboratory within the Future Energy Foundation, and supported by Eesti Energia, finished in the past financial year. The project designed a passive house suitable for Estonia, and produced information on low-energy-use buildings and other energy solutions. We will be able to distribute this information in future to our customers as important advice for planning and designing building work. The general aim of the project was to present the concept of the passive house to architects and other people involved in designing buildings. We hope that this information will help to prevent energy-inefficient buildings from being built in Estonia in the future.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

Consolidated Income Statement

in million EUR	1 January - 31 December 2010	1 January - 31 December 2009	Note
Continuing operations			
Revenue	784.1	650.7	5, 26
Other operating income	11.8	12.5	27
Government grants	0.3	0.1	24
Change in inventories of finished goods and work-in-progress	(9.3)	11.6	
Raw materials and consumables used	(348.0)	(267.5)	28
Payroll expenses	(130.5)	(126.0)	29
Depreciation, amortisation and impairment	(93.4)	(104.3)	5, 6, 8, 33
Other operating expenses	(66.2)	(74.3)	30
OPERATING PROFIT	**148.9**	**102.7**	5
Financial income	7.5	13.0	31
Financial expenses	(12.8)	(13.7)	31
Net financial income (-expense)	**(5.3)**	**(0.7)**	31
Profit from associates using equity method	2.1	1.6	5, 9, 33

in million EUR	1 January - 31 December 2010	1 January - 31 December 2009	Note
PROFIT BEFORE TAX	**145.8**	**103.6**	
Corporate income tax expense	**(28.8)**	**(14.7)**	32
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**117.0**	**88.9**	
PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS	**27.4**	**11.0**	36
PROFIT FOR THE YEAR	**144.3**	**99.9**	
PROFIT ATTRIBUTABLE TO:			
Equity holder of the Parent Company	**144.2**	**99.9**	
Non-controlling interest	**0.1**	**(0.0)**	
Basic earnings per share (euros)	*1.95*	*1.35*	*37*
Diluted earnings per share (euros)	*1.95*	*1.35*	*37*

The notes on pages 105–169 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

in million EUR	1 January - 31 December		Note
	2010	2009	
PROFIT FOR THE YEAR	**144.3**	**99.9**	
Other comprehensive income			
Revaluation of hedging instruments	(31.5)	(23.0)	21
Other comprehensive income for the year	**(31.5)**	**(23.0)**	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**112.8**	**76.9**	
ATTRIBUTABLE TO:			
Equity holder of the Parent Company	**112.8**	**76.9**	
Non-controlling interest	**0.1**	**(0.0)**	

The notes on pages 105–169 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

in million EUR	31 December 2010	31 December 2009	1 January 2009	Note
ASSETS				
Non-current assets				
Property, plant and equipment	1 293.6	1 191.2	1 429.9	5, 6
Intangible assets	23.3	15.2	9.4	5, 8
Investments in associates	11.8	12.1	11.7	5, 9
Derivative financial instruments	0.3	0.2	5.4	13
Long-term receivables	0.4	2.4	0.1	12
Total non-current assets	**1 329.4**	**1 221.2**	**1 456.5**	
Current assets				
Inventories	29.1	39.0	30.9	10
Greenhouse gas allowances	45.2	-	25.8	8
Trade and other receivables	169.9	92.9	96.9	12
Derivative financial instruments	0.4	2.7	15.5	13
Available-for-sale financial assets	10.0	-	-	15
Financial assets at fair value through profit or loss	3.2	0.4	1.0	16
Deposits at banks with maturities of more than three months	181.4	5.1	25.1	17
Cash and cash equivalents	54.8	36.2	82.6	18
Total current assets	**494.0**	**176.3**	**277.8**	
Assets of disposal group classified as held for sale	**20.7**	**363.0**	**-**	35, 36
Total assets	**1 844.1**	**1 760.5**	**1 734.4**	

in million EUR	31 December 2010	31 December 2009	1 January 2009	Note
EQUITY				
Capital and reserves attributable to equity holder of the Parent Company				
Share capital	471.6	471.6	471.8	19
Share premium	259.8	259.8	259.8	
Statutory reserve capital	47.2	47.2	47.2	19
Hedge reserve	(34.6)	(3.1)	19.9	21
Retained earnings	360.3	325.2	312.2	19
Total equity and reserves attributable to equity holder of the Parent Company	**1 104.3**	**1 100.7**	**1 110.8**	
Non-controlling interest	**2.8**	**2.7**	**2.7**	
Total equity	**1 107.1**	**1 103.4**	**1 113.6**	
LIABILITIES				
Non-current liabilities				
Borrowings	331.9	358.9	322.1	22
Other payables	0.3	0.1	0.2	23
Derivate financial instruments	4.9	3.9	-	13
Deferred income	118.6	116.9	122.5	24
Provisions	28.6	26.3	20.1	25
Total non-current liabilities	**484.3**	**506.1**	**465.0**	
Current liabilities				
Borrowings	26.8	3.5	8.6	22
Trade and other payables	132.7	111.8	111.4	23
Derivative financial instruments	31.8	2.1	-	13
Deferred income	0.5	0.2	0.2	24
Provisions	49.9	3.4	35.6	25
Total current liabilities	**241.6**	**121.0**	**155.8**	
Liabilities of disposal group classified as held for sale	**11.0**	**30.1**	**-**	35, 36
Total liabilities	**737.0**	**657.1**	**620.8**	
Total liabilities and equity	**1 844.1**	**1 760.5**	**1 734.4**	

The notes on pages 105–169 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

in million EUR	1 January - 31 December		Note
	2010	2009	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash flows from operating activities from continuing operations			
Cash generated from operations	189.8	191.4	33
Interest and loan fees paid	(15.4)	(15.6)	
Interest received	5.2	13.4	
Corporate income tax paid	(28.8)	(14.8)	
Net cash generated from operating activities from continuing operations	**150.8**	**174.4**	
Net cash generated from operating activities from discontinued operations	**3.4**	**26.6**	
Net cash generated from operating activities	**154.2**	**201.1**	
Cash flows from investing activities			
Cash flows from investing activities from continuing operations			
Purchase of property, plant and equipment and intangible assets	(204.8)	(203.2)	
Proceeds from connection and other fees	9.4	12.5	24
Proceeds from sale of property, plant and equipment	1.3	5.3	
Dividends collected from associates	1.2	1.2	9
Net change in deposits at banks with maturities of more than 3 months	(176.3)	20.0	17
Purchase of short-term financial investments	(37.4)	(20.3)	15, 16
Proceeds from sale and redemption of short-term financial investments	24.6	21.0	15, 16
Change in overdraft provided for discontinued operations	187.6	(32.1)	
Net cash used in investing activities from continuing operations	**(194.3)**	**(195.7)**	
Net cash used in investing activities from discontinued operations	**(3.3)**	**(28.1)**	
Dividends collected from discontinued operations	**-**	**30.7**	
Proceeds from sale of discontinued operations	**166.0**	**-**	36
Net cash used in investing activities	**(31.6)**	**(193.1)**	
Cash flows from financing activities			
Cash flows from financing activities from continuing operations			
Bank loans received	2.3	41.0	
Other borrowings received	0.2	-	
Repayments of bank loans	(3.5)	(9.0)	
Change in overdraft	-	(0.9)	
Dividends paid	(109.2)	(86.9)	20
Net cash used in financing activities from continuing operations	**(110.1)**	**(55.8)**	
Net cash from (used in) financing activities from discontinued operations	**6.5**	**1.5**	
Net cash used in financing activities	**(103.6)**	**(54.3)**	
Net cash flows	**18.9**	**(46.4)**	
Cash and cash equivalents at beginning of the period	36.2	82.6	18
Cash and cash equivalents classified as held for sale	*(0.3)*	-	35
Cash and cash equivalents at end of the period	54.8	36.2	18
Net increase/(-)decrease in cash and cash equivalents	**18.9**	**(46.4)**	

The notes on pages 105–169 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

in million EUR	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 2008	**471.8**	**259.8**	**47.2**	**19.9**	**312.2**	**1 110.8**	**2.7**	**1 113.6**	
Total comprehensive income for the year	-	-	-	(23.0)	99.9	76.9	-	76.9	
Transactions with owner									
Reduction of the share capital in accordance with order no. 502 of the Government of the Republic of 11th December 2008 (Note 19)	(0.2)	-	-	-	-	(0.1)	-	(0.1)	
Dividends paid	-	-	-	-	(86.9)	(86.9)	-	(86.9)	20
Total transactions with owner	***(0.2)***	**-**	**-**	**-**	***(86.9)***	***(87.0)***	**-**	***(87.0)***	
Equity as at 31 December 2009	**471.6**	**259.8**	**47.2**	**(3.1)**	**325.2**	**1 100.7**	**2.7**	**1 103.4**	
Total comprehensive income for the year	-	-	-	(31.5)	144.2	112.8	0.1	112.8	
Transactions with owner									
Dividends paid	-	-	-	-	(109.2)	(109.2)	-	(109.2)	20
Total transactions with owner	**-**	**-**	**-**	**-**	***(109.2)***	***(109.2)***	**-**	***(109.2)***	
Equity as at 31 December 2010	**471.6**	**259.8**	**47.2**	**(34.6)**	**360.3**	**1 104.3**	**2.8**	**1 107.1**	

The notes on pages 105–169 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 2010 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 Group is engaged in the production of energy and shale oil and in the sale of electricity and heat energy and its delivery to end consumers. The Group owns oil shale mines and the oil shale is used as the main raw material in energy production. The Group is also engaged in building and maintaining energy systems. The Group operates mostly in Estonia but electricity and some other products and services are also sold outside Estonia. Electricity is sold in the Nordic countries, Latvia and Lithuania.

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 18 April 2011.
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 where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The management of the Group decided to change the financial year of the Group in 2010. Until that time the financial year of the Group lasted from 1 April to 31 March, but the new financial year is the calendar year. In the financial statements of the financial year that ended on 31 March 2010 the financial results were presented for the periods of 1 April 2008 to 31 March 2009 and 1 April 2009 to 31 March 2010. In these financial statements the financial results are presented for the periods 1 January 2009 to 31 December 2009 and 1 January 2010 to 31 December 2010 to ensure comparability of the financial information.

2.2 Changes in accounting policies

a. New standard adopted early from 1 January 2010

- *IAS 24 "Related Party Disclosures" amendment, issued in November 2009*. The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The Group has disclosed the information about related party transactions in accordance with the requirements of the amended standard.

b. Adoption of New or Revised Standards and Interpretations

Certain new or revised standards and interpretations came into effect for the Group from 1 January 2010:

- *IAS 27 "Consolidated and Separate Financial Statements", revised in January 2008*. The revised standard requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value. The Group changed its accounting policy from 1 January 2010 for accounting the deficit balance of the non-controlling interest so that the proportionate excess losses are allocated to both the parent and the non-controlling interest. For other transactions the revised standard has had no impact on these financial statements as there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.
- *IAS 39 "Financial Instruments: Recognition and Measurement (amendment) – Eligible Hedged Items*. The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have an impact on these financial statements.
- *IFRS 3 "Business Combinations", revised in January 2008*. The revised standard includes the option of measuring non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 gives more detailed guidance on applying the purchase method for business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating the portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure the equity interest it held previously in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs shall be accounted for separately from the business combination and are therefore recognised as expenses rather than included in goodwill. At the acquisition date, the acquirer will have to recognise a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date shall be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group has applied the standard prospectively to transactions occuring after 1 January 2010. The Group hasn't had any business combinations in the current reporting period, so the revisedstandard did not have any impact on these financial statements.

- *IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" amendment (and consequential amendments to IFRS 1).* This amendment to IFRS 5 is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that an entity committed to a sale plan involving loss of control of a subsidiary would classify the subsidiary's assets and liabilities as held for sale. The revised guidance should be applied prospectively from the date at which the entity first applied IFRS 5. The Group follows these principles in accounting for assets and liabilities held for sale.
- *IFRIC 18 "Transfers of Assets from Customers".* The interpretation clarifies the accounting for transfers of assets from customers, by clarifying the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); and the recognition of revenue, and the accounting for transfers of cash from customers. The Group has assessed the impact of IFRIC 18 on the recognition of connection fees and determined that the existing accounting policy - that revenue from connection fees is recognised as income on a straight line basis over the estimates customer relationship period - is in compliance with the pinciples of IFRIC 18 and so the interpretation did not have any impact on these financial statements.

c. Adoption of New or Revised Standards and Interpretations which became mandatory for the Group from 1 January 2010 but are not relevant to the Group's operations (but may have an effect on future transactions and events):

Certain new or revised standards and interpretations came into effect for the Group from 1 January 2010, but are not relevant to the Group:

- *IFRS 1 "First-time Adoption of International Financial Reporting Standards", revised in December 2008.*
- *IFRS 1 "First-time Adoption of International Financial Reporting Standards" (amendments) – Additional Exemptions for First-time Adopters.*
- *IFRS 2 "Share-based Payment" (amendment) – Group Cash-settled Share-based Payment Transactions.*
- *IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement" (amendments) – Embedded Derivatives, issued in March 2009.*
- *IFRIC 12 "Service Concession Arrangements".*
- *IFRIC 15 "Agreements for the Construction of Real Estate".*
- *IFRIC 16 "Hedges of a Net Investment in a Foreign Operation".*
- *IFRIC 17 "Distributions of Non-Cash Assets to Owners".*
- *Improvements to International Financial Reporting Standards, issued in April 2009.*

d. New or Revised Standards and Interpretations not yet adopted by the Group

Certain new or revised standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods, but which the Group has not early adopted:

- *IFRS 9, Financial Instruments Part 1: Classification and Measurement.* The standard will be mandatory for the Group from 1 January 2013. IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features 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 only payments of principal and interest (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 choice 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 choice 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 its own credit risk for financial liabilities designated as at fair value through profit or loss in other comprehensive income.

The adoption of the standard may have an effect on the measurement of the Group's financial assets. As at the date of authorisation of these consolidated financial statements for issue, the European Union had not yet endorsed this standard.

e. New or revised standards and interpretations not yet adopted by the Group

New or revised standards and interpretations that have not yet come into effect and have not been adopted early by the Group, and are not expected to have a significant effect on the Group's financial statements (those not yet endorsed by the EU are indicated with an asterisk*):

- *IAS 12 „Deferred Tax" (amendment) – Recovery of Underlying Assets**.
- *IAS 32 "Financial Instruments: presentation" (amendment) – Classification of Rights Issues, issued in October 2009.*
- *IFRS 1 "First-time Adoption of International Financial Reporting Standards" (amendment) – Limited exemption from comparative IFRS 7 disclosures for first-time adopters.*
- *IFRS 1 "First-time Adoption of International Financial Reporting Standards" (amendment) – Severe hyperinflation and removal of fixed dates for first-time adopters**.
- *IFRS 7 "Financial instruments: Disclosures" – Transfers of Financial Assets**.
- *IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactions" (amendment) – Prepayments of a Minimum Funding Requirement.*
- *IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments".*
- *Improvements to International Financial Reporting Standards, issued in May 2010**.

2.3 Preparation of consolidated financial statements

a. Subsidiaries

Subsidiaries are all 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. 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. Acquisition-related costs are expensed as incurred. 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 either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.8). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

In the 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 contingent consideration.

b. Transactions with non-controlling interests

From 1 January 2010 the Group treats transactions with non-controlling interests as transactions with other equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. Until 31 December 2009 transactions with non-controlling interests were treated as transactions with parties external to the Group. Gains or losses on disposals of the non-controlling interests were recognised in the profit or loss of the Group. For purchases of non-controlling interests, the difference between any consideration paid and the share acquired of the carrying value of the net assets was recognised as goodwill.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. 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.

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 are reclassified to profit or loss where appropriate.

c. 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 of accounting and are initially recognised at cost.

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. The cumulative post-acquisition movements are adjusted against 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 long-term receivables and loans that in substance form part of the net investment in the associate, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also 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 functional currency of the Estonian entities of the Group is the Estonian kroon.

For the convenience of the users, these financial statements have been presented in euros, rounded to the nearest million, unless stated otherwise. As the Estonian kroon is pegged to euro at the fixed exchange rate of 1 euro = 15.6466 Estonian kroons, no currency translation differences arise from the translation of kroons to euros.

b. Foreign currency transactions and assets and liabilities denominated in a foreign currency

Foreign currency transactions are translated into the presentation currency using the official exchange rates of the Bank of Estonia prevailing at the transaction date. When the Bank of Estonia 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 Bank of Estonia 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 Bank of Estonia 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 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 "Currency translation 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.

Starting from 1 January 2009, 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. Until 31 December 2008 any borrowing costs were expensed as incurred.

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 derecognised. 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	25–40 years
Facilities, including	
electricity lines	20–50 years
other facilities	10–30 years
Machinery and equipment, including	
transmission equipment	7–40 years
power plant equipment	7–20 years
other machinery and equipment	3–20 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 indicators of impairment, 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 represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired. Goodwill acquired in a business combination is recognised as an intangible asset in the statement of financial position (Note 2.3). Goodwill which arises on acquisition of an associate is included in the cost of the investment and it is evaluated together with the evaluation of the investment.

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 three 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 or non-current intangible assets depending on the expected realisation period. 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. If the quantity of greenhouse gases emitted exceeds allowances received, a provision is set up for the difference, based on the market prices at the end of the reporting period or the prices fixed in the committed purchase arrangements.

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.

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. 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 2.19).

2.9 Impairment of non-financial assets

Assets that have indefinite useful lives 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 Discontinued operations and non-current assets (or disposal groups) held for sale

A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

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.

Intra-Group transactions between discontinued and continuing operations are eliminated based on whether the arrangement between the continuing and discontinuing operations will continue subsequent to the disposal. The results of the discontinued operation include only those costs and revenues that will be eliminated from the Group on disposal.

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 period.

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", "Bank deposits with maturities of more than 3 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 “Financial income or expenses” (net) in the period in which they arise or are incurred (Note 31). Interest income on available-for-sale financial assets and on loans and receivables is reported in the income statement line "Financial income" (Note 31). 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 periods.

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 the present value of estimated future cash flows.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset is impaired. Evaluation of impairment losses for trade receivables is described in Note 2.14.

2.12 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 21. 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.

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 (net).

2.13 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.

2.14 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.

2.15 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.

2.16 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.

2.17 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.

2.18 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. Borrowing costs attributable to qualifying assets are capitalised in the cost of the assets.

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.

2.19 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	1.4% of the payroll paid to employees (until 31 May 2009 0.3%, from 1 June 2009 to 31 July 2009 1% of the payroll paid to employees)
Fringe benefit income tax	21/79 of fringe benefits paid to employees
Sales tax	1% from sale of goods and services to individuals in the territory of Tallinn (except for sales of electricity and heat and e-commerce)
Pollution charges	Paid for contamination of the air, water, ground water and soil and for waste storage, and based on tonnage and type of waste
Fee for extraction right for oil shale	0.92 euros per tonne of oil shale extracted (in 2009 0.77 euros per tonne of oil shale extracted)
Water utilisation charges	1.60-120.22 euros per 1000 m^3 of ground water used (in 2009 1.60–109.29 euros per 1000 m^3 of ground water used)
Land tax	0.1–2.5% on taxable value of land per annum
Tax on heavy trucks	3.20–232.64 euros per truck per quarter
Excise tax on electricity	4.47 euros per MWh of electricity (until 1 March 2010 3.20 euros per MWh of electricity)
Excise tax on natural gas	23.46 euros per 1000 m^3 of natural gas (until 1 July 2009 10.03 euros per 1000 m^3 of natural gas)
Excise tax on shale oil	15.02 euros per 1000 kg of shale oil
Corporate income tax on non-business related expenses	21/79 on non-business related expenses (until 1 January 2008: 22/78 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 26%

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 income tax assets and liabilities are 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.

In carrying forward unused tax losses and tax credits, deferred income tax assets are recognised to the extent for which the Group has sufficient evidence that there will be adequate profits in the future towards which tax losses and benefits can be used.

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 2010, 31 December 2009 and 1 January 2009, the Group had neither any deferred income tax assets nor deferred income tax liabilities

2.20 Employee benefits

a. 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.

b. 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 either: terminating the employment of a current employee or employees before the normal retirement date; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Redundancy provisions are set up for redundancies occurring in the course of restructuring (Note 2.21).

c. 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 2.21).

2.21 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. Expenditures related to the termination of employment of employees are recognised only when 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 and the timing of the implementation of the plan; and when 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. 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 to meet the obligations arising from legislation relating to greenhouse gas emissions. If the quantity of greenhouse gases emitted exceeds allowances received free of charge from the state, a provision is set up for the difference, based on the market prices at the end of the reporting period or the prices fixed in the committed purchase arrangements.

When the Group surrenders the greenhouse gas emission allowances to the state for the greenhouse gases emitted, both the provision and the intangible assets (Note 2.8) are reduced by equal amounts.

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 for whichever amount is the lower of the cost of fulfilling the obligation (revenues received less expenses occurred for fulfilling the contract) and any compensation or penalties arising from failure to fulfil it.

2.22 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 in certain circumstances become liabilities, are disclosed in the notes to the financial statements as contingent liabilities.

2.23 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

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 evenly over the estimated customer relationship period. The amortisation period of connection fees is 20 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.

2.24 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. If government assistance cannot be reliably estimated (e.g. free consultations), it is not recognised as government grants. Information about such assistance is disclosed in the notes to the financial statements.

Assets acquired through government grants are initially recognised in the statement of financial position at cost; assets received by a non-monetary transfer are recognised at fair value. 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.

2.25 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

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of minimum lease payments. Each lease payment is apportioned between the financial charge and the reduction of the outstanding liability. Financial charges are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The finance lease liability is reduced by principal payments. The finance charge is recognised as an interest expense in the income statement. The finance lease liability (net of finance charges) is recognised either as a short or long-term borrowing in the statement of financial position (Note 2.18). The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

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 Group does not have any assets leased out under finance lease terms. 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.

2.26 Dividends

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

2.27 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 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. The Estonian kroon is pegged to euro at the fixed exchange rate of 1 euro = 15.6466 Estonian kroons. All long-term borrowings and electricity export contracts are also concluded in euros to avoid currency risk. To mitigate currency risk further, the future transactions for the sale of shale oil have been also conducted in euros since the 2009 reporting period.

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 sales contracts have been concluded in a currency other than the functional currency of the Group companies or the euro.

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

In million EUR	31 December		1 January
	2010	2009	2009
Cash and cash equivalents (Note 18)	1.8	-	0.9
Derivatives with positive value (Note 13)	-	-	13.2
Trade and other receivables	3.8	2.2	1.0
Trade and other payables	0.1	-	-

Had the US dollar's exchange rate at 31 December 2010 been 22% (31 December 2009: 21%; 1 January 2009: 28%) higher or lower (with other factors remaining constant), the Group's profit for the financial year would have been EUR 1.2 million higher/lower (2009: EUR 0.5 million; 2008: EUR 0.8 million higher/lower) and hedge reserve EUR 0 million higher/lower (2009: EUR 0 million higher/lower; 2008: EUR 3.4 million higher/lower) as a result of the revaluation of the balances of cash and cash equivalents, appreciation/depreciation in the fair value of derivatives with positive value, trade and other receivables and trade and other payables.

Cash and cash equivalents by currency is disclosed in Note 18.

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 future 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 future 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 predefined 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 CO_2 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 forward 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.

Any reasonably possible change in the fair value of financial assets at fair value through profit or loss would not have had a significant impact on the Group's net profit.

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. The Group's financial assets and financial liabilities as at 31 December 2010 and 2009, and 1 January 2009 do not expose the Group to fair value interest rate risk as no interest-bearing financial instruments are carried at fair value.

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. 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.

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, 81% of the Group's borrowings were fixed and 19% had floating interest rates (31 December 2009: fixed 80% and floating 20%; 1 January 2009: fixed 87% and floating 13%).

Had the market interest rate (6-month EURIBOR) as at 31 December 2010 been 70 basis points (31 December 2009: 70 basis points; 1 January 2009: 70 basis points) higher/lower, the net profit for the financial year (with all other factors remaining constant) would have been EUR 0 million lower/higher (2009: EUR 0 million lower/higher; 2008: EUR 0 million lower/higher) as a result of the increase/decrease in the interest expense of long-term borrowings with floating interest rates.

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, available-for-sale financial assets, derivatives with a positive value, and trade and other receivables are exposed to credit risk.

According to the risk management principles of the Group, short-term monetary funds can be deposited in the following domestic and foreign financial instruments:

- overnight deposits of credit institutions;
- term deposits of credit institutions;
- securities (commercial papers of the state, local governments, and entities);
- bonds (bonds of the state, local governments, and companies);
- interest rate funds;
- money market funds.

In depositing the available monetary funds in the short-term, the following principles are followed in order of importance:

- ensuring liquidity;
- preserving capital;
- earning income.

According to the Group's risk management principles, the Group may deposit available funds only in financial instruments meeting the following criteria:

Financial instrument	Criteria
Deposits of domestic credit institutions	The domestic credit institution has the activity licence required by the Credit Institutions Act and a credit rating of at least Baa3 from Moody's rating agency or its equivalent.
Deposits of foreign credit institutions	The foreign credit institution has a rating of at least Aa3 from Moody's rating agency or its equivalent.
Commercial papers and bonds of domestic issuer	The domestic issuer has a rating of at least Baa3 from Moody's rating agency or its equivalent, and the bonds are freely tradeable on the market.
Commercial papers and bonds of foreign issuer	The foreign issuer has a rating of at least Aa3 from Moody's rating agency or its equivalent, and the bonds are freely tradeable on the market.
Interest and money market funds	The fund manager has the activity licence required by the Investment Fund Act and a credit rating of at least Baa3 from Moody's rating agency or its equivalent.

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.

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 34.

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 15-year international bonds for EUR 300 million (Note 22) and has drawn loans for a total of EUR 69 million (Note 22). 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 2010, the ratings were BBB+ stable and A3 stable, respectively. For the bond transaction which took place in October 2005, Standard & Poor's assigned the rating A- and Moody's assigned the rating A1.

As at 31 December 2010, the Group had undrawn loan facilities of EUR 138 million (Note 22). As at the end of the financial year, the Group had spare monetary balances (including cash and cash equivalents and term deposits with maturities of three months or more) of EUR 236 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.

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

In million EUR	31 December		1 January
	2010	2009	2009
Deposits with maturities of more than 3 months at banks (Notes 11 and 17)	181.4	5.1	25.1
Trade and other receivables (Notes 11 and 12)*	164.5	90.5	84.1
Bank accounts and term deposits with maturities lower than 3 months at banks (Note 18)*	54.8	36.2	82.6
Available-for-sale financial assets (Notes 3.3, 11, 14 and 15)	10.0	-	-
Nominal amount of financial guarantee (Note 34)	24.6	26.6	28.5
Derivatives with positive value (Notes 3.3, 11, 13 and 14)	0.7	3.0	20.9
Total amount exposed to credit risk	**436.0**	**161.4**	**241.2**

* Total trade and other receivables less prepayments
** Total cash and cash equivalents less cash on hand and cash in transit

Division of liabilities by maturity date as at 31 December 2010 (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 22)*	40.4	93.1	372.4	505.9	358.7
Derivatives (Notes 3.3, 11 and 13)	31.8	4.9	-	36.7	36.7
Trade and other payables (Notes 11 and 23)	86.3	-	-	86.3	86.3
Tax liabilities and payables to employees (Note 23)	42.4	-	-	42.4	42.4
Potential financial guarantee obligations (Notes 11, 23 and 34)	2.1	22.5	-	24.6	0.1
Total	**203.0**	**120.5**	**372.4**	**695.9**	**524.2**

* Interest expenses have been estimated on the basis of the interest rates prevailing as at 31 December 2010.

Division of liabilities by maturity date as at 31 December 2009 (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 22)*	17.1	121.8	387.6	526.5	362.4
Derivatives (Notes 3.3, 11 and 13)	2.1	3.9	-	6.0	6.0
Trade and other payables (Notes 11 and 23)	65.6	-	-	65.6	65.6
Tax liabilities and payables to employees (Note 23)	42.0	-	-	42.0	42.0
Potential financial guarantee obligations (Notes 11, 23 and 34)	2.1	24.6	-	26.7	0.1
Total	**128.9**	**150.3**	**387.6**	**666.8**	**476.1**

* Interest expenses have been estimated on the basis of the interest rates prevailing as at 31 December 2009.

Division of liabilities by maturity date as at 1 January 2009 (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 22)*	19.9	84.3	403.3	507.5	330.7
Trade and other payables (Notes 11 and 23)	68.5	0.1	-	68.6	68.6
Tax liabilities and payables to employees (Note 23)	42.7	-	-	42.7	42.7
Potential financial guarantee obligations (Notes 11, 23 and 34)	1.6	7.2	19.7	28.5	0.1
Total	132.7	91.6	423.0	647.3	442.1

* Interest expenses have been estimated on the basis of the interest rates prevailing as at 1 January 2009.

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 Economic Affairs and Communications. 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 19 and 20).

The Group follows a strategy according to which net debt should not exceed EBITDA by more than three times and equity should be at least 50% of the total assets. As at 31 December 2010 and 31 December 2009, the net debt to EBITDA ratio and the equity to assets ratio were as follows (in million EUR):

	31 December	
	2010	2009
Debt (Notes 3.1, 11 and 22)	358.7	362.4
Less: cash and cash equivalents and bank deposits with maturity longer than 3 months (Notes 3.1, 11, 17 and 18)	236.2	41.3
Net debt	122.5	321.1
Equity	1 107.1	1 103.4
EBITDA	242.3	207.1
Assets	1 844.1	1 948.2
Net debt/EBITDA	0.51	1.55
Equity/assets	60%	57%

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 2010, 31 December 2009 and 1 January 2009 do not materially differ from the carrying amounts reported in the consolidated financial statements, with the exception of bonds (Note 22). As most of the Group's long-term loans have floating interest rates that change in accordance with changes in money market interest rates, then their fair value does not significantly differ from the carrying amounts. 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 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 2010, 31 December 2009 and 1 January 2009:

In million EUR	31 December 2010		
	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with inputs not observable in markets (Level 3)	Total
Financial assets at fair value through profit or loss (Notes 11 and 16)	3.2	-	**3.2**
Available-for-sale financial assets (Notes 3.1, 11, 14 and 15)	-	10.0	**10.0**
Trading derivatives (Notes 13 and 14)	0.7	-	**0.7**
Total financial assets (Notes 3.1, 11, 13, 14 and 16)	**3.9**	**10.0**	**13.9**
Trading derivatives (Notes 3.1, 11 and 13)	1.9	-	**1.9**
Derivatives used for hedging (Notes 3.1, 11 and 13)	34.9	-	**34.9**
Total financial liabilities (Notes 3.1, 11 and 13)	**36.8**	**-**	**36.8**

In million EUR	31 December 2009	
	Valuation technique with inputs observable in markets (Level 2)	Total
Financial assets at fair value through profit or loss (Notes 11 and 16)	0.4	**0.4**
Trading derivatives (Notes 13 and 14)	0.1	**0.1**
Cash flow hedges (Notes 13 and 14)	2.9	**2.9**
Total financial assets (Notes 3.1, 11, 13, 14 and 16)	**3.4**	**3.4**
Trading derivatives (Notes 3.1, 11 and 13)	6.0	**6.0**
Total financial liabilities (Notes 3.1, 11 and 13)	**6.0**	**6.0**

In million EUR	1 January 2009	
	Valuation technique with inputs observable in markets (Level 2)	Total
Financial assets at fair value through profit or loss (Notes 11 and 16)	1.0	**1.0**
Cash flow hedges (Notes 13 and 14)	20.9	**20.9**
Total financial assets (Notes 3.1, 11, 13, 14 and 16)	**21.9**	**21.9**

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. 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.

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, the instrument is included in level 3. The fair value of the available-for-sale financial assets is based on the future cash flows that have been discounted with an interest rate of 1.6%.

3.4 Impact of the economic crisis on the Group

Management has evaluated the effects of the global liquidity crisis and the related general economic crisis on the Group's business. In management's opinion the major impacts of the economic crisis have so far been the solvency problems of clients, larger standby losses and a fall in electricity demand. In management's opinion, the major continuing short and long-term threats include:

- the potential solvency problems of debtors may lead to impairment of the Group's receivables and larger impairment losses than previously;
- higher unemployment may lead to an increase in crime, which would result in larger standby losses for the Group.

Management cannot completely reliably predict the effect of the economic crisis on the Group's activities and financial position. Management believes that it has adopted all necessary measures to ensure the Group's sustainability and growth in current conditions.

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 2010, the net book amount of property, plant and equipment of the Group totalled EUR 1.3 billion (31 December 2009: EUR 1.2 billion; 1 January 2009: EUR 1.4 billion), and the depreciation charge of continuing operations of the reporting period was EUR 92 million (2009: EUR 91 million) (Note 6). If depreciation rates were changed by 10%, the annual depreciation charge would change by EUR 9.2 million (2009: EUR 9.1 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. 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 mining oil shale, generating electricity and distributing electricity are impacted by the Competition Authority which determines the reasonable rate of return to be earned on these assets. If the income, expenses and investments related to the sale of electricity, oil shale and distribution 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. 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 2010, the Group had set up provisions for environmental protection, termination of mining operations, issues related to employees, and greenhouse gas emissions totalling EUR 79 million (31 December 2009: EUR 30 million; 1 January 2009: EUR 58 million) (Note 25). The amount and 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 2010, the Group had inventories totalling EUR 29 million (31 December 2009: EUR 39 million; 1 January 2009: EUR 31 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 34.

f. Recognition of connection and other service fees

Connection and other service fees are recognised as income over the estimated customer relationship period, which is 20 years. The estimated customer relationship period is based on management's estimate. In the reporting period, connection and other service fees from continuing operations totalled EUR 8 million (2009: EUR 7 million). If the estimated customer relationship period is reduced by 10%, the annual income from connection fees would increase by EUR 0.8 million (2009: EUR 0.7 million) (Notes 24, 26 and 33).

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 due (including receivables not yet due). All 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. The adjustments performed at 31 December 2009 take into account a potential increase in doubtful receivables due to the economic crisis. As at 31 December 2010, the Group's doubtful receivables totalled EUR 3 million (31 December 2009: EUR 7 million; 1 January 2009: EUR 8 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 2010, the amount of the hedge reserve was EUR -35 million (31 December 2009: EUR -3 million; 1 January 2009: EUR 20 million) (Note 21).

5 Segment reporting

For segment reporting purposes, the division into operating segments is based on the Group's internal management structure, which is the basis for the reporting system, performance assessment and the allocation of resources by the chief operating decision maker, the parent company's management board.

The internal management structure of the Group is divided into three operating segments based on the different types of products offered and the clients:

- Retail Business (consisting of companies and business units Energiamüük, Enefit UAB, Enefit SIA, Müük ja Teenindus,

Eesti Energia Jaotusvõrk OÜ, Eesti Energia Elektritööd AS, Eesti Energia Võrguehitus AS, Televõrgu AS);
- Electricity and Heat Generation (consisting of companies and business units Eesti Energia Narva Elektrijaamad AS, Taastuvenergia, Iru Elektrijaam, Kohtla-Järve Soojus AS, Energiakaubandus, Solidus Oy, AS Narva Soojusvõrk, Eesti Energia Aulepa Tuuleelektrijaam OÜ, Eesti Energia Tabasalu Koostootmisjaam OÜ);
- Minerals, Oil, Biofuels (consisting of companies and business units Eesti Energia Kaevandused Group, Eesti Energia Õlitööstus AS, Eesti Energia Tehnoloogiatööstus Group, Jordan Oil Shale Energy Company, Enefit Outotec Technology OÜ).

In addition Corporate Functions, that covers administration and other support services, are presented separately, although these do not form a separate business segment.

The Retail Business covers the sale of electrical energy, distribution services, telecommunication services, electrical installation work and other services to end consumers. Electrical energy is sold in Estonia, Latvia and Lithuania. Electricity and Heat Generation covers the generation of electricity and heat in various power and combined heat-and-power stations, and energy trading in the wholesale market, both inside and outside Estonia. Minerals, Oil, Biofuels covers the mining and processing of oil shale, the production of liquid fuels, and the production and sale of power equipment.

For the benefits of the users of the financial statements additional information has been disclosed on two regulated businesses - Distribution in Retail segment and Mining in Minerals, Oil and Biofuels segment. Neither of those businesses is treated as a separate operating segment in the management structure.

In these financial statements, Electricity transmission has been presented as a discontinued operation as the full ownership of Elering OÜ, representing the transmission business, was sold by Eesti Energia AS to the Estonian Government in January 2010 (Note 36). For this reason Electricity transmission has been excluded from segment information and the prior periods' comparative information has been changed accordingly.

Operating income and expenses are allocated to different segments based on internal invoicing prepared by business units. The prices for inter-segmental transfers are based on the prices approved by the Estonian Competition Authority or are agreed based on market prices.

Under the Electricity Market Act of Estonia, the following indicators need to be approved by the Estonian Competition Authority

- the price limit for oil shale sold to Narva Elektrijaamad for the production of heat and electricity
- the price limit for electricity sold from Narva Elektrijaamad to the closed market
- the weighted average price limit for electricity sold to meet sales obligations
- network fees.

The Estonian Competition Authority has an established methodology for calculating prices to be used when approving prices.
When granting approval for these prices, the Estonian Competition Authority considers the costs which allow companies to fulfill the legal obligations and conditions attached to their activity licences and ensure justified profitability on invested capital. The Estonian Competition Authority considers the annual average residual value of non-current assets plus 5% of non-group sales revenue as invested capital. The rate for justified profitability is the Company's weighted average cost of capital (WACC).

The revenue, expenses, unrealised profits, receivables and liabilities arising as a result of transactions between business units and companies of the same segment have been eliminated.

The business segments have not been aggregated for segment reporting purposes.

5. Segment reporting, continued

Segment information for reportable segments for the year ended 31 December 2010

in million EUR	Retail Business		Electricity and Heat Generation	Minerals, Oil, Biofuels		Corporate Functions	Eliminations	Total
	Total	*of which Distribution*		Total	*of which Mining*			
Total revenue (Note 26)	473.3	*188.9*	495.5	275.0	*208.3*	15.0	-474.6	784.1
Inter-segment revenue	-23.2	*-4.0*	-215.6	-169.3	*-175.7*	-14.1	422.2	-
Revenue from external customers (Note 26), including	450.0	*184.9*	279.9	105.7	*32.6*	0.9	-52.5	784.1
electricity exports	*38.0*	-	*65.6*	-	-	-	-	*103.6*
domestic electricity sales	*211.4*	-	*147.2*	-	-	-	*-52.5*	*306.2*
sales of network services	*175.9*	*175.9*	*16.2*	-	-	-	-	*192.1*
heat	-	-	*46.9*	-	-	-	-	*46.9*
oil shale	-	-	-	*30.1*	*30.1*	-	-	*30.1*
shale oil	-	-	-	*51.7*	-	-	-	*51.7*
other goods and services	*24.8*	*9.1*	*4.0*	*23.8*	*2.4*	*0.9*	-	*53.5*
Depreciation and amortisatsion (Notes 6, 8 and 33)	-37.0	*-34.4*	-32.2	-22.4	*19.7*	-1.7	-	-93.4
Setting up of and change in provisions (Note 25)	0.1	*0.1*	50.4	3.2	*3.2*	0.2	-	53.8
Operating profit	39.3	*31.8*	77.2	38.8	*19.4*	30.3	-36.7	148.9
Interest income (Note 31)	0.4	-	0.7	0.5	-	37.8	-31.9	7.5
Interest expenses (Note 31)	-16.3	*-14.9*	-13.1	-2.4	*-2.2*	-17.7	36.9	-12.6
Profit from associates using equity method (Note 9)	-	-	0.6	1.6	*1.6*	-	-	2.1
Corporate income tax (Note 32)	-1.3	-	-22.1	-5.4	*-5.1*	-	-	-28.8
Total assets	**727.3**	**673.8**	**663.8**	**233.1**	**115.9**	**1 244.4**	**-1 024.5**	**1 844.1**
including investments in associates (Note 9)	-	-	*9.8*	*2.0*	*2.0*	-	-	*11.8*
including property, plant and equipment, and intangibles	*651.6*	*641.1*	*468.5*	*152.4*	*76.6*	*36.0*	*8.4*	*1 316.9*
Capital expenditure (Notes 6 and 8)	62.6	*60.2*	85.3	58.6	*22.6*	7.0	5.0	218.5
Total liabilities	**467.5**	**439.1**	**304.6**	**107.2**	**69.3**	**394.9**	**-537.3**	**737.0**
Average number of employees (Note 29)	**1 437.6**	**779.3**	**1 581.3**	**4 044.0**	**2 982.2**	**290.2**	**-**	**7 353.1**

5. Segment reporting, continued

Segment information for reportable segments for the year ended 31 December 2009

in million EUR	Retail Business		Electricity and Heat Generation	Minerals, Oil, Biofuels		Corporate Functions	Eliminations	Total
	Total	*of which Distribution*		Total	*of which Mining*			
Total revenue (Note 26)	424.8	*173.0*	409.6	198.5	*150.1*	12.5	(394.7)	650.7
Inter-segment revenue	(15.5)	*(3.4)*	(252.0)	(116.1)	*(122.1)*	(11.1)	394.7	-
Revenue from external customers (Note 26), including	409.3	*169.6*	157.6	82.4	*28.1*	1.4	-	650.7
electricity exports	*17.1*	-	*83.1*	-	-	-	-	*100.1*
domestic electricity sales	*208.0*	-	*26.9*	-	-	*0.1*	-	*235.0*
sales of network services	*161.1*	*161.1*	*0.6*	-	-	-	-	*161.8*
heat	-	-	*44.3*	-	-	-	-	*44.3*
oil shale	-	-	-	*25.3*	*25.3*	-	-	*25.3*
shale oil	-	-	-	*39.8*	-	-	-	*39.8*
other goods and services	*23.0*	*8.4*	*2.7*	*17.3*	*2.8*	*1.4*	-	*44.4*
Depreciation and amortisatsion (Notes 6, 8 and 33)	34.6	*31.8*	35.3	19.9	*17.9*	1.6	-	91.3
Impairment loss (Notes 6 and 33)	-	-	13.0	-	-	-	-	13.0
Setting up of and change in provisions (Note 25)	-	-	0.3	(0.7)	*(0.7)*	0.1	-	(0.4)
Operating profit	35.4	*30.1*	49.2	27.5	*15.6*	(5.8)	(3.6)	102.7
Interest income (Note 31)	0.7	-	1.6	0.5	-	34.6	(24.7)	12.7
Interest expenses (Note 31)	(14.9)	*(13.8)*	(6.1)	(2.5)	*(2.2)*	(18.9)	28.8	(13.6)
Profit from associates using equity method (Note 9)	-	-	0.4	1.2	*1.2*	-	-	1.6
Corporate income tax (Note 32)	(0.6)	-	(12.7)	(1.4)	*(1.4)*	-	-	(14.7)
Total assets	**686.7**	**637.1**	**505.0**	**200.4**	**115.1**	**1 136.3**	**(1 130.8)**	**1 397.6**
including investments in associates (Note 9)	-	-	*9.3*	*2.9*	*2.9*	-	-	*12.1*
including property, plant and equipment, and intangibles	*626.0*	*615.3*	*429.3*	*116.3*	*73.9*	*31.3*	*3.5*	*1 206.4*
Capital expenditure (Notes 6 and 8)	71.3	*70.3*	85.1	41.6	*17.4*	11.4	(1.0)	208.3
Total liabilities	**443.2**	**419.5**	**197.7**	**85.9**	**61.4**	**404.7**	**(504.4)**	**627.0**
Average number of employees (Note 29)	**1 595.2**	**789.2**	**1 691.2**	**4 170.4**	**3 174.0**	**260.7**	**-**	**7 717.5**

5. Segment reporting, continued

Eliminations of sales revenue relate to inter-segment transactions, principally in connection with the sale of oil shale by Minerals, Oil and Biofuels to Electricity and Heat Generation, which accounted for EUR 149.9 million, of total eliminations of revenue (2009: EUR 102.4 million); and the sale of electricity by Electricity and Heat Generation to Retail, which accounted for EUR 206.9 million, of total eliminations of revenue (2009: EUR 244.2 million).

The amounts provided to the management board of the parent company for the assets, liabilities and operating profit of reportable segments are measured in a manner consistent with that of the consolidated financial statements. The assets of a segment include the assets used in the operations of the segment, the liabilities of a segment the liabilities that have risen from the operations or the financing of the segment and operating profit of a segment all revenues and expenses that have arisen from the operations of the segment.

Reportable segments' assets are reconciled to total consolidated assets as follows:

in million EUR	31 December	
	2010	2009
Segment assets for reportable segments	1 624.2	1 392.1
Assets of Corporate Functions	1 244.4	1 136.3
Eliminations:		
The carrying amount of investments in subsidiaries*	(494.7)	(628.7)
Intra-segment receivables	(528.8)	(501.7)
Unrealised profit/loss and other eliminations	(1.0)	(0.4)
Total eliminations	**(1 024.5)**	**(1 130.8)**
Total assets of continuing operations	**1 844.1**	**1 397.6**
Assets of disposal group classified as held for sale (Note 36)	-	363.0
Total assets per consolidated statement of financial position	**1 844.1**	**1 760.5**

* recognised as assets of Corporate Functions

Reportable segments' liabilities are reconciled to total consolidated liabilities as follows:

in million EUR	31 December	
	2010	2009
Segment liabilities for reportable segments	879.4	726.7
Liabilities of Corporate Functions	394.9	404.7
Eliminations:		
Intra-segment payables	(537.3)	(504.4)
Total eliminations	**(537.3)**	**(504.4)**
Total liabilities of continuing operations	**737.0**	**627.0**
Liabilities of disposal group classified as held for sale (Note 36)	-	30.1
Total liabilities per consolidated statement of financial position	**737.0**	**657.1**

Reportable segments' operating profits are reconciled to total consolidated operating profit as follows:

in million EUR	1 January - 31 December	
	2010	2009
Segment operating profits for reportable segments	155.3	112.1
Operating profit of Corporate Functions	30.3	(5.8)
Eliminations:		
Corporate Function's profit from sale of the ownership of Elering OÜ	(38.3)	-
Profits/losses from intra-segment sales of property, plant and equipment	-	(2.7)
Other eliminations	1.6	(0.9)
Total operating profit per consolidated income statement	**148.9**	**102.7**

Additional information about revenues from products and services sold is disclosed in Note 26.

5. Segment reporting, continued

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. Until 1 April 2010 electrical energy was sold to Nordic power exchange Nord Pool; since 1 April 2010 Nord Pool Spot Estonian price area came into existence, where electricity sold is reported as electricity sold in Estonia.

External revenue by location of clients

in million EUR	1 January - 31 December	
	2010	2009
Estonia	640.5	520.5
Lithuania	61.6	1.1
Nordic countries	31.4	60.1
Latvia	16.7	49.9
Other countries	33.9	19.2
Total external revenue (Note 26)	**784.1**	**650.7**

Allocation of non-current assets by location*

in million EUR	31 December	
	2010	2009
Estonia	1 316.6	1 206.3
Lithuania		
Nordic countries	0.1	0.1
Other countries	0.2	-
Total (Notes 6 and 8)	**1 316.9**	**1 206.4**

* 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

in million EUR	Land	Buildings	Facilities	Machinery and equipment	Other	Total
Property, plant and equipment as at 31 December 2008						
Cost	11.6	162.2	960.6	1 234.1	4.9	2 373.4
Accumulated depreciation	-	(81.9)	(400.3)	(568.7)	(3.9)	(1 054.9)
Net book amount	11.6	80.2	560.4	665.4	0.9	1 318.5
Construction in progress	-	1.3	40.1	55.6	-	97.0
Prepayments	0.3	-	1.4	12.8	-	14.4
Total property, plant and equipment as at 31 December 2008 (Notes 4 and 5)	**11.9**	**81.5**	**601.9**	**733.8**	**0.9**	**1 429.9**
Movements, 1 January - 31 December 2009						
Classified as assets of discontinued opearations	(3.1)	(9.3)	(183.2)	(135.9)	-	(331.5)
Purchases (Note 5)	33.3	4.0	48.0	115.2	0.3	200.7
Assets transferred at net book value						
as a result of non-monetary disbursement (Note 19)	-	(0.1)	-	-	-	(0.1)
Depreciation charge (Notes 4, 5 and 33)	-	(4.4)	(21.9)	(64.0)	(0.4)	(90.7)
Impairment loss (Notes 5 and 33)	-	(1.5)	(2.4)	(9.1)	-	(13.0)
Disposals	(0.3)	(3.3)	-	(0.5)	-	(4.2)
Provision for dismantling cost of assets (Note 25)	-	-	0.1	-	-	0.1
Total movements, 1 January - 31 December 2009	**29.8**	**(14.6)**	**(159.6)**	**(94.3)**	**(0.1)**	**(238.8)**
Property, plant and equipment as at 31 December 2009						
Cost	41.7	148.2	696.6	1 147.0	4.9	2 038.4
Accumulated depreciation	-	(82.5)	(283.4)	(555.7)	(4.1)	(925.8)
Net book amount	41.7	65.7	413.3	591.2	0.8	1 112.6
Construction in progress	-	1.2	26.5	27.7	-	55.5
Prepayments	-	-	2.5	20.5	-	23.1
Total property, plant and equipment as at 31 December 2009 (Notes 4 and 5)	**41.7**	**66.9**	**442.3**	**639.5**	**0.8**	**1 191.2**

6. Property, plant and equipment, continued

in million EUR	Land	Buildings	Facilities	Machinery and	Other	Total
Movements, 1 January-31 December 2010						
Purchases (Note 5)	0.1	2.4	29.9	176.5	0.2	209.1
Depreciation charge (Notes 4, 5 and 33)	-	(4.2)	(22.4)	(65.0)	(0.4)	(91.9)
Disposals	(0.5)	(0.1)	-	(0.2)	-	(0.8)
Provision for dismantling cost of assets (Note 25)	-	-	0.1	1.1	-	1.1
Classified as held for sale	(0.1)	(0.1)	(5.3)	(9.6)	-	(15.0)
Total movements, 1 January-31 December 2010	**(0.5)**	**(1.9)**	**2.3**	**102.8**	**(0.2)**	**102.5**
Property, plant and equipment as at 31 December 2010						
Cost	41.2	149.0	719.5	1 201.0	4.9	2 115.7
Accumulated depreciation	-	(84.8)	(297.0)	(600.4)	(4.3)	(986.5)
Net book amount	41.2	64.3	422.6	600.6	0.6	1 129.2
Construction in progress	-	0.7	21.8	98.8	-	121.3
Prepayments	-	-	0.3	42.8	-	43.1
Total property, plant and equipment as at 31 December 2010 (Notes 4 and 5)	**41.2**	**65.0**	**444.6**	**742.2**	**0.6**	**1 293.6**

In 2009 the assets of the Iru power plant and Energy Units 9, 10 and 12 of the Balti power plant were tested for impairment. According to the results of the test an impairment loss of EUR 8.7 million of Iru Power Plant and EUR 4.0 million of Baltic 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 11%. The impairment was caused by the decreased demand on the production capacities of those assets. The assumptions used in impairment test performed in 2010 were not changed compared to those used in 2009. The test indicated no need to reverse or to provide for additional impairment loss.

The capitalisation rate of 4.5% (2009: 4.6%) was used to determine the amount of borrowing costs eligible for capitalisation (Note 31).

Buildings and facilities leased out under operating lease terms

in million EUR	31 December	
	2010	2009
Cost	6.1	6.3
Accumulated depreciation at the beginning of the financial year	(2.8)	(2.7)
Depreciation charge	(0.2)	(0.2)
Net book amount	**3.1**	**3.4**

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

in million EUR	1 January - 31 December	
	2010	2009
Continuing operations		
Rental and maintenance income		
Buildings	1.4	1.8
of which contingent rent	*0.7*	*0.6*
Facilities	0.7	0.7
Total rental and maintenance income (Note 26)	**2.1**	**2.5**
Rental expense		
Buildings	0.6	0.4
Transport vehicles	1.4	1.4
Other machinery and equipment	1.9	1.0
Total rental expense (Note 30)	**3.9**	**2.8**

Future minimum lease receivables under non-cancellable operating lease contracts by due dates

in million EUR	1 January - 31 December	
	2010	2009
Rental income		
< 1 year	1.0	1.0
1 - 5 years	4.2	3.8
> 5 years	17.8	17.2
Total rental income	**23.0**	**22.0**

The oil terminal has been leased out under non-cancellable lease agreement. The lease agreement will expire in 2033.
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 2008						
Cost	2.5	1.1	3.0	1.0	-	7.6
Accumulated amortisation	-	(0.3)	(0.1)	-	-	(0.4)
Net book amount	2.5	0.7	2.9	1.0	-	7.2
Intangible assets not yet available for use	-	2.2	-	-	-	2.2
Total intangible assets as at 31 December 2008 (Note 5)	**2.5**	**3.0**	**2.9**	**1.0**	**-**	**9.4**
Movements, 1 January - 31 December 2009						
Classified as assets of discontinued opearations	-	(0.4)	(0.8)	-	-	(1.1)
Purchases	-	7.5	-	-	0.1	7.6
Amortisation charge (Notes 5 and 33)	-	(0.5)	(0.1)	-	-	(0.6)
Total movements, 1 January - 31 December 2009	**-**	**6.6**	**(0.8)**	**-**	**0.1**	**5.9**
Intangible assets as at 31 December 2009						
Cost	2.5	3.3	2.3	1.0	0.1	9.2
Accumulated amortisation	-	(0.9)	(0.2)	-	-	(1.0)
Net book amount	2.5	2.5	2.2	1.0	0.1	8.2
Intangible assets not yet available for use	-	7.1	-	-	-	7.1
Total intangible assets as at 31 December 2009 (Note 5)	**2.5**	**9.5**	**2.2**	**1.0**	**0.1**	**15.2**
Movements, 1 January - 31 December 2010						
Purchases	-	9.0	0.1	0.1	0.2	9.4
Amortisation charge (Notes 5 and 33)	-	(1.2)	(0.1)	-	(0.1)	(1.4)
Total movements, 1 January - 31 December 2010	**-**	**7.8**	**0.1**	**0.1**	**0.1**	**8.0**
Intangible assets as at 31 December 2010						
Cost	2.5	6.3	2.4	1.1	0.3	12.5
Accumulated amortisation	-	(2.1)	(0.2)	-	(0.1)	(2.4)
Net book amount	2.5	4.1	2.2	1.1	0.2	10.1
Intangible assets not yet available for use	-	13.2	-	-	-	13.2
Total intangible assets as at 31 December 2010 (Note 5)	**2.5**	**17.3**	**2.2**	**1.1**	**0.2**	**23.3**

8. Intangible assets, continued

Goodwill

in million EUR	Mining
Allocation of goodwill by cash-generating units	
Carrying amount at 31 December 2010	2.5
Carrying amount at 31 December 2009	2.5
Carrying amount at 31 December 2008	2.5

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 has been 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

	31 December		1 January
	2010	2009	2009
Mining			
Discount rate	9.3%	7.9%	7.9%

Exploration and evaluation assets of mineral resources

The costs related to the exploration of an oil shale mine located in the Kingdom of Jordan are recognised as exploration and evaluation assets of mineral resources. The contract entered into on 5 November 2006 with the Kingdom of Jordan constitutes a right to explore. The assets were reviewed for impairment. No impairment was identified during these tests.

Intangible current assets - greenhouse gas allowances

The cost of greenhouse gas allowances acquired is recognised as intangible current assets. In 2010 3 147 000 tonnes (2009: 0 tonnes) of greenhouse gas allowances were acquired.

	1 January - 31 December	
	2010	2009
Greenhouse gas allowances at the beginning of the period	**-**	**25.8**
Acquired	45.8	-
Surrendered to state for the greenhouse gas emissions (Note 25)	(0.6)	(25.8)
Greenhouse gas allowances at the end of the period	**45.2**	**-**

In 2010 the amount of greenhouse gas allowances surrended to state reduced as the result of the reduced emission of greenhouse gases due to the reduced volume of energy production.

9. Investments in associates

Change in investments in associates

in million EUR	1 January - 31 December	
	2010	2009
Book value at the beginning of the period	**12.1**	**11.7**
Profit from associates using equity method (Note 33)	2.1	1.6
Dividends declared by the associate	(2.4)	(1.2)
Book value at the end of the period (Note 5)	**11.8**	**12.1**

Information on associates

in million EUR **Company**	Location	Assets 31 December 2010	Liabilities	Operating income 1 January - 31 December 2010	Net profit	Ownership (%) 31 December 2010
Nordic Energy Link Group	Estonia, Finland	89.9	64.6	15.5	1.4	39.9
Orica Eesti OÜ*	Estonia	13.0	7.4	20.8	4.2	35.0
		102.9	**71.9**	**36.3**	**5.6**	

in million EUR **Company**	Location	Assets 31 December 2009	Liabilities	Operating income 1 January - 31 December 2009	Net profit	Ownership (%) 31 December 2009
Nordic Energy Link Group	Estonia, Finland	94.6	70.8	18.5	0.9	39.9
Orica Eesti OÜ*	Estonia	11.4	6.4	17.0	2.5	35.0
		106.1	**77.1**	**35.5**	**3.4**	

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

10. Inventories

in million EUR	31 December		1 January
	2010	2009	2009
Raw materials and materials at warehouses	**12.2**	**12.9**	**16.2**
Work-in-progress			
Stored oil shale	12.1	19.2	9.2
Stripping works in quarries	2.0	3.2	2.1
Other work-in-progress	1.0	1.1	0.9
Total work-in-progress	**15.1**	**23.6**	**12.2**
Finished goods			
Shale oil	1.2	2.2	2.2
Other finished goods	0.4	0.3	0.2
Total finished goods	**1.6**	**2.6**	**2.4**
Prepayments to suppliers	**0.3**	**0.0**	**0.2**
Total inventories (Notes 4 and 33)	**29.1**	**39.0**	**30.9**

In the reporting period, the Group wrote down damaged and slow-moving inventories of raw materials and materials totalling EUR 0.5 million (2009: EUR 1.3 million).

11. Division of financial instruments by category

in million EUR	Loans and receivables	Financial assets at fair value through profit or loss	Held-to-maturity financial assets	Derivatives for which hedge accounting is applied	Total
As at 31 December 2010					
Financial asset items in the statement of financial position					
Trade and other receivables excluding prepayments (Notes 3.1 and 12)	164.5	-	-	-	164.5
Derivative financial instruments (Notes 3.1, 3.3, 13 and 14)	-	0.7	-	-	0.7
Term deposits at banks with maturities of more than 3 months (Notes 3.1, 3.2 and 17)	181.4	-	-	-	181.4
Financial assets at fair value through profit or loss (Notes 3.3 and 16)	-	3.2	-	-	3.2
Available-for-sale financial assets (Notes 3.3 and 15)	-	-	10.0	-	10.0
Cash and cash equivalents (Notes 3.1, 3.2, 14 and 18)	54.8	-	-	-	54.8
Total financial asset items in the statement of financial position	**400.7**	**3.9**	**10.0**	**-**	**414.7**
As at 31 December 2009					
Financial asset items in the statement of financial position					
Trade and other receivables excluding prepayments (Notes 3.1 and 12)	90.5	-	-	-	90.5
Derivative financial instruments (Notes 3.1, 3.3, 13 and 14)	-	0.1	-	2.9	3.0
Term deposits at banks with maturities of more than 3 months (Notes 3.1, 3.2 and 17)	5.1	-	-	-	5.1
Financial assets at fair value through profit or loss (Notes 3.3 and 16)	-	0.4	-	-	0.4
Cash and cash equivalents (Notes 3.1, 3.2, 14 and 18)	36.2	-	-	-	36.2
Total financial asset items in the statement of financial position	**131.8**	**0.5**	**-**	**2.9**	**135.2**

11. Division of financial instruments by category, continued

in million EUR	Loans and receivables	Financial assets at fair value through profit or loss	Held-to-maturity financial assets	Derivatives for which hedge accounting is applied	Total
As at 1 January 2009					
Financial asset items in the statement of financial position					
Trade and other receivables excluding prepayments (Notes 3.1 and 12)	84.1	-	-	-	84.1
Derivative financial instruments (Notes 3.1, 3.3, 13 and 14)	-	-	-	20.9	20.9
Term deposits at banks with maturities of more than 3 months (Notes 3.1, 3.2 and 17)	25.1	-	-	-	25.1
Financial assets at fair value through profit or loss (Notes 3.3 and 16)	-	1.0	-	-	1.0
Cash and cash equivalents (Notes 3.1, 3.2, 14 and 18)	82.6	-	-	-	82.6
Total financial asset items in the statement of financial position	**191.9**	**1.0**	**-**	**20.9**	**213.8**

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 2010				
Financial liability items in the statement of financial position				
Borrowings (Notes 3.1, 3.2 and 22)	-	-	358.7	358.7
Trade and other payables (Notes 3.1 and 23)	-	-	86.4	86.4
Derivative financial instruments (Notes 3.1, 3.3 and 13)	1.9	34.9	-	36.7
Total financial liability items in the statement of financial position	**1.9**	**34.9**	**445.1**	**481.8**
As at 31 December 2009				
Financial liability items in the statement of financial position				
Borrowings (Notes 3.1, 3.2 and 22)	-	-	362.4	362.4
Trade and other payables (Notes 3.1 and 23)	-	-	65.7	65.7
Derivative financial instruments (Notes 3.1, 3.3 and 13)	-	5.9	-	6.0
Total financial liability items in the statement of financial position	**-**	**5.9**	**428.1**	**434.0**

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 1 January 2009				
Financial liability items in the statement of financial position				
Borrowings (Notes 3.1, 3.2 and 22)	-	-	330.7	330.7
Trade and other payables (Notes 3.1 and 23)	-	-	68.6	68.6
Derivative financial instruments (Notes 3.1, 3.3 and 13)	-	-	-	-
Total financial liability items in the statement of financial position	**-**	**-**	**399.4**	**399.4**

12. Trade and other receivables

in million EUR	31 December		1 January
	2010	2009	2009
Short-term trade and other receivables			
Trade receivables			
Accounts receivable	110.7	82.3	85.5
Allowance for doubtful receivables (Note 4)	(3.3)	(7.2)	(8.0)
Total trade receivables	**107.4**	**75.0**	**77.5**
Accrued income			
Amounts due from customers under the stage of completion method (Note 14)	2.8	2.7	3.1
Accrued receivable for electricity from unreported or delayed meter readings, or estimates (Note 14)	0.3	0.3	0.2
Accrued interest (Note 14)	3.1	-	0.8
Other accrued income (Note 14)	0.1	0.7	-
Total accrued income	**6.3**	**3.7**	**4.1**
Prepayments	5.3	4.7	12.8
Receivables from associates (Note 14)	1.8	0.5	1.2
Government grant receivable (Notes 14 and 25)	-	0.3	-
Receivables from discontinued operations (Notes 14 and 36)	-	3.8	-
Other receivables (Note 14)	49.1	4.8	1.3
Total short-term trade and other receivables	**169.9**	**92.9**	**96.9**

in million EUR	31 December		1 January
	2010	2009	2009
Long-term receivables			
Government grant receivable (Notes 14 and 25)	-	2.3	-
Prepayments	0.3	0.2	0.1
Total long-term receivables	**0.4**	**2.4**	**0.1**
Total trade and other receivables (Notes 3.1 and 11)	**170.2**	**95.3**	**97.0**

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 either Estonian kroons or euros. The amount of receivables denominated in US dollars is disclosed in Note 3.1.

12. Trade and other receivables, continued

Analysis of accounts receivable

in million EUR	31 December		1 January
	2010	2009	2009
Accounts receivable not yet due (Note 14)	**98.8**	**65.8**	**69.4**
Accounts receivable due but not classified as doubtful			
1-30 days past due	7.3	6.9	6.0
31-60 days past due	0.8	0.9	1.4
61-90 days past due	0.5	0.5	0.6
Total accounts receivable due but not classified as doubtful	**8.6**	**8.2**	**8.0**
Accounts receivable written down			
3-6 months past due	0.7	1.4	0.7
more than 6 months past due	2.7	6.9	7.4
Total accounts receivable written down	**3.3**	**8.2**	**8.1**
Total accounts receivable	**110.7**	**82.3**	**85.5**

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

in million EUR	1 January - 31 December	
	2010	2009
Allowance for doubtful receivables at the beginning of the period	**(7.2)**	**(8.0)**
Classified as doubtful during the accounting period	(3.5)	(3.1)
Collections in the accounting period	3.8	1.9
Classified as irrecoverable	2.6	1.9
Classified as held for sale	0.9	-
Allowance for doubtful receivables at the end of the period (Note 4)	**(3.3)**	**(7.2)**

The other receivables do not contain any impaired assets.

Revenue under the stage of completion method

in million EUR	31 December	
	2010	2009
Unfinished projects at the end of the period		
Revenue of unfinished projects	13.7	6.7
Progress billing submitted	(10.8)	(4.1)
Amounts due from customers under the stage of completion method (Note 14)	2.8	2.7
Total expenses on unfinished projects in the financial year	(12.5)	(6.6)
Gains/losses calculated on unfinished projects	1.2	0.1
Total revenue from construction projects in the financial year	23.0	14.8
Total expenses on construction projects in the financial year	(21.7)	(14.2)
Total gains calculated on construction projects	**1.4**	**0.6**

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

13. Derivative financial instruments

in million EUR	31 December 2010		31 December 2009	
	Assets	Liabilities	Assets	Liabilities
Forward contracts for buying and selling electricity as cash flow hedges	-	28.2	1.9	-
Forward and option contracts for buying and selling electricity as trading derivatives	-	1.9	0.1	-
Option contracts for buying and selling greenhouse gas emissions allowances as trading derivatives	0.7	-	-	-
Swap and futures contracts for selling shale oil as cash flow hedges	-	6.7	1.0	5.9
Total derivative financial instruments (Notes 3.1, 3.3, 11 and 14)	**0.7**	**36.7**	**3.0**	**6.0**
including non-current portion:				
Forward contracts for buying and selling electricity as cash flow hedges	-	0.5	0.2	-
Forward and option contracts for buying and selling electricity as trading derivatives	-	0.7	-	-
Option contracts for buying and selling greenhouse gas emissions allowances as trading derivatives	0.3	-	-	-
Swap and futures contracts for selling shale oil as cash flow hedges	-	3.7	-	3.9
Total non-current portion	**0.3**	**4.9**	**0.2**	**3.9**
Total current portion	**0.4**	**31.8**	**2.7**	**2.1**

Derivative financial instruments

in million EUR	1 January 2009	
	Assets	Liabilities
Forward contracts for buying and selling electricity as cash flow hedges	7.7	-
Swap and futures contracts for selling shale oil as cash flow hedges	13.2	-
Total derivative financial instruments (Notes 3.1, 3.3, 11 and 14)	**20.9**	**-**
including non-current portion:		
Forward contracts for buying and selling electricity as cash flow hedges	0.4	-
Swap and futures contracts for selling shale oil as cash flow hedges	4.9	-
Total non-current portion	**5.4**	**-**
Total current portion	**15.5**	**-**

13. Derivative financial instruments, continued

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 when it is evident that sales transactions are unlikely to occur in a given period.

Those forward contracts which are entered into for the purpose of earning income from the change in the price of electricity are classified as trading derivatives at fair value with changes through profit or loss. 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 2011-2012 (31 December 2009: in 2010-2011). As at 31 December 2010 1 284 414 MWh had been hedged for the year 2011 and 118 558 MWh for the year 2012 (31 December 2009: 480 MWh for the year 2010).

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.

Changes in forward and option contracts for buying and selling electricity

in million EUR	1 January - 31 December	
	2010	2009
Fair value at the beginning of the period	**2.0**	**7.7**
Change in fair value, including	(36.9)	7.0
change in fair value of trading derivatives recognised in other operating income or expenses	0.1	1.2
change in fair value of cash flow hedges recognised in other comprehensive income (Note 21)	(37.0)	5.8
Settled in cash (collected)	4.9	(12.8)
Fair value at the end of the period	**(30.0)**	**2.0**

Option contracts for buying and selling greenhouse gas emissions allowances

The 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 SEB Futures. The prices are denominated in euros.

Changes in option contracts for buying and selling greenhouse gas emissions allowances

in million EUR	1 January - 31 December	
	2010	2009
Fair value at the beginning of the period	**-**	**-**
Change in fair value of trading derivatives recognised in other operating income or expenses	(0.5)	25.2
Settled in cash (paid)	1.2	(25.2)
Fair value at the end of the period	**0.7**	**-**

13. Derivative financial instruments, continued

Swap and futures contracts for selling shale oil

The goal of the swap and futures contracts for buying and selling shale oil 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 instrument to be hedged is highly probable shale oil sales transactions. The basis for determining the fair value of transactions is the quotes by Platt´s European Marketscan and Nymex. The prices are denominated in euros.

The swap contracts for selling shale oil which aim to hedge the risk of price changes of shale oil will realise in 2011-2013 (31 December 2009: in 2010-2012). As at 31 December 2010 61 800 tonnes had been hedged for the year 2011, 44 400 tonnes for the year 2012 and 36 000 tonnes for the year 2013 (31 December 2009: 63 000 tonnes for the year 2010, 40 800 tonnes for the year 2011 and 44 400 tonnes for the year 2012).

Changes in swap and futures contracts for selling shale oil

in million EUR	1 January - 31 December	
	2010	2009
Fair value at the beginning of the period	**(5.0)**	**13.2**
Change in fair value, including	(3.4)	(12.1)
change in fair value of cash flow hedges recognised in other comprehensive income (Note 21)	(3.3)	(12.1)
Settled in cash (- collected/+ paid)	1.7	(6.1)
Fair value at the end of the period	**(6.7)**	**(5.0)**

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		1 January
	2010	2009	2009
Trade receivables			
Receivables from new clients (client relationship shorter than 6 months)	0.9	0.8	1.0
Receivables from existing clients (client relationship longer than 6 months), who in the last 6 months have not exceeded the due date	54.6	27.6	31.9
Receivables from existing clients (client relationship longer than 6 months),who in the last 6 months have exceeded the due date	43.3	37.4	36.5
Total trade receivables (Note 12)	**98.8**	**65.8**	**69.4**
Accrued interest			
Receivables from banks with Moody's credit rating of A2	1.6	-	-
Receivables from banks with Moody's credit rating of Aa3	0.7	-	-
Receivables from banks with Moody's credit rating of Aa2	0.5	-	-
Receivables from banks with Moody's credit rating of A1	0.4	-	0.8
Total accrued interest (Note 12)	**3.1**	**-**	**0.8**

14. Credit quality of financial assets, continued

in million EUR	31 December		1 January
	2010	2009	2009
Bank accounts, deposits and documentary credits in banks			
At banks with Moody's credit rating of A1	72.0	15.1	87.8
At banks with Moody's credit rating of Aa3	69.8	0.1	6.1
At banks with Moody's credit rating of A2	54.2	-	-
At banks with Moody's credit rating of Aa2	40.2	5.1	-
At banks with Moody's credit rating of Baa3	-	21.0	-
At banks with Moody's credit rating of Aa1	-	-	13.9
Total bank accounts and deposits in banks (Notes 3.1, 3.2, 11, 17 and 18)	**236.2**	**41.3**	**107.7**
Other receivables and accrued income			
Other receivables with Moody's credit rating of A1	48.4	4.5	-
Receivables without credit rating from an independent party	5.7	10.9	5.8
Total other receivables (Note 12)	**54.1**	**15.4**	**5.8**
Available-for-sale financial assets			
Fund units of a a credit institution with Moody's credit rating of A2 (Notes 3.1, 3.3, 11 and 15)	10.0	-	-
Derivative financial instruments			
Derivatives with positive value with Moody's credit rating of Aa1	-	-	3.7
Derivatives with positive value with Moody's credit rating of Aa3	-	-	3.1
Derivatives with positive value with Moody's credit rating of A1	0.7	2.9	6.4
Derivatives with positive value without a credit rating from an independent party	-	-	7.7
Derivatives with positive value (Notes 3.1, 3.3, 11 and 13)	**0.7**	**3.0**	**20.9**

The Company's management finds that other receivables and accrued income without a credit rating from an independent party do not involve material credit risk.

As at 31 December 2010 and 31 December 2009, the Group did not have any major credit risk concentrations.

15. Available-for-sale financial assets

in million EUR	31 December		1 January
	2010	2009	2009
Unquoted financial assets (at fair value):			
Swedbank fund units (fixed interest rate 1.6%, maturity date: October 2012) (Notes 3.1, 3.3, 11 and 14)	10.0	-	-

Changes in available-for-sale financial assets

in million EUR	1 January - 31 December	
	2010	2009
Fair value at the beginning of the period	**-**	**-**
Acquired	10.0	-
Fair value at the end of the period (Notes 3.1, 3.3, 11 and 14)	**10.0**	**-**

The Swedbank fund units are denominated in euros. The fair value of the fund units is based on the future cash flows. The maximum exposure to credit risk at the reporting date is the carrying value of the financial assets classified as available-for-sale. At the reporting date the assets were not impaired.

16. Financial assets at fair value through profit or loss

in million EUR	31 December		1 January
	2010	2009	2009
Unquoted financial assets:			
Units of Danske Invest Euro Interest Fund	3.2	-	-
Units of Danske Invest Liquidity Fund (Notes 3.3 and 11)	-	0.4	1.0
Total unquoted financial assets (Notes 3.3 and 11)	**3.2**	**0.4**	**1.0**

Changes in financial assets reported at fair value through profit or loss

in million EUR	1 January - 31 December	
	2010	2009
Fair value at the beginning of the period	**0.4**	**1.0**
Acquired	27.4	20.3
Disposed	(24.6)	(21.0)
Gain from change in fair value	-	0.1
Fair value at the end of the period (Notes 3.3 and 11)	**3.2**	**0.4**

The units of Danske Invest Liquidity Fund are denominated in Estonian kroons. The fair value of fund units is 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 is recognised as financial income in the income statement.

17. Deposits at banks with maturities of more than 3 months

in million EUR	31 December		1 January
	2010	2009	2009
Deposits at banks with maturities of more than 3 months			
Security deposits at banks	-	5.1	25.1
Other deposits at banks with maturities of more than 3 months	181.4	-	-
Total deposits at banks with maturities of more than 3 months (Notes 3.1, 3.2, 11 and 14)	**181.4**	**5.1**	**25.1**

In the financial year, the effective interest rates of term deposits with maturities of more than 3 months were between and 0.6-4.7% (2009: 0.7-6.9%). In the reporting period the due dates of deposits were 29 to 367 days (2009: 59-504 days).

The remaining maturities at the ends of reporting periods were less than 12 months. The security deposits at SEB bank secure the commitments of Eesti Energia AS which may arise from forward contracts of electricity sales and spot contracts on the power exchange Nord Pool. The interest rates of the security deposits were 0.6-1.8% (2009: 0.7-5.1%).

As at 31 December 2010 of term deposits with maturities of more than 3 months EUR 47.9 million were nominated in Estonian kroons and EUR 133.5 million were nominated in euros (31 December 2009: EUR 5.1 million nominated in euros; 1 January 2009: EUR 25.1 million denominated in euros).

18. Cash and cash equivalents

in million EUR	31 December		1 January
	2010	2009	2009
Bank accounts	8.4	8.5	7.5
Short-term deposits	46.4	26.8	75.1
Documentary credit	-	0.9	-
Total cash and cash equivalents (Notes 3.1, 3.2, 11 and 14)	**54.8**	**36.2**	**82.6**

Cash and cash equivalents by currencies

miljonites kroonides	31 December		1 January
	2010	2009	2009
Estonian kroon	7.5	26.2	53.6
Euro	44.7	9.9	27.8
US dollar			
Latvian lat	0.5	0.1	0.2
Lithuanian lit	0.3	-	0.1
Total cash and cash equivalents (Notes 3.1, 3.2, 11 and 14)	**54.8**	**36.2**	**82.6**

In the financial year, the effective interest rates of term deposits with maturities of up to 3 months were between 0.2 and 5.0% (2009: 0.3-8.1%).

19. Share capital, statutory reserve capital and retained earnings

As at 31 December 2010, Eesti Energia AS had 471 645 750 registered shares (31 December 2009: 73 796 524 registred shares). The nominal value of each share is 1 euro. The nominal value of a share was changed in December 2010 when the share capital was converted into euros, until then the nominal value of each share was 100 kroons. 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 Economic Affairs, represented by the Minister of Economic Affairs 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.

Order no. 502 of the Government of the Republic of 11 December 2008 reduced the share capital of Eesti Energia AS by EUR 0.2 million by annulling 26 742 shares (Note 6). In September 2009 a non-monetary disbursement was made by Eesti Energia by transferring a building in Tallinn on Telliskivi street to the Republic of Estonia.

As at 31 December 2010, the Group's statutory reserve capital totalled EUR 47.2 million (31 December 2009: EUR 47.2 million; 1 January 2009: EUR 47,2 million). As at 31 December 2010, Eesti Energia AS had an obligation to transfer an additional EUR 0 to statutory reserve capital (31 December 2009: EUR 0; 1 January 2009: EUR 0).

As at 31 December 2010, the Group's distributable equity was EUR 360.3 million (31 December 2009: EUR 325.2 million; 1 January 2009: EUR 312.2 million). Corporate income tax is payable upon the distribution of dividends to shareholders (from 1 January 2008, the corporate 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 75.7 million (31 December 2009: EUR 68.3 million; 1 January 2009: EUR 65.6 million). It is possible to pay out EUR 284.6 million (31 December 2009: EUR 256.9 million; 1 January 2009: EUR 246.6 million) as net dividends.

Order no. 117 of the Government of the Republic of 9 March 2011 requires Eesti Energia AS to pay EUR 56.1 million as dividends after the approval of the 2010 Annual Report by the General Meeting of Shareholders. The corresponding income tax totals EUR 14.9 million.

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

in million EUR	31 December		1 January
	2010	2009	2009
Retained earnings (Note 40)	360.3	325.2	312.2
Distributable shareholder's equity	360.3	325.2	312.2
Corporate income tax on dividends if distributed	75.7	68.3	65.6
Net dividends available for distribution	284.6	256.9	246.6

20. Dividends per share

In the financial year, Eesti Energia AS paid dividends of EUR 109.2 million to the Republic of Estonia or EUR 1.48 per share (2009: EUR 86.9 million, dividends per share EUR 1.18). The Management Board proposed to the Annual Meeting to pay dividends of 0.12 EUR per share for the financial year ended 31 December 2010, totalling EUR 56.1 million. These financial statements do not reflect this amount as a liability as the dividend had not been approved as at 31 December 2010.

21. Hedge reserve

in million EUR	1 January - 31 December	
	2010	2009
Hedge reserve at the beginning of the period	**(3.1)**	**19.9**
Change in fair value of cash flow hedges (Note 13)	(40.3)	(6.3)
Recognised as revenue	-	(16.7)
Recognised as a reduction of revenue	8.9	-
Hedge reserve at the end of the period	(34.6)	(3.1)

22. Borrowings

Borrowings at amortised cost

in million EUR	31 December		1 January
	2010	2009	2009
Short-term borrowings			
Current portion of long-term bank loans	26.8	3.5	7.7
Overdraft	-	-	0.9
Total short-term borrowings	**26.8**	**3.5**	**8.6**
Long-term borrowings			
Bonds issued	289.8	289.1	288.3
Bank loans	42.1	69.8	33.8
Total long-term borrowings	**331.9**	**358.9**	**322.1**
Total borrowings (Notes 3.1, 3.2 and 11)	**358.7**	**362.4**	**330.7**

22. Borrowings, continued

Bonds

in million EUR	31 December		1 January
	2010	2009	2009
Nominal value of bonds (Note 3.1)	300.0	300.0	300.0
Proceeds from the issue of bonds	286.2	286.2	286.2
Difference between nominal value and initial cost, amortised during the term of the bonds	3.6	2.9	2.1
Carrying amount of bonds	**289.8**	**289.1**	**288.3**
Market value of bonds on the basis of quoted sales price (Note 3.3)	293.1	257.4	189.7

The Group has issued long-term bonds with the maturity date in 2020. The bonds are denominated in euros and have a fixed interest rate of 4.5%. The bonds are listed on the London Stock Exchange.

Long-term bank loans at nominal value by due date

in million EUR	31 December		1 January
	2010	2009	2009
< 1 year	26.8	3.5	6.8
1 - 5 years	37.5	64.0	27.3
> 5 years	4.8	6.1	7.5
Total	**69.1**	**73.6**	**41.6**

All loans are denominated in euros. As at 31 December 2010 all loans have floating interest rates, the interest rates were between 1.6 and 4.6% (31 December 2009: 1.3-4.3%; 1 January 2009: 3.8-5.4%). As at 31 December 2010, the weighted average interest rate on loans with floating interest rates was 6-month EURibor+1.48% (31 December 2009: 6-month EURibor+1.46%; 1 January 2009: 6-month EURibor+0.43%).

As at 31 December 2010, the weighted average nominal interest rate on loans was 2.72% (31 December 2009: 2.43%; 1 January 2009: 3.94%). 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.

As at 31 December 2010 the Group had undrawn loan facilities of EUR 136.0 million (31 December 2009: EUR 139.0 million; 1 January 2008: EUR 40.0 million). The decision regarding the undrawn loan facilities must be made by 25 May 2012. The type of interest rate (fixed or floating) will be decided when the loan is taken.

Management estimates that the fair value of the loans at the end of reporting period does not significantly differ from their carrying amounts as the risk margins have not changed.

Borrowings by period that interest rates are fixed for

in million EUR	31 December		1 January
	2010	2009	2009
< 1 year	68.9	73.3	42.4
> 5 years	289.8	289.1	288.3
Total (Notes 3.1, 3.2 and 11)	**358.7**	**362.4**	**330.7**

Weighted average effective interest rates of borrowings

in million EUR	31 December		1 January
	2010	2009	2009
Long-term bank loans	2.8%	2.5%	4.3%
Bonds	4.9%	4.9%	4.9%

23. Trade and other payables

in million EUR	31 December		1 January
	2010	2009	2009
Financial payables within trade and other payables			
Trade payables	76.4	52.1	57.0
Accrued expenses	2.1	2.3	3.0
Payables to associates	2.2	1.6	2.2
Payables to discontinued operations (Note 36)	-	9.5	-
Other payables	5.7	0.3	6.4
Total financial payables within trade and other payables (Note 11)	**86.4**	**65.7**	**68.6**
Payables to employees	18.1	16.2	14.7
Tax liabilities	24.3	25.8	28.0
Prepayments	4.1	4.2	0.2
Total trade and other payables	**132.9**	**111.8**	**111.6**
of which short-term trade and other payables	*132.7*	*111.8*	*111.4*
which long-term trade and other payables	*0.3*	*0.1*	*0.2*

As at 31 December 2010, short-term trade payables included a payable to Foster Wheeler Energia Oy in the amount of EUR 22.0 million (1 January 2009: EUR 22.0 million). Under the contract entered into with Foster Wheeler for the construction of new blocks for Eesti Energia Narva Elektrijaamad AS, 10% of the contract amount was subject to withholding until the start-up of the power blocks. Due to the delay in the renovation works and violation of contractual terms the amount withheld was not paid out and Foster Wheeler Energia Oy launched a commercial dispute in the arbitrage court of London. According to the arbitrage judgement the amount of EUR 10.8 million was not paid out and it was recognised as other operating income (Notes 34) .

24. Deferred income

Connection and other service fees

in million EUR	1 January - 31 December	
	2010	2009
Connection and other service fees at the beginning of the period not recognised as income	**116.5**	**122.1**
Classified as liabilities of discontinued operations and held for sale (Notes 35 and 36)	(0.1)	(10.9)
Connection and other service fees received	9.4	12.5
Connection and other service fees recognised as income (Note 33)	(7.9)	(7.2)
Connection and other service fees at the end of the period not recognised as income	**117.9**	**116.5**

Government grants

in million EUR	1 January - 31 December	
	2010	2009
Deferred income from grant at the beginning of the period	**0.6**	**0.7**
of which short-term deferred income	*0.2*	*0.2*
which long-term deferred income	*0.4*	*0.4*
Grants received	1.0	-
Recognised as income	(0.3)	(0.1)
Deferred income from grant at the end of the period	**1.2**	**0.6**
of which short-term deferred income	*0.5*	*0.2*
which long-term deferred income	*0.7*	*0.4*

Majority of the grants have been received from the Cohesion Fund (ISPA), LIFE programme, Enterprise Estonia and Estonian Unemployment Insurance Fund.

25. Provisions

in million EUR	Opening balance 31 December 2009	Recognition and change in provisions	Interest charge (Note 31)	Use	Classified as held for sale	Closing balance 31 December 2010	
						Short-term provision	Long-term provision
Environmental protection provisions (Note 30)	16.5	4.2	0.8	(0.8)	(5.7)	2.4	12.6
Provision for termination of mining operations (Note 30)	7.7	1.8	0.4	-	-	-	9.9
Employee related provisions (Note 29)	4.2	0.2	0.2	(0.7)	-	0.4	3.5
Provision for dismantling cost of assets (Note 6)	1.3	1.1	0.1	-	-	-	2.6
Provision for greenhouse gas emissions (Notes 8 and 28)	-	47.7	-	(0.6)	-	47.1	-
Total provisions (Notes 4 and 33)	**29.7**	**55.1**	**1.5**	**(2.1)**	**(5.7)**	**49.9**	**28.6**

in million EUR	Opening balance 31 December 2008	Recognition and change in provisions (Note 5)	Interest charge (Note 31)	Use	Classified as held for sale	Closing balance 31 Decembe 2009	
						Short-term provision	Long-term provision
Environmental protection provisions (Note 30)	10.5	6.2	0.7	(0.8)	-	2.0	14.6
Provision for onerous contract	2.1	-	-	(2.1)	-	-	-
Provision for termination of mining operations (Note 30)	7.7	(0.6)	0.6	-	-	-	7.7
Employee related provisions (Note 29)	3.1	1.9	0.2	(1.0)	-	1.4	2.8
Provision for dismantling cost of assets (Note 6)	1.1	0.1	0.1	-	-	-	1.3
Provision for greenhouse gas emissions (Note 28)	31.1	(5.3)	-	(25.8)	-	-	-
Total provisions (Notes 4 and 33)	**55.7**	**2.2**	**1.6**	**(29.7)**	**-**	**3.4**	**26.3**

Recognition and change in the provisions during financial year 2009 in the amount of EUR 6.9 million resulted from the change in discount rate from 8% to 5.4%.

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.

Long-term environmental protection provisions will be settled at the Eesti Energia Kaevandused in 2012 - 2013, and at Narva Elektrijaamad in 2012 - 2037.

Provisions related to the termination of mining operations will be settled in 2013 - 2046. Provisions for the termination of mining operations do not include any termination payments to employees as no detailed plans for the closure of the mines and quarries have been announced.

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.

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.

25. Provisions, continued

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 non-current assets. The provision for the dismantling costs is expected to be settled in 2034-2035.

The provision for greenhouse gas emissions has been set up based on the cost of greenhouse gas emission allowances that need to be purchased additionally. The emission allowances received from the state free of charge have been deducted from the volume of emission allowances needed to cover greenhouse gas emissions.

The provision for onerous contract as at 31 December 2008 was set up to cover the costs of the pilot project for oil shale ash processing and storage system that was not put to operation in its present condition.

The provisions related to AS Kohtla-Järve Soojus have been presented as held for sale as on 22 December 2010 the Group entered into a sales contract for the sale of the shareholding in AS Kohtla-Järve Soojus to OÜ VKG Energia. As at 31 December 2009 a provision to cover up the costs of the ash field work and the clean-up of contamination of AS Kohtla-Järve Soojus had been set up and in the amount of 50% of the costs which will be covered by the grant from ISPA funds a receivable was recognised separately as an asset (Note 12).

The provision are discounted at the rate of 5.4% (2009: 8%).

26. Revenue

in million EUR	1 January - 31 December	
	2010	2009
Continuing operations		
By activity		
Sale of goods		
Electricity (Note 5)	409.7	335.2
Heat (Note 5)	46.9	44.3
Shale oil (Note 5)	51.7	39.8
Oil shale (Note 5)	30.1	25.3
Power equipment	19.9	11.9
Other goods	5.1	4.8
Total sale of goods	**563.6**	**461.2**
Sale of services		
Sales of network services (Note 5)	192.1	161.8
Sale of telecommunication services	11.5	11.2
Connection fees (Notes 4, 24 and 33)	7.9	7.2
Repair and construction services	4.2	3.2
Rental and maintenance income (Note 7)	2.1	2.5
Other services	2.8	3.6
Total sale of services	**220.6**	**189.5**
Total revenue (Note 5)	**784.1**	**650.7**

27. Other operating income

in million EUR	1 January - 31 December	
	2010	2009
Continuing operations		
Fines, penalties and compensations received	10.1	7.4
Gain on disposal of emission rights	-	2.3
Gain on disposal of property, plant and equipment	0.5	0.7
Other operating income	1.3	2.1
Total other operating income	**11.8**	**12.5**

Fines, penalties and compensations of the reporting period include the net amount of the compensation from Foster Wheeler Energia Oy in the amount of EUR 5.2 million (Note 23) and receipt of penalties from infringement of sales contract in the amount of EUR 2.2 million. Fines, penalties and compensations of the comparative period include the receipt of penalties from infringment of sales contract in the amount of EUR 5.7 million.

28. Raw materials and consumables used

in million EUR	1 January - 31 December	
	2010	2009
Continuing operations		
Electricity	42.3	76.1
Transmission services	70.0	58.1
Technological fuel	42.6	28.8
Maintenance and repairs	31.5	25.1
Resource tax on mineral resources	24.3	18.7
Greenhouse gases emissions expense (Note 25)	47.7	(5.3)
Other raw materials and consumables used	89.6	65.9
Total raw materials and consumables used	**348.0**	**267.5**

29. Payroll expenses

	1 January - 31 December	
	2010	2009
Continuing operations		
Number of employees		
Number of employees at the beginning of the period*	7 413	8 255
Number of employees at the end of the period**	7 455	7 413
Average number of employees (Note 5)	7 353	7 718

* The number of employees as at 31 December 2009 is presented without the employees of OÜ Elering
** The number of employees as at 31 December 2010 is presented without the employees of AS Kohtla-Järve Soojus

in million EUR	1 January - 31 December	
	2010	2009
Payroll expenses		
Wages, salaries, bonuses and vacation pay	98.5	93.6
Average monthly pay (in euros)	*1 116*	*1 011*
Other payments and benefits to employees	4.7	4.9
Payroll taxes	35.9	33.7
Recognition/reversal of employee related provisions (Note 25)	0.2	1.9
Total payroll expenses	**139.3**	**134.1**
Of which remuneration to management and supervisory boards		
Salaries, bonuses, additional remuneration	1.9	1.6
Fringe benefits	0.1	0.1
Total paid to management and supervisory boards	2.0	1.7
Capitalised in the cost of company-built assets	(8.6)	(7.8)
Covered from the provisions for the termination of mining operations and environmental protection	(0.3)	(0.3)
Total payroll expenses	**130.5**	**126.0**

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

30. Other operating expenses

in million EUR	1 January - 31 December	
	2010	2009
Continuing operations		
Environmental pollution charges	18.8	23.6
Miscellaneous office expenses	6.6	5.9
Rental expense (Note 7)	3.9	2.8
Recognition/reversal of environmental and mining termination provisions (Note 25)	5.9	3.1
Research and development costs	2.8	1.4
Other operating expenses	28.1	37.5
Total other expenses	**66.2**	**74.3**

31. Net financial income (-expense)

in million EUR	1 January - 31 December	
	2010	2009
Continuing operations		
Financial income		
Interest income		
Interest income from funding of discontinued operations	0.2	7.5
Other interest income	7.3	5.2
Total interest income (Note 5)	**7.5**	**12.7**
Foreign exchange gains	-	0.2
Other financial income	-	0.1
Total financial income	**7.5**	**13.0**
Financial expenses		
Interest expense		
Interest expenses on bonds and loans	(16.2)	(16.2)
Amounts capitalised on qualifying assets	5.0	4.1
Total interest expenses on borrowings (Note 33)	**(11.2)**	**(12.1)**
Interest expenses on provisions and reimbursements from another parties (Note 25)	(1.4)	(1.6)
Total interest expenses (Note 5)	**(12.6)**	**(13.6)**
Foreign exchange losses	(0.1)	-
Other financial expenses	(0.2)	(0.1)
Total financial expenses	**(12.8)**	**(13.7)**
Net financial income (-expense)	**(5.3)**	**(0.7)**

32. 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% (until 31 December 2008: 15%) of the shares, then the amount of income tax paid to the state by the distributer 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

in million EUR	1 January - 31 December	
	2010	2009
Continuing operations		
Estonia		
Net dividends	109.2	86.9
Income tax applicable for dividends	21/79	21/79
Theoretical income tax at applicable rates	29.0	23.1
Impact of dividends paid by discontinued operations (Note 36)	-	(8.2)
Impact of dividends paid by associates	(0.3)	(0.3)
Effective income tax on dividends	28.7	14.6
Average effective income tax rate	20.8%	13.3%
Income tax expense arising from the subsidiaries in Finland and Latvia	0.1	-
Total income tax expense (Note 5)	**28.8**	**14.7**

As at 31 December 2010, 31 December 2009 and 1 January 2009 , the Group did not have any deferred income tax assets and liabilities.

33. Cash generated from operations

in million EUR	1 January - 31 December	
	2010	2009
Continuing operations		
Profit before income tax	**145.8**	**103.6**
Adjustments		
Depreciation and impairment of property, plant and equipment (Notes 5 and 6)	91.9	103.7
Amortisation of intangible assets (Notes 5 and 8)	1.4	0.6
Deferred income from connection and other service fees (Notes 4, 24 and 26)	(7.9)	(7.2)
Gain on disposal of property, plant and equipment	(0.5)	(0.7)
Amortisation of government grant received to purchase non-current assets	(0.1)	-
Gains calculated under the equity method (Note 9)	(2.1)	(1.6)
Gain from other nonmonetary transactions (Note 23)	(10.8)	-
Unpaid/unsettled gain/loss on derivatives	1.5	0.9
Interest expense on borrowings (Note 31)	11.2	12.1
Interest and other financial income	(7.5)	(12.8)
Adjusted net profit before tax	**222.9**	**198.6**
Net change in current assets relating to operating activities		
Loss from doubtful receivables (Note 12)	(0.4)	1.2
Change in receivables related to operating activities	(33.3)	(1.0)
Change in inventories (Note 10)	9.6	(8.1)
Net change in other current assets relating to operating activities	(86.4)	27.7
Total net change in current assets relating to operating activities	**(110.4)**	**19.7**
Net change in current liabilities relating to operating activities		
Change in provisions (Note 25)	53.1	(28.5)
Change in trade payables	27.4	(1.6)
Net change in liabilities relating to other operating activities	(3.3)	3.2
Total net change in liabilities relating to operating activities	**77.2**	**(26.9)**
Cash generated from operations	**189.8**	**191.4**

34. Off-balance sheet assets, contingent liabilities and commitments

a. Off-balance sheet assets

Reserves of oil shale
As at 31 December 2010, the estimated reserves of mineable oil shale in the mines and quarries of the Group totalled 367 million tonnes (as at 31 December 2009: 385 million tonnes), including underground mining fields of 267 million tonnes (as at 31 December 2009: 278 million tonnes) and ground level mining fields of 100 million tonnes (31 December 2009: 107 million tonnes).

Emission rights
The allocation plan established by the decree of the Government of Estonia no. 257 of 20 December 2007 allocated to the companies of the Eesti Energia Group for the years 2008 - 2012 greenhouse gas emission allowances totalling 9.2 million tonnes per annum (the quantity allocated for the period 2005 - 2007 totalled 46.7 million tonnes).

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 6 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.

The Group has granted a guarantee of 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 (Notes 3.1). As at 31 December 2010, AS Nordic Energy Link had drawn loans of EUR 61.6 million (as at 31 December 2009: EUR 66.8 million; 1 January 2009: EUR 71.5 million).

c. Commitments

Requirement to comply with the environmental norms of the European Union
Under the accession agreement between the European Union and Estonia, the pollutants from oil shale boilers into atmospheric air need to comply with the requirements set for large combustion plants by the year 2016. Completing this obligation requires additional investment to be made.

Capital commitments arising from construction contracts
As at 31 December 2010, the Group had contractual liabilities relating to the acquisition of non-current assets totalling EUR 254.9 million (31 December 2009: EUR 232.4 million; 1 January 2009: EUR 65.1 million).

Contracts for buying greenhouse gas emissions allowances
As at 31 December 2010 the group had concluded contracts for buying greenhouse gas emissions allowances in December 2011 and 2012 in the amount of EUR 33.5 million (31 December 2009: EUR 6.6 million; 1 January 2009: EUR 42.2 million).

35. Assets and liabilites of disposal group classified as held for sale

The assets and liabilities related to AS Kohtla-Järve Soojus have been presented as held for sale as on 22 December 2010 the Group entered into a sales contract for the sale of the shareholding in AS Kohtla-Järve Soojus to OÜ VKG Energia. The transaction was completed on 8 March 2011 after the Estonian Competition Authority had given the permission to concentrate. Until its disposal, AS Kohtla-Järve Soojus was part of the Electricity and Heat Generation segment.

Assets of disposal group classified as held for sale

in million EUR	31 December		1 January
	2010	2009	2009
Cash and cash equivalents	0.3	-	-
Trade and other receivables	3.4	-	-
Inventories	0.3	-	-
Property, plant and equipment and intangible assets	16.7	-	-
Total assets classified as held for sale	**20.7**	**-**	**-**

Liabilities of disposal group classified as held for sale

in million EUR	31 December		1 January
	2010	2009	2009
Borrowings	3.3	-	-
Trade and other payables	1.8	-	-
Provisions	5.8	-	-
Deferred income (Note 24)	0.1	-	-
Total liabilities classified as held for sale	**11.0**	**-**	**-**

36. Discontinued operations

In August 2009 the Government of Estonia approved the plan to buy 100% of the shares of Elering OÜ from the Group. The transaction was completed on 27 January 2010. Until its disposal, Elering OÜ represented the electricity transmission segment of the Group and is presented as a discontinued operation in these financial statements.

Analysis of the results of discontinued operations

in million EUR	1 January	
	27 January 2010	31 December 2009
Revenue	10.0	74.9
Expenses	(4.0)	(55.8)
Profit before tax from discontinued operations	6.0	19.1
Corporate income tax expense (Note 32)	-	(8.2)
Gain on sale	21.4	-
Profit from discontinued operations	**27.4**	**11.0**

Assets and liabilities of discontinued operations

in million EUR	27 January	31 December
	2010	2009
Cash and cash equivalents	6.6	-
Trade and other receivables	20.3	13.1
of which receivables from continuing operations (Note 23)	*15.1*	*9.5*
Property, plant and equipment and intangible assets	351.5	349.8
Total assets of discontinued operations	**378.4**	**363.0**
Borrowings	(192.4)	0.2
Trade and other payables	(21.9)	(17.5)
of which payables to continuing operations (Note 12)	*(3.3)*	*(3.8)*
Deferred income (Note 24)	(13.0)	(12.8)
Total liabilities of discontinued operations	**(227.2)**	**(30.1)**

36. Discontinued operations, continued

Assets and liabilities of discontinued operations, continued

in million EUR	27 January 2010	31 December 2009
Net assets	**151.2**	**332.8**
Sales price	172.6	
Gain on sale	21.4	
Cash inflows in transaction		
Proceeds from sale	172.6	
Cash and cash equivalents of subsidiary	(6.6)	
Total cash inflows in transaction	**166.0**	

As at 31 December 2010 the discontinued operations had an ovedraft from the parent company in the amount of EUR 187.6 million that was eliminated from the statement of financial position and was refinanced in January 2010 by loan from bank syndicate.

37. 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 basic earnings per share for all periods.

	1 January - 31 December 2010	2009
Profit attributable to the equity holders of the company (million EUR)	**144.2**	**99.9**
from continuing operations (million EUR)	*116.9*	*88.9*
discontinued operations (million EUR)	*27.4*	*11.0*
Weighted average number of shares (million)	**74**	**74**
Basic earnings per share (EUR)	**1.95**	**1.35**
from continuing operations (EUR)	*1.58*	*1.20*
discontinued operations (EUR)	*0.37*	*0.15*
Diluted earnings per share (EUR)	**1.95**	**1.35**
from continuing operations (EUR)	*1.58*	*1.20*
discontinued operations (EUR)	*0.37*	*0.15*

38. 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 significant influence. Related parties also include entities under the control or significant influence of the state.

Continuing operations

in million EUR	1 January - 31 December 2010	2009
Transactions with associates		
Purchase of goods and services	25.4	20.3
Proceeds from sale of goods and services	3.3	3.8
Transactions with companies over which the members of Management and Supervisory Boards have significant influence		
Purchases of goods and services	4.5	4.0

In 2010 a sales contract was entered into for the sale of 100% of the shares of Elering OÜ (Note 36). In 2009 the Group didn't conclude any individually-significant transactions with the state-related

The remuneration paid to the members of the Management and Supervisory Boards is disclosed in Note 29. Receivables from associates are disclosed in Note 12 and payables to associates in Note 23. No impairment loss from receivables was recognised in the reporting period or in the comparable 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 electricity, the prices set by the Estonian Competition Authority are used. All other transactions are concluded using agreed prices.

39. Events after the reporting period

a. Replacement of the functional currency

Estonia joined the euro zone from 1 January 2011 and Estonian kroon (EEK) was replaced with Euro (EUR). Due to that the Group has converted its accounting into euros and 2011 and following financial reports will be created in euros.

b. Business combinations

On 17 January 2011 the Group acquired 75% of the shares of Latvian company SIA "Valkas Bioenergo Kompanija" (new name SIA Enefit Power&Heat Valka) for the purchase price of EUR 0.8 million and increased the share capital, after which the Group ownes 90% of the enterprise.The acquired company generates thermal energy in two boiler plants that operate on biofuel and fuel oil and has developed a new biofuel-fired co-generatio plant. The new co-generation plant will be completed in 2012.

c. Other transactions

On 14 February 2011 the transaction of exchange of mining rights was completed with Osaühing VKG Kaevandused.

On 8 March 2011 the transaction of the sale of the shareholding in AS Kohtla-Järve Soojus was completed (Note 35). The sales agreement was signed on 22 December 2010.

On 14 January 2011 the Group signed a contract for acquiring 100% of the shares of the Oil Shale Exploration Company in the USA for the purchase price of USD 42 million. The transaction was completed on 30 March 2011. The management estimates that the transaction was not a business combination as only the assets were acquired not constituting a business.

40. 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

in million EUR	1 January - 31 December	
	2010	2009
Revenue	406.5	368.4
Other operating income	47.6	9.7
Raw materials and consumables used	(381.9)	(296.4)
Other operating expenses	(16.7)	(14.2)
Payroll expenses	(19.5)	(16.2)
Depreciation, amortisation and impairment	(3.7)	(13.7)
Other expenses	(5.9)	(12.5)
OPERATING PROFIT	**26.5**	**25.1**
Financial income	141.7	119.0
Financial expenses	(16.9)	(17.8)
Total financial income and expenses	**124.7**	**101.2**
PROFIT BEFORE TAX	**151.2**	**126.3**
NET PROFIT FOR THE FINANCIAL YEAR	**151.2**	**126.3**

STATEMENT OF COMPREHENSIVE INCOME

in million EUR	1 January - 31 December	
	2010	2009
PROFIT FOR THE YEAR	**151.2**	**126.3**
Other comprehensive income		
Revaluation of risk hedge instruments	(30.0)	(5.8)
Other comprehensive income for the year	**(30.0)**	**(5.8)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**121.2**	**120.5**

40. Financial information on the parent company, continued

STATEMENT OF FINANCIAL POSITION

in million EUR	31 December		1 January
	2010	2009	2009
ASSETS			
Non-current assets			
Property, plant and equipment	80.7	66.4	30.4
Intangible assets	12.0	6.1	1.0
Investments in subsidiaries	501.3	635.3	635.3
Investments in associates	8.8	8.8	8.8
Derivative financial instruments	0.3	0.2	0.4
Receivables from subsidiaries	158.9	160.5	312.4
Total non-current assets	**761.9**	**877.3**	**988.2**
Current assets			
Inventories	0.1	0.1	0.1
Trade and other receivables	494.0	541.1	294.5
Derivative financial instruments	0.4	1.8	8.3
Available-for-sale financial assets	10.0	-	-
Financial assets at fair value through profit or loss	3.2	0.4	1.0
Deposits at banks with maturities of more than 3 months	181.4	5.1	25.1
Cash and cash equivalents	46.4	27.7	76.4
Total current assets	**735.5**	**576.2**	**405.3**
Total assets	**1 497.5**	**1 453.6**	**1 393.6**

in million EUR	31 December		1 January
	2010	2009	2009
EQUITY			
Share capital	471.6	471.6	471.8
Share premium	259.8	259.8	259.8
Statutory reserve capital	47.2	47.2	47.2
Hedge reserve	(28.2)	1.9	7.6
Retained earnings	256.7	214.6	175.3
Total equity	**1 007.2**	**995.2**	**961.7**
LIABILITIES			
Non-current liabilities			
Borrowings	331.9	357.9	322.1
Other payables	0.1	0.1	0.2
Derivative financial instruments	1.2	-	-
Deferred income	0.3	0.4	0.1
Provisions	0.4	0.6	0.3
Total non-current liabilities	**333.9**	**359.0**	**322.8**
Current liabilities			
Borrowings	26.8	3.5	8.6
Trade and other payables	100.0	95.8	100.4
Derivative financial instruments	29.1	0.1	-
Provisions	0.4	0.1	0.1
Total current liabilities	**156.4**	**99.5**	**109.1**
Total liabilities	**490.2**	**458.4**	**431.9**
Total liabilities and equity	**1 497.5**	**1 453.6**	**1 393.6**

40. Financial information on the parent company, continued

CASH FLOW STATEMENT

in million EUR	1 January - 31 December	
	2010	2009
Cash flows from operating activities		
Profit before tax	151.2	126.3
Adjustments		
Depreciation of property, plant and equipment	3.2	12.2
Amortisation of intangible assets	0.5	0.3
Profit/loss from sale of property, plant and equipment	(0.2)	(0.6)
Profit from sale of a subsidiary	(38.3)	-
Other gains/losses on investments	(107.4)	(86.9)
Gain from other nonmonetary transactions	-	(0.8)
Gain/loss on unpaid/unsettled derivatives	1.5	0.9
Interest expense on borrowings	16.7	17.8
Interest income	(32.4)	(31.9)
Adjusted net profit	**(5.2)**	**37.3**
Net change in current assets relating to operating activities		
Loss from doubtful receivables	0.5	1.3
Change in receivables relating to operating activities	(22.5)	(3.7)
Net change in current assets relating to other operating activities	(90.4)	28.9
Total net change in current assets relating to operating activities	**(112.4)**	**26.5**
Net change in liabilities relating to operating activities		
Change in provisions	0.1	0.3
Change in trade payables	1.9	2.3
Net change in liabilities related to other operating activities	8.2	3.8
Total net change in liabilities relating to operating activities	**10.3**	**6.5**
Interest paid and borrowing costs	**(16.0)**	**(17.2)**
Interest received	**29.8**	**31.9**
Net cash flows from operating activities	**(93.5)**	**84.9**

in million EUR	1 January - 31 December	
	2010	2009
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(24.6)	(34.7)
Proceeds from sale of property, plant and equipment	0.8	6.3
Finance lease principal payments collected	-	0.6
Dividends received from subsidiaries	109.2	86.9
Net change in term deposits with maturities of more than 3 months	(176.3)	20.0
Purchase of short-term financial investments	(37.4)	(20.3)
Acquisition of subsidiaries	(3.4)	-
Proceeds from sale and redemption of short-term financial investments	24.6	21.0
Proceeds from sale of a subsidiary	172.6	-
Proceeds from liquidation of subsidiary	1.5	-
Cash outflows on partial sale of business unit	-	(0.1)
Loans granted to subsidiaries	(3.8)	(1.5)
Loans paid by subsidiaries	0.6	0.7
Change in overdraft granted to subsidiaries	166.9	(139.2)
Net cash used in investing activities	**230.6**	**(60.3)**
Cash flows from financing activities		
Bank loans received	-	40.0
Repayments of bank loans	(3.5)	(9.0)
Change in overdraft	-	(0.9)
Change in overnight deposit received from subsidiaries	(5.7)	(16.5)
Dividends paid	(109.2)	(86.9)
Total cash generated from financing activities	**(118.4)**	**(73.3)**
Net cash flows	**18.7**	**(48.7)**
Cash and cash equivalents at the beginning of the period	27.7	76.4
Cash and cash equivalents at the end of the period	46.4	27.7
Net increase/decrease in cash and cash equivalents	**18.7**	**(48.7)**

40. Financial information on the parent company, continued

STATEMENT OF CHANGES IN EQUITY

in million EUR	Share capital	Share premium	Statutory reserve capital	Hedge reserve	Retained earnings	Total
Equity as at 31 December 2008	**471.8**	**259.8**	**47.2**	**7.6**	**175.3**	**961.7**
Carrying amount of holdings under controlling and significant influence					(635.3)	(635.3)
Carrying amount of holdings under controlling and significant influence using equity method				12.2	772.2	784.4
Adjusted unconsolidated equity as at 31 December 2008 (Note 19)				**19.9**	**312.2**	**1 110.8**
Comprehensive income						
Comprehensive income for the year	-	-	-	(5.8)	126.3	120.5
Transactions with owner						
Reduction of the share capital in accordance with order no. 502 of the Government of the Republic of 11th December 2008 (Note 19)	(0.2)	-	-	-	-	(0.1)
Dividends paid	-	-	-	-	(86.9)	(86.9)
Total transactions with owner	-	-	-	-	(86.9)	(86.9)
Equity as at 31 December 2009	**471.6**	**259.8**	**47.2**	**1.9**	**214.6**	**995.2**
Carrying amount of holdings under controlling and significant influence					(635.3)	(635.3)
Carrying amount of holdings under controlling and significant influence using equity method				(5.0)	745.8	740.8
Adjusted unconsolidated equity as at 31 December 2009 (Note 19)				**(3.1)**	**325.2**	**1 100.7**

40. Financial information on the parent company, continued

STATEMENT OF CHANGES IN EQUITY

in million EUR	Share capital	Share premium	Statutory reserve capital	Hedge reserve	Retained earnings	Total
Equity as at 31 December 2009	**471.6**	**259.8**	**47.2**	**1.9**	**214.6**	**995.2**
Carrying amount of holdings under controlling and significant influence					(635.3)	(635.3)
Carrying amount of holdings under controlling and significant influence using equity method				(5.0)	745.8	740.8
Adjusted unconsolidated equity as at 31 December 2009 (Note 19)				**(3.1)**	**325.2**	**1 100.7**
Comprehensive income						
Comprehensive income for the year	-	-	-	(30.0)	151.2	121.2
Transactions with owner						
Dividends paid	-	-	-	-	(109.2)	(109.2)
Total transactions with owner	-	-	-	-	(109.2)	(109.2)
Equity as at 31 December 2010	**471.6**	**259.8**	**47.2**	**(28.2)**	**256.7**	**1 007.2**
Carrying amount of holdings under controlling and significant influence					(501.3)	(501.3)
Carrying amount of holdings under controlling and significant influence using equity method				(6.4)	604.8	598.4
Adjusted unconsolidated equity as at 31 December 2010 (Note 19)				**(34.6)**	**360.3**	**1 104.3**

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 2010 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 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 true 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 true 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 give a true and fair view of the financial position of Eesti Energia AS and its subsidiaries as of 31 December 2010, and of 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

Laile Kaasik
Auditor's Certificate No.511

18 April 2011

* *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 2010 was 360 254 343.09 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. Under Order No. 117 of the Government of Estonia of 9 March 2011, Eesti Energia AS shall pay 56 050 516 EUR as dividends in 2011.

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 2010 as follows:

1. to pay 56 050 516 EUR as dividends to shareholder;
2. not to distribute the remaining retained earnings of 304 203 827.09 EUR, due to the continuing financing needs of the Eesti Energia Group.

Signatures of the Management Board to the Annual Report

The Annual Report of the Eesti Energia Group for the financial year ended on 31 December 2010 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

18 April 2011

Chairman of the Management Board

Sandor Liive

Members of the Management Board

Margus Kaasik

Harri Mikk

Raine Pajo

Margus Rink

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