



Eesti Energia

Annual Report 2009/10

Creating New Energy!

Owner, Partners and Customers

During the past financial year, dynamic decision making and prompt action were required to navigate the economic crisis, and the outcome of our efforts is reflected in our remarkable financial results.

For the financial year 2009/10 the total revenue and other income of Eesti Energia was 701 million euros and operating profit was 131 million euros. For the first time we added positive economic value (EVA), the total of 24 million euros, and the dividend payment of 87 million euros was the highest ever paid to the Estonian government.

At the same time we invested more than in any of the last seven financial years. We invested a total of 199 million euros in upgraded power networks, new electricity generation capacity and a new oil production facility. We also continued to expand our operations in foreign markets by increasing our market share in Latvia to 6% and by entering the Lithuanian market.

Although electricity consumption fell in Estonia and demand was lower for our other products and services, we increased our profitability by

almost 70% even during the recession. The significant growth in profitability came from successful energy trading in foreign markets, sales of shale oil and cost cutting.

Around 55% of Eesti Energia's operating profit was earned from markets open to competition, even though the revenues from these markets accounted for only about 34% of total revenues. Our successful operations in these open markets were the primary driver for the positive EVA achieved in the last financial year.

In early 2010 we sold the transmission system operator Elering to the Republic of Estonia. The sale of Elering was the fairest way to conform to European Union requirements that TSOs be independent from generation and sales activity – in return for giving away assets we received 319 million euros, which allows us to invest in cleaner and more diversified energy production.



For a fourth consecutive year we have achieved good trading results in the best European power exchange Nord Pool. We can finally use our experience of the open market in Estonia too, as Nord Pool expanded to Estonia on 1 April 2010. The Estonian electricity market is currently 35% open and is expected to be fully open by 1 January 2013.

To make our operations in the open market more successful we have renewed the Eesti Energia brand and will adopt next generation IT-systems that will allow our clients to monitor and plan their electricity consumption in different ways. Surveys by TNS Emor have continuously put Eesti Energia's customer service quality in the top three in Estonia.

However, although we have been very successful in Estonia, Eesti Energia's strategy for the coming years is to look beyond the borders of Estonia and consider the framework of global energy politics. For the first time since the 1970s, there is international concern about the availability of affordable and stable energy. National energy security and security of the energy supply through a diversified generation portfolio has become a key priority for a number of countries.

In the last few years fuel prices have oscillated wildly between extremes, while oil and

gas reserves have shrunk in certain regions, impacting foreign policy decisions. Energy has become a key focus point.

While growing energy consumers such as China and India are strengthening their positions in Africa and the Middle East, policy-making in Europe is certain to be affected by energy cooperation with Russia, though other alternatives are being investigated. International cap and trade rules are leading governments and energy companies to invest in cleaner technologies, while restrictions on other pollutants associated with the energy sector will also become more stringent in the near future.

In the Baltic region, electricity generation has been significantly impacted by the shutdown of the Ignalina nuclear power plant at the end of 2009 and the economic and political decisions surrounding it. In spring 2010, Russian and Belarusian energy producers have been playing a more active role in the Baltic States, especially in Lithuania.

All of these global and local trends as well as factors that are new to markets and consumers demand more attention from the state and business. To continue its successful operations Eesti Energia needs to be able to predict the future for energy much more reliably.



Margus Kaasik
Member of the Management Board, CFO

Despite the recession we increased our profitability by some 70% by seizing opportunities and cutting costs sharply. Our excellent economic results give us a firm foundation on which to build our ambitious investment programme.

Eesti Energia has aimed and will continue to aim to be able to operate in open market conditions, to diversify our generation portfolio and to maximise the value of our existing resources. We are working with a number of technologies including our unique Enefit technology for shale oil production. We are developing renewable energy and investing in cleaner energy production and greater efficiency for our current generation equipment.

Meeting the challenges ahead requires additional capital. Eesti Energia's investment programme for the next ten years foresees around 4.5 billion euros to guarantee competitive energy production that meets environmental requirements. To illustrate the scale of the investments we can make a comparison with the nationally important KUMU Art Museum of Estonia. Building an art museum is always a very important project in any country, and KUMU was a very large project for Estonia, but the investment needs of Eesti Energia could fund the building of about 100 KUMU museums.

One of our biggest investment projects is the construction of a new 600-MW oil shale fired power plant in north-east Estonia. The project received support from the Estonian Parliament, the Riigikogu, in early 2010 and the procurement for construction is currently in process.

After the opening of two new CFBs in 2005 it is the most important investment in a cleaner environment and a secure energy supply in Estonia.

Not waiting for the final outcome of the debates about global warming, Eesti Energia has already been reducing the environmental impact of our power generation. Although the debate continues over human responsibility for recent global warming, it is clear that burning fossil fuels has a direct impact on the surrounding environment and on the quality of life in Estonia and in the Baltic Sea area as a whole.

At the Baltic Seas Action Summit in spring 2010 we announced our plan to help create a cleaner environment by reducing sulphur dioxide emissions by 50%, using more renewable resources and making better use of oil shale ash. We have already taken specific steps to reduce SO₂ emissions by installing desulphurisation equipment on four oil shale fired power generation units.

In addition to lowering the environmental impact of our oil shale energy, we are advancing new and cleaner ways of generating electricity. Our Aulepa wind park is the largest in the Baltic States and is capable of generating around 100 GWh of electricity per year, enough to supply fully about 35 000 Estonian



Margus Rink
Member of the Management Board,
Head of the Retail Business division

Our future success will come from intensive product development and strong sales of other energy related services. We have launched an electrical work service, energy audits and energy labels, and our new services earned more than half a million euros.

families. Thanks to the electricity generated at Aulepa wind park, we have cut annual Estonian carbon dioxide emissions by about 120 000 tonnes. To put this figure in perspective, a small car emits about three tonnes of carbon dioxide for every 20 000 km driven. The saving is the equivalent of removing 40 000 cars, or 7% of the number currently driving on Estonian roads.

Our new circulating fluidised bed energy units can burn a fuel mix of which up to 10% is biofuel along with the oil shale, giving the two energy units an average annual renewable energy output of 260-280 GWh, equivalent to around four per cent of Estonia's annual electricity consumption. The renewable energy generated from biofuel in our power plants can supply the annual electricity needs of up to 100 000 Estonian families.

We are also aiming to produce energy from waste, which has so far been under-used in Estonia. In March, Eesti Energia signed an agreement to build a waste-to-energy unit in Iru on the outskirts of Tallinn, which will burn up to 220 000 tonnes of municipal waste that would otherwise be sent to landfills. The heating value of ordinary municipal waste is similar to that of oil shale, which means that over 300 000 tonnes of waste suitable for energy

use has until now been sent to Estonian landfills each year.

The Estonian population has started to take an interest in low environmental impact energy. Our Green Energy product, which provides its subscribers with electricity generated exclusively from renewable sources, has attracted more than 2200 customers within one year.

In partnership with the international technology firm Outotec, we are developing the Enefit oil production technology for Estonian oil shale and for deposits of oil shale around the world. In the past financial year we started building a new shale oil plant in Estonia. Producing liquid fuels from oil shale is the best way to make full use of the energy contained in oil shale, and in addition to economic benefits it also contributes to cleaner generation.

Our achievements are based on strong human capital. With more than 7000 employees, Eesti Energia is Estonia's largest employer. During the past financial year we have continued to implement the principles of performance management through different development programmes aimed at various groups of managers and employees, the goal of which is to increase the company's efficiency and transparency and to embed best management



Raine Pajo
Member of the Management Board,
Head of the Electricity and Heat Generation division

We started the installation of desulphurisation equipment on four old energy units at the Narva power plants, which makes oil shale electricity much cleaner by halving the environmental emissions of sulphur. But the sustainability of oil shale electricity will be best supported by a new 600 MW power plant, and we have started planning for this.

practice. Discussions with trade unions allow us to work together to make the company more efficient.

We have always provided support for the new generation of scientists and engineers in Estonia, and this year was no exception as we continued our partnership projects with universities. As well as supporting curricula related to the energy industry and awarding scholarships, we also ran a series of lectures by our own executives and managers at different Estonian universities and vocational schools.

As a large company, our activities have an impact on the Estonian environment and quality of life, and on the development of entire regions. Significant impact goes hand in hand with major responsibility, and as a result we have become heavily involved in charitable projects to re-invest in the Estonian community.

We favour sponsorship of long-term projects connected to energy and the environment, and also projects that help to strengthen society, for example by improving the health of the Estonian people. Together with Swedbank and Merko we have built recreational trails covering the whole country and provided lighting along their full length, and we have helped promote sporting events held on these trails. Eesti Energia is also sponsoring a series of Nordic Walking and jogging events in the summer, inviting all Estonians to be healthier by being active.

This is what Eesti Energia is today. Join us in creating new energy.



Harri Mikk
Member of the Management Board,
Head of the Minerals, Oil and Biofuels division

Oil shale is Estonia's great wealth. Producing liquid fuel from it is the best way to use all the energy that is contained in the mineral. In the past financial year we started building the first new-generation oil plant in Estonia.



IN BRIEF

Eesti Energia is an international energy company. We have operations in the Baltic States and Finland. Our unique know-how, skills and technology for oil shale processing are valued all over 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 are exporting our long experience under the Enefit brand. We are selling energy to Latvian, Lithuanian and Finnish customers and we can offer the world a unique, environmentally sound and efficient integrated technology for oil shale processing.

FAST FACTS

- established in 1939, Eesti Energia uses the Enefit brand in international markets
- total revenue and other income of 701 million euros in FY 2009/10, assets 1.8 billion euros, operating profit of 131 million euros, investments 199 million euros
- around half a million customers
- the largest employer in Estonia, over 7000 employees
- the most valuable company in Estonia (Gild Bankers, 2009)
- the most prestigious state-owned business entity in Estonia, the most preferred employer (TNS Emor, 2009)
- the third best customer service company in Estonia (TNS Emor, 2009)

MAIN PRODUCTS AND SERVICES

- we sell electricity, network services, heat and shale oil
- we offer energy related services – we do electrical work, carry out energy audits and thermal performance reviews, we issue energy labels and provide Kõu internet
- 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 2009/10 Financial Year in Brief

STRONG FINANCIAL RESULTS

- we increased operating profit by 69% during the recession
- we earned 55% of our operating profit from the open market, mostly from successful energy trading and the sale of liquid fuels
- we cut fixed costs by 19 million euros to retain our long-term competitiveness
- we launched new energy saving services
- we increased significantly the generation of renewable energy by opening Aulepa wind park and burning biofuels in Narva power plants
- we sold the transmission system operator Elering to the Republic of Estonia

KEY EVENTS

- we started building the next generation shale oil production plant, which will be commissioned in 2012
- we started the installation of desulphurisation equipment on four energy units in the Eesti power plant, which will be completed by 2012
- we signed an agreement to build the first Baltic waste-to-energy power unit, which will be commissioned in 2012
- we started the procurement for a new power plant with two oil shale fired CFB power units

MOST SIGNIFICANT INVESTMENTS

- upgrading the distribution network – 63 million euros
- installing desulphurisation equipment – 26 million euros
- building a new oil plant – 23 million euros
- upgrading the technology for oil shale mining – 19 million euros
- building the Aulepa wind park – 12 million euros

Key Figures for the Group*

		2009/10	2008/09	2007/08	2006/07	2005/06
Total electricity sales, of which	GWh	9 760	10 025	10 121	7 991	8 215
electricity sales in Estonia	GWh	7 357	7 667	7 510	6 864	6 473
electricity sales in Latvia, Lithuania, Finland	GWh	2 403	2 358	2 611	1 127	1 742
Sales of heat	GWh	1 412	1 690	1 739	1 822	1 981
Sales of oil shale	thous. tonnes	1 689	1 730	1 796	1 737	1 789
Sales of shale oil	thous. tonnes	171	139	128	109	117
Distribution network losses	%	7.4	6.7	7.8	8.3	9.8
Revenue	MEUR	678	665	581	491	467
EBITDA	MEUR	238	173	129	250	241
Net profit	MEUR	115	69	23	155	141
Cash flow from operating activity	MEUR	217	122	111	224	199
Investments	MEUR	199	189	159	102	110
Assets at the end of the year	MEUR	1 834	1 802	1 694	1 645	1 489
Borrowings at the end of the year	MEUR	363	329	337	342	345
Equity at the end of the year	MEUR	1 190	1 160	1 055	1 109	977
Equity / assets at the end of the year	%	65	64	62	67	66
ROIC**	%	11.8	7.6	4.2	18.3	18.0
Borrowings / EBITDA		1.5	1.9	2.6	1.4	1.4
Interest coverage ratio***		13.4	9.4	7.0	13.3	8.1
Average number of employees		7 613	8 221	8 290	8 438	8 842

* data for continuing operations

** ROIC = EBIT / average invested capital during financial year
 Invested capital = equity + borrowings + provisions + derivative financial instruments (current and non-current liabilities) - financial investments - derivative financial 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)



STRATEGY

Eesti Energia is an international energy company with an integrated value chain.

We operate in the Estonian, Latvian, Lithuanian and Finnish electricity markets. Our knowledge, skills and technology in processing oil shale are held in high regard around the world. We seek, retain and reward specialists and managers who embody our values: teamwork, expertise, an enterprising spirit, and responsibility.

We develop energy solutions, from the production of electricity and liquid fuels to energy-related services of many kinds. Our integrated

vision of energy production and our understanding of our customers' energy-related needs give our customers a sense of security in a volatile energy market. Our business activities each have a different risk profile, and we use unified management to grow faster and create more value for our shareholder.

In Estonia we are known as Eesti Energia, but internationally we operate under the Enefit brand.

Retail Business

Eesti Energia's success in the retail business is based on active product development in supplying electricity and energy-related services to residential and corporate customers. Our retail strategy can be summarised as More Products; More Customers; More Business.

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 market area.

We supply more than 80% of the deregulated Estonian electricity market, and our strategy is to focus on increasing customer loyalty.

We are increasing our number of customers in the Latvian and Lithuanian markets through

an aggressive growth strategy. Our target is to achieve a stable 10% share of the Latvian and Lithuanian markets. Our advantages over our competitors are a more stable production portfolio, flexible product offers and energetic sales work.

In improving our network service, our main focus is to use economical methods to reduce

the number and duration of power outages for customers. We are implementing new-generation systems for managing the power grid, measuring electrical energy 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.

We consider it very important to continue to improve the quality and efficiency of our customer service. Alongside customer service offices and the call centre, we are developing our e-business environment and implementing a new customer information system. Our personal customer account managers and network account managers are working hard to provide an even better service to corporate customers.

Electricity and Heat Generation

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

In order to ensure our clients have a sufficient supply of electricity, we are looking for opportunities to invest in new power generation capacity in Estonia, Latvia, Lithuania, Finland and Scandinavia, thus reducing the CO₂ emissions from power generation and diversifying our electricity generation portfolio. We want our power generation capacity to cover at the least Estonia's electricity consumption, as this will help us to ensure energy security in Estonia.

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 a conservative risk management policy. We follow exemplary management principles in our power plants.

We are the largest producer of electricity from renewable resources in Estonia. By 2015 we plan to reduce the CO₂ emissions from our electricity generation portfolio to 0.8 t/MWh, down from 1.1 t/MWh in 2007. Investment decisions are made on a case-by-case basis, dependent on the legislative environment and electricity market conditions.

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 2011, 2012 and 2016.

At Iru, we plan to start building a combined heat and power plant that runs on waste, while at Narva, we will build a new oil-shale-fired CFB power plant.

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

Minerals, Oil and Biofuels

Eesti Energia's success in its Minerals, Oil and Biofuels division is based on the effective 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, our priorities are to increase our efficiency, and to plan and manage the entire supply chain right up to the customer's door. We plan the use of natural resources to the maximum sustainable level 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 that we have sufficient oil shale resources for our electricity generation and liquid fuels production in Estonia. To do this, we require mining rights and capacity to mine 17 million tonnes of saleable oil shale per year.

We will build new Enefit units. By 2016 we aim to produce liquid fuels that are suitable for refining and could be sold at a parity or a slight premium to Brent Crude, and to 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 leading technology for producing liquid fuels from oil shale, allowing efficient commercial processing of all mined oil shale, including fine particles.

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

We aim to increase sales of energy equipment design, manufacturing, installation and maintenance to three billion kroons a year and by 2015 to start up at least one Enefit technology based oil production plant outside Estonia.

We aim to open an oil-shale-based liquid fuels and power generation complex in Jordan.



CORPORATE GOVERNANCE REPORT

The 2008/09 financial year saw a material change in the management of Eesti Energia as we moved to a structure based on business divisions. In the 2009/10 financial year, we gradually rolled out the use of uniform, transparent and readily measurable principles as reflected in the agreement on the management and control environment.

It is very important for us to follow good corporate governance principles, both to enhance the quality of our management and 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. We also comply with the obligations in Article 88 (1) 10 of the State Assets Act.

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 2009/10 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.

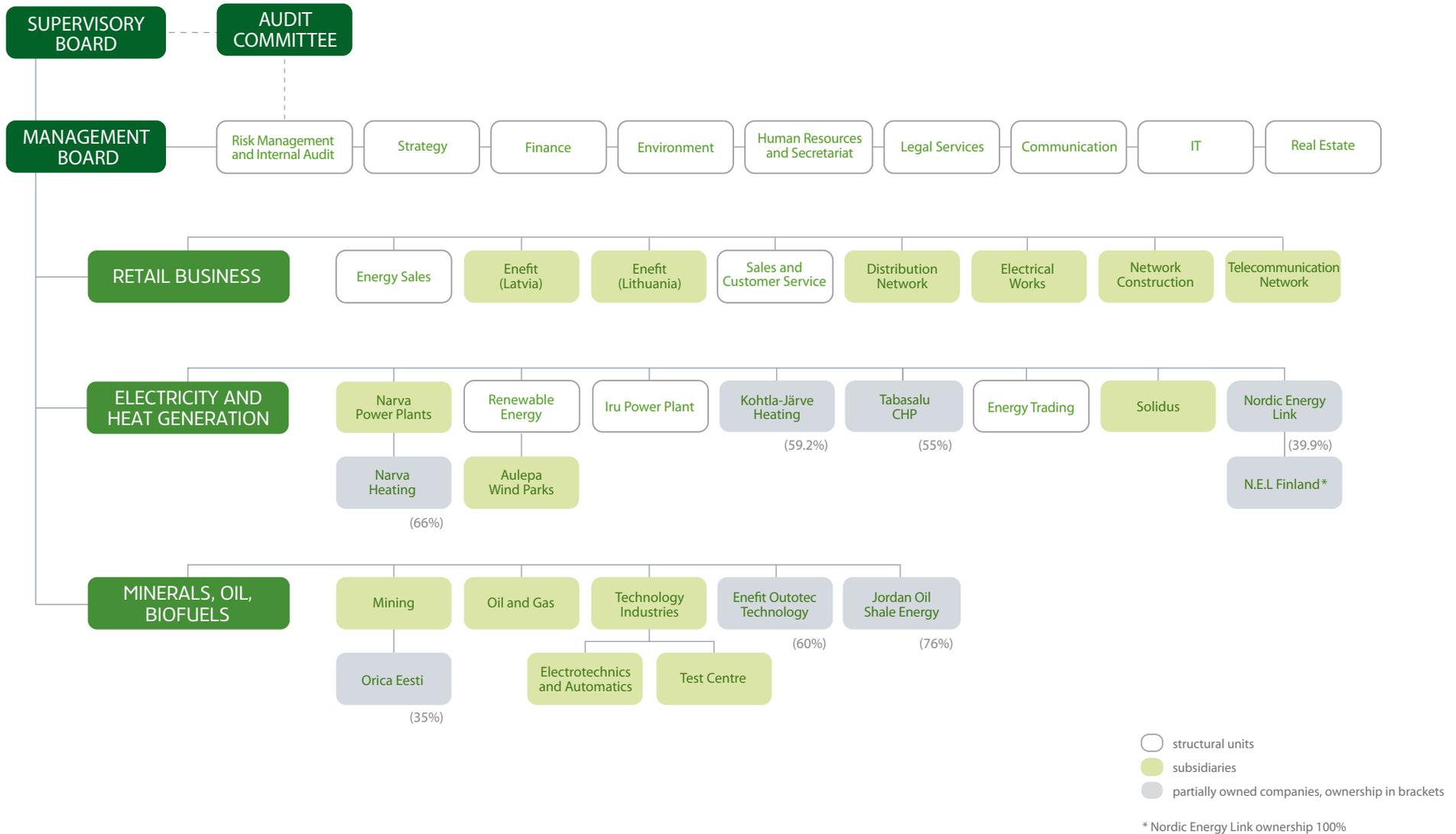


Heikko Mäe
Risk Management and
Internal Audit Service Director

Our first ever corporate governance report presents the Group's uniform business principles and demonstrates our adherence to the best standards of corporate governance. We believe that transparency is vital for us to achieve our goals.

Structure

as at 31 March 2010



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 2009/10 financial year:

- OÜ Iru Elektriijaam was reorganised as an Eesti Energia AS structural unit (6 April 2009)

- AS Põlevkivi Raudtee was merged with Eesti Energia Kaevandused AS (14 July 2009)
- Enefit Outotec Technology OÜ was founded (29 July 2009)
- Eesti Energia Tabasalu Koostootmisjaam OÜ was founded (18 September 2009)
- OÜ Elering (formerly OÜ Põhivõrk) was sold to the Republic of Estonia (27 January 2010)

Capital Structure

As at 31 March 2010, the nominal value of Eesti Energia's equity with minor interest was 1.2 million euros and comprised of 73 796 524 ordinary shares. External capital consisted of bank loans and Eurobonds with a total nominal value of 373.6 million euros.

External capital as at 31 March 2010	Nominal value (million euros)
Bank loans	73.6, of which NIB 59.6 EIB 12.3 Nordea 1.7
Eurobonds	300.0
Total	373.6

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.

Three General Meetings took place in the 2009/10 financial year, in which the sole shareholder decided:

- to approve Eesti Energia's annual report and distribution of profit for the 2008/09 financial year, and to acquire a stake in a company to be founded jointly with SIA BioEnInvest, OÜ Strantum and Outotec GmbH (25 July 2009);
- to approve amendments to the Eesti Energia articles of association (27 August 2009);
- to sell OÜ Elering to the Republic of Estonia and to pay an additional dividend (25 November 2009).

articles of association and the State Assets Act. 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 supervise the work of the Management Board of the Group and to approve major strategic and tactical decisions. 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.

Three Supervisory Board members were replaced during the 2009/10 financial year. Meelis Virkebau, Rene Tammist and Jürgen Ligi were recalled

SUPERVISORY BOARD

The rights and responsibilities of the Eesti Energia Supervisory Board are set forth in the

THE SUPERVISORY BOARD ON 31 MARCH 2010:



JÜRI KÕO (44)
Chairman

Date appointed 30 May 2007
Expiration of term 29 May 2010



MEELIS ATONEN (43)
Member

16 May 2005
19 May 2011



REIN KILK (57)
Member

30 May 2007
29 May 2010



REIN KUUSMIK (61)
Member

25 November 2009
24 November 2012



TOOMAS LUMAN (50)
Member

17 March 1998
5 July 2012



KALLE PALLING (25)
Member

26 November 2009
25 November 2012



JANEK PARKMAN (40)
Member

26 November 2009
25 November 2012



AIVAR REIVIK (53)
Member

30 May 2007
29 May 2010

and were replaced by Rein Kuusmik, who was appointed with effect from 25 November 2009, and Janek Parkman and Kalle Palling, who were appointed with effect from 26 November 2009.

Supervisory Board meetings generally take place once a month. In the 2009/10 financial year the Supervisory Board held 10 meetings, during which they approved the strategically important decisions:

- to establish a new oil shale plant using the Enefit-280 technology in Narva (21 May 2009)
- to prepare for establishing new power generation units in Narva (21 May 2009)
- to establish a new waste-to-energy CHP unit in Iru (27 January 2010)

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

PARTICIPATION OF SUPERVISORY BOARD MEMBERS IN MEETINGS:

Name	Number of times mandated to attend meetings	Participation in meetings	Participation %
Jüri Kõo	10	10	100
Meelis Atonen	10	9	90
Rein Kilk	10	9	90
Aivar Reivik	10	9	90
Toomas Luman	10	4	40
Kalle Palling	5	5	100
Janek Parkman	5	5	100
Rein Kuusmik	5	4	80

The powers and responsibilities of the Supervisory Boards of Eesti Energia's subsidiaries are set forth in their respective 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 Elektriijaamad 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 governing law.

AUDIT COMMITTEE

The work of the Eesti Energia Audit Committee is governed by the statute of the Audit Committee. The Audit Committee has four members. The number of members is decided by the Eesti Energia Supervisory Board, which also nominates the Chairman and committee members.

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.

THE AUDIT COMMITTEE ON 31 MARCH 2010:



JÜRI KÕO (44)
Chairman

Date appointed 12 June 2007



MEELIS ATONEN (43)
Member

17 December 2009



REIN KUUSMIK (61)
Member

17 December 2009



MEELIS VIRKEBAU (53)
Member

12 June 2007

Two committee members were replaced in the middle of the 2009/10 financial year. Jürgen Ligi and Rene Tammist were recalled from the Audit Committee and, Rein Kuusmik and Meelis Atonen became members of the Audit Committee with effect from 17 December 2009. Meelis Virkebau continued to serve as an Audit Committee member after being recalled from the Supervisory Board, and his mandate was renewed by the Supervisory Board on 17 December 2009.

Meetings of the Audit Committee take place to an agreed schedule, and at least once a quarter. In the 2009/10 financial year, six 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 Kõo	6	6	100
Meelis Virkebau	6	6	100
Rein Kuusmik	2	2	100
Meelis Atonen	2	0	0

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.

No Audit Committees have been set up in the Group's subsidiaries. Through the internal audit,

which encompasses the whole Eesti Energia Group, the Audit Committee receives the information it needs for deciding its positions with regard to the subsidiaries.

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 the fulfilment of the objectives of the Group.

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

The mandate of the Management Board members except Margus Rink who had a current mandate was approved on 1 December 2009. There were no other material changes with regard to the Management Board or the areas of responsibility of the members of the Management Board in the 2009/10 financial year.

THE MANAGEMENT BOARD ON 31 MARCH 2010:



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 20 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 (36)
Member, CFO

Date appointed
1 December 2005

Expiration of term
30 November 2014

Experience:

Mr Kaasik has over 17 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 14 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 (33)

Member, Head of the Electricity and Heat Generation division

Date appointed
1 December 2006

Expiration of term
30 November 2014

Experience:

Mr Pajo has over 13 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 (36)

Member, Head of the Minerals, Oil and Biofuels division

Date appointed
1 December 2006

Expiration of term
30 November 2014

Experience:

Mr Mikk has 16 years of experience of practising law. 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.

The work of the 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 2009/10 financial year, 51 meetings and 12 electronic ballots were held, in which the participation of the Management Board members was as follows:

Name	Participation in meetings	Participation in electronic ballots
Sandor Liive	47	4
Margus Kaasik	50	8
Margus Rink	49	10
Raine Pajo	49	11
Harri Mikk	39	9

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 other units, and representatives of corporate functions.

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 320 thousand euros in value, except for sales policy transactions and transactions in the Electricity and Heat Generation division, for which the limit is 64 thousand euros (see also section on Exception from the management structure below);
- to approve the investment projects exceeding 320 thousand euros in value and add such projects to strategic plan, including the start of 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 2009/10 financial year in the work of the division Management Groups.

EXCEPTION FROM THE MANAGEMENT STRUCTURE

Among its other obligations under the Electricity Market Act, 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.

In the annual report submitted to the European Commission, the Competition Authority confirmed that the management of the distribution network company is sufficiently distinct from 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 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 117 of the Minister of Finance of 14 June 2004.

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 the sub-committee are 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 the 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 the average four-month remuneration of the member in previous financial year. 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 RELATED 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 2009/10 financial year can be found on page 145 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.

Employees

EMPLOYMENT RELATIONS

In the 2009/10 financial year, a new Employment Contracts Act entered into force in Estonia, as a result of which the employment procedures and databases at Eesti Energia were updated. In our internal work-related rules, we cover areas not treated in detail by the law.

In the 2009/10 financial year, the number of employees fell in all divisions. The changed economic climate forced Group companies to focus on increasing their operational efficiency, and as a result they opted to outsource a range of support services. The quest for efficiency will continue in the years ahead, but our strategy also envisions an increase in the number

of employees, for example in liquid fuels production.

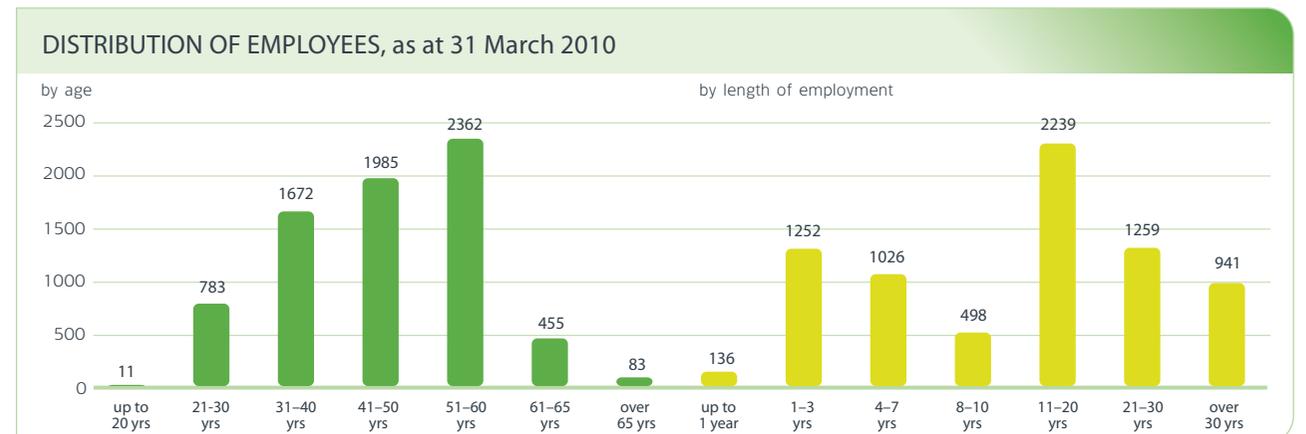
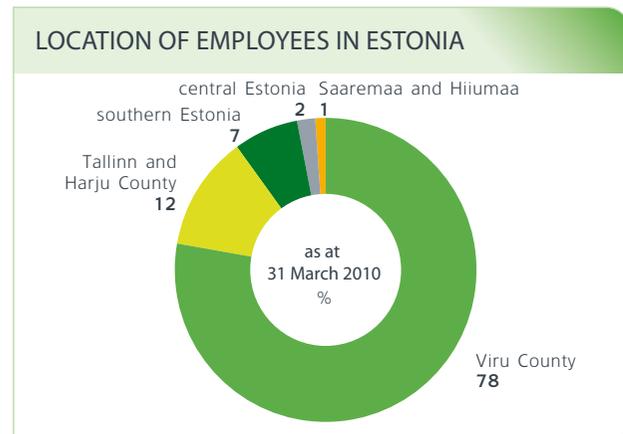
As at the end of the financial year, the Group employed 7351 people, of whom 17 were employed outside Estonia. The average age of the employees was 47.1 and the average length of service at the company is 15.6 years. Male employees made up 80%, and women, 20%.

We expect high levels of performance from our employees. To keep motivation high and wages competitive, and to ensure internal comparability and fairness, we have evaluated all of the positions in the Group using a uniform standard. We use various research methods to monitor trends in the labour and wage markets.



Riina Varts
Head of Human Resources

Our people burn brightly with the energy of good deeds. Expertise, pride and responsibility help everyone make our country brighter, safer and warmer.



A number of provisions in the collective agreements with our trade unions are more favourable than is required by the Employment Contracts Act, as we reward evening work for instance, and our remuneration for on-call time is higher than the law demands.

To manage work performance better, avoid unjustified wage rises and ensure our continuing development, we have updated the Group's remuneration system. Our goal is to move towards greater transparency, simplicity and clarity.

As part of the remuneration system, we approved the Group's principles for paying performance pay. This is part of the general performance management process, in which we agree personal objectives with employees and monitor their performance. We hold annual evaluation interviews with our employees as part of their performance management and their abilities and business results are evaluated. Performance pay is paid only for good and very good performance.

OCCUPATIONAL HEALTH AND SAFETY

Working conditions in Eesti Energia's businesses vary from unhealthy, hazardous and physically demanding locations to office work depending on the business and its nature of operations. Many of our employees are exposed to physical,

chemical, biological, physiological and psychological risks.

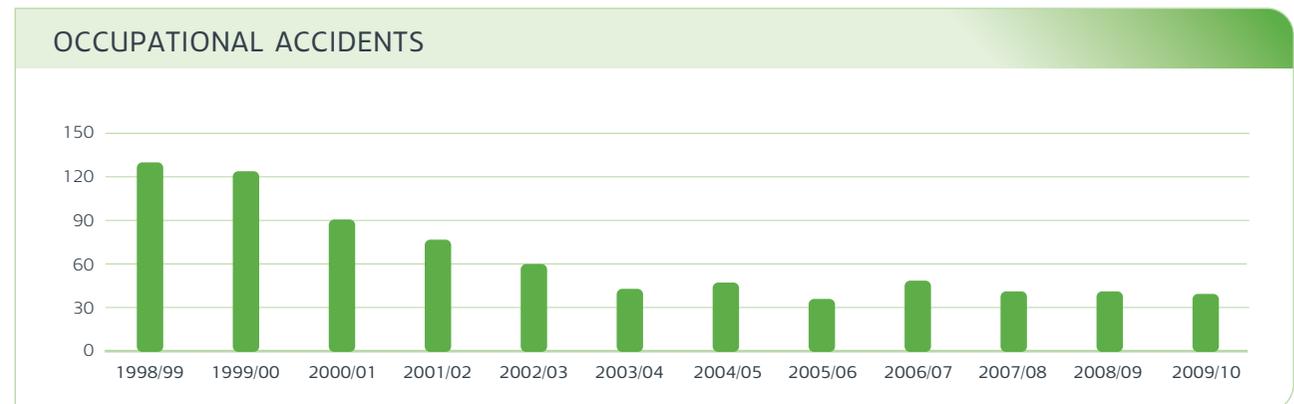
Eesti Energia's top priority is to provide its employees with as safe a working environment as possible, minimising potential exposure to occupational health and safety risks. Constant occupational health and safety training and continuing education is an integral part of our personnel policy. Our people are trained to analyse and prevent risks and find the best possible technical and economic solutions to improve their working conditions.

Our risk analyses show that the most dangerous working environments for the health and safety 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 occupational health risks in power plants result

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 distribution network installations can be dangerous as the majority of their work is outside exposing them to a range of potential risks including extreme weather, high places, various machinery, tick bites, and other similar risks. They are also subject 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 providing safer working conditions and safety equipment, and we are steadily reducing the amount of insulation containing asbestos throughout the Group.



An occupational health and safety management system that meets the OHSAS 18001 standard is used at Eesti Energia Kaevandused, Eesti Energia Jaotusvõrk, Eesti Energia Võrguehitus and Iru power plant.

There were no material changes in our work with occupational health and safety in the 2009/10 financial year. The number of occupational accidents in the past 12 financial years has declined steadily, partly because we are outsourcing certain technical services from partners.

FUTURE EMPLOYEES

In order to ensure Eesti Energia's long term competitiveness and sustainability, we are prioritising strategic forward looking personnel management and increasing the pool of future specialists in the energy sector. One of the major focuses in the 2009/10 financial year was the development and implementation of a personnel planning system that will enhance and ensure a constant supply of new employees in the future.

The most critical areas for human resources in the future at Eesti Energia are mining and liquid fuel production. Currently the future development of mining is constrained by the high average age of our personnel and shortage of new specialists studying the subject in educational

institutions. To expand liquid fuel production, our business strategy calls for a significant supply of new employees in the near future.

In the 2009/10 financial year we provided scholarships worth a total of 48 thousand euros to support 27 young people in their studies. These students are studying at all levels, from vocational and undergraduate programmes, to master's and doctoral studies. Our most important partner in the scholarships was the Development Fund of Tallinn University of Technology. During the financial year 2009/10, three Estonian students graduated from master's degree programmes in nuclear energy at the Stockholm Royal Institute of Technology. We also paid out a monthly doctoral scholarship

to ensure that enough students continue to enrol in the Tallinn University of Technology energetics department as faculty staff.

Our goals for education are to make a career in energy sector more attractive for the younger generation, to create practical opportunities for those studying energy related subjects to work with us, and to partner educational institutions in promoting study of energy subjects.

To encourage the best students in energy subjects in vocational schools and universities, we offer up to 150 traineeships in Eesti Energia companies across Estonia. We also offer young people who study energy subjects the chance



to visit our sites for academic purposes and to collaborate in joint research work.

Our executives and specialists have supported education by lecturing at vocational institutions and universities. For the second year running our personnel have been lecturing at the Tallinn University of Technology on the strategic development of the energy system as part of the course in electrical engineering.

In May as part of the Energy Week, our personnel also made presentations at various other vocational and higher educational institutions in Estonia. We are partnering the University of Tartu and the Tallinn University of Technology in setting up joint curricula for a master's degree in nuclear energy, in order to enhance the study of nuclear energy in Estonia.

In June 2009 Eesti Energia's training facilities were completed in Tallinn, creating a unique setting in Estonia where network electricians can reinforce their skills and do practical training. In October 2009 we entered into an agreement with schools, companies and local governments in Ida-Viru County to establish an Oil Shale Competence Centre in the Tallinn University of Technology's Virumaa College in Kohtla-Järve. The aim of the project is to promote the creation of internationally competitive oil shale R&D and expertise in subjects ranging from the mining and refining of oil shale to oil shale energy and chemistry as a whole.

HUMAN RIGHTS

The Republic of Estonia is a signatory to most international and regional human rights conventions and adheres to European Union requirements. Eesti Energia considers it important that our operations conform 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, native language, political beliefs or age is prohibited,
- protection of children's rights – it is absolutely prohibited 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 2009/10 financial year, there were no cases in the Group that could be classified as human rights violations.

TRADE UNIONS

Eesti Energia has a total of eight collective agreements with trade unions. In the financial year

2009/10 we took a significantly more in-depth approach to communicating with trade unions about changes taking place in the company and the Estonian energy sector. To increase the effectiveness of the partnership, we became the first Estonian employer to offer training in union-related matters to the company management.

We worked with trade unions to implement the terms of the new Employment Contracts Act, in the course of which we updated the terms and conditions of our employment contracts, work procedures, holiday terms and principles and conditions for remuneration. We also worked jointly to assess occupational risks, enforce occupational safety rules and organise related events.

The changes in the economy and our need to develop our remuneration system led us to review the benefits in contracts and problems related to maintaining jobs and incomes.

The current large number of collective agreements and the differences in their terms and conditions complicate negotiations considerably. We therefore want 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 nature of the work and the market situation.

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 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 do. 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 2009/10 financial year.

RELEASE OF INFORMATION

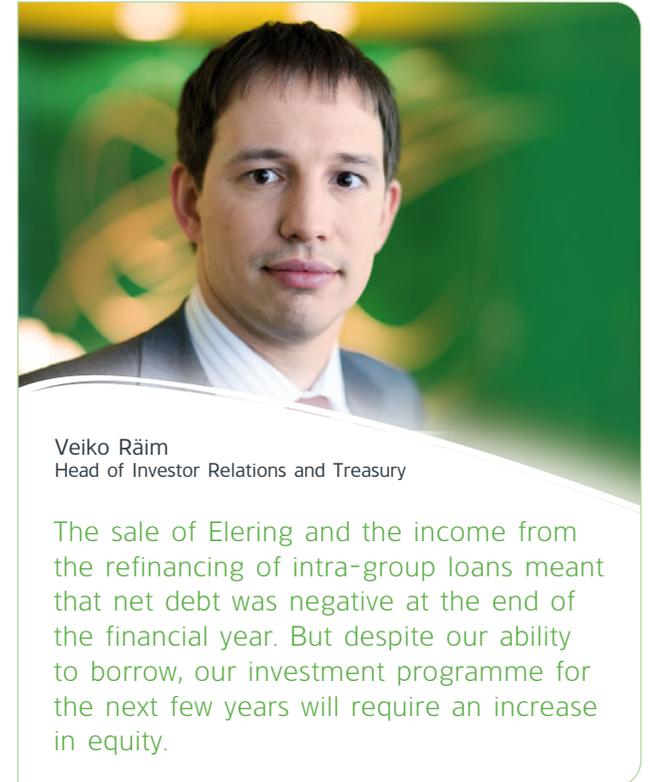
Eesti Energia releases information that is significant and of public interest to the media and Eurobond investors.

We provide information that is related to the 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 domestic media channels. In both cases, we adhere to the Group's rules for handling insider information before releasing the information.

In the 2009/10 financial year we published 21 releases through the London Stock Exchange information system, of which eight were regular notices of economic results and 13 were non-scheduled announcements.

We will release the Group's consolidated interim reports for the 2010/11 financial year as follows:

- 1st quarter – 30 July 2010
- 2nd quarter – 29 October 2010
- 3rd quarter – 31 January 2011



The audited results for the full 2010/11 financial year will be released on 31 May 2011. The results for subsidiaries will in general not be released separately.

Assurance and Audit

AUDIT

The Eesti Energia articles of association 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.

PricewaterhouseCoopers is the auditor of Eesti Energia and conducts an audit of the annual report in all Group companies.

In the 2009/10 financial year, the audit was conducted in two parts. The auditor briefed the meeting of the Supervisory Board of Eesti Energia in December 2009 on the results of the interim audit. The auditor's opinion on the annual report is on page 151 of this report.

Eesti Energia considers it important to protect the independence of the auditor and avoid any conflicts of interest, therefore 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 2009/10 financial year, PricewaterhouseCoopers did not provide Eesti Energia any

services that could have compromised the auditor's independence.

PricewaterhouseCoopers Advisors, which belongs to the same network of companies as the auditor, provided the following services to Eesti Energia in the financial year:

- analysis of the economic and legal implications of the separation of Elering OÜ
- assessment of the market value of Elering OÜ
- implementation of portfolio management for the Group's IT-projects and
- assessment of the financial reporting process.

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 governance culture. The internal audit department personnel are guaranteed full independence and complete access to all the data they need.

In the 2009/10 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 four occasions in the 2009/10 financial year. The consolidated report for the 2009 calendar year was submitted to the Eesti Energia Supervisory Board on 27 January 2010. The internal audit reports are available to the auditor as well.

In the Group it is ensured 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 2009/10 financial year.

FRAUD PREVENTION

In the 2009/10 financial year, the Management Board of Eesti Energia approved the fraud risk

management strategy. The risk manager, who is part of the risk management and internal audit service, is responsible for implementing this strategy.

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 they will guard against the misuse of insider information and the manipulation of information.

Important steps were taken in the 2009/10 financial year towards avoiding conflicts of interest and a system for reporting economic interests was set up within the Group.

To the knowledge of Eesti Energia, the members of the Group's Management Board and of the Management Boards of subsidiaries there were not any conflicts of interest in the 2009/10 financial year.

REGULATORS

Due to the nature of Eesti Energia's business, 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 2009/10 financial year, a number of amendments were made to these legal acts, which had a material change on our business and as a result of which we reorganised the work of the Group.

The following amendments were made to the Electricity Market Act during the past financial year and had an impact on Eesti Energia:

- eligible consumers were prohibited from buying electricity using the fixed price established by the Competition Authority,
- the power exchange was created and the licence for importing electricity was abolished,
- subsidies were guaranteed for oil shale fired generating equipment, totalling up to 76 million euros per calendar year,
- 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 efficient 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 waters.

On 16 July 2009, amendments to Regulation 38 of the Minister of the Environment from 29 April 2004, concerning the requirements for opening, using and closing landfills, entered into force. Article 19 (3) of this regulation stated that the diversion of oil shale furnace ash and fly ash from power plants and combustion equipment to waste depositing sites by hydro transport is not considered to be depositing

of liquid waste if the water used circulates in a closed system.

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 2009/10 financial year, the Competition Authority decided in a misdemeanour procedure against Eesti Energia Narva Elektriijaamad 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 Elektriijaamad appealed against the decision of the

Competition Authority, which the Harju County Court allowed but the proceedings have not yet finished.

In the financial year 2009/10 the Competition Authority issued an order to Eesti Energia Jaotusvõrk in connection with the use of unverified electricity meters to meter the quantity of electricity consumed by customers. In accordance with the decision, Jaotusvõrk will replace the unverified meters with verified meters by 1 August 2010. In the same matter, the Technical Surveillance Authority also launched misdemeanour proceedings, finding that 42% of the unverified meters were metering in favour of the customer, 8% in favour of Jaotusvõrk and 50% were functioning correctly. The proceedings have not yet finished.

Representation of the Management Board

In the 2009/10 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.

Report of the Audit Committee

The work of the Audit Committee is based on the statutes of the Committee and its action plan. 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 information. 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.

During the financial year 2009/10, 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,
- the development and operation of the internal audit system,
- the legality of the company's activities,
- the independence of the external audit, and
- the organisation of the internal audit.

The Audit Committee does not have any observations which could have a material impact

on the activity of the Group or on the Annual Report for the financial year 2009/10.

We submitted our assessments together with the Management Report to the Eesti Energia Supervisory Board on 20 May 2010.

Jüri Kão

Chairman
of the Audit Committee



20 May 2010

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 non-conformities were found between the Combined Code and our activities in the 2009/10 financial year:

- no nomination committee has been formed (subject to 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 Article 84 (1) of the State Assets Act, a Supervisory Board member is obliged to report to the minister that appointed him or her,
- Chapters D (Dialogue with Institutional Shareholders) and E (Dialogue with Companies) of the Combined Code do not apply to Eesti Energia as a state-owned company.

BUSINESS ENVIRONMENT

Eesti Energia has a versatile product portfolio and operates in several different markets. This means that a number of factors need to be considered including key factors like the macro-economic and regulatory environment, the world price of crude oil and the air temperature.

In 2009, the Baltic States and Finland saw a drop in GDP, as did many other regions around the world. The largest decline was in Latvia, where GDP fell by 18.3%, while in Lithuania GDP fell 15.0%, in Estonia 14.1% and in Finland 7.8%.

The index of industrial output, which shows the change in Estonian industrial output compared to the same period of the preceding year,

was on average 30% lower for each month in 2009. In the last few months of 2009 the difference over the previous year was smaller, shrinking from 35.5% in April to 10.8% in December due, to a large extent, to the lower comparison base.

In 2009 the labour market saw average gross wages fall by 5.7% compared to 2008, while unemployment rose from 5.5% to 14.4%.



Jaanus Arukaevu
Strategy Manager

These are exciting times in the Baltic energy markets, with the Estonian and Lithuanian markets becoming one-third open and the cheap electricity from the Ignalina nuclear plant leaving the market. Great opportunities are opening up for Eesti Energia.



Although GDP had already started to fall at the beginning of 2008, average gross wages did not decline until the beginning of 2009, while unemployment started to rise in the second half of 2008, reaching 14.6% by the 4th quarter of 2009. The numbers employed dropped the most in construction and manufacturing, which lost 22 000 and 20 000 jobs respectively in 2009.

Weak domestic demand and low raw material prices on the global market led to deflation in Estonia. The consumer price index swung

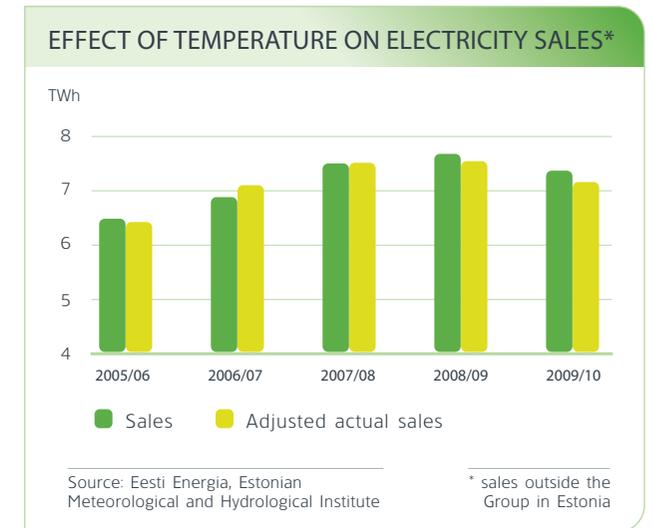
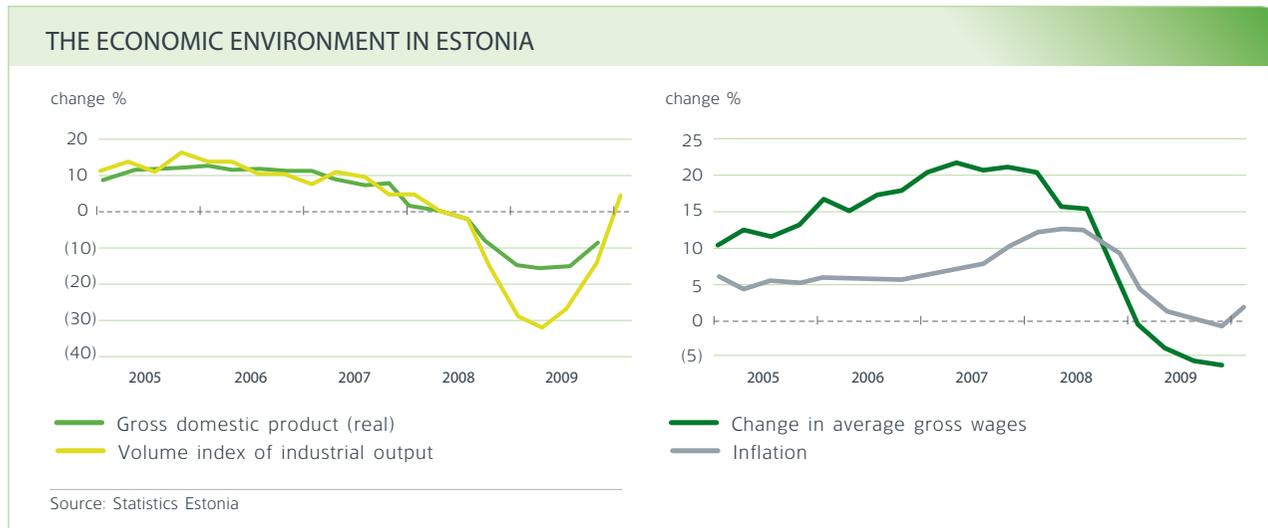
from 10.4% growth in 2008 to 0.2% decline in 2009.

When the winter is cold and temperatures are lower than the long-term average¹, electricity and heat consumption rises. A one-degree deviation in the average temperature affects annual electricity consumption in Estonia by an estimated 120-150 GWh.

FY 2009/10 saw significantly lower temperatures than in previous years, especially in the heating period of the 3rd and 4th quarters of

the financial year. The temperature was 2.7°C lower in the 3rd quarter and 4.8°C lower in the 4th quarter than in the same quarters of FY 2008/09. Temperatures in December and January were 4.0 and 10.0°C lower respectively than in the same period in FY 2008/09.

The average temperature for the financial year 2009/10 was 4.9°C, 1.7°C lower than in FY 2008/09, and 1.3°C lower than the long-term average.



¹ The calculations are based on the data gathered by the Estonian Meteorological and Hydrological Institute since 1989.

Impact of the Business Environment on the Retail Business Division

Eesti Energia provides network services, electricity and additional energy-related services to nearly half a million customers in Estonia. We help our customers with any energy-related issues.

SALES OF NETWORK SERVICES IN ESTONIA

Eesti Energia provides network services to customers at low and medium voltages of up to 35 kV through the distribution network that we manage.

The network charges are agreed using the standardised method for calculating network charges drawn up by the Estonian Competition Authority, which considers the justifiable costs and reasonable profit when deciding the network charges for the regulation period.

The current three-year regulation period started on 1 March 2008. Network charges are adjusted once a year during the regulation period using the network charge adjustment formula approved by the Estonian Competition Authority.

The formula for adjusting network charges considers:

- (1) the sales of network services, (2) the regulated assets and the investment programme, and (3) reasonable profitability based on justified costs and a reasonable rate of return, all of which have been approved for the regulation period;
- changes in the consumer price index according to the data published by Statistics Estonia. Network charges are adjusted on the basis of the average value of the change in CPI in the previous 12 months.

For the regulation period that started on 1 March 2008, the Estonian Competition Authority estimated that network service sales would total 6467 GWh in FY 2008/09, and 6661 GWh in FY 2009/10. Actual sales were 6447 GWh and 6337 GWh, respectively. The drop in sales has made the rate of return permitted by the Estonian Competition Authority difficult to achieve, and the changed circumstances have hindered efficiency.



Network charges were adjusted twice in FY 2009/10, on 1 August 2009 when the fall in the cost of generation at Eesti Energia's Narva Elektriijaamad led to a cut in prices of 1.7%, and on 1 March 2010 when network charges were raised by 1.5% during the regular adjustment process.

SALES OF ELECTRICITY AND ADDITIONAL ENERGY-RELATED SERVICES IN ESTONIA

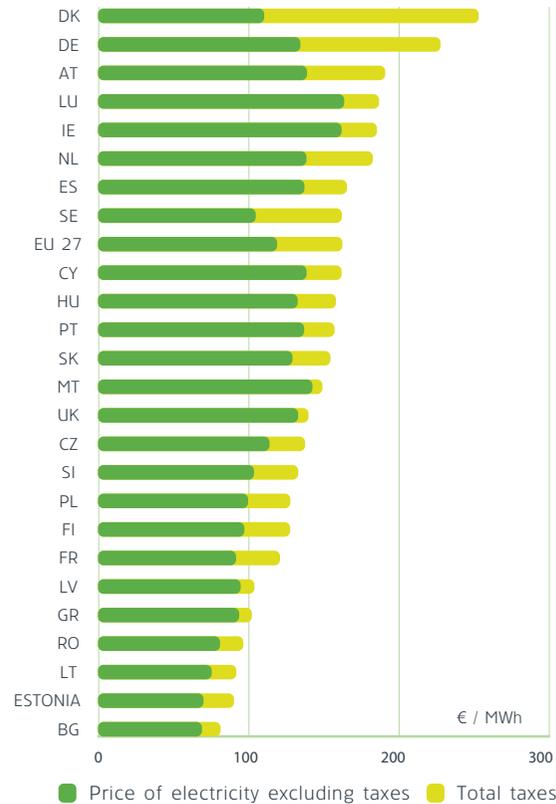
Electricity

Eesti Energia sells electricity to both open-market and closed-market customers in Estonia.

The price of electricity in Estonia remains among the lowest in the European Union for both residential and industrial consumers. According to Eurostat, the average price of electricity including taxes in Estonia for the period from July 2009 to December 2009 was the second lowest among European Union Member States for residential consumers and the lowest for industrial consumers. Contributors to the stable low price are the regulation of the electricity market and the independence of the price of oil shale from movements in the global prices of alternative energy sources.

AVERAGE ELECTRICITY PRICE FOR EUROPEAN UNION RESIDENTIAL CUSTOMERS

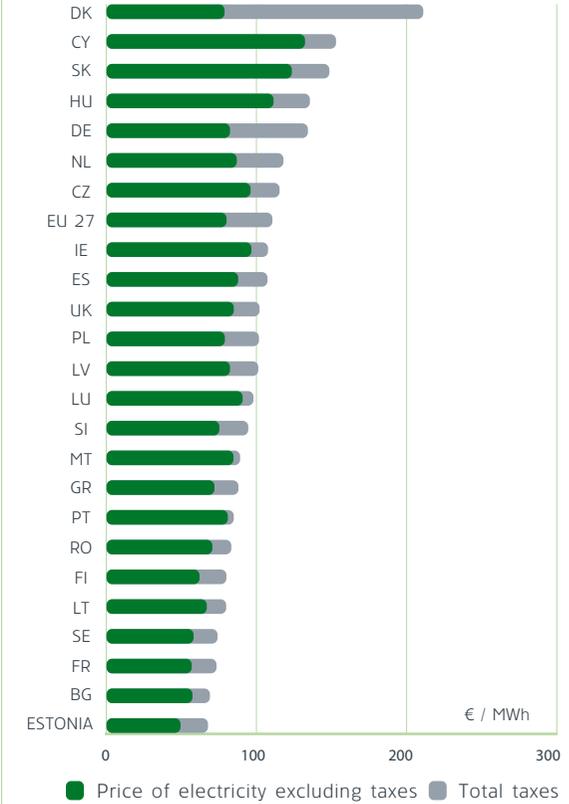
with an annual consumption of 2500-5000 kWh, during July-December 2009



Source: Eurostat

AVERAGE ELECTRICITY PRICE FOR EUROPEAN UNION INDUSTRIAL CUSTOMERS

with an annual consumption of 2-20 GWh, during July-December 2009



Source: Eurostat

The electricity market in Estonia is divided into two parts, the open market, where demand and supply set the price, and the closed market. Until 1 April 2010, the market was open only

to customers who consume more than 2 GWh of electricity per year through a single connection point². From 2013, the market is expected to be open to all customers, regardless of their

² Prior to 1 January 2009 the market was only open to customers who consume more than 40 GWh of electricity per year through a single connection point.

level of electricity consumption. On the closed market, the price of electricity is regulated by the Estonian Competition Authority.

The Electricity Market Act allowed open-market customers to buy electricity on the closed market too, until 1 April 2010. The price of electricity on the closed market was lower than the open market price, setting an upper limit for the price of electricity for open market customers and thus preventing the open electricity market functioning properly. However, amendments to the Electricity Market Act that came into force on 27 February 2010 state that open-market customers may buy electricity only from the open market from 1 April 2010 onwards.

In conjunction with the partial opening of the electricity market, the Estlink price area of the Nord Pool Spot power exchange was launched in Estonia on 1 April 2010, allowing day-ahead trading. Intra-day trading will be added to the day-ahead trading in the future. In the longer term this will allow the use of financial instruments derived from the price difference between the Nord Pool system price and the Estonian price area, allowing hedging of the local price risk that arises from the use of standard future transactions.

On the closed market there is a legally required upper limit for the weighed average price of the electricity that is sold to meet the Group's sales obligation. This upper limit was changed once in FY 2009/10. Following a fall in the generation costs at Eesti Energia's Narva Elektriijaamad, the price of electricity fell by 6.4% on 1 August 2009 from 32.5 €/MWh to 30.4 €/MWh.

When approving the prices, the Estonian Competition Authority considers the costs to the company of complying with the laws and licensing conditions and ensuring a reasonable return on the invested capital. As a rule, the Estonian Competition Authority considers the invested capital to be the net book value of the company's average non-current assets, plus 5% of the company's extra-group revenue. The reasonable rate of return is the weighted average cost of capital (WACC). The methods for calculating the prices are posted on the website of the Estonian Competition Authority.

Green Energy

Eesti Energia offers customers electricity generated not only from oil shale, but also from renewable sources of energy.

We were the first company in Central and Eastern Europe to launch an environmentally friendly Green Energy sales programme, which we did in 2001. In March 2009, we launched the Green Energy price packages, offering our customers the option of consuming only electricity generated only from renewable sources of energy. The Green Energy sold is generated by Eesti Energia or purchased from other renewable energy producers. There are no other similar price packages based solely on renewable energy in Estonia.



Energy audit, energy label and thermographic inspection

In FY 2009/10 Eesti Energia started offering energy efficiency analysis services to its customers.

To give our customers the option of ordering all environment and energy saving products from a single point of sale, we added the energy audit, energy label and thermographic inspection services to our portfolio. Despite the tight competition, we have already gained a 30% share of the energy label market.

Electrical work and network construction

Eesti Energia carries out electrical work from socket replacement to major construction work requiring an electrical project, and also offers customers network design, construction and maintenance services.

The business environment for electrical work and network construction services is heavily dependent on the construction market. According to Statistics Estonia, the fall in the construction index³ in 2009 was around 30%, compared to 2008. This led to a drop in the number of orders, and a fall in prices. The electrical construction market is seeing similar trends.

Communication services

Eesti Energia operates a trunk line communications network, telephone communications and internet services for both residential and business customers.

With the economic slowdown, the trunk line communications network usage levels have stayed the same as in the previous periods. The fall in the usage levels of the trunk line communications network by some companies has been balanced by an increase in the levels of usage by other companies. At the same time, the number of customers of the Kõu mobile internet service, offered to residential and business customers, has gone up despite a general decline in the telecommunications market.

SALES OF ELECTRICITY IN OTHER BALTIC STATES

In addition to operations in Estonia, Eesti Energia also sells electricity to retail customers in Latvia and Lithuania.

The Baltic electrical energy market covers the Baltic States, and north-western Russia. Four major electricity providers operate in this market. The biggest changes in the financial year were the opening of 35% of the Lithuanian electricity market and the final closure of the Ignalina nuclear power plant.

PRICE OF ELECTRICITY IN THE BALTIC STATES AND FINLAND



Source: Nord Pool, Eesti Energia

³ The construction index indicates the change in the cost of non-contracted construction in fixed prices.

Latvia

A change in the law in Latvia in May 2008 required all companies with more than 50 employees or with an annual turnover of more than 10 million euros to purchase electricity on the open market. To all intents and purposes, this constituted a 35% opening of the electricity market, affecting nearly 1400 consumers. All consumers have the right to change their electricity supplier, but regulated tariffs are only available to customers who use universal service and have less than 50 employees or an annual turnover of less than 10 million euros. As the universal service used in Latvia complies with the European Union directives, no further opening of the Latvian market is expected in the foreseeable future.

Competition in the Latvian electricity market has tightened since the partial opening of the market. The main factor driving this has been

the increase of the Eesti Energia market share to nearly 6% in FY 2009/10.

The average price of electricity on the Latvian closed market was 39 €/MWh in the financial year.

Lithuania

In Lithuania the electricity market will be opened gradually. From 1 January 2010 consumers with a network connection capacity of over 400 kW must purchase electricity on the open market. These consumers account for nearly 35% of total Lithuanian consumption, or about 3.2 TWh. A transition period has been established for open market consumers from 1 January 2010 to 30 June 2010. In this period, the consumers must choose an independent supplier based on mutually agreed prices.

In 2011 the market will be opened for consumers with a network connection capacity of 100 kW and in 2012 for the consumers of network connections with a capacity of 30 kW. From 2013 the regulated closed-market prices will only apply to residential customers, and from 2015 the market will be open to all consumers. As Lithuania did not apply for a transitional period for opening its electricity market upon accession to the European Union, the market should already have been opened since 1 July 2008.

The Lithuanian closed-market electricity price was set at 44.7 €/MWh from 1 January 2010. This is significantly higher from the 18.5 €/MWh in the second half of 2009. Fixed at least until June 2010, the new price reflects the increase in the cost of generation following the closure of the Ignalina nuclear power plant.

Impact of the Business Environment on the Electricity and Heat Generation Division

FOSSIL FUEL-BASED ELECTRICITY GENERATION

Over 90% of the electricity consumed in Estonia is generated from oil shale.

The pillars of Estonian energy policy are energy independence and security of energy supply. Oil shale will remain the main source for electricity generation in the near future, as wind energy does not provide sufficient capacity for base load, biomass-based energy generation is limited and nuclear energy is not feasible in the near future. In the Baltic regional electricity market oil shale-based power plants are still competitive most of the time.

Eesti Energia's oil shale-based power plants are ageing and becoming less efficient, with the exception of the two new units with circulating fluidised bed boilers in the Balti and Eesti power plants near Narva. As environmental requirements are becoming stricter the company needs to make major investments in both old and new generation capacity. This, however, has a significant effect on the cost of the

electricity generation. In the current environment where CO₂ emissions are restricted, it is financially unrealistic for market participants to invest in oil shale energy without additional support mechanisms, given current levels of technical knowledge. Investment in the national security of energy supply and energy security should be the responsibility of the transmission system operator and the state. It is therefore important that the state has established support mechanisms that give investors confidence in the oil shale-based electricity generation that guarantees the security of energy supply.

In the third trading period for the European Union's CO₂ emission allowances, which starts in 2013, all or a majority of the emission allowances must be purchased from the market. This makes the regulation of electricity purchased and imported from non European Union countries very important. The European Union restrictions on CO₂ emissions from electricity generation are not applicable to Russia and Belarus. The Russian energy strategy provides market access to such electricity producers as coal plants whose CO₂ emissions are similar to those of oil shale-based electricity generation.



The current transmission capacities with Russia and Belarus are enough to cover most of the Estonian, Latvian and Lithuanian electricity demand, significantly affecting the competitiveness of oil shale-based electricity by giving an unfair competitive edge to non-EU electricity generators with comparable environmental effect, thus weakening the security of energy supply in Estonia. The Electricity Market Act states that electricity generated outside the European Union may be imported to Estonia without restriction if it is sold to an Estonia-based power exchange or if the importer has a separate licence for importing electricity. In Latvia there are no restrictions on imports of electricity, while in Lithuania electricity may be imported, provided it is sold to the power exchange.

When the Baltic Energy Market Interconnection Plan was approved in June 2009, the leaders of the Baltic Sea countries agreed that the Baltic States and Finland will draw up common principles for electricity trading with non-EU countries. This international treaty means that there will be fairer competition in the future electricity market.

CO₂-NEUTRAL GENERATION

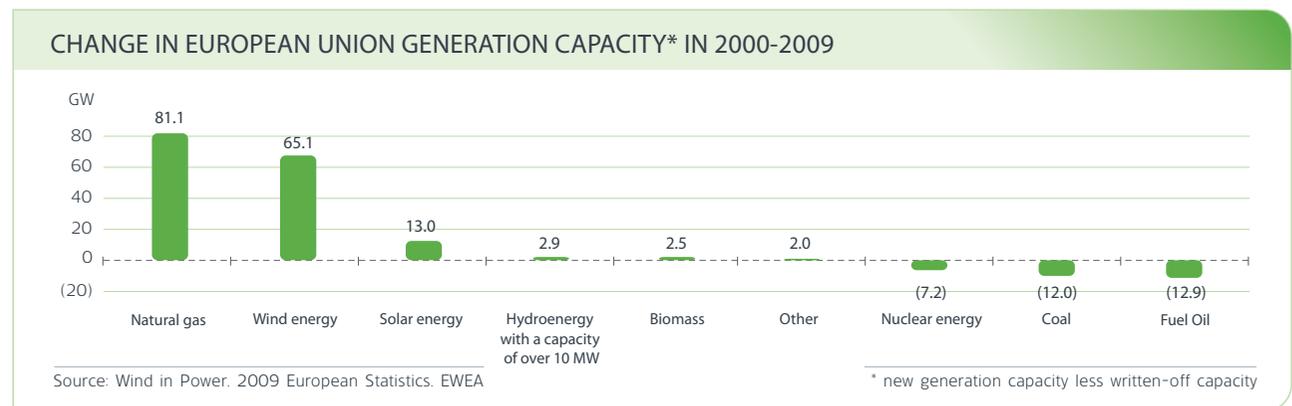
Eesti Energia owns the biggest wind park in the Baltic States at Aulepa.

One of the goals of the European Union is to promote environmentally friendly generation portfolios based on different sources of energy. In Estonia this means an increased share for renewable sources of energy and the possible use of nuclear energy in the longer term.

The amount of electricity generated from renewable sources is increasing both in Europe and globally. Renewable energy generation in the European Union has increased from 403 TWh in 2000 to 541 TWh in 2007, and the share of renewable energy in total generation has risen

from 14% to 17%. Wind energy net generation has increased from 22 TWh to 104 TWh, contributing approximately 25% of the total renewable energy generated in the European Union.

The increase in the share of wind energy is also reflected in the net change in European Union generation capacity⁴. Over the last nine years, wind energy has contributed nearly 50% of the total net change in generation capacity. In 2009 a total of 26 GW of new capacity was added in the European Union, with renewable energy contributing 15.9 GW, of which 10.2 GW was wind energy. For two consecutive years more than 50% of the new generation capacity came from renewable energy.



⁴ New generation capacity less written-off capacity.

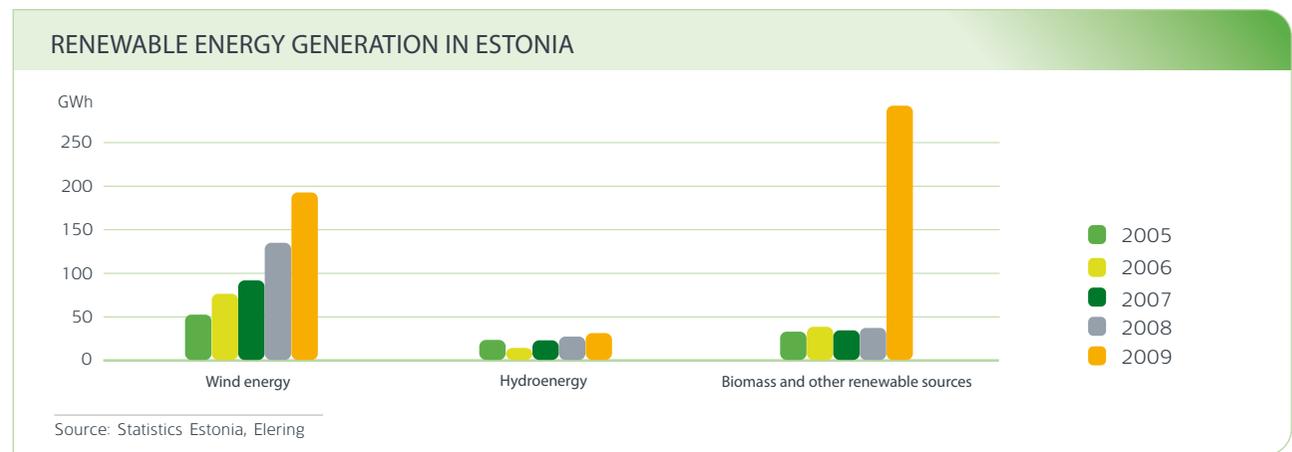
The global trends are also reflected in Estonia, where the volume of electricity generated from renewable sources of energy grew from 17 GWh in 1999 to an estimated 508 GWh in 2009. This is mostly a result of greater use of biofuel, enhanced wind energy capacity and an increase in the amount of electricity generated from wind energy. Eesti Energia's 39 MW Aulepa wind park was opened in 2009 and the generation of electricity from wood chips in the Eesti and Balti power plants near Narva also played an important role.

The increase in the share of wind generators will make the national generation portfolio more environmentally sustainable but it will also create a need for greater backup capacity during periods with no wind, or greater use of external connections to balance the wind generators. As this will have an effect on the energy trading opportunities for other market participants, it is vital to develop generation from other renewable sources of energy, and a stable legal framework.

Renewable energy support mechanisms in the Baltic States

Various support mechanisms are used by the member states of the European Union to enhance the role of renewable energy.

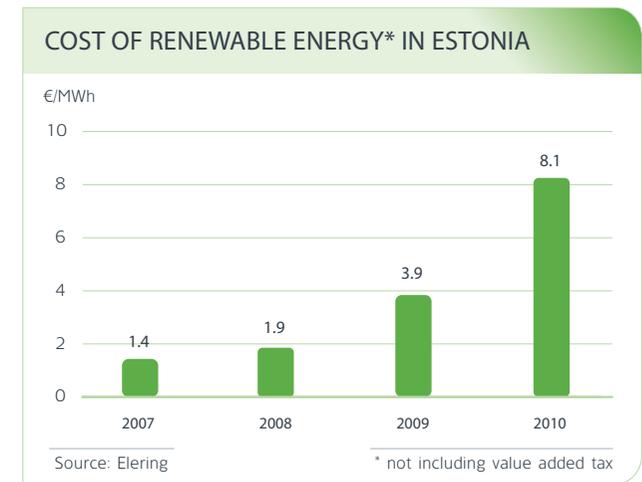
Since 2007 either feed-in-tariffs or premiums have been used to support renewable energy



in Estonia. The amendment to the Electricity Market Act from 27 February 2010 abolished the purchase obligation, so that in future only a premium of 53.7 €/MWh will be paid for electricity generated from renewable energy sources. From 1 July 2010 the premium will be paid for biomass-based electricity generation only if it is generated in combined generation mode. A premium of 32 €/MWh will be paid for electricity generated in high efficiency combined generation mode from waste, peat and oil shale retort gas and electricity generated in plants with a capacity of less than 10 MW.

The financing of renewable energy generation is related to network service consumption. In 2009 the cost of renewable energy was 3.9 €/MWh, reaching 8.1 €/MWh in 2010 (9.7 €/MWh with VAT).

Latvia uses measures related to generation



volumes and feed-in-tariffs. Renewable energy producers are paid for generation according to the tariff set by the state. The premium depends on the type of renewable energy generated and the installed capacity, and is calculated by adjusting the price of natural gas with several factors. Renewable energy

generated in biomass and biogas power plants with a capacity of over 1 MW and operational for over 8000 hours a year is subject to a fixed premium, even if the national generation quota is exceeded. Combined heat and power plants with a capacity of over 20 MW receive premiums for their entire output of renewable energy. The level of the premium is based on the plant capacity, adjusted with the price of natural gas. Premiums are only paid when electricity is sold to a company that holds a licence as a public electricity supplier in Latvia, meaning the national power company Latvenergo.

The feed-in-tariffs system is used in Lithuania. Hydro energy-based electricity receives a feed-in-tariff of 75 €/MWh, wind energy and biomass-based electricity a feed-in-tariff of 87 €/MWh and solar energy-based electricity a feed-in-tariff of 437–472 €/MWh depending on the generation capacity. The premiums are guaranteed to generators until 2020 and are only available for electricity sold to the distribution network operator. Renewable energy is further supported through additional measures such as a lower connection fee, favourable loans from the Lithuanian Environmental Investment Fund and exemption from pollution charges for biofuel.

It was agreed in the Baltic Energy Market Interconnection Plan that the principles for granting support for renewable energy in Latvia

and Lithuania will be changed to permit the use of other support instruments for sales of electricity to the open market in addition to the current system where feed-in-tariffs are used only for sales to fixed buyers.

Potential for renewable energy in the Baltic States

The three Baltic States are geographically different and therefore offer different opportunities for harnessing sources of renewable energy.

Research by the European Commission in 2004 revealed that there is approximately 10 TWh of potential for electricity generation from renewable sources in Latvia, and 7 TWh each in Estonia and Lithuania. Most of this potential comes from biomass and wind energy.

There is a good potential for wind energy in the Baltic States. In Estonia, the average annual wind speeds at ten metres above ground level are 4–5 m/s. The prospective sites for wind power generators are on the western Estonian islands and the coastal areas of north-west and south-west Estonia. A national survey of wind energy potential has been started to find the best locations for building wind turbines. If the area off the Estonian shore is also included, the wind energy potential could prove significantly higher than electricity consumption in Estonia, though the use of this potential is limited by the electricity system. The windiest places in Latvia are on the west coast and on the eastern shore of the Gulf of Riga. In Lithuania, the west coast has excellent wind resources, with wind speeds of 5.0–5.5 m/s.

ANNUAL POTENTIAL OF RENEWABLE ENERGY SOURCES (TWh)

	Estonia		Latvia		Lithuania	
	2004*	2020**	2004*	2020**	2004*	2020**
Biogas	0.01	0.40	0.03	0.48	0.01	0.74
Biomass	0.02	3.43	0.00	3.42	0.01	4.20
Hydro energy***	0.00	0.00	3.07	0.68	0.35	0.22
Wave energy	0.00	1.22	0.00	0.53	0.00	0.20
Onshore wind farms	0.04	1.25	0.05	1.23	0.00	1.26
Other	0.02	0.44	0.06	0.51	0.04	0.40
Total	0.09	6.74	3.21	6.85	0.41	7.02

Source: Potentials and Cost for Renewable Electricity in Europe

* potential harnessed by 2004
 ** potential to be added by 2020
 *** with installed capacity of over 10 MW

The potential for hydro energy is different in all three countries. Estonia has many rivers, but the majority of them are small, with a relatively low supply of water and with weak flow across the flat landscape. The potential for hydro energy is quite small in Estonia, as there is nowhere to build major hydroelectric plants. In Latvia, hydroelectric plants are the biggest single source of electricity generation, and an estimated 65% of the total potential has already been exploited. In Lithuania the landscape is flat like in Estonia and does not offer much potential for harnessing hydro energy.

The large supplies of wood in Estonia mean that the biggest potential for biofuel for electricity and heat generation lies in wood, the economic potential of which is estimated at 5.7 TWh.⁵ As in Estonia, wood also has the biggest renewable energy potential in Latvia and Lithuania.

Potential for nuclear energy in the Baltic States

Significant events for the development of nuclear energy occurred in both Estonia and Lithuania in the 2009/10 financial year.

In 2009 the Estonian government and parliament approved the National Development Plan of the Energy Sector until 2020, which

discussed the prospects for developing nuclear energy for the first time in the country's history. The development plan foresees a law regulating the use of nuclear energy by 2012, and developing expertise in nuclear energy. With these strategic developments in mind, Eesti Energia concluded co-operation agreements with the University of Tartu and Tallinn University of Technology to create Master's curricula in nuclear energy.

The primary precondition for building a nuclear power plant is that there must be a suitable site for it, and we are investigating potential locations. Extensive construction and hydro-geological surveys were conducted in the autumn of 2009 on Suur-Pakri Island to evaluate whether it can accommodate a nuclear power plant, and the data from the field work will now be analysed. The Planning Act demands that the suitability of alternative power plant locations be evaluated, so we are required to conduct similar surveys in at least one alternative location in Estonia.

The new nuclear plant project in Lithuania also moved forward, and in December the Lithuanian government announced a public procurement for a strategic investor with experience in major industrial project management and nuclear power plant operation. The strategic investor will be selected and the project development agreement signed in 2010.

Major news on the prospects for nuclear energy projects in the region is expected in the spring of 2010 from Finland, where the government and parliament will decide on the number of nuclear reactors to be built in Finland in the next decade. The future of the Kaliningrad Region nuclear power plant project is unclear at the present time, as the data provided by the developers do not clarify sufficiently all the details of the nuclear project, making it difficult to estimate the probability of the plant actually being built and its effect on the regional electricity market.

BALTIC AND NORDIC ELECTRICITY MARKETS

Eesti Energia trades with electricity on the Latvian and Lithuanian wholesale markets, and in the Finnish price area of the Nord Pool power exchange.

The most important events in the Baltic energy market in the 2009/10 financial year were the approval and signing of the Baltic Energy Market Interconnection Plan by the heads of state of the European Union Members in the Baltic Sea area on 17 July 2009, and the closure of the second reactor of the Ignalina nuclear power plant on 31 December 2009.

⁵ National Long-Term Development Plan of the Fuel and Energy Sector until 2015 (with a vision until 2030).

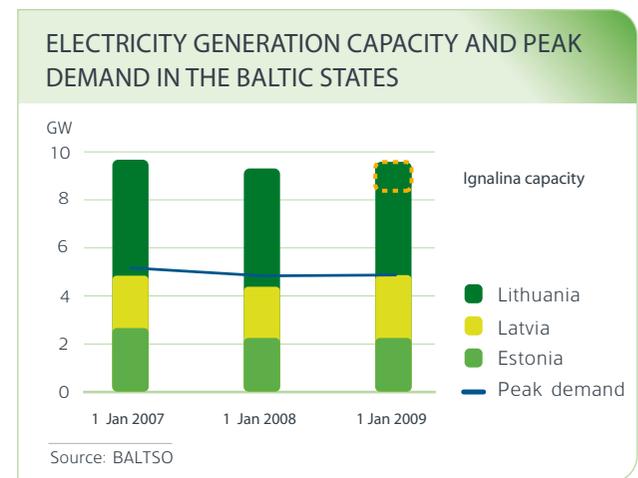
The Baltic Energy Market Interconnection Plan sets out the development stages of the regional electricity market until 2015, and required steps for reaching those stages. The closure of the Ignalina power plant reduced Baltic generation capacity by 1183 MW, but the closure of the reactor will not create a shortage of capacity in the Baltic States as there is still installed net capacity of 9339 MW and peak demand of only 4741 MW. There is also sufficient generation capacity in Lithuania of approximately 12 TWh to cover annual Lithuanian domestic demand of around 9 TWh.

The closure of the Ignalina plant significantly reduced the CO₂-free generation capacity with relatively low variable cost. This is also reflected in the Lithuanian plan to close the market temporarily and use regulated prices to secure the electricity supply until 2015. According to the plan, 5.1 TWh of electricity will be generated from local capacity, and the remaining demand will be covered by supply agreements with the energy companies of Estonia, Latvia, Ukraine, Belarus and Russia, including an agreement with Eesti Energia for 1 TWh of electricity.

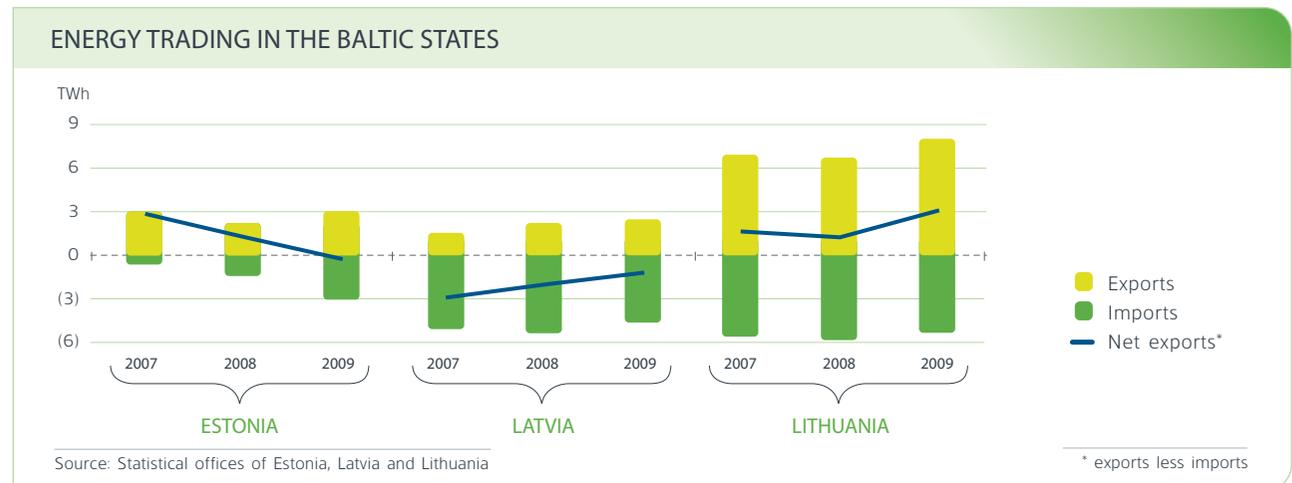
The Lithuanian power exchange was opened in connection with the partial opening of the electricity market on 1 January 2010. In the first quarter of 2010 the average daily price was 40.1 €/MWh, 30.7 €/MWh lower than that of Nord Pool's Finnish price area.

The volumes of cross-border energy traded on the exchange increased in 2009. Imports to Estonia increased as a result of purchases from Latvia and Lithuania, and exports grew because of increased sales to Latvia. The increased output of hydro energy from substantial rainfall in the last months of the year increased exports from Latvia. Lithuanian exports grew mainly as a result of higher sales from Ignalina nuclear power plant.

The economic slowdown had an effect on electricity consumption in the Nord Pool power exchange area. In 2009 the consumption fell by a total of 5.3% in the Nordic countries. In Denmark, electricity consumption was down by 3.9% to 34.8 TWh, while in Finland the consumption declined by 7.4% to 80.8 TWh mainly because of lower production in the wood and metal industries.



Nearly 72% of total electricity consumption in the Nordic countries was traded on the Nord Pool power exchange in 2009, up by two percentage points from 2008. The share of traded electricity was the lowest in Finland at



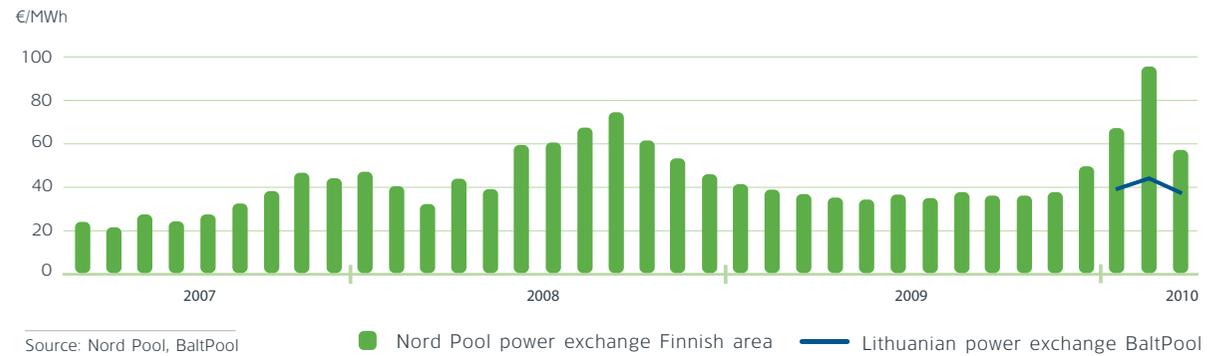
54.3%, as major industrial companies generate their own electricity and do not participate in the power exchange.

In FY 2009/10, the average wholesale price of electricity in the Nord Pool Finnish price area was 45.1 €/MWh. The average monthly price for the period December 2009 - March 2010 was 65.0 €/MWh. The average daily prices peaked on 8 January 2010 and 22 February 2010 at 298 €/MWh and 506 €/MWh respectively. The exceptionally high prices were due to increased demand brought by low temperatures, and lower generation levels caused by maintenance work at several nuclear power plants in Sweden. The hydro reserve level in FY 2009/10 remained lower than the historic average and was also lower than in the previous year.

For the Estonian electricity market, accession to the Nord Pool market area is vital even if it causes temporary volatility, as the Estonian and Baltic electricity markets are so small that they might well suffer from much larger price fluctuations in future. In addition, the price level set on a major power exchange gives better signals to market participants.

The restoration of daily trading between western and eastern Denmark and Germany in November 2009 furthered the integration of the electricity markets of continental Europe and the Nordic countries.

AVERAGE MONTHLY PRICE OF ELECTRICITY ON THE POWER EXCHANGE



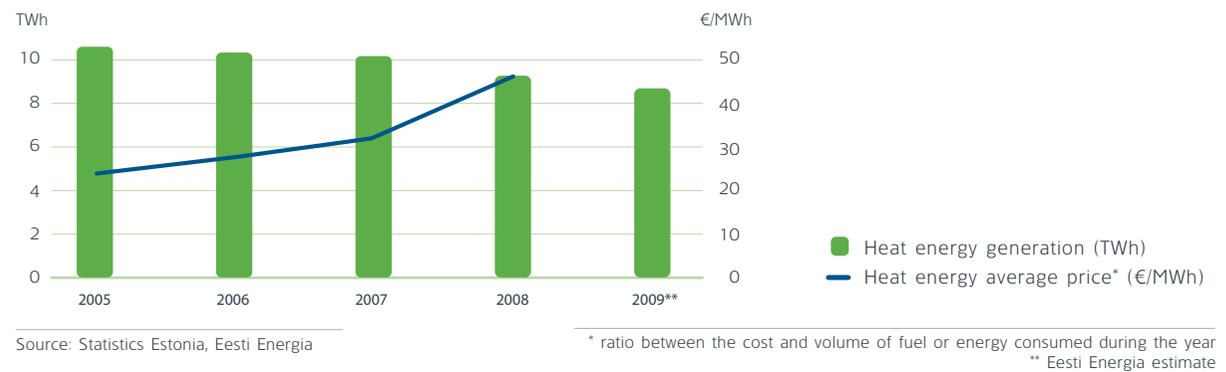
HEAT GENERATION IN ESTONIA

Eesti Energia provides heat energy to customers in Tallinn, Maardu, Narva, Jõhvi and Ahtme.

Heat generation levels have been falling in Estonia since 2004, partly due to higher average

temperatures, and partly because more resources have been allocated to promoting energy saving. The balance between heat generated in power plants and boilerhouses has remained unchanged over the years, with one-third generated in power plants and the remainder in boilerhouses. The rising global

HEAT GENERATION AND AVERAGE PRICE IN ESTONIA



prices of natural gas and fuel oil have supported the increase of heat energy prices even though the global fuel prices were expected to drop in 2009.

The winter of FY 2009/10 proved colder than previous winters, with an average temperature of -5.2°C between November 2009 and February 2010, 4.4°C colder than the average of the same months in FY 2008/09. Alongside temperature, tightening competition in the Tallinn and Maardu heat market also affected the sales of the Group's biggest heat generator, the Iru power plant.

The price of heat energy sold in Estonia is regulated by the Estonian Competition Authority. The price limit is set at a level that covers necessary operating expenses; the investments needed to ensure continued operation; environmental, quality and safety requirements; and justifiable profit. New heat energy sales prices were

agreed several times with the Estonian Competition Authority during the financial year.

In Kohtla-Järve Soojus, the price limit was changed on 11 November 2009. The adjustment in the sales price was required because of an increase in the amount of shale oil used, a price rise following a change of oil shale supplier, and a fall in heat sales.

The price limit for heat energy sold by Narva Soojusvõrk was changed twice, on 1 April 2009 and 1 September 2009. The first price change followed a drop in the price of the natural gas and shale oil used in Eesti Energia's Narva Elektriijaamad, and the inclusion of a higher oil shale price in generation costs from 1 January 2009. The second change took place after amendment of a regulation⁶ by the Ministry of the Environment, which stated that the hydro-transport of oil shale ash is not considered as liquid waste depositing, meaning that

the increased charges for oil shale ash depositing are excluded from price calculation.

In the Iru power plant natural gas is the main heat energy cost item constituting approximately 85% of the total price. Under the methods approved by the Estonian Competition Authority, the natural gas price is calculated from the global prices of various fuel oils in the preceding six months. This means that the price of natural gas changes on a monthly basis, changing also the price of heat energy sold to Tallinna Küte, the heating company. The lower natural gas prices also reduced the average annual cost of heat energy from the Iru power plant compared to that of the previous financial year.

⁶ Regulation No. 36 of the Minister of the Environment, 9 July 2009 – Amendment of the Regulation No. 38 of the Minister of the Environment, 29 April 2004, "Requirements for the Establishment, Operation and Shutdown of Waste Disposal Sites".

Impact of the Business Environment on the Minerals, Oil and Biofuels Division

OIL SHALE MINING

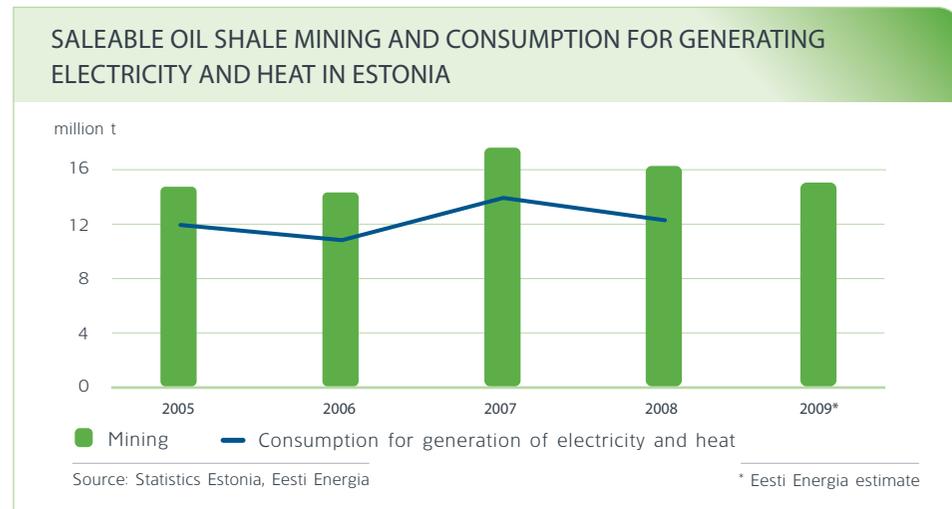
Eesti Energia mines oil shale and sells it for electricity and heat generation and for liquid fuel production within the Group and to customers outside the Group.

The Earth's Crust Act sets the maximum mining level in Estonia at 20 million tonnes of oil shale per year, of which Eesti Energia's licences cover 15 million tonnes. Saleable oil shale contains limestone and water as well as pure oil shale, which is why mined saleable oil shale volumes can exceed those stipulated in the mining

licences. In 2007-2008 the total amount of saleable oil shale mined was 16-17 million tonnes. In 2009 the amount mined will decrease by an estimated 7% from 2008 to 15 million tonnes. Nearly 75% of the oil shale mined is used for electricity generation, so the decrease in electricity generation in Estonia has caused a drop in oil shale mining volumes. At the same time the volume of liquid fuel produced from oil shale is growing, accounting for a greater share of the total use of oil shale.

The Electricity Market Act states that any company mining oil shale in Estonia must sell oil

shale to producers located in Estonia possessing generating installations with a total net capacity of at least 500 MW at a price that does not exceed the price limits approved by the Estonian Competition Authority. Eesti Energia's Narva Elektriijaamad, which generates electricity and heat from oil shale and is the biggest oil shale consumer in Estonia, is the only company that meets these criteria. The price of oil shale sold to Eesti Energia's Õlitööstus and non-Group customers corresponds to the regulated price, with differences arising only from the heating value of oil shale. The regulated price of oil shale did not change in FY 2009/10.



OIL PRODUCTION

Eesti Energia produces and sells liquid fuels in Estonia and on foreign markets.

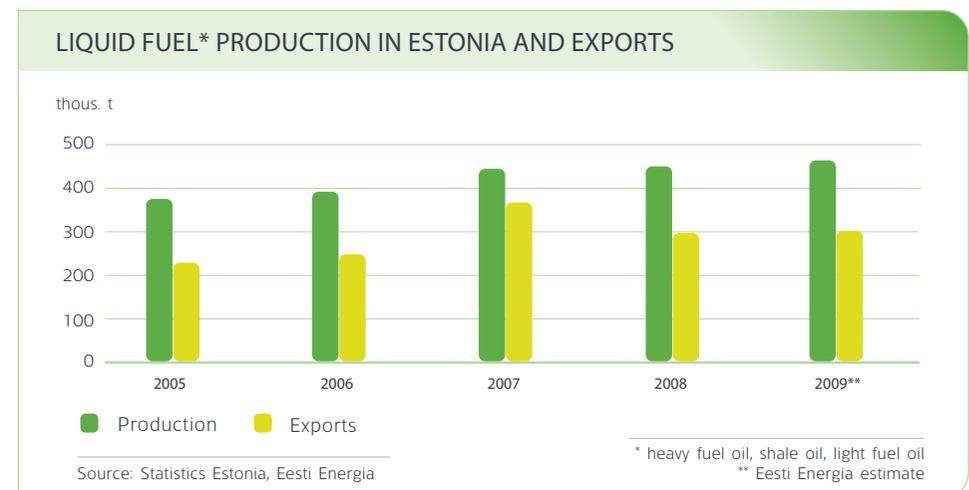
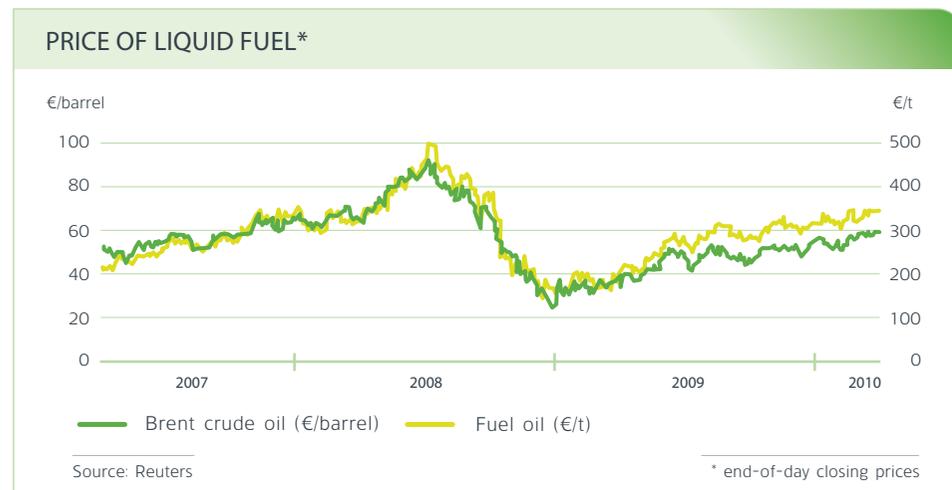
The price of the liquid fuels sold by Eesti Energia is based on the global fuel oil price, which in turn depends on the global crude oil price. The Brent crude oil price increased from 35-37 €/barrel at the beginning of the financial year to 57-59 €/barrel at the end of the financial year. The average price in the financial year was 49 €/barrel. The price increases were mainly fuelled by expectations of recovery for the global economy, but prices have also been pushed up by the postponement of investments in crude oil production, which may threaten the supply of crude oil in the future. At the same time, extensive oil stocks and low US consumption

exerted negative pressure on prices. Like the price of crude oil, the global price of fuel oil with 1% sulphur content rose from 190-200 €/t at the beginning of the year to 340-343 €/t in March 2010. The average price in the financial year was 288 €/t.

The demand for crude oil has been affected by the financial crisis and the consequent recession. According to the Organization of the Petroleum Exporting Countries (OPEC)⁷ global crude oil demand fell by 1.7% in 2009, declining the most in North America (3.6% from 2008) and Western Europe (5.1% from 2008). At the same time the consumption increased by 2.9% in China and by 2.9% in the Middle East, where demand is partially propped up by state subsidies.

General trends on the global market also affect the demand for the heavy fuel oil, mainly ship fuel, exported by Eesti Energia and traded in the ARA (Amsterdam-Rotterdam-Antwerp) region. The fall in demand on the markets of North America and South-East Asia, where various liquid fuels are supplied through the ARA region, has increased competition between processed products within the region. The demand for ship fuel has also been hampered by a drop in freight transport volumes.

The liquid fuel market has been affected by the tightening of fuel quality standards since the beginning of the 1990s. From 1 July 2010 the permitted sulphur content of fuel will be cut to 1% for ships sailing in European Union waters and 0.1% for docked ships.



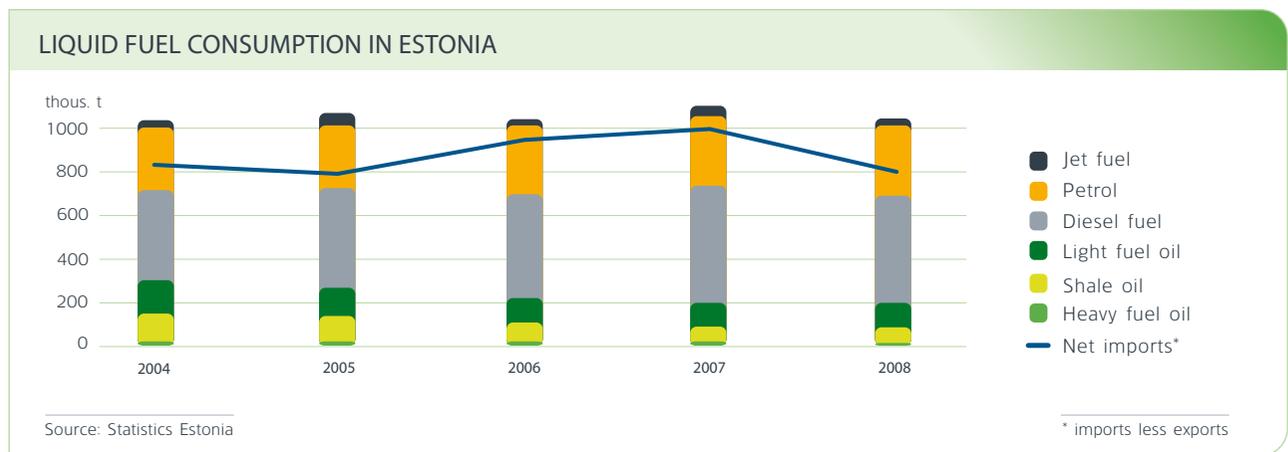
⁷ OPEC – Monthly Oil Market Report, April 2010

According to preliminary data, liquid fuel production in Estonia in 2009 increased by nearly 3% compared to 2008. Liquid fuel production volumes have grown continually, and have tripled since 1999. The main producers are Eesti Energia's Õlitööstus, VKG Oil and Kiviõli Keemiatööstus. Investments in operating reliability have continually enhanced the share of Eesti Energia's Õlitööstus, so that it reached 40% of total output in 2009.

In the near future, we expect acceleration in the growth of liquid fuel production, as the fuel producers, including Eesti Energia, are planning to increase their production capacity. In 2009 we started building the first Enefit-280 device, a crucial step in the creation of a liquid fuel production industry in Estonia.

According to Statistics Estonia, approximately one million tonnes of liquid fuel was consumed in Estonia in 2008. Even though consumption has remained relatively stable since 1999, shale oil consumption has fallen steadily over the years, dropping to 76 000 tonnes in 2008 from 130 000 tonnes in 1999. This has mainly been due to the increased use of biofuel and gas, and it has led us to make the development of high-quality fuel production one of our priorities.

Approximately 80% of the liquid fuel consumed in Estonia is imported, as the chemical content



of the liquid fuel produced in Estonia currently does not meet the requirements for wider use. Compared to other energy categories, liquid fuel accounts for the largest share of Estonian energy consumption, while production from domestic sources is among the lowest. The greatest potential for Estonian energy independence thus lies in the production of liquid fuel, principally from shale oil.

Eesti Energia is planning an upgrading plant to create the maximum additional value for oil shale and shale oil while adjusting to the increasingly demanding market. When the planned upgrading plant is in use, domestic liquid fuel demand will be covered by local resources.

ESTONIA'S SECURITY OF SUPPLY IN 2007

	Consumption (TJ, tera joules)	Share of total energy consumption	Coverage by domestic sources	Share of domestic-source based energy consumption
Electricity	24 394	20%	100%	19%
Heat	31 127	25%	52%	13%
Gas	5 802	5%	0%	0%
Solid fuel	19 800	16%	99%	16%
Liquid fuel	43 315	35%	18%	6%
Total	124 438			55%

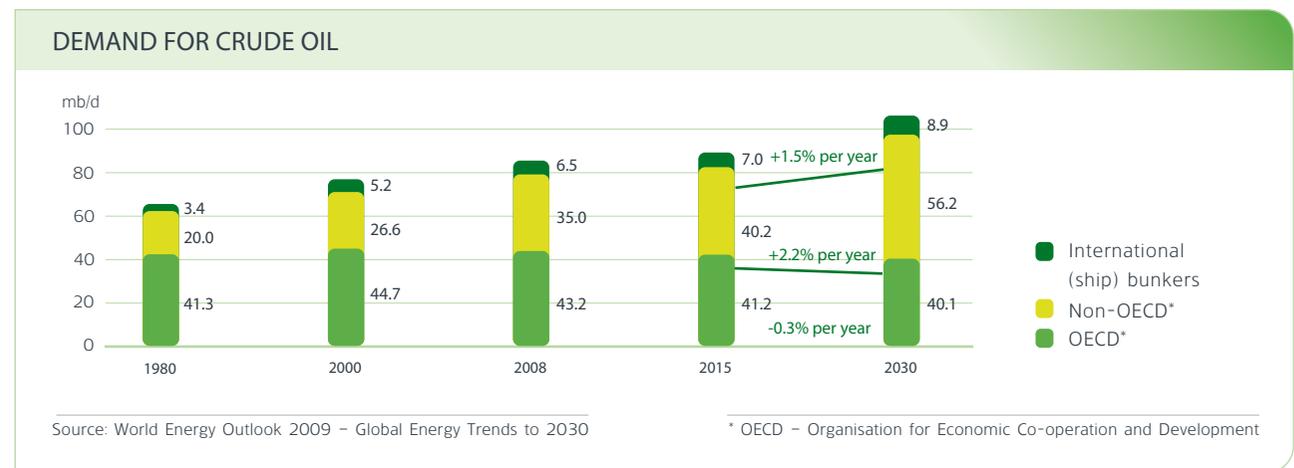
Source: Statistics Estonia

SALES OF OIL SHALE PROCESSING TECHNOLOGY AND DEVELOPMENT SERVICES

Eesti Energia sells its Enefit-technology and participates in electricity and oil projects.

Despite the drop in demand for products processed from crude oil in the last few years, consumption is expected to grow in the long run. According to the forecast by the International Energy Agency (IEA)⁸ from November 2009, demand will grow by an annual 1% until 2030. This growth will mainly be driven by Asian countries such as China and India, with the transport sector contributing 97% of the growth.

In order to satisfy the growing demand, crude oil production must be expanded. The discovery of new oil deposits over the last decades has been surpassed by the growth in demand, and at some point, demand for crude oil will exceed production. Estimates vary for when global oil production will start to decrease, the point referred to as peak oil. The IEA assumes in its latest forecast that demand will be covered by increased OPEC production volumes until at least 2030, but more pessimistic forecasts expect peak oil to be reached in around 2020–2030.



It is therefore important to find alternative sources to satisfy demand after the crude oil production volumes drop. Alternatives, such as hydrogen and hydrogen-fuelled cars, liquid bio-fuels like bioethanol and biodiesel, electric cars, and liquid fuel production from coal and natural gas will not be enough to satisfy the demand. As a result, the world's leading oil producers are investigating ways of producing liquid fuels from unconventional resources such as heavy fuel oil, oil sands and oil shale. In order to produce liquid fuel from these resources, efficient technologies with minimal environmental impact are needed.

There are over 600 oil shale deposits around the world, capable of producing more than

2800 billion barrels of shale oil. According to different sources global shale oil stocks thus exceed confirmed crude oil stocks 3-9 times, but despite this, shale oil is industrially produced in only three countries, Estonia, Brazil and China.

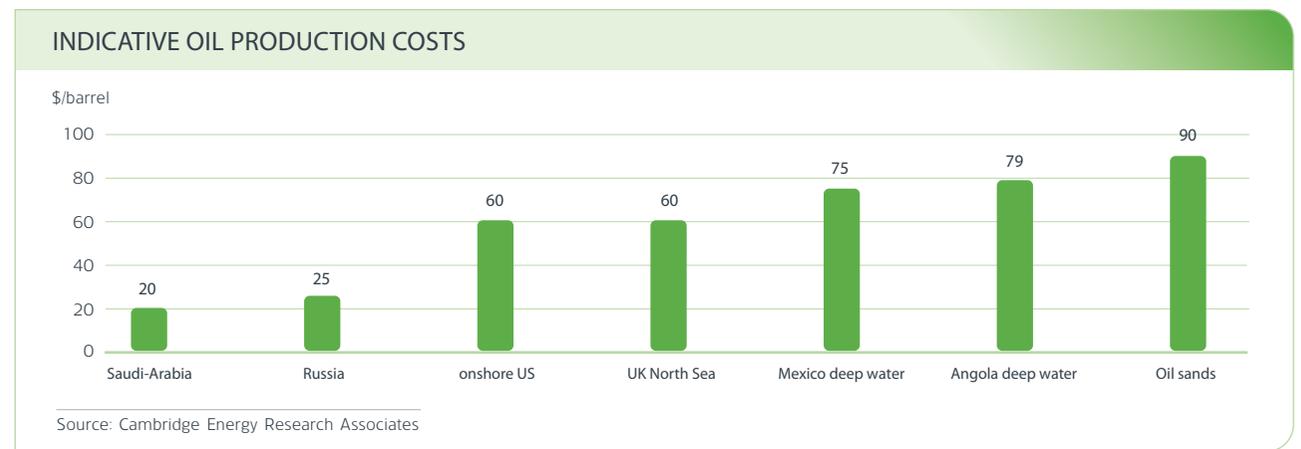
The retorting technologies used for shale oil production can be divided into surface and underground technologies. Underground retorting has potential for deep and thick layers of oil shale, but underground retorting technologies are not currently available for commercial use. Surface retorting uses either gaseous heat carrier technologies (Kiviter, Petrosix, Fushun) or solid heat carrier technologies (Enefit, ATP).

⁸ World Energy Outlook 2009 – Global Energy Trends to 2030

Of the available technologies, the best technology is Enefit, patented by Eesti Energia. The technology allows the maximum use of the oil shale, including fine particles, transforming it into high-efficiency high-quality oil with low environmental impact. The chemical efficiency of the process is 80%, and the production residue, ash, is suitable as a raw material for the cement industry. During the financial year together with an international technology company Outotec we set up Enefit Outotec Technology, a joint venture for further development of the Enefit-technology and for international marketing.

As well as selling Enefit-technology we also participate in developing electricity and oil projects. Our biggest development project outside Estonia is the liquid fuel and electrical energy generation complex in Jordan.

Jordan is one of the few countries in the Middle East that has no crude oil stocks, but it sits on huge quantities of oil shale. Jordanian oil shale deposits are estimated at 40–70 billion tonnes, which is approximately 40 times more than in Estonia. Of the total of 24 confirmed deposits eight have been studied in detail. The main deposits are El-Lajjun with approximately 1.2 billion tonnes of oil shale, Attarat Um Ghudran with approximately 25 billion tonnes and Sultani with approximately 1.1 billion tonnes. There are



additionally massive layers of oil shale under the ground in Jordan, which have not been examined yet.

The Jordanian National Resources Authority has allowed different companies to study most of the deposits. Eesti Energia is conducting a survey in the oil shale deposits of Attarat Um Ghudran, where the company is planning to establish a shale oil plant with a daily capacity of 38 000 barrels. The complex will contain mines, oil shale retorting, oil processing, electricity generation from retort gas and vapour, and storage facilities. In September 2009 we concluded an agreement with the Jordanian government on the main points of the 40+10 years concession contract, which was signed in the beginning of FY 2010/11.

Eesti Energia is also looking at the possibility of building an oil shale based power plant in Jordan with installed capacity of 600-900 MW that will use the same technology as the new energy units in Narva Elektriijaamad.

SUPPLY OF INDUSTRIAL TECHNOLOGY SOLUTIONS

Eesti Energia offers environmentally friendly technological project solutions to the energy and industrial sectors, producing and selling industrial environmental equipment, wind energy equipment and oil shale production equipment.

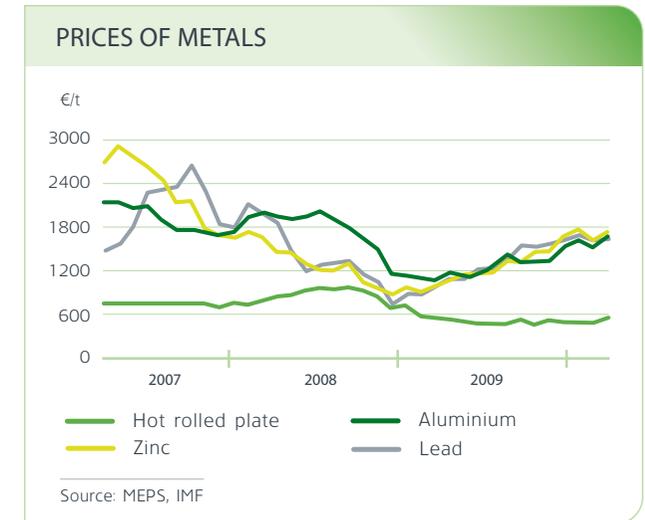
The recession and the low level of ferrous metal prices, including hot rolled plates, were

the main factors affecting the sales of project solutions in the financial year. The recession which began in the previous financial year led to the postponement or suspension of many major industrial projects, as it proved difficult for companies to raise the debt capital to finance the projects. These trends had been reversed by the end of FY 2009/10.

Ferrous metal prices on the world market were mainly affected by the drop in the housing and construction sector. Prices of hot rolled plates

stayed around 450 €/t during the FY 2009/10 after falling in the end of 2008 and beginning of 2009, although in the beginning of 2010 prices peaked at 500 €/t. The prices of non-ferrous metals, which are less influenced by the housing and construction sector, started to increase from the end of 2008.

Market conditions for us are also affected by the decrease in the value of other currencies relative to the euro.

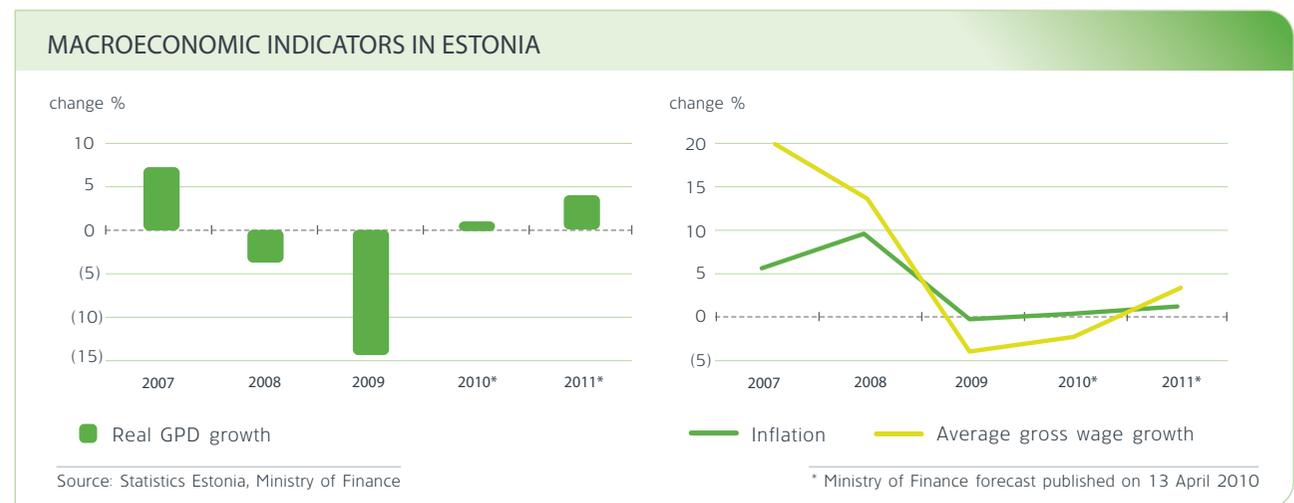


Current Trading and Prospects

ECONOMIC ENVIRONMENT

External forecasts show that after reaching the bottom of the business cycle in 2009, the Baltic and Finnish economies are likely to recover during 2010 and return to growth in 2011.

The economic forecast released by the Ministry of Finance on 13 April 2010 predicts a recovery to growth of 1.0% in 2010 and growth of 4.0% in 2011. According to the forecast, domestic demand is expected to remain weak in the coming years, but as foreign demand picks up, economic growth will likely be driven by exports, which are expected to grow by 6.3% in 2010 and 8.0% in 2011.



There is a high level of unemployment in the labour market and household incomes have fallen. According to the forecast, unemployment is expected to peak in 2010, reaching 15.5%, and then fall back slightly in 2011 to 13.9%. The average gross salary is forecast to continue to fall throughout 2010 before rising again in 2011.

The deflationary environment seen at the end of 2009 and the beginning of 2010 is forecast to become inflationary again in the second half of 2010 in connection with rising energy prices in the world market and an increase in excise rates in Estonia. The rate of change in the consumer price index is expected to accelerate from 1.1% in 2010 to 2.0% in 2011.

The European Commission's 2009 autumn forecast also believes that the recession hit its lowest point in 2009 in Latvia, Lithuania and Finland. In 2010, GDP in Latvia and Lithuania is forecast to fall by approximately 4%, while Finland is expected to see a recovery of growth to 0.9%. The forecasts for 2011 are for growth of 2.5 and 1.6% in Lithuania and Finland respectively, and negative growth of 2% in Latvia.

PRICE OF ELECTRICITY

The electricity market in Estonia is divided into two parts, the open market and the closed market. The price of electricity in the closed market is agreed with the Estonian Competition Authority and can be amended when prices not controlled by the Group change. As at 1 June 2010, the maximum limit for the weighted average price of electricity sold is 30.7 €/MWh.

Starting from 1 April 2010, customers consuming more than 2 GWh a year at any one point of consumption will have to buy electricity from the open market, where the price level will be set by supply and demand. In the period from 1 April to 30 April 2010 the average price in Nord Pool Estlink area was 35.8 €/MWh.

The Lithuanian electricity market opened on 1 January 2010 and electricity trading started on the power exchange. The average price of electricity in the period from 1 January to 30 April 2010 in Lithuanian power exchange Balt-Pool was 39.4 €/MWh.

The average price level in the Finnish area of the Nord Pool power exchange was 45.1 €/MWh in FY 2009/10. The forward curve in Nord Pool power exchange as at March 2010 predicts that the average price of FY 2010/11 will be around 42 €/MWh.

CRUDE OIL PRICES

The average Brent crude oil price on the world market moved between 35 and 59 €/barrel in FY 2009/10. The forward curve as at March 2010⁹ predicts that the price level will be more stable in FY 2010/11, with prices remaining at around 60-65 €/barrel. The forward curve as at March 2010⁹ predicts that in FY 2010/11 the world price of fuel oil will be approximately 330-340 €/t.

EMISSION ALLOWANCES MARKET

The average prices for December emission allowance quotas for 2010 and 2011 were 21.1 €/t and 21.9 €/t respectively in FY 2009/10. In March 2010 the prices for these years were trading around 13-14 €/t⁹.

⁹ Reuters 3000extra data.

FINANCIAL RESULTS

Total revenue and other income from the Group's continuing operations¹⁰ in the 2009/10 financial year amounted to 701.5 million euros, while operating profit was 130.7 million euros and net profit 115.1 million euros. The Group's profitability increased compared to the previous year, primarily as a result of successful energy trading, continuation of the cost-cutting programme and improved productivity.

Total Revenue and Other Income

The Group's total revenue and other income in FY 2009/10 was 701.5 million euros, which was 4.1% more than in FY 2008/09, with 66% of the total revenue and income coming from the closed market and 34% from open markets.

Total revenue and other income in the **Retail Business** division grew by 4.9% from the previous financial year. Electricity consumption in Estonia fell because of the recession, and this had a negative impact on sales revenue from both electricity and network services in the Retail Business division. However, this was compensated for by higher sales prices and higher revenue from the sales of electricity in the Latvian retail market.

In the financial year, the Retail Business division sold 7221 GWh of electricity in Estonia, which is 210 GWh or 2.8% less than in the previous financial year. The drop in sales by volume

TOTAL REVENUE AND OTHER INCOME (million euros)	2009/10	2008/09	CHANGE /	%
Retail Business,	438.7	418.4	20.4	4.9
of which Eesti Energia's Jaotusvõrk	178.7	170.2	8.5	5.0
Electricity and Heat Generation	447.7	429.7	18.0	4.2
Minerals, Oil and Biofuels,	212.7	212.8	(0.1)	(0.1)
of which Eesti Energia's Kaevandused	159.7	162.8	(3.1)	(1.9)
Other, including eliminations	(397.6)	(387.0)	(10.6)	2.7
Consolidated total revenue and other income	701.5	673.9	27.6	4.1

bottomed out in the second quarter of the financial year at 14.5% decline, while the rate of change in the third and fourth quarters of 4.1% of decline and 12.3% of growth respectively was cushioned by the lower temperature. Sales to business customers and to network operators were most affected by the recession. In the financial year, 2213 customers joined the Green Energy package for energy generated from renewable energy sources. The total sales of Green Energy were 23 GWh.

Of the electricity sold in Estonia, 99.9% was sold at regulated prices. The average sales price in Estonia was 31.2 €/MWh, which is 7.0% more than in the previous financial year. The price changed once during the financial year, dropping by 6.4% from 1 August 2009 as generation costs at Eesti Energia Narva Elektriijaamad decreased due to lower environmental fees.

In the financial year, the Retail Business division sold 352 GWh of electricity to customers in the

¹⁰ Data in this Chapter are for continuing operations unless otherwise stated.

Latvian open market, which is 184 GWh more than in FY 2008/09. As at the end of March 2010, the Retail Business division had 119 customers and a market share of approximately 6% in Latvia and 6 customers in Lithuania with sales totalling 3 GWh in Lithuania in the financial year.

Eesti Energia's Jaotusvõrk (the Distribution Network) distributed 6336 GWh of electricity in the financial year, which is 1.7% or 110 GWh less than in the previous financial year. The drop was caused by a fall of 7.9%, or 175 GWh, in the sales of electricity transmitted at medium voltage, mainly to business customers, while the sales of low voltage electricity grew by 1.6% or 66 GWh. The average network tariff in the financial year was 6.0% higher than in the previous financial year. The growth stems from a change in the sales structure – less electricity

is transmitted at medium voltage and at lower fees, and more is transmitted at high voltage and at higher fees.

The energy audit product was added to the Retail Business portfolio in the financial year and was ordered 29 times and energy labels for buildings 365 times in the financial year. The number of orders for small electrical work was 3740 in the financial year. Sales revenue from new products and services totalled 0.5 million euros.

Sales revenue from communications services came to 12.6 million euros in the financial year, growing by 8.0% or 0.9 million euros, primarily due to the growth in sales revenue from the Kõu internet service. As at the end of March 2010, Kõu had more than 26 000 active customers, which is 12.8% or around 3000

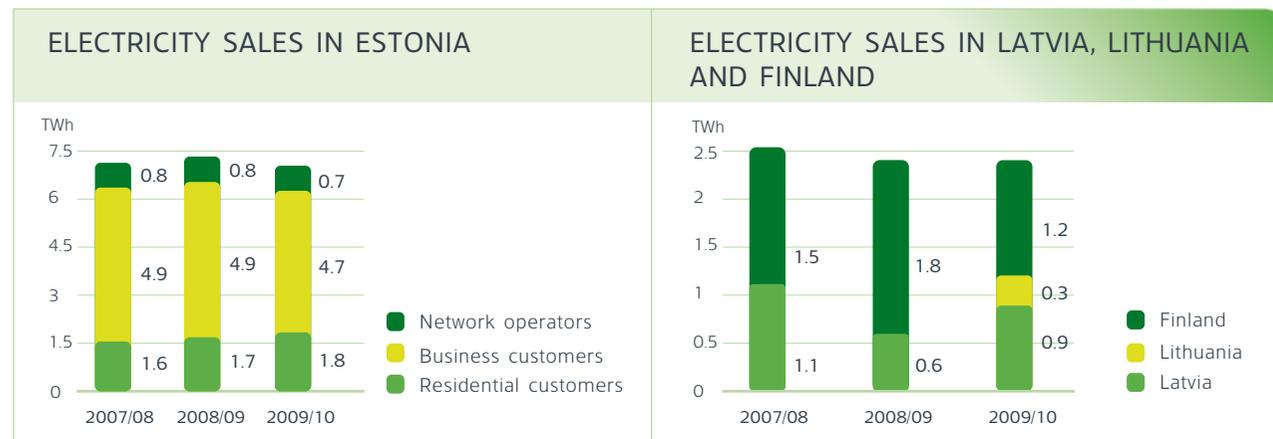


Janek Gustavson
Head of Management Accounting

We recorded our first ever positive result for economic value added in the past financial year, with EVA of 24 million euros. The main driver for this was our success at competing in the open market.

customers more than at the end of March last year. Sales revenue from the sales of trunk line communications services totalled 6.6 million euros, a rise of 1.5%, or 0.1 million euros.

Total revenue and other income in the **Electricity and Heat Generation** division grew by 4.2%. The fall in electricity sales revenue from Finland was compensated for by an increase in sales revenue from Estonia, Latvia and Lithuania. Sales revenue from heat energy has been hampered by increased competition in the heating market in Tallinn.



The division's electricity sales in Estonia fell by approximately 1.4% compared to FY 2008/09 as demand was lower. However, the sales price of electricity was 4.4% higher.

In the financial year, the Electricity and Heat Generation division sold 2390 GWh of electricity in Latvia, Lithuania and Finland, which is 38 GWh or 1.6% more than in the previous financial year. The low prices reduced sales to the Finnish area of the Nord Pool power exchange, but this was balanced by higher sales volumes to Latvia and Lithuania. Compared to FY 2008/09, the average sales price was 1.8% higher. Sales revenue was increased by the futures transactions concluded to hedge the price risk, which ensured a higher sales price when spot-prices were lower. The transactions were concluded for the physical purchase and sale of quantities of electricity, not for speculative purposes. The total subsidy received for generating renewable energy, including in combined generation mode, was 9.4 million euros.

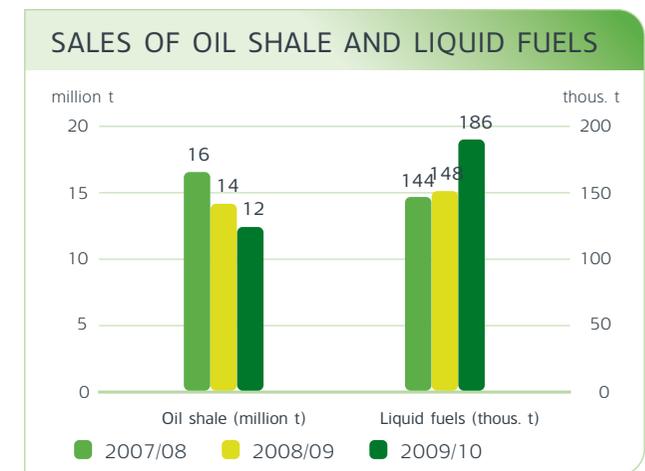
The amount of heat sold outside the division in the financial year was 1527 GWh, which is 276 GWh or 15.3% less than in the previous financial year. The main reason for the drop in sales was a fall in the sales from the Iru power plant of 318 GWh. Sales were helped by the cold weather, as the temperature was 4.4 °C lower from November to February than in the same months of the previous financial year.

The average sales price in the financial year was 9.8% lower than in FY 2008/09, and the largest fall was in the heat price of the Iru power plant, caused by a fall in the purchase price of the natural gas used for heat generation.

Total revenue and other income of the **Minerals, Oils and Biofuels division** was affected by a fall in oil shale sales revenue compared to the previous financial year, which was caused by the Group's lower internal electricity generation, and by an increase in the revenue from shale oil sales, which in turn stemmed from a rise in sales and in income from the futures transactions used to hedge the price risk. Total revenue and other income decreased by 0.1% from the previous financial year.

The sales of oil shale outside the division in FY 2009/10 totalled 12.1 million tonnes, which is 12.2% or 1.7 million tonnes less than in the previous financial year. The sales of oil shale to Eesti Energia Narva Elektriijaamad fell by 14.5% or 1.7 million tonnes, while the division's internal sales to Eesti Energia Õlitööstus (Oil and Gas) grew by 22.5% or 0.3 million tonnes. The regulated sales price for oil shale has remained the same since October 2008.

The sales of liquid fuels in FY 2009/10 came to 190 027 tonnes, which is 27.3% more than in the previous financial year. Sales outside the division increased by 25.9% or 38 317 tonnes,



and inside the division by 153.5% or 2411 tonnes. The lower world price of fuel oil pushed down the average sales price for sales outside the Group, if the effect of derivative transactions is excluded, sales price was 8.6% lower than in FY 2008/09.

The global recession caused the division's sales of energy equipment and goods outside Estonia to fall by 8.2%, or 1.0 million euros, in the financial year and sales inside Estonia to fall by 51.0%, or 3.3 million euros. Revenue from sales of gravel fell by 4.4% and grew from sales of retort gas by 14.5%. The total sales revenue from other products and goods was 19.4 million euros in the financial year, a fall of 16.5%.

Expenses and Operating Profit

The Group's operating profit in FY 2009/10 was 130.7 million euros, a rise of 69.1% or 53.4 million euros, and earnings before interest, taxes, depreciation and amortisation (EBITDA) were 238.0 million euros, up 37.5% or 64.9 million euros. Approximately 45% of the operating profit was earned from the closed market and 55% from open markets. The Group's operating expenses fell by 4.3% in FY 2009/10 as costs were cut.

The operating profit of the **Retail Business** division was 39.8 million euros in the financial year, 35.6% higher than in FY 2008/09. The operating profit of Eesti Energia's Jaotusvõrk was 34.0 million euros, a rise of 32.6% or 8.4 million euros. The operating costs of the division were affected by an increase in the cost of electricity purchased, which was caused by higher purchase prices. Fixed costs were lower than in the previous financial year as the payroll costs, the maintenance costs of equipment and facilities and transport related costs fell. The increased popularity of e-channels also had an impact on costs, as about 29% of clients used electronic means for entering meter readings, 40% used e-bills and 43% used direct debit payments. In addition, the Retail Business stopped accepting cash payments in its service offices. The division's average annual number of employees

OPERATING PROFIT (million euros)	2009/10	2008/09	CHANGE /	%
Retail Business,	39.8	29.3	10.4	35.6
of which Eesti Energia's Jaotusvõrk	34.0	25.6	8.4	32.6
Electricity and Heat Generation	67.2	39.4	27.9	70.8
Minerals, Oil and Biofuels,	31.4	15.3	16.1	105.5
of which Eesti Energia's Kaevandused	16.9	3.8	13.1	340.8
Other, including eliminations	(7.6)	(6.6)	(1.0)	15.0
Consolidated operating profit	130.7	77.3	53.4	69.1

dropped from 1766 in the previous financial year to 1568 in FY 2009/10.

The operating profit of the **Electricity and Heat Generation** division was up 27.9 million euros, reaching 67.2 million euros in the financial year, an improvement of 70.8%. The division's operating profit was most affected by substitution of own generation by cheaper imports increasing economic value added. The net generation of electricity in the financial year was 7699 GWh, which was 1346 GWh or 14.9% less than in the previous year. Among the power plants, net generation fell most at the Eesti and Balti power plants, and was down by 1350 GWh. Renewable energy generated 186 GWh in FY 2009/10, which is approximately ten times more than in the previous financial year. The net generation of heat was 1664 GWh, a fall of 284 GWh from the previous year. The division's fixed costs fell in the financial year, in large part as the payroll

costs decreased and the repair and maintenance periods of equipment and facilities were optimised. The division's average annual number of employees decreased from 1855 in the previous financial year to 1660 in FY 2009/10.

The operating profit of the **Minerals, Oil and Biofuels** division was 31.4 million euros, a rise of 16.1 million euros or 105.5%. Lower electricity generation levels led oil shale production to drop from 15.0 million tonnes in FY 2008/09 to 14.4 million tonnes. At the same time, the increased reliability of the retorting equipment led to an increase in the net production of liquid fuels from 158 036 tonnes in the previous financial year to 178 457 tonnes in FY 2009/10. The division's fixed costs dropped primarily due to a fall in payroll costs. The division's average annual number of employees in the financial year was 4131, which is 273 less than in the previous financial year.

Net Profit

The Group's net profit in FY 2009/10 was 115.1 million euros, 45.7 million euros or 65.7% higher than in FY 2008/09.

The Group's financial income in the financial year was 11.9 million euros, down 7.8 million euros or 39.7%. The largest part of the financial income was interest income from bank accounts and deposits, which fell in the financial year due to a lower cash balance and lower interest rates. Financial income was also lower in FY 2009/10 than in FY 2008/09 because the earlier period had seen 4.6 million euros of foreign exchange gains. The Group's financial expenses in the financial year were 14.1 million euros, lower by 4.5 million euros or 24.3%. The main change from the previous year was

NET PROFIT (million euros)	2009/10	2008/09	CHANGE /	(%)
Operating profit	130.7	77.3	53.4	69.1
Interest expenses on borrowings	16.2	16.5	(0.4)	(2.1)
Interest expenses on provisions and other liabilities	1.6	1.9	(0.4)	(19.1)
Other net financial income	15.5	19.6	(4.0)	(20.6)
Profit from investments in associates	1.4	1.7	(0.4)	(21.3)
Income tax	14.8	10.7	4.1	38.0
Net profit	115.1	69.5	45.7	65.7
Net profit from discontinued operations	28.5	17.4	11.0	63.3

the application of the requirement to capitalise interest expenses on assets acquired since 1 April 2009. The capitalised interest expenses were 3.8 million euros in FY 2009/10.

The net profit was affected by an increase in income tax expenses from 10.7 million euros

to 14.8 million euros as a consequence of larger dividends.

The net profit of continuing operations in FY 2009/10 was 115.1 million euros and the net profit of discontinued operations was 28.5 million euros.

Economic Value Added (EVA)

The Group uses a balanced scorecard system to manage its business units. The most important of the financial criteria is EVA¹¹, which compares each company's operating profit to the amount and cost of capital invested in the company. The goal is to have positive EVA for the Group.

The Group's EVA in FY 2009/10 was 23.6 million euros, a rise of 45.2 million euros or 209.2%. Operating profit grew by 69.1% and invested capital by 8.3% in the financial year.

EVA (million euros)	2009/10	2008/09	CHANGE
Retail Business,	(3.4)	(10.3)	6.8
of which Eesti Energia's Jaotusvõrk	(5.8)	(10.5)	4.6
Electricity and Heat Generation	25.4	6.6	18.8
Minerals, Oil and Biofuels,	15.6	(0.3)	15.9
of which Eesti Energia's Kaevandused	6.7	(4.7)	11.4
Other, including eliminations	(13.9)	(17.5)	3.6
Group EVA	23.6	(21.6)	45.2

¹¹ EVA = operating profit - average invested capital during financial year * weighted average cost of capital

The Group's weighted average cost of capital (WACC) was 9.7% in FY 2009/10, the same as in the previous financial year. We analyse the parameters for calculating weighted average cost of capital annually and following significant changes in the balance sheet.

EVA grew most in the Electricity and Heat Generation division, from 6.6 million euros in

FY 2008/09 to 25.4 million euros in FY 2009/10. The growth stemmed from cost cuts, a successful energy trading performance and the large proportion of amortised assets on the balance sheet.

The EVA of the Minerals, Oil and Biofuels division was 15.6 million euros as at the end of the financial year, a rise of 15.9 million euros

from FY 2008/09. The EVA growth was underpinned by a combination of increased sales revenue and improved efficiency.

The EVA of the Retail Business division grew by 6.8 million euros to a loss of only 3.4 million euros in FY 2009/10. The operating profit of the division grew by 35.6%, while invested capital increased by 9.5%.

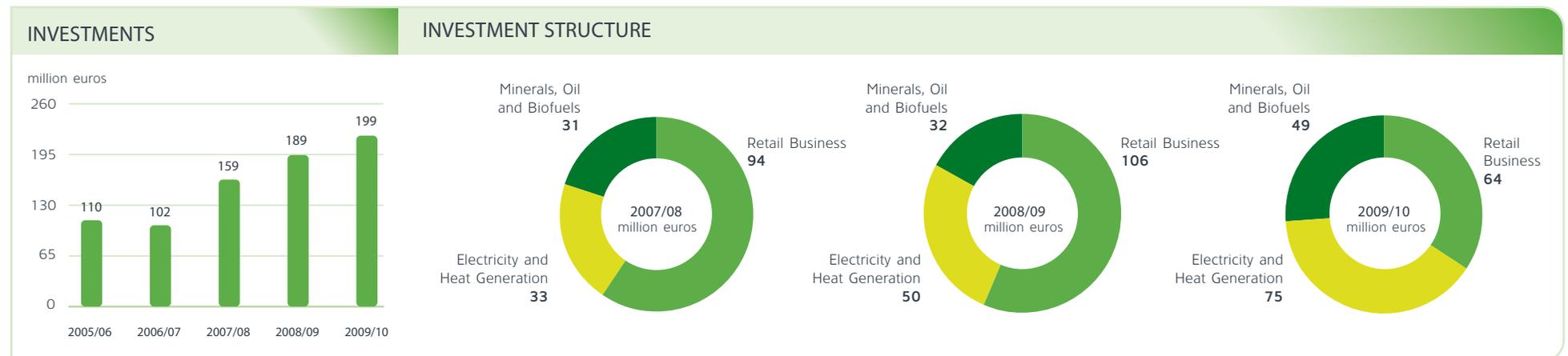
Investments

In FY 2009/10, the Group invested 198.6 million euros, which is 9.3 million euros or 4.9% more than in the previous financial year. Investments were made mainly in power networks, new electricity generation capacity and a new oil plant.

The Retail Business division invested 62.6 million euros in power networks, of which 26.4 million euros was allocated to building network connections and 36.2 million euros to improving the reliability and quality of the power network. One of the largest investments was the third

undersea cable between Hiiumaa and Saaremaa, at a cost of 1.7 million euros

The Electricity and Heat Generation division invested 26.1 million euros in the installation of desulphurisation equipment on the energy



units of the Eesti power plant in Narva, 4.2 million euros in building a peak and reserve boiler unit at Ahtme and 2.1 million euros in upgrading the control system of the second unit at the Iru power plant. Investments in renewable energy totalled 20.8 million euros, of which 11.6 million euros went on building the Aulepa wind park and 9.1 million euros went on land purchases for future development projects.

The Minerals, Oil and Biofuels division's largest investment of the financial year was the start of construction of a new oil factory using Enefit

technology, in which 23.4 million euros were invested. The 2.6 million euros invested in the filter node of the old oil factory increased the unit's capacity and improved the reliability of the Enefit equipment used there. A total of 18.6 million euros was invested in mining for the reconstruction of existing and the construction of new equipment and facilities. An investment of 1.3 million euros went into building a new paint factory in Jõhvi to help increase the volume of energy equipment products that are painted.

Cash Flow

The Group's cash flow from operating activities was 216.6 million euros in FY 2009/10, a rise of 94.6 million euros or 77.6% from the previous financial year. The Group's net cash flow from operating activities after elimination of net changes in current assets and liabilities was 199.8 million euros in FY 2009/10, an increase of 43.3 million euros or 27.7%.

Cash flow from investment activities was negative by 360.0 million euros, a fall of 322.0 million euros, or 846.5%. A total of 194.1 million euros was paid for the acquisition of non-current assets, 6.4 million euros or 3.4% more than in the previous year. Cash flows from sales of Elering had a major impact on the the

net change in deposits with a maturity of over three months. Dividends of 30.7 million euros from discontinued operations and of 2.3 million euros from associates increased cash flow from investment activities.

Cash flow from financing activities was negative by 54.3 million euros and was impacted by an increase of 41.7 million euros in the total value of long-term loans and the increased dividends of 45.2 million euros.

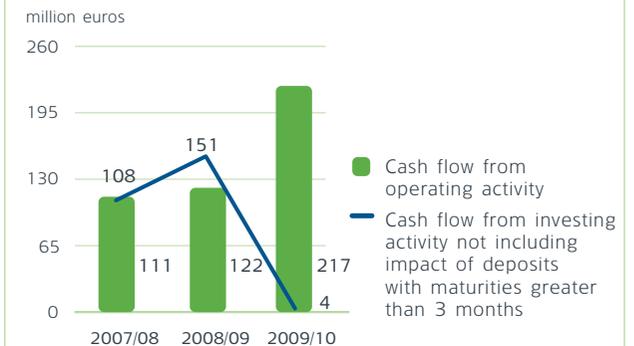
The Group's net cash flow was negative by 25.1 million euros, a fall of 59.4 million euros, in FY 2009/10.



Janne Magnus
Chief Accountant of the Group

We changed the Group's accounting principles in the past financial year. Capitalising a part of our interest costs in line with the changed standard IAS 23 boosted our net profit by almost 4 million euros.

CASH FLOWS FROM OPERATING AND INVESTING ACTIVITIES



Credit Ratings

The Group's credit ratings did not change in the financial year. Moody's has given the Group a credit rating of A1 (with a negative outlook) and a rating of A1 for unsecured debt obligations.

S&P has given the Group a credit rating of A- (with a negative outlook) and a rating of A- for unsecured debt obligations.

The Group's credit ratings are affected both by the Group's activities and by factors not controlled by the Group, such as Estonia's national rating.

Financing

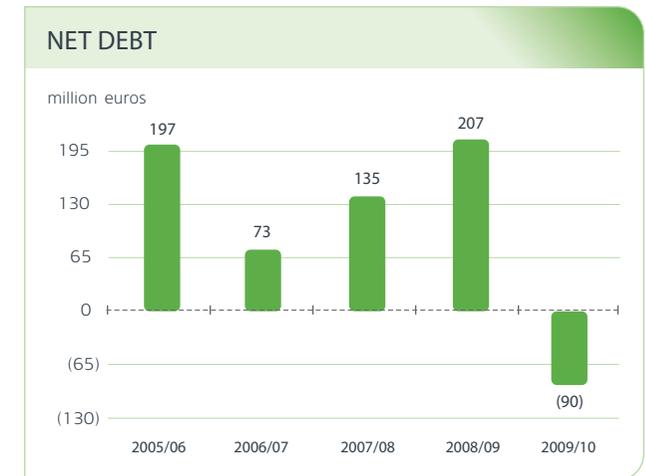
The Group's biggest long-term borrowing is a Eurobond issued on the London Stock Exchange for 300 million euros with an interest rate of 4.5% and a redemption date of 2020. During the financial year, an undrawn loan from the Nordic Investment Bank was realised for 40 million euros and a 1.7 million-euro loan was taken from Nordea Bank. As at the end of FY 2009/10, the balance of long-term bank loans taken was 73.6 million euros, a rise of 33.9 million euros from the end of the previous financial year. The balance of loans from the Nordic Investment Bank was 59.7 million euros, while the balance of the loan from the European Investment Bank was 12.3 million euros and the balance of the loan from Nordea Bank was 1.7 million euros.

As at the end of March 2010, the weighted average interest rate on borrowings was 4.09%, which decreased by 0.3 percentage points

during the financial year as a result of a drop in the six-month Euribor. Fixed interest rate borrowings made up 80% and floating interest rate borrowings 20% of the borrowings portfolio. The weighted average interest rate was 4.5% for fixed-rate borrowings and 1.48% for floating-rate borrowings, plus the last six-month Euribor. The base currency of all borrowings is the euro.

As at 31 March 2010, the Group had negative net debt of 90.4 million euros, a fall in the year of 297.4 million euros. Revenue from the sales of Elering led to an increase in the Group's liquid assets and a fall in its net debt.

The interest coverage ratio grew, primarily due to an increase in operating profit from 9.4 in the previous financial year to 13.4 in FY 2009/10. If revenue from the extraordinary sales of CO₂ emissions allowances in FY 2005/06 and



2006/07 is disclosed, the interest coverage ratio rose to its highest level in the last nine years.

The ratio of cash flow from operating activities (not including changes in current assets and liabilities relating to operating activities) to investments increased from 82.7% in FY 2008/09 to 100.6% in FY 2009/10.

Dividends

The Group paid the owner dividends of the total amount of the net profit for FY 2008/09, or 86.9 million euros. The dividends were paid out in September 2009 (20.7 million euros)

Investments Outlook

We expect that the Group's investments will amount to 327 million euros in FY 2010/11, which is 64.6% more than in the previous financial year.

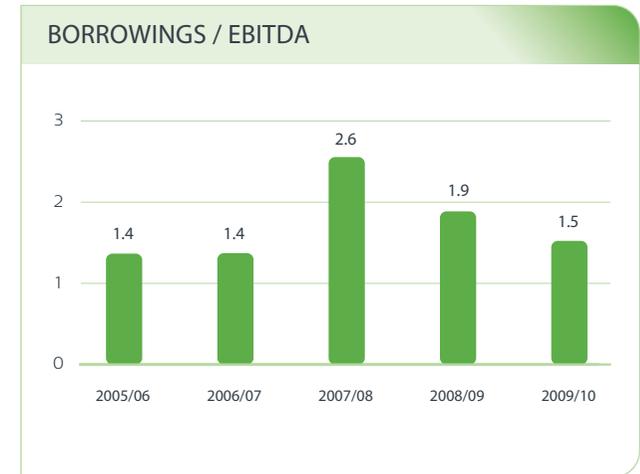
According to our expectations, in FY 2010/11 allocation to maintenance will total 144 million euros or 44% of total investments. Of that, 96 million euros will go on investments in improving the reliability and quality of power networks

The balance sheet structure has remained conservative, and by the end of FY 2009/10, the ratio of borrowings / (borrowings + equity) was 23.3 The increase from 22.1 in FY 2008/09 resulted from the increased proportion of borrowings on the balance sheet.

and November 2009 (66.2 million euros). The Government of Estonia has indicated net dividends of 109.2 million euros for the results of FY 2009/10.

in the Retail Business division; 33 million euros on investments in equipment and facilities in the Minerals, Oil and Biofuels division, particularly for oil shale extraction; and 13 million euros on investments in the Electricity and Heat Generation division.

In addition, we are expecting to invest 183 million euros in principal projects in FY 2010/11. The Minerals, Oil and Biofuels division is expected



to invest 77 million euros in the construction of Enefit-280 equipment. A total of 105 million euros is planned for investment in the Electricity and Heat Generation division including such principal projects as a waste-to-energy unit at Iru, the installation of desulphurisation equipment and the renovation of the ash processing and storage system at the Narva power plants, and a peak and reserve boiler unit in Ahtme.



CORPORATE SOCIAL RESPONSIBILITY REPORT

Eesti Energia is a large business whose activities affect the environment, the quality of life and the future of Estonia. We know very well that significant influence brings responsibility and so we have become one of the biggest supporters of sponsorship and charity projects in Estonia.

Our choice of projects to sponsor is transparent and we give priority to long-term projects connected to energy and the environment, while also participating in initiatives that benefit the whole of society, like for instance, projects that will promote public health. We support a wide range of initiatives in order to benefit as many people in Estonia as possible.

The Supervisory Board of Eesti Energia establishes the financial limit for sponsorship once a year. In the last financial year, that limit was 0.5% of the average net profit of the preceding three financial years and the limit for the financial year 2010/11 is 0.75% of the average net profit of the preceding three financial years. Our total sponsorship of various initiatives in the financial year 2009/10 was 0.3 million euros.

Responsibility for the Future of the Energy Industry

Education in applied engineering, a scientific view of the world and an innovative way of thinking are necessary both for Eesti Energia and for the whole of society. Our aim is to raise popular interest in energy and help everyone learn more about it.

We are one of the founders of the Discovery Centre Energy (Energia Avastuskeskus), which

organises energy-related exhibitions for everybody, young or old, who is interested in science. In the financial year 2009/10 we gave a total of 32 thousand euros for the refreshing of the permanent exhibition and several temporary exhibitions at the Discovery Centre Energy. To make discovery at the centre even more exciting for children, the centre should be completely redeveloped by summer 2011. Work to

make the centre more of an attraction than ever before is currently in progress.

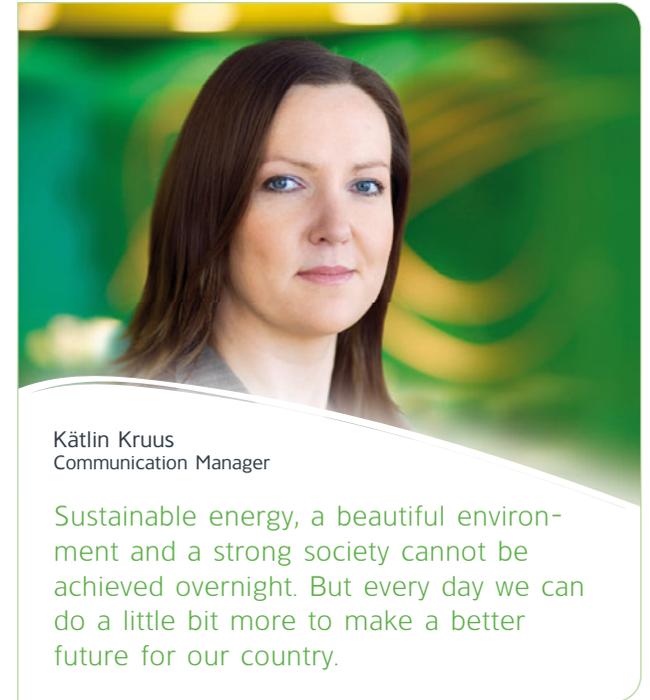
Together with the Discovery Centre Energy, the Estonian Association of Designers and the journal Friend of Nature (Loodusesõber), we organised a competition in autumn 2009 called Discover the Future Home for young people. More than two hundred ideas were entered in the competition, some of which were very innovative. Most entrants envisioned future homes as energy efficient with renewable energy sources and an integral energy circle so that each person can do their bit to protect the environment.

We are working with the only oil shale mining museum in the European Union at Kohtla-Nõmme to establish a modern energy-themed visitor centre in Ida-Viru County. We want to turn the museum into a broader visitor attraction explaining the extraction and use of oil shale and other energy themes. We will help design and build a permanent interactive

exhibition of the history and the current state of the Estonian oil shale energy industry.

In order to prompt discussions about energy in society, we organise the Energy Forum every spring to debate topical issues for the future of the energy sector, discuss future scenarios for the energy industry, and present innovative solutions for making energy production more efficient and environmentally sustainable.

We work closely with many educational institutions to ensure that students take energy subjects and that energy subjects are sustainable. We helped to set up the Oil Shale and Power Engineering Centre of Excellence and act as partners in various projects financed by Enterprise Estonia, such as the doctoral school of energy and geotechnology at the Tallinn University of Technology. For more information about our investment in future energy specialists, please see pages 25–26.



Responsibility for Preserving the Environment

It is vital for future generations that we preserve a clean and healthy environment in Estonia. This requires us to use natural resources sparingly and efficiently, make every effort to reduce the environmental impact of our activities, and promote the protection of the environment as a fundamental way of thinking.

We are working with several science and research institutions to reduce the environmental impact of oil shale extraction, energy generation and distribution. Our most important partners are the Tallinn University of Technology, the University of Tartu and the Estonian

University of Life Sciences. We are investing in both lowering the environmental impact of current energy production methods and developing renewable energy solutions. We are also promoting the use of renewable energy sources with our Green Energy product.

A top priority for us is energy efficiency, enabling cost cutting for our clients and reduction of environmental impact from our production. We have collected our guidelines on the Energy Efficiency internet portal so that anyone who wants to make their energy use more efficient can find tips and instructions on how to save energy at kokkuhoid.energia.ee.

We provide advice on energy efficiency to our clients all the time, by analysing the energy

consumption of buildings, identifying energy losses and offering solutions for cutting them. We also held a campaign to promote energy efficiency in our own company and conduct energy audit of our office buildings to make them more efficient.

Together with the Discovery Centre Energy, we organised the first energy efficiency week in Estonia. Under the heading Energy Efficient Solutions at Home, companies presented

energy efficient appliances, and people could visit the energy efficiency display of the Discovery Centre Energy and hear a lecture on the history and future of household appliances. The energy efficiency week also featured a special information day for representatives of apartment associations.

Responsibility for a Better Society

A strong society helps companies succeed. By giving all of our energy for the benefit of the people, we are also contributing to Estonian society. We promote healthy lifestyle choices and focus on the future to give the people of Estonia and ourselves a better place to live.

To make the living environment in Estonia more beautiful, we joined with the Estonian Academy of Art and the City of Tallinn to hold a competition for modern graffiti-proof designs for substations in areas of cultural and environmental value. The projects presented to the competition were youthfully fresh, novel and detailed, and they fit well in the surroundings and help to enrich the living environment.

A healthy society needs healthy people, and because the well-being of the people of Estonia

is important we are working with Swedbank and Merko on the Estonian Health Trails (Eesti Terviserajad) project. We are installing lighting for formerly dark or unlit health trails in forest areas so that people can enjoy healthy activity in the fresh air all year round everywhere in Estonia. In the financial year 2009/10, we invested 115 thousand euros in the Estonian Health Trails.

To promote the health trails, we are sponsoring public recreational sports events and alongside the already traditional Eesti Energia Nordic Walk (Tervisekõnd), we will also start promoting the Eesti Energia Jogging (Tervisejooks) series from summer 2010.

We also continued with other company traditions by helping to build power supply systems

for charitable organisations, sponsoring the energy panel at the international Lennart Meri conference, holding blood donor days at our offices and participating in the Teeme ära! (Let's Do It!) national community event. Our employees helped collect Christmas presents for children in orphanages and found new applications to reuse the old logos left over from our rebranding.

In the financial year 2009/10 we started a long-term project to help disadvantaged young people develop their entrepreneurial skills, so that in future Estonia will have even more active people with initiative to lead society and boost the economy.



ENVIRONMENTAL REPORT

No human activity is ever completely without environmental impact. The type and extent of the impact varies, as does the way in which society views the impact at any given time.

The energy industry has a very high external environmental impact from its use of land and natural resources, generation of waste, pollution of air and water and subsequent impact on climate.

Every year, Eesti Energia decreases its environmental impact both by more sustainable use of natural resources and reduction of emissions. In the last financial year we commenced a number of major projects aimed at reducing our impact on the surrounding environment. We also continued to educate our customers about energy efficiency and environmental issues.

Our environmental protection efforts are based on the principles laid out in the Group's unified environmental policy, which provides a systemic guideline to addressing environmental impacts:

- We use environmental management systems that conform with 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 any new project before starting it. We constantly look for technically innovative ways to reduce the environmental impact and to increase efficiency through the recovery and recycling of materials.
- We are continuously reducing the CO₂ intensity of the energy we provide to our clients. We are diversifying our production portfolio by increasing the contribution of energy from renewable resources as well as enhancing the quality of traditional energy generation.
- We are open to new solutions. We work with Estonian and international research organisations 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.

In the last financial year we paid a total of 38.1 million euros in environmental charges, of which 19.7 million euros was for the use of groundwater and cooling water and 18.4 million euros was for air and water pollution and waste handling. We invested 64 million euros in environmental protection, primarily in order to reduce air pollution. In the next few years we

plan to make major investments in lowering the environmental impact of waste handling and the recovery of waste.

We generate power and heat primarily from oil shale, and as a result our greenhouse gas emissions are high enough to cause concerns over perceived climate change. We have been working for many years to reduce our emissions from production, and in the last financial year we replaced some of the oil shale used in electricity generation with biomass, expanded our production of wind energy, and used low-CO₂ energy purchased from other producers to cut our total carbon emissions.

It is important that customers also understand the environmental impact of energy use and can contribute to the sustainable development of the energy industry by limiting their consumption. We are offering new products to help our customers save energy and money, and in the last financial year we started up an energy conservation information service that runs energy audit and thermal imaging services and issues energy labels. We sell a Green Energy product to promote the use of renewable energy sources, and we subsidise the Energy Discovery Centre in Tallinn where schoolchildren and the wider public can find out about energy conservation.

Land and Resource Use

Eesti Energia's activities use various resources. The main resource is oil shale, which we use to generate power and heat and to produce liquid fuel. We ensure the diversity of the energy sources we use by constantly increasing the proportion of biomass, retort gas and other fuels. Water and land are also vital for various parts of our production operations

USE OF ENERGY SOURCES

Eesti Energia is Estonia's largest energy producer. In the past financial year Eesti Energia consumed 12 million tonnes of oil shale, 133 110 tonnes of biofuels, 113 million m³

of natural gas and 53 million m³ of retort gas for electricity, heat and shale oil production. We produced a total of 8626 GWh of electricity, 1664 GWh of heat and 178 659 tonnes of shale oil. In total biofuel accounted for 1.4% of all fuel consumed.

Compared to the previous financial year, we have diversified our energy sources significantly, primarily by increasing the importance of biomass. We plan to continue this trend as far as is economical, and we will soon be adding to the power we generate from biomass and wind

energy by using mixed municipal and industrial waste to generate heat and power.

Oil shale

Eesti Energia's primary energy resource is oil shale; we mine it ourselves and use it to produce heat, power and liquid fuel.

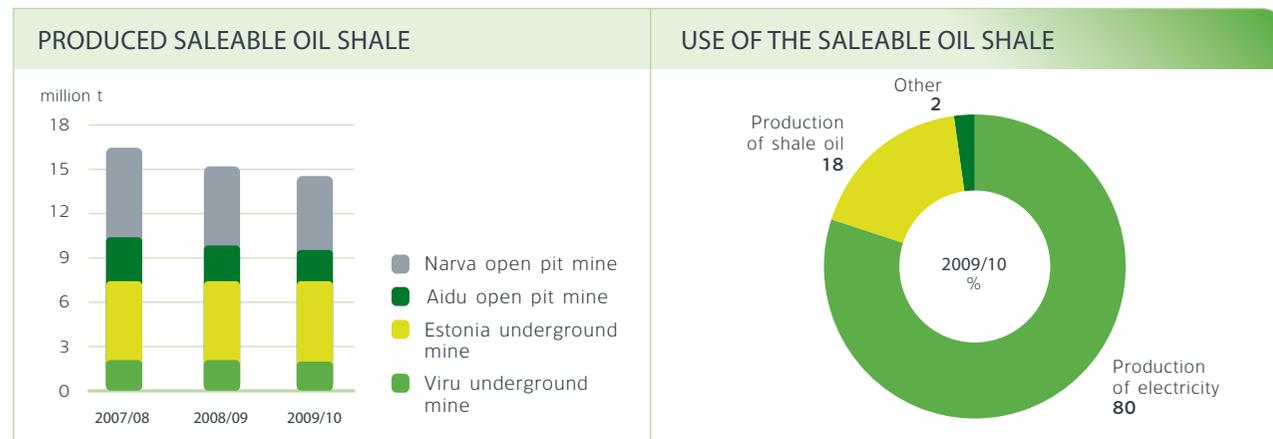
In the past financial year we mined a total of 14.4 million tonnes of oil shale, of which the majority was used in the power plants in Narva and Ahtme, while 1.6 million tonnes were used in our oil plant to produce 178 659 tonnes of liquid fuel. In addition, we sold oil shale to other consumers outside the Group, with 1.6 million tonnes going for liquid fuel production.

Biomass

Biomass is becoming more and more important in Eesti Energia's diversifying production portfolio.

Our two circulating fluidised bed (CFB) energy units in the Balti and Eesti power plants near Narva are flexible and can burn different fuels, so some of the oil shale can be replaced with biomass. To a lesser extent, biomass can, if suitably prepared, also be burned in old pulverised combustion furnaces.

We conducted the first trials of burning biomass together with oil shale in the 2008/09 financial year, and they showed that the quality of the biomass was very important. We increased the usage of biomass after the renewable energy



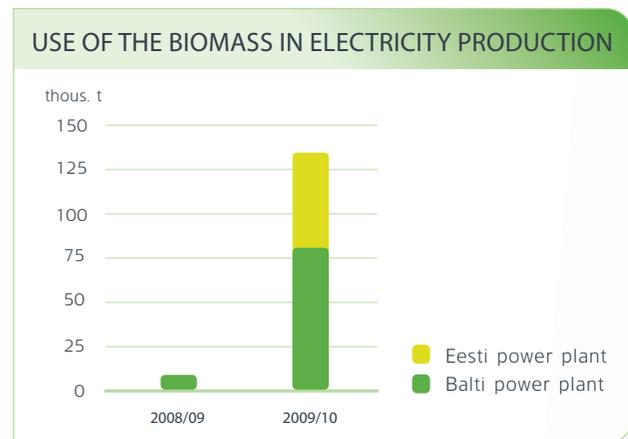
subsidy system was changed in the 2009/10 financial year. The subsidy system will change again from 1 July 2010, which will result in biomass use being reduced again.

In the last financial year we used 54 424 tonnes of biomass to generate power and heat at the Eesti power plant and 78 686 tonnes at the Balti power plant. The biomass we use is primarily wood, as it is economically more rational than other types of biomass. The largest biomass supplier in the last financial year was the State Forest Management Centre.

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, but it is very important that the quality of biomass be monitored constantly.

At 9.9 MJ/kg, the heating value of biomass is higher than that of oil shale, which is approximately 8.4 MJ/kg, and the ash content is significantly lower at 1-2%, compared to 45% for oil shale. Burning biomass also creates substantially lower SO₂ emissions and particulate levels, which is important for the environment.

As biomass is a renewable energy source, it has been agreed that CO₂ emissions are not calculated, so by using more biomass to produce electricity will help Estonia meet its obligation to increase the use of renewable energy.



Other fuels

Eesti Energia uses natural gas and retort gas and liquid fuels to generate heat and power. The option of burning waste to generate heat and electricity is still in the process of being explored.

At the Iru power plant, we generated electricity and heat from 99.3 million m³ of natural gas, and in the furnaces of the Eesti power plant near Narva we burned for electricity generation with oil shale 52.8 million m³ of retort gas, which has a high heating value and is a by-product of the liquid fuel production process.

The main liquid fuels that we use are shale oil and fuel oil, which we use as reserve fuel in the generation process and for pre-heating the boilers at the power plants in Narva, and also for generating heat during the summer at the Ahtme power plant. In Narva we mostly use natural gas to generate heat in the reserve boiler plant. In the past financial year we consumed a total of 14 964 tonnes of liquid fuels.

We have been looking into municipal waste and industrial waste with a heating value equal to that of oil shale. Increased emphasis on public awareness about the reuse and recycling of waste has caused the growth rate of the net increase in the amount of waste deposited in landfills to slow, but about 200-300 thousand tonnes of municipal waste still makes it into landfill each year, enough to meet the annual fuel need of a power plant with 50 MW of heat capacity.

As a result, we plan to build an energy unit at the Iru power plant, which has so far only been operating on natural gas, fuelled by unsorted municipal and industrial waste and capable of producing 17 MW of electricity and 50 MW of heat. We signed a construction contract with the French company Constructions Industrielles de la Méditerranée in March 2010, and the new generating unit will be completed in 2012.



WATER USE IN PRODUCING ENERGY

Eesti Energia is Estonia's largest consumer of water. We use water by pumping it out during mining and for cooling water in power plants.

The level of groundwater in quarries and underground mines must be lowered in order to ensure dry mining conditions, and the amount of water that is pumped out depends on the depth of the oil shale layers and how they lie. We direct the water 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.

The amount of water pumped is affected above all by weather conditions, particularly the amount

of precipitation, depth of snow and temperature. In the past financial year we pumped a total of 245.6 million m³ of water out of our mines and quarries.

Another significant use of water is for cooling and technical purposes in power plants. The amount of water needed for this depends directly on production levels. We draw the water for the operation of the Eesti and Balti power plants near Narva from the River Narva; for the Ahtme power plant from Konsu lake; and for the Iru power plant from the River Pirita. 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 are considering using water collected in

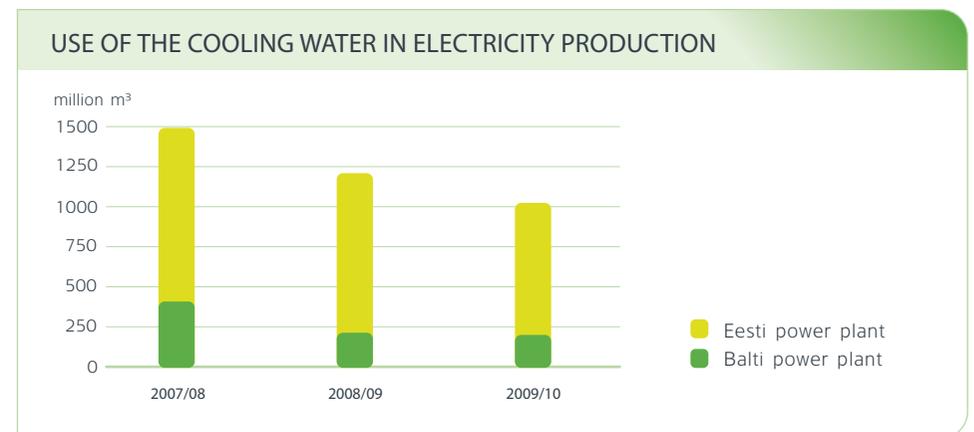
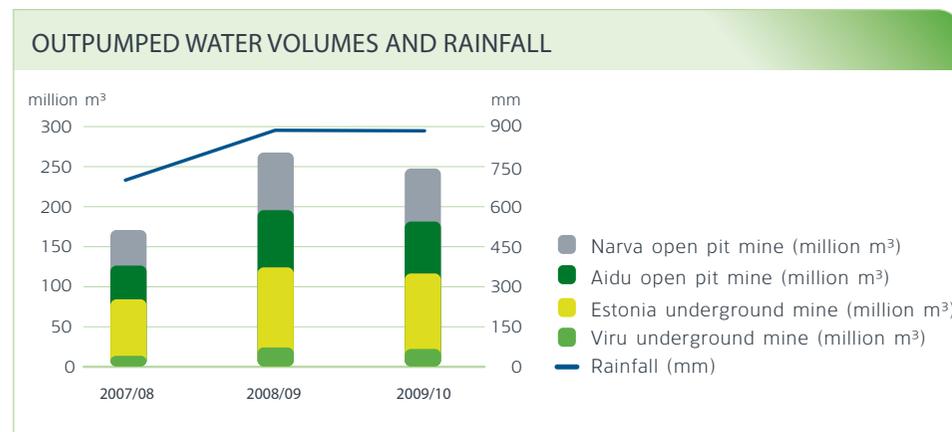
closed underground mines instead of the surface water we currently use.

In the last financial year we used approximately one billion m³ of cooling water in our power plants and approximately 3 million m³ of water for other generation purposes.

USE OF LAND FOR ELECTRICITY DISTRIBUTION

Eesti Energia transmits electricity to customers throughout almost all of Estonia. The total length of our electricity lines is enough to circle the world almost 1.5 times.

Most of the transmission lines are overhead lines, a total of 48 113 km, while there are



only 11 716 km of underground cables. The Electricity Safety Act sets the width of the protection zone for lines depending on their type and voltage, so that for 35 kV overhead lines land use is restricted in a corridor of up to 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; as a result, we have started laying more underground cables, even though they are more expensive.

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

We clear the wood manually with saws and trimmers and with machines such as tractors and mechanical brush-cutters – however, we do not use chippers very often. 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 and 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.

MAKING OUR USE OF RESOURCES MORE EFFICIENT

Enhancing oil shale

- We are using the results of research into oil shale enrichment in designing new mines and in making mining more efficient.
- The value of oil shale can be increased significantly if liquid fuels are produced from it. Our long-term development programme has made the Enefit-140 technology reliable and stable. Introducing the new Enefit-280 technology will significantly reduce environmental discharges and increase the efficiency of the production process.
- Producing liquid fuels creates less greenhouse gas emissions per tonne of processed oil shale than does producing electricity from oil shale, as the majority of the carbon ends up in the liquid fuel.

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 in accordance with local governments' opinions, and we usually reforest the areas. After the State Forest Management Centre, we are one of the biggest forest planters in Estonia.

- We have hand-reconditioned former mine areas over to the local government. Before the quarries are closed, we 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 either 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 example of Aidu shows that there are no permanently spoiled areas and has increased interest in the further use of recultivated areas.

Use of land under power lines

- Land underneath power lines is a potential place for growing biomass, and the calculations and assessments for the use of these areas have already been carried out.
- To date the use of land has been slowed by the difficulty of access to the material and the high costs for transportation of biomass to its location of use.
- The increase in the number of small-scale consumers of biomass should raise the future potential of the land under the lines.

Waste Handling

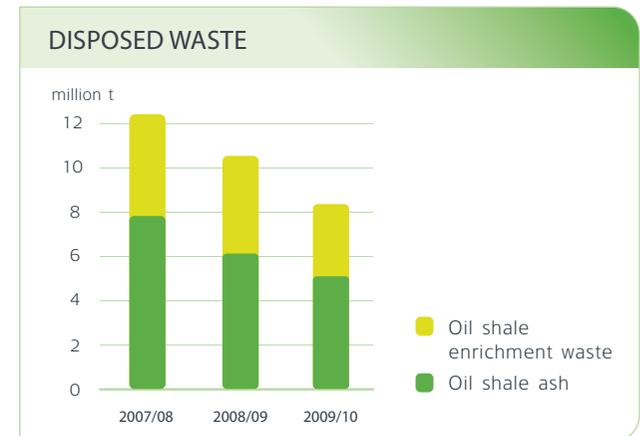
Eesti Energia's primary energy source, oil shale, has a high mineral content, which can be seen in the amount of residual ash it produces. Waste is also generated when oil shale is enriched, as limestone is removed from the mined shale. We are reducing the environmental impact of our waste handling operations and are looking for new ways to reuse the waste created in the production and generation processes.

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 locations and cover a total of 13 km². In the last financial year we deposited a total of 5.0 million tonnes of oil shale fly ash and bottom ash, of which 4.2 million tonnes was from power plants and 729 169 tonnes was from the oil plant. We deposited 70 972 tonnes of oil shale fly and bottom ash on the Ahtme power plant ash field.

Waste is created when the oil shale is prepared for use by enrichment, when limestone, which can be 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 underground mines,

the enrichment residue, or mine waste, is deposited onto heaps and this is classified as waste depositing. In the past financial year we deposited a total of 3.1 million tonnes of mine waste, which was created in the oil shale enrichment process.

As well as oil shale ash and mine waste, our activities also create other types of waste, both hazardous and non-hazardous. For instance wood pylons impregnated with chemicals have been removed during improvements to the distribution grid, and they are processed for us 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 last financial year, we removed a total of 123.5 tonnes of waste containing asbestos.



REDUCING THE ENVIRONMENTAL IMPACT OF WASTE HANDLING

Eesti Energia generates more waste than any other Estonian company, and so we have a duty to minimise the environmental impact of our waste handling operations. For this, we are developing two parallel solutions, we are recovering as much as possible from the waste we produce and reducing the environmental impact of the technical systems we use for disposal.

It is obvious that the best option for the environment is to ensure that all waste is recovered, as this would reduce the need to exploit new natural resources and to dump waste in landfills. However, this is not yet realistically feasible on a large scale, and so we are also focusing on making sure that the technical systems we use for disposal have the lowest possible environmental impact in order to minimise our 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 bottom ash deposits. We are applying for European Union co-financing for the implementation of these two projects.

After two years of research and trials at Eesti Energia's Narva Elektriijaamad, an oil shale ash transport and depositing solution was chosen in 2009 that will ensure that we continue to conform to Estonian and EU environmental requirements.

Hydro transport proved the most reliable and economically justifiable solution. In hydro transport, the fly ash and bottom 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. To isolate the system, the transport water buffer pool under

the ash field and the canals around the ash field are surrounded by retaining walls that extend down to the impermeable layer of bedrock. In addition to this, the size of the buffer basin next to the Balti power plant ash field 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 left over in the system will be neutralised before it is diverted into the environment. To reduce the impact of neutralisation, we will be improving our water neutralisation centres as well.

At the Ahtme power plant, which is discontinuing electricity generation from oil shale, the oil shale ash deposits have 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 in preparation for final closure. Current plans expect the Ahtme ash field to be closed in summer 2013.



A new and secure industrial waste landfill

In the last financial year we established a new industrial waste landfill on the closed ash field at the Balti power plant. The landfill will be used for inert waste and waste containing asbestos from our production units.

Having a landfill that conforms with all Estonian and European Union environmental requirements allowed us to close the old industrial waste landfill, which was long out of date.

RECOVERY INSTEAD OF LANDFILL

Eesti Energia's primary goal in waste handling is to reduce our use of landfills by increasing recovery from waste, and to use large amounts of waste as a raw material. This will help us have a positive impact on the environment by limiting the damage done by waste depositing, and by reducing the need to use new untapped natural resources.

Recycling mine waste

We are looking for ways of reusing the mine waste generated by oil shale. In quarries we use the enrichment residue for re-cultivating the site, but the mine waste currently deposited in heaps in underground mines can be used as filler in the construction industry. For instance, in the last financial year more than 1.2 million

tonnes of oil shale mine waste were used in road construction for the Jõhvi bypass. As the material was of high enough quality, we are hopeful that it can be used in road construction in the future as well.

To increase the recovery of mine waste, the Aidu quarry and the Estonia mine have crushed stone production centres. Together they are capable of producing up to 1.5 million tonnes of crushed stone, which is of better quality than mine waste and widens the ways in which the raw material can be used. The recession caused a drop in demand for crushed stone in this financial year, but 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 in future.

For the mine waste that we cannot process we are designing future mine waste heaps so that they can later be used as motor sport centres or other recreational areas.

Oil shale ash as a raw material

The fly and furnace ash generated in power plants is used in cement production, although only a very small proportion is used in this way. It is mostly done in Kunda Nordic Tsement's factories, but in the past financial year a small amount of oil shale ash was exported as well.

To increase the recovery of oil shale ash, we have started several research and development projects. For instance, in the past financial year we completed laboratory testing of a mixture of oil shale ash and mine waste that can be used for filling underground mines, and we also began pilot-scale industrial experiments in our mines. A more distant objective of the project is to develop a no-loss mining technology that will ensure the stability of the surface of the ground.

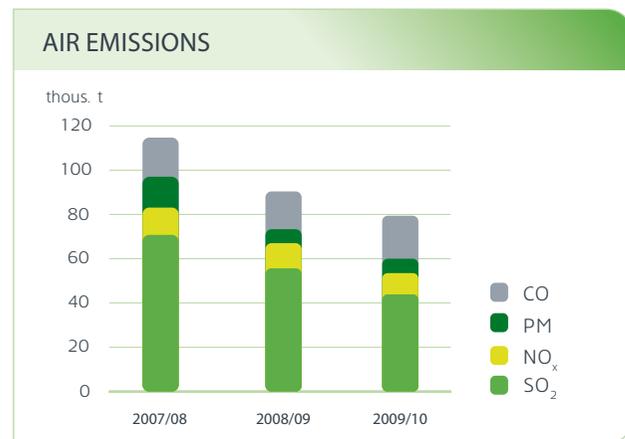
We have been working with several partners, and have applied for support from the European Union's LIFE project, to prepare for investigations into the use of oil shale ash in road construction. It may also prove possible to use oil shale ash to stabilise environmentally harmful deposits disturbed during the dredging of ports, and to neutralise acidic soils in agriculture and add microelements to soil.

For these applications to be feasible, we want to increase our capacity to remove unusable ash from the process and from the deposit, and to increase tenfold the amount of ash recovered compared to today's levels.

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 SO₂, NO_x, solid particulates and CO₂.

Air pollution is also caused by heavy metals, CO and the volatile organic compounds that are emitted in the production of liquid fuels. To a lesser degree there is also air pollution from the blasting in mining and emissions from vehicles, but this is small-scale local pollution.



In the last financial year we emitted into the atmosphere 43 170 tonnes of SO₂, 9330 tonnes of NO_x, 6240 tonnes of solid particulates, 19 232 tonnes of CO and 94.5 tonnes of heavy metals. Our CO₂ emissions totalled 9.1 million tonnes.

REDUCING AIR POLLUTION

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. We are doing this not only because environmental requirements have grown more stringent, but also because we want to reduce our environmental impact and keep our production capacity as close to its current level as possible.

From 2012, our production plants will not be allowed to emit more than 25 thousand tonnes of SO₂, which means that emissions will have to be cut by half at least.

From 2016, our production plants will have to conform to EU environmental requirements for large combustion plants, which restrict the emissions of SO₂, NO_x and solid particles and

which will oblige us to reduce our current emission levels significantly.

Reducing SO₂ emissions

At Narva's Eesti power plant, we will install desulphurisation (DeSO_x) systems on four 200 MW energy units by 2012 to reduce the concentration of SO₂ in the exhaust gases to as little as one-sixth of its present level, reduce the solid particulate content in gases, and increase the amount of time the energy generation units are in operation.

To remove SO₂ we 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 SO₂. The equipment design and installation process ensure that the desulphurisation equipment will be able to operate at the required levels of efficiency and reliability for the next 15 years.

In addition to desulphurisation equipment, we are also looking for other economically rational ways of reducing the concentration of SO₂ in the exhaust gases of the other energy units.

Reducing NO_x emissions

In 2016, more stringent restrictions on the NO_x content in the exhaust gases at Eesti Energia's Narva Elektriijaamad 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 prevent 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 comply with all of the environmental requirements of the European Union for large combustion plants. If the old plant cannot fulfil the requirements, it can operate only for a limited time.

In the past financial year we signed an agreement to build a new natural gas and liquid fuel-fired reserve and peak boiler house in Ahtme.

The 100 MW plant, which conforms to all European Union requirements, will be completed by the end of 2010. We also plan to build a small peat-fired combined heat and power (CHP) plant in this area.

To ensure supplies of heat at a stable price for consumers, we are analysing the feasibility of rebuilding the current equipment and optimising the production capacity so that it can continue operating after 2010. Lower production levels will also reduce local air pollution.

THE IRU POWER PLANT

The first unit in the Eesti Energia Group to comply with the European Union environmental requirements was the Iru CHP plant on the outskirts of Tallinn, which uses natural gas as its main fuel and is able to use liquid fuels as well in emergencies.

To get NO_x emissions down to the required level we have replaced the burners in the second energy unit at the Iru power plant, and we replaced the automated equipment controlling the generation system and the emissions monitoring equipment. By installing the new burners, we reduced the NO_x content in the smoke gases by more than 1.5 times and made the operation of the power plant more efficient.

PRODUCTION OF LIQUID FUELS FROM OIL SHALE

Constant development has cut the pollution discharged from the Enefit-140 machinery each year, even as production volumes have been increasing.

The new Enefit-280, which will be completed in 2012, is twice as powerful and uses the new circulating fluidised bed technology, and it will allow SO₂ and NO_x emissions to be reduced even further and some of the pollutants from the exhaust gases to be eliminated completely.

To increase the overall efficiency of the production process, maximum use is made of the heat released by the new system; it will be used to produce both oil and electricity in a 35 MW steam turbine.

Impact on the Aquatic Environment

Eesti Energia's production requires a good deal of water. As our water use can impact water quality and the condition of the environment, we are working hard to reduce the current and future impact of our activities.

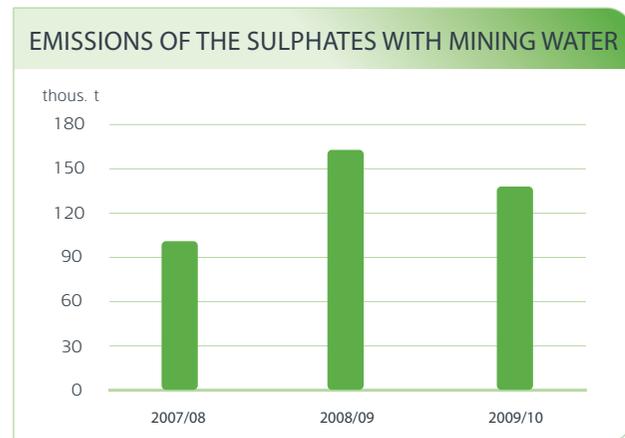
PUMPING OF WATER IN MINING

Water is pumped out of mines and quarries to lower the water table and to create dry conditions for mining. The pumped water has higher than normal levels of sulphates and suspended solids, because it has been in contact with oil shale. The oil shale's high limestone content means that Estonia's mines do not produce acidic waste water with high concentrations of heavy metals.

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. A study this year found that mining water, at the right temperature and with enough oxygen content, created a favourable environment for fish and that the overall health of the fish was good.

In the last financial year, close to 137 000 tonnes of sulphates and 1700 tonnes of suspended solids were released into the environment as

a result of mining. We remove excess suspended solids from mining water before they are discharged into the environment. 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.



The water table cannot be lowered by ordinary pumping in mining areas near to nature reserve areas. 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.

Our partners are also carrying out research to develop ways of 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.

THE ENVIRONMENTAL IMPACT OF COOLING WATER

Routing the cooling water used in power plants into the environment does not change the water's chemical content, and nor are any pollutants introduced into the water during the cooling process. However, the water re-routed into

the environment is an average of seven 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, and sturgeon, a thermophilic species of fish, have even been farmed successfully in the Eesti power plant cooling water outlet canal.

DEPOSITS OF FLY ASH AND BOTTOM ASH

We use hydro transport to deposit oil shale fly ash and bottom 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 limestone content in oil shale. The water circulating in the 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 dissolution of heavy metals to 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. Before the water is released into the environment, it is brought to a pH of 9 or less, which is a level that is suitable for natural environments.

Traditionally, hydrochloric acid has been used to neutralise the water. To facilitate the process and reduce the impact of neutralisation itself, CO_2 has recently been used as well. This prevents excessively low pH levels from being reached and the carbonates formed from the neutralisation have less impact on the environment than the salts formed from the use of hydrochloric acid.

Countering Climate Change

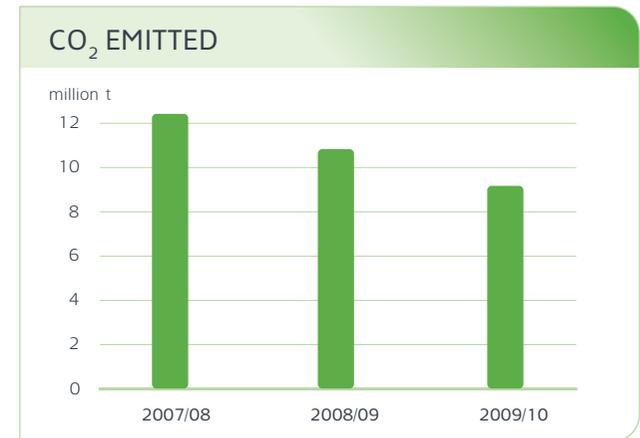
When discussing the environmental impact of the energy industry, climate change cannot be overlooked. The current view is that humans are impacting the global climate through the large-scale burning of fossil fuels, which discharges a large amount of CO₂ – 9.1 million tonnes in the past financial year.

The European Union has a target of reducing CO₂ 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 competitiveness, we have set ourselves the target of a reduction in CO₂ emissions per MWh generated of 30% from the current level by 2015 and of 70% by 2025.

Unfortunately, there is no single simple solution for reducing CO₂. One answer is to burn biomass together with oil shale. Another way is to reduce the furnace temperature by modifying the combustion process or using circulating fluidised bed technology. Reductions could also be achieved by optimising generation and promoting energy conservation.

We have also started studies of CO₂ capture, so that we can use the natural potential for CO₂ capture of ash and ash transport water. We can use technology to increase significantly the amount of CO₂ captured in ash fields and buffer basins, and this would reduce the need for additional CO₂ storage in special facilities. This method is not as efficient as other CO₂ capture and storage technologies being actively developed around the world, but it does provide a significant way of reducing the CO₂ output of power generation. In the 2010/11 financial year, we plan to start pilot-scale industrial testing of this system.

Diversifying our energy portfolio with CO₂ neutral production methods and solutions will also help significantly reduce our greenhouse gas emissions. We are doing this by investing in various forms of renewable energy, using wind energy, biomass and waste as sources.



Promoting Energy Conservation

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 estimated that it would be economically profitable for Estonia to conserve at least 20–30% of current energy consumption.

Eesti Energia is following three routes 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.
- We organise energy conservation information campaigns aimed at our customers, such as the Energy Efficiency internet portal kokkuhoid.energia.ee and national advertising campaigns.
- We are developing value adding services for customers that can save them money, for example energy audits, assessment of thermal losses and energy labels.

In addition, Eesti Energia has supported the University of Tartu's Energy Efficient Building Core Laboratory in developing passive houses in Estonia. This project will help us share information on low-energy-use buildings and other energy solutions with our customers.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

Declaration of the Management Board

The Management Board confirms the correctness and completeness of the consolidated financial statements of Eesti Energia AS (Parent Company) and its subsidiaries (Group) which have been prepared for the period 1 April 2009 – 31 March 2010 and set out on pages 82–150. The Management Board declares that, to the best of its knowledge:

- the financial statements have been prepared in accordance with the International Financial Reporting Standards as they have been adopted in the European Union;
- the financial statements present a true and fair view of the financial position, the cash flows and the results of operations of the Group;
- all known material circumstances that became evident before the date of preparation of the financial statements (17 May 2010) have been appropriately accounted for and presented in the financial statements.

Accordingly the Management Board finds that Eesti Energia AS and its subsidiaries are operating as going concerns.



Sandor Liive
Chairman of the Management Board



Harri Mikk
Member of the Management Board



Margus Rink
Member of the Management Board



Margus Kaasik
Member of the Management Board



Raine Pajo
Member of the Management Board

Consolidated Income Statement

in million EUR	1 April - 31 March		Note
	2009/10	2008/09	
Continuing operations			
Revenue	677.7	665.5	5, 26
Other operating income	23.7	6.1	27
Government grants	0.1	2.3	24
Change in inventories of finished goods and work-in-progress	7.1	3.9	
Raw materials and consumables used	(278.0)	(311.9)	28
Payroll expenses	(123.1)	(131.4)	29
Depreciation, amortisation and impairment	(107.3)	(95.8)	5, 6, 8
Other operating expenses	(69.5)	(61.3)	30
OPERATING PROFIT	130.7	77.3	5
Financial income	11.9	19.7	31
Financial expenses	(14.1)	(18.6)	31
Net financial income (-expense)	(2.2)	1.1	31
Profit from associates using equity method	1.4	1.7	5, 9

in million EUR	1 April - 31 March		Note
	2009/10	2008/09	
PROFIT BEFORE TAX	129.9	80.2	
Corporate income tax expense	(14.8)	(10.7)	32
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	115.1	69.5	
PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS	28.5	17.4	35
PROFIT FOR THE YEAR	143.6	86.9	
PROFIT ATTRIBUTABLE TO:			
Equity holder of the Parent Company	143.4	87.0	
Minority interest	0.2	(0.1)	
<i>Basic earnings per share (euros)</i>	<i>1.94</i>	<i>1.18</i>	36
<i>Diluted earnings per share (euros)</i>	<i>1.94</i>	<i>1.18</i>	36

Consolidated Statement of Comprehensive Income

in million EUR	1 April - 31 March		Note
	2009/10	2008/09	
PROFIT FOR THE YEAR	143.6	86.9	
Other comprehensive income			
Revaluation of hedging instruments	(26.3)	59.5	21
Other comprehensive income for the year	(26.3)	59.5	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	117.3	146.4	
ATTRIBUTABLE TO:			
Equity holder of the Parent Company	117.0	146.5	
Minority interest	0.2	(0.1)	

Consolidated Statement of Financial Position

in million EUR	31 March		Note
	2010	2009	
ASSETS			
Non-current assets			
Property, plant and equipment	1 208.3	1 459.3	5, 6
Intangible assets	16.7	11.1	5, 8
Investments in associates	11.6	11.4	5, 9
Derivative financial instruments	0.9	7.9	13
Long-term receivables	2.5	0.3	12
Total non-current assets	1 239.9	1 490.0	
Current assets			
Inventories	34.2	29.3	10
Greenhouse gas allowances	-	25.8	8
Trade and other receivables	101.1	114.6	12
Derivative financial instruments	5.0	18.2	13
Financial assets at fair value through profit or loss	1.1	2.0	16
Deposits at banks with maturities of more than three months	380.9	25.1	17
Cash and cash equivalents	72.1	97.2	18
Total current assets	594.4	312.2	
Total assets	1 834.3	1 802.2	

in million EUR	31 March		Note
	2010	2009	
EQUITY			
Capital and reserves attributable to equity holder of the Parent Company			
Share capital	471.6	471.8	19
Share premium	259.8	259.8	
Statutory reserve capital	47.2	47.2	19
Hedge reserve	(1.8)	24.5	21
Retained earnings	410.1	353.6	19
Total equity and reserves attributable to equity holder of the Parent Company	1 186.9	1 156.9	
Minority interest	3.5	3.2	
Total equity	1 190.4	1 160.2	
LIABILITIES			
Non-current liabilities			
Borrowings	359.0	321.7	22
Other payables	0.1	0.1	23
Derivate financial instruments	5.0	0.7	13
Deferred income	116.5	125.2	24
Provisions	28.2	20.2	25
Total non-current liabilities	508.8	467.8	
Current liabilities			
Borrowings	3.5	7.7	22
Trade and other payables	114.8	125.6	23
Derivative financial instruments	2.8	-	13
Deferred income	0.2	0.2	24
Provisions	13.7	40.6	25
Total current liabilities	135.1	174.2	
Total liabilities	643.9	642.0	
Total liabilities and equity	1 834.3	1 802.2	

Consolidated Statement of Cash Flows

in million EUR	1 April - 31 March		Note
	2009/10	2008/09	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash flows from operating activities from continuing operations			
Cash generated from operations	234.9	131.4	33
Interest and loan fees paid	(15.5)	(15.9)	
Interest received	12.0	17.3	
Corporate income tax paid	(14.8)	(10.7)	
Net cash generated from operating activities from continuing operations	216.6	121.9	
Net cash generated from operating activities from discontinued operations	9.5	44.0	
Net cash generated from operating activities	226.1	166.0	
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash flows from investing activities from continuing operations			
Purchase of property, plant and equipment and intangible assets	(194.1)	(187.7)	
Proceeds from connection and other fees	10.8	20.0	24
Proceeds from sale of property, plant and equipment	5.7	3.8	
Dividends collected from associates	2.3	-	9
Net change in deposits at banks with maturities of more than 3 months	(355.8)	113.1	17
Purchase of short-term financial investments	(20.9)	(18.9)	15, 16
Proceeds from sale and redemption of short-term financial investments	21.9	23.7	15, 16
Change in overdraft provided for discontinued operations	139.5	8.0	
Net cash used in investing activities from continuing operations	(390.7)	(38.0)	
Net cash used in investing activities from discontinued operations	(26.9)	(36.1)	
Dividends collected from discontinued operations	30.7	-	
Proceeds from sale of discontinued operations	166.0	-	35
Net cash used in investing activities	(220.9)	(74.1)	
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash flows from financing activities from continuing operations			
Bank loans received	41.7	-	
Repayments of bank loans	(9.0)	(7.7)	
Repayments of finance lease liabilities	-	(0.1)	
Change in overdraft	-	(0.2)	
Dividends paid	(86.9)	(41.7)	20
Net cash used in financing activities from continuing operations	(54.3)	(49.6)	
Net cash from used in financing activities from discontinued operations	24.0	(8.0)	
Net cash used in financing activities	(30.3)	(57.6)	
NET CASH FLOWS	(25.1)	34.3	
Cash and cash equivalents at beginning of the period	97.2	62.9	18
Cash and cash equivalents at end of the period	72.1	97.2	18
Net increase/(-)decrease in cash and cash equivalents	(25.1)	34.3	

Consolidated Statement of Changes in Equity

in million EUR	Attributable to equity holder of the Company						Minority interest	Total equity	Note
	Share capital	Share premium	Statutory reserve capital	Other reserves	Retained earnings	Total			
Equity as at 31 March 2008	471.8	259.8	46.5	(34.9)	308.9	1 052.1	3.3	1 055.4	
Total comprehensive income for the year	-	-	-	59.5	86.9	146.5	(0.1)	146.4	
Transactions with owner									
Transfer of retained earning to reserve capital	-	-	0.7	-	(0.7)	-	-	-	
Dividends paid	-	-	-	-	(41.7)	(41.7)	-	(41.7)	20
Total transactions with owner	-	-	0.7	-	(42.4)	(41.7)	-	(41.7)	
Equity as at 31 March 2009	471.8	259.8	47.2	24.5	353.6	1 156.9	3.2	1 160.2	
Total comprehensive income for the year	-	-	-	(26.3)	143.4	117.0	0.2	117.3	
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 March 2010	471.6	259.8	47.2	(1.8)	410.1	1 186.9	3.5	1 190.4	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The consolidated financial statements of Eesti Energia Group for the year ended 31 March 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 17 May 2010. 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 certain financial assets and liabilities (including derivative financial instruments), which have been measured at fair value through profit and loss.

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

2.2 Changes in accounting policies

a. New standard adopted early from 1 April 2009

- *IAS 24 "Related Party Disclosures" (amendments)*. IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group has disclosed the information about the related party transactions in accordance with the requirements of the amended standard.

b. New standards adopted, and amendments to and interpretations of existing standards which became mandatory for the Group from 1 April 2009

- *IAS 1 "Presentation of Financial Statements" (revised)*. The main amendment to IAS 1 is the replacement of the income statement by the statement of comprehensive income which also includes all non-owner changes in equity, such as changes in the revaluation reserve of available-for-sale assets. It is alternatively permitted to present two separate statements, an income statement and a statement of comprehensive income. The revised standard also requires disc-

losure of the financial position (balance sheet) for the opening balances of the comparable period when comparative information has been adjusted because of reclassifications, changes in accounting policies or correction of errors. The revised standard had an effect on the presentation of financial statements but not on the recognition of transactions and balances or on accounting policies. In accordance with the requirements of the revised standard, a separate income statement and a statement of comprehensive income have been presented.

- *IAS 23 "Borrowing Costs" (revised)*. The revised IAS 23 requires that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to be ready for its intended use or sale are immediately capitalised as part of the cost of the asset. The revised standard eliminates the option of immediately recognising such borrowing costs as expenses. The revised standard was adopted prospectively from 1 April 2009 (see also Note 2.7). As the Group previously recognised all borrowing costs as an expense immediately, the amendment to the standard required a change in the Group's accounting policies. In accordance with the transition provisions of the standard, the comparative figures have not been restated.

- *IFRS 7 "Financial Instruments: Disclosures (amendment) – Improving Disclosures about Financial Instruments"*. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include financial guarantee contracts issued at the maximum amount of the guarantee and in the earliest period in which the guarantee can be collected; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of the financial assets it holds for managing liquidity risk, if that information is necessary to enable the readers of the financial statements to evaluate the nature and extent of the liquidity risk. The enhanced disclosures are included by the Group in these financial statements.
- *Improvements to International Financial Reporting Standards* (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method for making necessary but non-urgent amendments to the IFRS. The substantive changes

relate to the following areas: classification as held for sale under IFRS 5 in the case of a loss of control over a subsidiary; the possibility of presenting as non-current financial instruments held for trading under IAS 1; accounting for the sale of IAS 16 assets which were previously held for rental purposes and the classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of the definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements for associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amendment to the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over the method for determining the fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40 and 41 and IFRS 7 represent

terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments did not have a material effect on the financial statements, except for:

1. *IAS 23 "Borrowing Costs" (amendment)*. The definition of borrowing costs is revised to specify that the interest expense that forms part of the borrowing costs is to be calculated using the effective interest rate method as described in IAS 39. The Group adopted this amendment from the commencement of capitalisation of borrowing costs on 1 April 2009;
2. *IAS 36 "Impairment of Assets" (amendment)*. The amendment requires increased disclosure of underlying assumptions where the recoverable amount of a cash generating unit (or group of units) is based on fair value less costs of selling determined using discounted cash flow projections. The adoption of the amendment to the standard is expected to require additional disclosures in the financial statements on certain occasions;
3. *IAS 39 "Financial Instruments: Recognition and Measurement" (amendments)*. The revised standard allows movements into and out of the fair value through profit or loss category where a derivative begins or ceases to qualify as a hedging instrument in cash flow or net investment hedge; and where financial

assets are reclassified following a change in policy by an insurance company in accordance with IFRS 4. The amendment also clarifies that when remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, a revised effective interest rate (calculated at the date fair value hedge accounting ceases) shall be used. The adoption of the amendment to the standard may have an effect on the accounting of possible transactions involving currently owned financial instruments.

- c. The following amendments to and interpretations of existing standards became mandatory for the Group from 1 April 2009 but are not relevant to the Group's operations:
 - *IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" (amendment) – Puttable Financial Instruments and Obligations Arising on Liquidation.*
 - *IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements" (amendments) – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate.*
 - *IFRS 2 "Share-based Payment" (amendment) – Vesting Conditions and Cancellations.*

- IFRIC 12 "Service Concession Arrangements".
- IFRIC 13 "Customer Loyalty Programmes".
- IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactions".

d. New standards, amendments and interpretations to existing standards that are not yet in force and have not been adopted early by the Group

At the time these financial statements are being prepared, the following new International Financial Reporting Standards, amendments to standards and International Financial Reporting Interpretations Committee interpretations have been published and will become mandatory for the Group from the reporting period beginning at or after 1 April 2010, but have not been adopted early by the Group:

- IAS 27 "Consolidated and Separate Financial Statements" (revised). The revised standard will be mandatory for the Group from 1 April 2010. The revised standard requires an entity to attribute total comprehensive income to the owners of the parent and to non-controlling interests even if this results in the non-controlling interests having a deficit balance. In most cases, the current standard requires the excess losses to be allocated to the owners

of the parent. The revised standard specifies that all changes in the 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 from the loss of control over a subsidiary. The adoption of the amendment to the standard may have an effect on the recognition of future transactions related to non-controlling interests.

- IAS 39 "Financial Instruments: Recognition and Measurement (amendment) – Eligible Hedged Items. The amended standard will be mandatory for the Group from 1 April 2010. The amendment clarifies how the principles that determine whether hedged risk or a portion of cash flows is eligible for hedge requirements should be applied to particular situations. The adoption of the amendment to the standard may have an effect on the Group's hedging transactions.
- IFRS 3 "Business Combinations" (revised). The revised standard will apply to business combinations set up in the Group with an acquisition date after 1 April 2010. The revised standard includes the option of measuring non-controlling interests using the existing 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 adoption of the revised standard may have an effect on the recognition of future acquisitions.

- IFRS 9 "Financial Instruments Part 1: Classification and Measurement". The standard will be mandatory for the Group from 1 April 2013. IFRS 9 replaces those parts of IAS 39 relating to the classification and

measurement of financial assets. Its 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 decision 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.

This decision 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.

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.

- *IFRIC 17 "Distribution of Non-cash Assets to Owners"*. IFRIC 17 will be mandatory for the Group from 1 April 2010. The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as dividends to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets shall be recognised in profit or loss when the entity settles the dividend payable. The adoption of the standard may have an effect on recognition of future transactions related to the transfer of non-cash assets to owners.
- *IFRIC 18 "Transfers of Assets from Customers"*. IFRIC 18 will be mandatory for the Group from 1 April 2010. 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 adoption of the interpretation may have an effect on recognition of connection fees and other transactions related to the transfer of assets from customers.

- e. **New standards, amendments and interpretations to standards that are not yet in force and are not expected to have a material effect on the Group's financial reporting**

At the time these financial statements are being prepared, the following new International Financial Reporting Standards, amendments to standards and International Financial Reporting Interpretations Committee interpretations have been published that will be mandatory for the Group from reporting periods beginning at or after 1 April 2010, but are not relevant for the Group's operations (pronouncements not yet endorsed by the EU are indicated with an asterisk*):

- *IAS 32 "Financial Instruments: presentation" (amendment) - Classification of Rights Issues*.

- IFRS 1 “First-time Adoption of International Financial Reporting Standards” (revised).
- IFRS 1 “First-time Adoption of International Financial Reporting Standards” (amendments) – Additional Exemptions for First-time Adopters.*
- IFRS 1 “First-time Adoption of International Financial Reporting Standards” (amendment) – Limited exemption from comparative IFRS 7 disclosures for first-time adopters.*
- IFRS 2 “Share-based Payment” (amendments) – Group Cash-settled Share-based Payment Transactions.
- Improvements to IFRSs (issued in April 2009).
- The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009).*
- IFRIC 9 “Reassessment of Embedded Derivatives” and IAS 39 “Financial Instruments: Recognition and Measurement” (amendments) – Embedded Derivatives.
- IFRIC 14 “The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactions” (amendment)
- Prepayments of a Minimum Funding Requirement.*
- IFRIC 15 “Agreements for the Construction of Real Estate”.
- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”.
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”.*

2.3 Preparation of consolidated financial statements

a. Subsidiaries

Subsidiaries are all entities over which the Parent Company 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 at which control is transferred to the Group and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill (Note 2.8). If the cost of acquisition is

less than the fair value of the net assets of the subsidiary acquired, the negative difference is recognised directly in the income statement.

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

b. Transactions with non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals to non-controlling interests result in gains and losses for the Group that are recorded in the income statement. Purchases from non-controlling interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary.

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 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 April 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 (see also Note 2.2 (b)). 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 March 2009 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 de-recognised. Costs related to ongoing maintenance and repairs are charged to the income statement.

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

Buildings	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	7–30 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 impairment indicators, similarly to the testing of impairment for items of property, plant and equipment (except for goodwill). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amount with their recoverable amount.

a. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net

assets acquired as at the date of acquisition. 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 costs 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 or purchased, 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, held-to-maturity investments, 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. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments which the Group has the intention to hold until maturity. If the Group sells held-to-maturity investments in a quantity which is larger than insignificant before their redemption, all financial assets in this category are reclassified as available-for-sale financial assets. Held-to-maturity investments are reported as long-term financial investments unless the maturity is less than 12 months as at 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 are subsequently carried at fair value. Loans and receivables and held-to-maturity investments 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 held-to-maturity investments 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 period.

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 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 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 2007 it was 22/78). 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 (until 1 January 2008: 22/78 of fringe benefits paid to employees)
Pollution charges	Paid for contamination of the air, water, ground water, soil and waste storage, and based on tonnage and type of waste
Fee for extraction right for oil shale	0.92 euros per tonne of oil shale extracted (in 2009 0.77 euros, in 2008 0.73 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, in 2008 1.60-99.70 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 25%, while for certain activities a lower tax rate of 15% or a higher tax of 35% may apply
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 20%
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 March 2010 and 31 March 2009, the Group had neither any deferred income tax assets nor deferred income tax liabilities

2.20 Employee benefits

Short-term employee benefits

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

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

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to 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).

Other employee benefits

Provisions have been set up to cover the benefits arising from collective 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.

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 PPE.

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 or additionally acquired, 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.

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, 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 date exceed costs incurred plus recognised profits, the balance is shown as due from 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 2008/09 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. The Group had no significant balances in currencies other than the Estonian kroons, euro and US dollar.

In million EUR	31 March 2010	31 March 2009
Cash and cash equivalents	0.4	-
Receivables related to realised derivatives (Note 13)	-	0.2
Trade receivables	2.0	1.6
Trade payables	0.4	0.4

Had the US dollar's exchange rate at 31 March 2010 been 17% (31 March 2009: 28%) higher or lower (with other factors remaining constant), the Group's profit for the financial year would have been EUR 0.3 million higher/lower (2008/09: EUR 0.4 million higher/lower) as a result of the appreciation/depreciation in the fair value of derivatives of shale oil and revaluation of the balances of cash and cash equivalents, trade receivables and trade payables.

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 Nordic power exchange Nord Pool depends on the price difference between the market price of electricity and the price level of greenhouse gas emission allowances and may reach up to 50% of the maximum sales volume.

Swap and future transactions are used to hedge the risk in the price of shale oil. With these transactions, the Group or a transac-

tion 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 CO₂ emissions exceed the number of greenhouse gas emission allowances allocated free of charge by the state. To lower the risk from changes in the price of the amount of greenhouse gas emissions allowed, the Group uses 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 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 March 2010 and 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, 80% of the Group's borrowings were fixed and 20% had floating interest rates. As at 31 March 2009, the figures stood at 93% and 7% respectively.

Had the market interest rate (6-month EURIBOR) as at 31 March 2010 been 70 basis points (31 March 2009: 90 basis points) higher/lower, the net profit for the financial year (with all other factors remaining constant) would have been EUR 0.1 million lower/higher (2008/09: 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, held-to-maturity 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.
Securities 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 tradable on the market.
Securities 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 tradable 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.

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

In million EUR	31 March 2010	31 March 2009
Deposits with maturities of more than 3 months at banks (Notes 11 and 17)	380.9	25.1
Trade and other receivables (Notes 11 and 12)*	97.8	90.2
Bank accounts and term deposits with maturities lower than 3 months at banks (Note 18)	72.1	97.2
Nominal amount of financial guarantee (Note 34)	26.7	28.6
Derivatives with positive value (Notes 3.3, 11, 13 and 14)	5.9	26.0
Total amount exposed to credit risk	583.4	267.1

* Total trade and other receivables less prepayments

Trade receivables are shown net of impairment losses. Although the collection of receivables can be impacted by economic factors, management believes that there is no significant risk of loss beyond the provisions already recorded. The types of other receivables do not contain any impaired assets. More detailed information on credit risk is disclosed in Notes 12 and 14.

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 securities.

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 74 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 March 2010, the ratings were A- negative and A1

negative, 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 March 2010, the Group had undrawn loan facilities of EUR 138 million (31 March 2009: EUR 40 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 453 million (31 March 2009: EUR 122 million). The cash flow forecasts are prepared for a 12-month period and approved by the Supervisory Board once a year. Bank account limits are used within the Group to manage the liquidity of subsidiaries.

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

Division of liabilities by maturity date as at 31 March 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)*	13.4	122.0	386.8	522.2	362.6
Derivatives (Notes 3.3, 11 and 13)	2.8	5.0	-	7.8	7.8
Trade and other payables (Notes 11 and 23)	67.5	-	-	67.5	67.5
Tax liabilities and payables to employees (Note 23)	44.2	-	-	44.2	44.2
Potential financial guarantee obligations (Note 34)	2.1	24.6	-	26.7	0.1
Total	130.0	151.6	386.8	668.4	482.2

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

Division of liabilities by maturity date as at 31 March 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)*	17.3	76.6	409.8	503.7	329.3
Derivatives (Notes 3.3, 11 and 13)	-	0.7	-	0.7	0.7
Trade and other payables (Notes 11 and 23)	77.3	-	-	77.3	77.3
Tax liabilities and payables to employees (Note 23)	48.3	-	-	48.3	48.3
Potential financial guarantee obligations (Note 34)	1.8	7.6	19.2	28.6	0.1
Total	144.7	84.9	429.0	658.6	455.7

* Interest expenses have been estimated on the basis of the interest rates prevailing as at 31 March 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 more than three times and equity should be at least 50% of the total assets. As at 31 March 2010 and 31 March 2009, the net debt to EBITDA ratio and the equity to assets ratio were as follows (in million EUR):

	31 March 2010	31 March 2009
Debt (Notes 3.1, 11 and 22)	362.6	329.3
Less: cash and cash equivalents and bank deposits with maturity longer than 3 months (Notes 3.1, 11, 17 and 18)	453.0	122.3
Net debt	(90.4)	207.0
Equity	1 190.4	1 160.2
EBITDA	238.0	173.1
Assets	1 834.3	1 802.2
Net debt/EBITDA	N/A	1.2
Equity/assets	65%	64%

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 March 2010 and 31 March 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 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 March 2010 and 2009:

In million EUR	31 March 2010		
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Total
Financial assets at fair value through profit or loss (Notes 11 and 16)	1.1	-	1.1
Trading derivatives (Notes 13 and 14)	-	0.5	0.5
Cash flow hedges (Notes 13 and 14)	-	5.3	5.3
Total financial assets (Notes 3.1, 11, 13, 14 and 16)	1.1	5.8	6.9
Trading derivatives (Notes 13 and 14)	-	0.5	0.5
Derivatives used for hedging (Notes 13 and 14)	-	7.3	7.3
Total financial liabilities (Notes 3.1, 11 and 13)	-	7.8	7.8

In million EUR	31 March 2009		
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Total
Financial assets at fair value through profit or loss (Notes 11 and 16)	2.0	-	2.0
Trading derivatives (Notes 13 and 14)	-	0.5	0.5
Cash flow hedges (Notes 13 and 14)	-	25.5	25.5
Total financial assets (Notes 3.1, 11, 13, 14 and 16)	-	26.0	28.0
Trading derivatives (Notes 3.1, 11 and 13)	-	0.7	0.7
Total financial liabilities (Notes 3.1, 11 and 13)	-	0.7	0.7

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.

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 March 2010, the net book amount of property, plant and equipment of the Group totalled EUR 1.2 billion (31 March 2009: EUR 1.5 billion), and the depreciation charge of continuing operations of the reporting period was EUR 94 million (2008/09: EUR 87 million) (Note 6). If depreciation rates were changed by 10%, the annual depreciation charge would change by EUR 9.4 million (2008/09: EUR 8.7 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, producing electricity and distributing electricity are impacted by the Competition Board which determines the reasonable rate of return to be earned on these assets. If the income, expenses and investments related to the sale of 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 March 2010, the Group had set up provisions for environmental protection, termination of mining operations, compensation for work-related injuries, scholarships, liabilities arising from the collective agreement, redundancies and greenhouse gas emissions totalling EUR 42 million (31 March 2009: EUR 61 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 is considered. As at 31 March 2010 the Group had inventories totalling EUR 34 million (31 March 2009: EUR 29 million) (Note 10). Further information is disclosed in 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 of continuing operations totalled EUR 7 million (2008/09: EUR 6 million). If the estimated customer relationship period is reduced by 10%, the annual income from connection fees would increase by EUR 0.7 million (2008/09: EUR 0.6 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 the reporting period will not be collected in a subsequent period. The adjustments performed at 31 March 2009, take into account a potential increase in doubtful receivables due to the economic crisis. As at March 2010, the Group's doubtful receivables totalled EUR 5 million (31 March 2009: EUR 7 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 March 2010, the amount of the hedge reserve was EUR -2 million (31 March 2009: EUR 25 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, UAB Enefit, SIA Enefit, 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 Elektri jaamad AS, Taastuvenergia, Iru Elektri jaam, Kohtla-Järve Soojus AS, Energia-kaubandus, Solidus Oy, AS Narva Soojusvõrk, OÜ Aulepa Tuulepargid, Eesti Energia Tabasalu Koostootmisjaam OÜ);
- Minerals, Oil, Biofuels (consisting of companies and business units Eesti Energia Kae-vandused Group, Eesti Energia Õlitööstus AS, Eesti Energia Tehnoloogiatööstus Group, Oil Shale Energy of Jordan, 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 35). 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 Elektriijaamad for the production of heat and electricity
- the price limit for electricity sold from Narva Elektriijaamad 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 MARCH 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)	436.7	178.3	427.4	211.2	158.5	13.2	(410.7)	677.7
Inter-segment revenue	(21.7)	(3.4)	(252.8)	(124.4)	(131.3)	(11.8)	410.7	-
Revenue from external customers (Note 26), including	415.0	174.8	174.6	86.8	27.2	1.3	-	677.7
<i>electricity exports</i>	17.6	-	98.5	-	-	-	-	116.2
<i>domestic electricity sales</i>	207.8	-	29.5	-	-	-	-	237.4
<i>sales of network services</i>	166.3	166.3	0.6	-	-	-	-	166.9
<i>heat</i>	-	-	43.1	-	-	-	-	43.1
<i>oil shale</i>	-	-	-	24.9	24.9	-	-	24.9
<i>shale oil</i>	-	-	-	44.7	-	-	-	44.7
<i>other goods and services</i>	23.3	8.6	2.8	17.2	2.3	1.3	-	44.6
Depreciation and amortisation (Notes 6, 8 and 33)	(34.9)	(32.2)	(37.3)	(20.9)	(18.3)	(1.7)	0.1	(94.6)
Impairment loss (Notes 6 and 33)	-	-	(12.7)	-	-	-	-	(12.7)
Setting up of and change in provisions (Note 25)	(0.1)	(0.1)	(5.4)	0.7	0.7	(0.1)	-	(4.9)
Operating profit	39.8	34.0	67.2	31.4	16.9	31.9	(39.5)	130.7
Interest income (Note 31)	0.8	-	1.9	0.8	-	35.2	(26.9)	11.8
Interest expenses (Note 31)	(15.2)	(14.0)	(7.3)	(2.5)	(2.2)	(19.6)	30.7	(13.9)
Profit from associates using equity method (Note 9)	-	-	0.5	0.8	0.8	-	-	1.4
Corporate income tax (Note 32)	(0.7)	-	(12.7)	(1.4)	(1.4)	-	-	(14.8)
Total assets	702.7	645.9	518.3	207.7	117.4	1 368.2	(962.6)	1 834.3
<i>including investments in associates (Note 9)</i>	-	-	9.4	2.2	2.2	-	-	11.6
<i>including property, plant and equipment, and intangibles</i>	631.5	620.5	433.8	124.9	76.1	31.4	3.3	1 225.0
Capital expenditure (Notes 6 and 8)	64.1	62.6	75.1	49.2	18.6	7.3	2.9	198.6
Total liabilities	456.1	422.9	181.6	82.1	56.4	395.0	(470.9)	643.9
Average number of employees (Note 29)	1 568	784	1 660	4 131	3 132	254	-	7 613

5. SEGMENT REPORTING, CONTINUED

SEGMENT INFORMATION FOR REPORTABLE SEGMENTS FOR THE YEAR ENDED 31 MARCH 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)	414.9	169.7	424.9	211.8	161.9	10.3	(396.5)	665.5
Inter-segment revenue	(17.8)	(3.2)	(240.9)	(129.1)	(133.4)	(8.7)	396.5	-
Revenue from external customers (Note 26), including	397.1	166.6	184.0	82.8	28.5	1.6	-	665.5
<i>electricity exports</i>	8.0	-	103.4	-	-	-	-	111.4
<i>domestic electricity sales</i>	207.4	-	18.1	-	-	0.1	-	225.6
<i>sales of network services</i>	158.7	158.7	0.6	-	-	-	-	159.3
<i>heat</i>	-	-	57.0	-	-	-	-	57.0
<i>oil shale</i>	-	-	-	24.5	24.5	-	-	24.5
<i>shale oil</i>	-	-	-	35.4	-	-	-	35.4
<i>other goods and services</i>	22.9	7.9	4.9	22.9	4.0	1.5	-	52.3
Depreciation and amortisation (Notes 6, 8 and 33)	(32.9)	(30.4)	(35.1)	(18.3)	(16.5)	(1.3)	-	(87.5)
Impairment loss (Notes 6 and 33)	-	-	(8.3)	-	-	-	-	(8.3)
Setting up of and change in provisions (Note 25)	-	-	(21.3)	(1.7)	(1.7)	(0.1)	-	(23.1)
Operating profit	29.3	25.6	39.4	15.3	3.8	(4.5)	(2.1)	77.3
Interest income (Note 31)	0.6	-	1.6	0.4	-	33.9	(21.5)	15.0
Interest expenses (Note 31)	(13.5)	(12.3)	(5.3)	(2.2)	(1.8)	(18.9)	21.5	(18.5)
Profit from associates using equity method (Note 9)	-	-	0.5	1.3	1.3	-	-	1.7
Corporate income tax (Note 32)	(0.1)	-	(8.2)	(2.4)	(2.4)	-	-	(10.7)
Total assets	663.0	612.0	562.1	197.0	111.5	1 286.0	(1 241.7)	1 466.4
<i>including investments in associates (Note 9)</i>	-	-	8.9	2.5	2.5	-	-	11.4
<i>including property, plant and equipment, and intangibles</i>	602.6	590.2	408.0	96.9	78.7	29.7	(0.1)	1 137.1
Capital expenditure (Notes 6 and 8)	106.1	101.7	49.6	32.0	23.2	7.2	(5.6)	189.3
Total liabilities	433.3	408.9	201.5	72.6	58.4	386.0	(479.7)	613.7
Average number of employees (Note 29)	1 766	908	1 855	4 404	3 353	196	-	8 221

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 109.8 million, of total eliminations of revenue (2008/09: EUR 115.6 million; 2007/08 EUR 122.1 million); and the sale of electricity by Electricity and Heat Generation to Retail, which accounted for EUR 244.7 million, of total eliminations of revenue (2008/09 EUR 233.4 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 arisen 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 March	
	2010	2009
Segment assets for reportable segments	1 428.7	1 422.1
Assets of Corporate Functions	1 368.2	1 286.0
Eliminations:		
The carrying amount of investments in subsidiaries*	(494.4)	(628.7)
Intra-segment receivables and receivables from discontinued operations	(469.9)	(612.0)
Unrealised profit/loss and other eliminations	1.7	(1.0)
Total eliminations	(962.6)	(1 241.7)
Total assets of continuing operations	1 834.3	1 466.4
Assets of discontinued operations (Note 35)	-	335.8
Total assets per consolidated statement of financial position	1 834.3	1 802.2

* recognised as assets of Corporate Functions

REPORTABLE SEGMENTS' LIABILITIES ARE RECONCILED TO TOTAL CONSOLIDATED LIABILITIES AS FOLLOWS:

in million EUR	31 March	
	2010	2009
Segment liabilities for reportable segments	719.8	707.4
Liabilities of Corporate Functions	395.0	386.0
Eliminations:		
Intra-segment payables and payables to discontinued operations	(470.9)	(479.7)
Total eliminations	(470.9)	(479.7)
Total liabilities of continuing operations	643.9	613.7
Liabilities of discontinued operations (Note 35)	-	28.3
Total liabilities per consolidated statement of financial position	643.9	642.0

REPORTABLE SEGMENTS' OPERATING PROFITS ARE RECONCILED TO TOTAL CONSOLIDATED OPERATING PROFIT AS FOLLOWS:

in million EUR	1 April - 31 March	
	2009/10	2008/09
Segment operating profits for reportable segments	138.3	83.9
Operating profit of Corporate Functions	31.9	(4.5)
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	(0.7)	(2.4)
Other eliminations	(0.5)	0.3
Total operating profit per consolidated income statement	130.7	77.3

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, the Nordic countries and Latvia.

EXTERNAL REVENUE BY LOCATION OF CLIENTS

in million EUR	1 April - 31 March	
	2009/10	2008/09
Estonia	529.8	524.6
Nordic countries	67.7	95.0
Latvia	43.3	30.6
Other countries	36.9	15.4
Total external revenue (Note 26)	677.7	665.5

ALLOCATION OF NON-CURRENT ASSETS BY LOCATION*

in million EUR	31 March	
	2010	2009
Estonia	1 224.9	1 470.3
Nordic countries	0.1	0.1
Total (Notes 6 and 8)	1 225.0	1 470.4

* 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 MARCH 2008						
Cost	11.6	160.5	910.4	1 180.6	4.5	2 267.6
Accumulated depreciation	-	(79.2)	(377.5)	(521.3)	(3.6)	(981.5)
Net book amount	11.6	81.3	533.0	659.3	0.9	1 286.1
Construction in progress	-	1.4	30.5	18.4	-	50.2
Prepayments	0.3	0.1	0.4	14.0	-	14.8
Total property, plant and equipment as at 31 March 2008 (Notes 4 and 5)	11.9	82.8	563.9	691.7	0.9	1 351.1
MOVEMENTS, 1 APRIL 2008-31 MARCH 2009						
Purchases	5.8	5.5	78.5	132.4	0.6	222.8
<i>of which purchases for continuing operations (Note 5)</i>	5.6	4.8	71.8	103.3	0.6	186.2
Depreciation charge	-	(4.6)	(31.0)	(70.0)	(0.4)	(106.0)
<i>of which depreciation charge of continuing operations (Notes 4, 5 and 33)</i>	-	(4.1)	(21.7)	(60.7)	(0.4)	(86.9)
Impairment loss (Notes 5 and 33)	-	-	(8.1)	(0.2)	-	(8.3)
Disposals	(0.1)	-	-	(0.2)	-	(0.4)
Total movements, 1 April 2008-31 March 2009	5.7	0.9	39.4	62.0	0.2	108.1
PROPERTY, PLANT AND EQUIPMENT AS AT 31 MARCH 2009						
Cost	17.5	166.0	974.9	1 260.5	5.0	2 423.9
Accumulated depreciation	-	(82.8)	(403.7)	(576.7)	(4.0)	(1 067.1)
Net book amount	17.5	83.3	571.2	683.8	1.0	1 356.8
Construction in progress	-	0.4	30.1	57.5	-	88.0
Prepayments	0.1	-	2.0	12.4	-	14.5
Total property, plant and equipment as at 31 March 2009 (Notes 4 and 5)	17.6	83.7	603.3	753.7	1.0	1 459.3

6. PROPERTY, PLANT AND EQUIPMENT, CONTINUED

in million EUR	Land	Buildings	Facilities	Machinery and equipment	Other	Total
MOVEMENTS, 1 APRIL 2009-31 MARCH 2010						
Purchases	28.0	3.1	46.1	135.6	0.1	212.9
<i>of which purchases for continuing operations (Note 5)</i>	27.7	2.3	42.0	118.8	0.1	191.0
Assets transferred at net book value as a result of non-monetary disbursement (Note 19)	-	(0.1)	-	-	-	(0.1)
Depreciation charge	-	(4.5)	(27.8)	(69.1)	(0.4)	(101.8)
<i>of which depreciation charge for continuing operations (Notes 5 and 33)</i>	-	(4.3)	(23.9)	(65.3)	(0.4)	(93.8)
Impairment loss (Notes 5 and 33)	-	(1.5)	(2.3)	(8.9)	-	(12.7)
Disposals	-	(0.1)	-	(0.7)	-	(0.9)
Provision for dismantling cost of assets (Note 25)	-	-	0.1	1.1	-	1.2
Transferred in disposal of discontinued operations (Note 35)	(3.8)	(13.4)	(181.2)	(151.1)	-	(349.5)
Reclassified (Note 8)	-	(0.4)	0.4	-	-	-
Total movements, 1 April 2009-31 March 2010	24.2	(16.8)	(164.9)	(93.1)	(0.3)	(251.0)
PROPERTY, PLANT AND EQUIPMENT AS AT 31 MARCH 2010						
Cost	41.8	149.6	702.4	1,156.1	4.9	2,054.7
Accumulated depreciation	-	(83.4)	(284.3)	(561.5)	(4.2)	(933.4)
Net book amount	41.8	66.2	418.1	594.6	0.7	1,121.3
Construction in progress	-	0.7	17.8	41.2	-	59.7
Prepayments	-	-	2.6	24.7	-	27.3
Total property, plant and equipment as at 31 March 2010 (Notes 4 and 5)	41.8	66.8	438.4	660.6	0.7	1,208.3

In 2009/10 the assets of Iru Power Plant and 9th, 10th and 12th block of Baltic 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. In 2008/09, an impairment loss of EUR 8.3 million was recognised in respect of the pilot project for oil shale ash processing and storage system that will not be put into operation in its present condition. The capitalisation rate of 4.5% was used to determine the amount of borrowing costs eligible for capitalisation (Note 31).

6. PROPERTY, PLANT AND EQUIPMENT, CONTINUED

BUILDINGS AND FACILITIES LEASED OUT UNDER OPERATING LEASE TERMS

in million EUR	31 March	
	2010	2009
Cost	6.3	5.9
Accumulated depreciation at the beginning of the financial year	(2.7)	(2.5)
Depreciation charge	(0.2)	(0.2)
Net book amount	3.3	3.2

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

CONTINUING OPERATIONS

in million EUR	1 April - 31 March	
	2009/10	2008/09
Rental and maintenance income		
Buildings	1.6	1.9
<i>of which contingent rent</i>	0.7	0.6
Facilities	0.7	0.8
Total rental and maintenance income (Note 26)	2.3	2.7
Rental expense		
Buildings	0.5	0.4
Transport vehicles	1.5	1.5
Other machinery and equipment	1.3	1.0
Total rental expense (Note 30)	3.3	2.9

FUTURE MINIMUM LEASE RECEIVABLES UNDER NON-CANCELLABLE OPERATING LEASE CONTRACTS BY DUE DATES

in million EUR	1 April - 31 March	
	2009/10	2008/09
Rental income		
< 1 year	1.1	1.0
1 - 5 years	4.4	4.8
> 5 years	19.8	17.0
Total rental income	25.3	22.7

The oil terminal and the administrative building have been leased out under non-cancellable lease agreements. The lease agreements will expire in 2033 and 2035. 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 MARCH 2008						
Cost	2.5	0.7	2.9	0.9	0.7	7.7
Accumulated amortisation	-	(0.1)	(0.1)	-	(0.5)	(0.7)
Net book amount	2.5	0.6	2.8	0.9	0.2	7.1
Intangible assets not yet available for use	-	1.3	-	-	-	1.3
Total intangible assets as at 31 March 2008 (Note 5)	2.5	1.9	2.8	0.9	0.2	8.3
MOVEMENTS, 1 APRIL 2008-31 MARCH 2009						
Purchases	-	3.2	0.3	0.1	-	3.5
<i>of which purchases for continuing operations (Note 5)</i>	-	3.0	-	0.1	-	3.1
Amortisation charge	-	(0.3)	(0.1)	-	(0.2)	(0.7)
<i>of which amortisation charge for continuing operations (Notes 5 and 33)</i>	-	(0.3)	(0.1)	-	(0.2)	(0.6)
Total movements, 1 April 2008-31 March 2009	-	2.8	0.2	0.1	(0.2)	2.8
Intangible assets as at 31 March 2009						
Cost	2.5	1.4	3.2	1.0	-	8.0
Accumulated amortisation	-	(0.4)	(0.2)	-	-	(0.6)
Net book amount	2.5	1.0	3.0	1.0	-	7.4
Intangible assets not yet available for use	-	3.7	-	-	-	3.7
Total intangible assets as at 31 March 2009 (Note 5)	2.5	4.7	3.0	1.0	-	11.1
MOVEMENTS, 1 APRIL 2009-31 MARCH 2010						
Purchases	-	7.9	0.2	-	0.2	8.3
<i>of which purchases for continuing operations (Note 5)</i>	-	7.4	-	-	0.2	7.6
Amortisation charge (Notes 5 and 33)	-	(0.7)	(0.1)	-	-	(0.8)
<i>of which amortisation charge for continuing operations (Notes 5 and 33)</i>	-	(0.7)	(0.1)	-	-	(0.8)
Transferred in disposal of discontinued operations (Note 35)	-	(1.0)	(1.0)	-	-	(2.0)
Total movements, 1 April 2009-31 March 2010	-	6.3	(0.9)	-	0.1	5.5
INTANGIBLE ASSETS AS AT 31 MARCH 2010						
Cost	2.5	4.6	2.3	1.0	0.2	10.5
Accumulated amortisation	-	(1.1)	(0.2)	-	-	(1.4)
Net book amount	2.5	3.4	2.1	1.0	0.1	9.1
Intangible assets not yet available for use	-	7.5	-	-	-	7.5
Total intangible assets as at 31 March 2010 (Note 5)	2.5	11.0	2.1	1.0	0.1	16.7

8. INTANGIBLE ASSETS, CONTINUED

GOODWILL

in million EUR	Mining
Allocation of goodwill by cash-generating units	
Carrying amount at 31 March 2010	2.5
Carrying amount at 31 March 2009	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 25 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 March	
	2010	2009
Mining		
Discount rate	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 2009/10 0 tonnes (2008/09: 1149 thousand tonnes) of greenhouse gas allowances were acquired.

in million EUR	1 April - 31 March	
	2009/10	2008/09
Greenhouse gas allowances at the beginning of the period	25.8	-
Acquired	-	25.8
Surrendered to state for the greenhouse gas emissions (Note 25)	(25.8)	-
Greenhouse gas allowances at the end of the period	-	25.8

9. INVESTMENTS IN ASSOCIATES

CHANGE IN INVESTMENTS IN ASSOCIATES

in million EUR	1 April - 31 March	
	2009/10	2008/09
Book value at the beginning of the period	11.4	10.8
Profit from associates using equity method (Note 33)	1.4	1.7
Dividends declared by the associate	(1.2)	(1.1)
Book value at the end of the period (Note 5)	11.6	11.4

INFORMATION ON ASSOCIATES

in million EUR						
Company	Location	Assets 31 March 2010	Liabilities 31 March 2010	Operating income 1 April 2009 - 31 March 2010	Net profit 1 April 2009 - 31 March 2010	Ownership (%) 31 March 2010
Nordic Energy Link Group	Estonia, Finland	95.7	71.5	18.6	1.2	39.9
Orica Eesti OÜ*	Estonia	9.2	3.1	16.2	2.4	35.0
		104.9	74.5	34.8	3.6	

in million EUR						
Company	Location	Assets 31 March 2009	Liabilities 31 March 2009	Operating income 1 April 2008 - 31 March 2009	Net profit 1 April 2008 - 31 March 2009	Ownership (%) 31 March 2009
Nordic Energy Link Group	Estonia, Finland	98.7	75.7	23.7	0.8	39.9
Orica Eesti OÜ*	Estonia	13.4	6.3	20.3	3.6	35.0
		112.1	82.0	44.0	4.4	

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

10. INVENTORIES

in million EUR	31 March	
	2010	2009
Raw materials and materials at warehouses	11.7	14.0
Work-in-progress		
Stored oil shale	17.1	8.9
Stripping works in quarries	2.5	2.2
Other work-in-progress	1.0	0.9
Total work-in-progress	20.7	12.0
Finished goods		
Shale oil	1.4	3.1
Other finished goods	0.3	0.2
Total finished goods	1.7	3.2
Prepayments to suppliers	0.2	0.1
Total inventories (Notes 4 and 33)	34.2	29.3

In the reporting period, the Group wrote down damaged and slow-moving inventories of raw materials and materials totalling EUR 0.9 million (2008/09: EUR 0.6 million).

11. DIVISION OF FINANCIAL INSTRUMENTS BY CATEGORY

in million EUR	Loans and receivables	Financial assets at fair value through profit or loss	Derivatives for which hedge accounting is applied	Total
AS AT 31 MARCH 2010				
Financial asset items in the statement of financial position				
Trade and other receivables excluding prepayments (Notes 3.1 and 12)	97.8	-	-	97.8
Derivative financial instruments (Notes 3.1, 3.3, 13 and 14)	-	0.5	5.4	5.9
Term deposits at banks with maturities of more than 3 months (Notes 3.1, 3.2 and 17)	380.9	-	-	380.9
Financial assets at fair value through profit or loss (Notes 3.3 and 16)	-	1.1	-	1.1
Cash and cash equivalents (Notes 3.1, 3.2, 14 and 18)	72.1	-	-	72.1
Total financial asset items in the statement of financial position	550.7	1.6	5.4	557.7
AS AT 31 MARCH 2009				
Financial asset items in the statement of financial position				
Trade and other receivables excluding prepayments (Notes 3.1 and 12)	90.2	-	-	90.2
Derivative financial instruments (Notes 3.1, 3.3, 13 and 14)	-	0.5	25.5	26.0
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)	-	2.0	-	2.0
Cash and cash equivalents (Notes 3.1, 3.2, 14 and 18)	97.2	-	-	97.2
Total financial asset items in the statement of financial position	212.5	2.5	25.5	240.6

11. DIVISION OF FINANCIAL INSTRUMENTS BY CATEGORY, CONTINUED

in million EUR	Liabilities at fair value through profit or loss	Derivatives for which hedge accounting is applied	Other financial liabilities	Total
AS AT 31 MARCH 2010				
Financial liability items in the statement of financial position				
Borrowings (Notes 3.1, 3.2 and 22)	-	-	362.6	362.6
Trade and other payables (Notes 3.1 and 23)	-	-	67.5	67.5
Derivative financial instruments (Notes 3.1, 3.3 and 13)	0.5	7.3	-	7.8
Total financial liability items in the statement of financial position	0.5	7.3	430.0	437.8
AS AT 31 MARCH 2009				
Financial liability items in the statement of financial position				
Borrowings (Notes 3.1, 3.2 and 22)	-	-	329.3	329.3
Trade and other payables (Notes 3.1 and 23)	-	-	77.3	77.3
Derivative financial instruments (Notes 3.1, 3.3 and 13)	0.7	-	-	0.7
Total financial liability items in the statement of financial position	0.7	-	406.7	407.4

12. TRADE AND OTHER RECEIVABLES

in million EUR	31 March	
	2010	2009
Short-term trade and other receivables		
Trade receivables		
Accounts receivable	87.3	84.4
Allowance for doubtful receivables (Note 4)	(5.3)	(7.3)
Total trade receivables	81.9	77.1
Accrued income		
Amounts due from customers under the stage of completion method (Note 14)	3.1	3.0
Accrued receivable for electricity from unreported or delayed meter readings, or estimates (Note 14)	0.7	0.3
Accrued interest (Note 14)	1.7	1.3
Other accrued income (Note 14)	0.1	-
Total accrued income	5.6	4.6
Prepayments	5.6	24.4
Receivables from associates (Note 14)	1.0	2.3
Government grant receivable (Notes 14 and 25)	0.3	-
Other receivables (Note 14)	6.6	6.2
Total short-term trade and other receivables	101.1	114.6
Long-term receivables		
Government grant receivable (Notes 14 and 25)	2.3	-
Prepayments	0.2	0.3
Total long-term receivables	2.5	0.3
Total trade and other receivables (Notes 3.1 and 11)	103.6	114.9

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.

in million EUR	31 March	
	2010	2009
Analysis of accounts receivable		
Accounts receivable not yet due (Note 14)	73.9	68.7
Accounts receivable due but not classified as doubtful		
1-30 days past due	6.4	6.7
31-60 days past due	1.1	1.7
61-90 days past due	0.4	0.6
Total accounts receivable due but not classified as doubtful	8.0	9.0
Accounts receivable classified as doubtful		
3-6 months past due	0.6	0.6
more than 6 months past due	4.8	6.1
Total accounts receivable classified as doubtful	5.4	6.7
Total accounts receivable	87.3	84.4

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. As at 31 March 2010 the written down amount was reduced by EUR 0.1 million (31 March 2009: increased by EUR 0.6 million).

12. TRADE AND OTHER RECEIVABLES, CONTINUED

CHANGES IN ALLOWANCE FOR DOUBTFUL RECEIVABLES

in million EUR	1 April - 31 March	
	2009/10	2008/09
Allowance for doubtful receivables at the beginning of the period	(7.3)	(7.5)
Classified as doubtful during the accounting period	(3.1)	(3.6)
<i>of which classified as doubtful in continuing operations (Note 33)</i>	<i>(3.0)</i>	<i>(3.6)</i>
Collections in the accounting period	3.4	1.8
<i>of which collections in continuing operations (Note 33)</i>	<i>3.4</i>	<i>1.8</i>
Classified as irrecoverable	1.6	2.0
Allowance for doubtful receivables at the end of the period (Note 4)	(5.3)	(7.3)

The other receivables do not contain any impaired assets.

REVENUE UNDER THE STAGE OF COMPLETION METHOD

in million EUR	31 March	
	2010	2009
Unfinished projects at the end of the period		
Revenue of unfinished projects	10.0	8.1
Progress billing submitted	(7.0)	(5.1)
Amounts due from customers under the stage of completion method (Note 14)	3.1	3.0
Total expenses on unfinished projects in the financial year	(9.5)	(7.8)
Gains/losses calculated on unfinished projects	0.5	0.2
Total revenue from construction projects in the financial year	15.1	19.1
Total expenses on construction projects in the financial year	(14.5)	(18.0)
Total gains calculated on construction projects	0.6	1.1

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

13. DERIVATIVE FINANCIAL INSTRUMENTS

in million EUR	31 March 2010		31 March 2009	
	Assets	Liabilities	Assets	Liabilities
Forward contracts for buying and selling electricity as cash flow hedges	4.9	-	9.8	-
Forward and option contracts for buying and selling electricity as trading derivatives	-	0.5	0.1	0.7
Option contracts for buying and selling greenhouse gas emissions allowances as trading derivatives	0.5	-	0.4	-
Swap and futures contracts for selling shale oil as cash flow hedges	0.4	7.3	15.7	-
Total derivative financial instruments (Notes 3.1, 3.3, 11 and 14)	5.9	7.8	26.0	0.7
including non-current portion:				
Forward contracts for buying and selling electricity as cash flow hedges	0.5	-	1.1	-
Forward and option contracts for buying and selling electricity as trading derivatives	-	0.4	-	0.7
Option contracts for buying and selling greenhouse gas emissions allowances as trading derivatives	0.4	-	0.4	-
Swap and futures contracts for selling shale oil as cash flow hedges	-	4.5	6.3	-
Total non-current portion	0.9	5.0	7.9	0.7
Total current portion	5.0	2.8	18.2	-

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 on the Nordic power exchange Nord Pool.

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 Nordic 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 2010–2012 (31 March 2009: in 2009–2011). As at 31 March 2010 381 429 MWh had been hedged for the year 2010, 78 144 MWh for the year 2011 and 17 568 MWh for the year 2012 (31 March 2009: 343 191 MWh).

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 April - 31 March	
	2009/10	2008/09
Fair value at the beginning of the period	9.2	0.6
Change in fair value, including	5.9	13.1
change in fair value of trading derivatives recognised in other operating income or expenses	0.6	0.9
change in fair value of cash flow hedges recognised in other comprehensive income (Note 21)	5.3	12.2
Settled in cash (collected)	(10.7)	(4.5)
Fair value at the end of the period	4.4	9.2

Option contracts for buying and selling greenhouse gas emissions allowances

The option contracts for buying and selling greenhouse gas emission allowances are concluded together with electricity option contracts and their goal is to earn income from the change in prices. 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 April - 31 March	
	2009/10	2008/09
Fair value at the beginning of the period	0.4	-
Change in fair value of trading derivatives recognised in other operating income or expenses	(0.4)	0.2
Settled in cash (paid)	0.5	0.3
Fair value at the end of the period	0.5	0.4

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 2010-2012 (31 March 2009: in 2009-2012). As at 31 March 2010 45 900 tonnes had been hedged for the year 2010, 61 800 tonnes for the year 2011 and 44 400 tonnes for the year 2012 (31 March 2009: 71 100 tonnes for the year 2009, 65 400 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 April - 31 March	
	2009/10	2008/09
Fair value at the beginning of the period	15.7	(36.1)
Change in fair value, including	(19.7)	47.2
change in fair value of cash flow hedges recognised		
in other comprehensive income (Note 21)	(19.7)	47.2
Settled in cash (- collected/+paid)	(2.8)	4.6
Fair value at the end of the period	6.8	15.7

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 March	
	2010	2009
Trade receivables		
Receivables from new clients (client relationship shorter than 6 months)	1.0	1.4
Receivables from existing clients (client relationship longer than 6 months), who in the last 6 months have not exceeded the due date	26.0	31.3
Receivables from existing clients (client relationship longer than 6 months), who in the last 6 months have exceeded the due date	46.9	36.0
Total trade receivables (Note 12)	73.9	68.7
Accrued interest		
Receivables from banks with Moody's credit rating of Baa3	0.9	-
Receivables from banks with Moody's credit rating of Aa3	0.3	-
Receivables from banks with Moody's credit rating of Aa2	0.2	-
Receivables from banks with Moody's credit rating of A1	0.2	1.1
Receivables from banks with Moody's credit rating of Aa1	-	0.2
Total accrued interest (Note 12)	1.7	1.3

14. CREDIT QUALITY OF FINANCIAL ASSETS, CONTINUED

in million EUR	31 March	
	2010	2009
Bank accounts, deposits and documentary credits in banks		
At banks with Moody's credit rating of Baa3	164.5	-
At banks with Moody's credit rating of Aa3	106.1	6.9
At banks with Moody's credit rating of Aa2	94.3	-
At banks with Moody's credit rating of A1	88.0	78.7
At banks with Moody's credit rating of Aa1	-	36.7
Total bank accounts and deposits in banks (Notes 3.1, 3.2, 11, 17 and 18)	452.9	122.3
Other receivables and accrued income		
Other receivables, with Moody's credit rating of A1	6.4	5.1
Receivables without credit rating from an independent party	7.7	6.7
Total other receivables (Note 12)	14.1	11.8
Derivative financial instruments		
Derivatives with positive value with Moody's credit rating of Aa1	-	5.3
Derivatives with positive value with Moody's credit rating of Aa3	-	3.3
Derivatives with positive value with Moody's credit rating of A1	5.9	7.1
Derivatives with positive value without a credit rating from an independent party	-	10.3
Derivatives with positive value (Notes 3.1, 3.3, 11 and 13)	5.9	26.0

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

15. HELD-TO-MATURITY FINANCIAL ASSETS

CHANGES IN HELD-TO-MATURITY FINANCIAL ASSETS

in million EUR	1 April - 31 March	
	2009/10	2008/09
Amortised cost at the beginning of the period	-	5.1
Acquired	-	-
Redeemed	-	(5.2)
Amortisation of difference between cost and nominal value	-	0.1
Amortised cost at the end of the period (Notes 3.1, 11 and 14)	-	-

Held-to-maturity financial assets have been neither sold nor reclassified, neither in the reporting period nor in the comparable period.

The fair values of held-to-maturity financial assets do not materially differ from their carrying amounts.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

in million EUR	31 March	
	2010	2009
Unquoted financial assets:		
Units of Danske Invest Liquidity Fund (Notes 3.3 and 11)	1.1	2.0

CHANGES IN FINANCIAL ASSETS REPORTED AT FAIR VALUE THROUGH PROFIT OR LOSS

in million EUR	1 April - 31 March	
	2009/10	2008/09
Fair value at the beginning of the period	2.0	1.6
Acquired	20.9	18.9
Disposed	(21.9)	(18.5)
Gain from change in fair value	0.1	0.1
Fair value at the end of the period (Notes 3.3 and 11)	1.1	2.0

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.

18. CASH AND CASH EQUIVALENTS

in million EUR	31 March	
	2010	2009
Bank accounts	21.6	10.3
Short-term deposits	50.0	86.8
Documentary credit	0.5	-
Total cash and cash equivalents (Notes 3.1, 3.2, 11 and 14)	72.1	97.2

17. DEPOSITS AT BANKS WITH MATURITIES OF MORE THAN 3 MONTHS

in million EUR	31 March	
	2010	2009
Deposits at banks with maturities of more than 3 months		
Security deposits at banks	5.5	25.1
Other deposits at banks with maturities of more than 3 months	375.4	-
Total deposits at banks with maturities of more than 3 months (Notes 3.1, 3.2, 11 and 14)	380.9	25.1

In the financial year, the effective interest rates of term deposits with maturities of more than 3 months were between 0.8 and 6.9% (2008/09: 4.5-8.1%). In the reporting period the due dates of deposits were up to 367 days (2008/09: 418 days). The remaining maturities as at the ends of reporting periods dates 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 0.6-5.1% (2008/09: 3.5-5.1%). As at 31 March 2010 of term deposits with maturities of more than 3 months EUR 316.4 million were nominated in Estonian kroons and EUR 64.5 million were nominated in euros (31 March 2009: EUR 25.1 million nominated in euros).

CASH AND CASH EQUIVALENTS BY CURRENCIES

in million EUR	31 March	
	2010	2009
Estonian kroon	58.3	78.6
Euro	9.6	17.9
Latvian lat	0.3	0.5
Other	3.9	0.1
Total cash and cash equivalents (Notes 3.1, 3.2, 11 and 14)	72.1	97.2

In the financial year, the effective interest rates of term deposits with maturities of up to 3 months were between 0.3 and 6.7% (2008/09: 0.9-8.1%).

19. SHARE CAPITAL, STATUTORY RESERVE CAPITAL AND RETAINED EARNINGS

As at 31 March 2010, Eesti Energia AS had 73 796 524 registered shares (31 March 2009: 73 823 266 registered shares) The nominal value of each share is 100 EEK. 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 159.8 million and the maximum share capital is EUR 639.1 million. No changes have been made to the amount of the minimum and maximum share capital in the reporting period or the comparative period.

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

As at 31 March 2010, the Group's distributable equity was EUR 410.1 million (31 March 2009: EUR 353.6 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) If all retained earnings were distributed as dividends, the corporate income tax would amount to EUR 86.1 million (31 March 2009: EUR 74.3 million). It is possible to pay out EUR 324.0 million (as at 31 March 2009: EUR 279.3 million) as net dividends.

Order no. 164 of the Government of the Republic of 29 April 2010 requires Eesti Energia AS to pay EUR 109.2 million as dividends after the approval of the 2009/10 Annual Report by the General Meeting of Shareholders. The corresponding income tax totals EUR 29.0 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 March	
	2010	2009
Retained earnings (Note 39)	410.1	353.6
Distributable shareholder's equity	410.1	353.6
Corporate income tax on dividends if distributed	86.1	74.3
Net dividends available for distribution	324.0	279.3

20. DIVIDENDS PER SHARE

In the financial year, Eesti Energia AS paid dividends of EUR 86.9 million to the Republic of Estonia or EUR 1.18 per share (2008/09: EUR 41.7 million, dividends per share EUR 0.56). The Management Board proposed to the Annual Meeting to pay dividends of EUR 1.47 per share for the financial year ended 31 March 2010, totalling EUR 109.2 million. These financial statements do not reflect this amount as a liability as the dividend had not been approved as at 31 March 2010.

21. HEDGE RESERVE

in million EUR	1 April - 31 March	
	2009/10	2008/09
Hedge reserve at the beginning of the period	24.5	(34.9)
Change in fair value of cash flow hedges (Note 13)	(14.4)	59.4
Recognised as revenue	(12.0)	(3.0)
Recognised as a reduction of revenue	-	3.0
Hedge reserve at the end of the period	(1.8)	24.5

22. BORROWINGS

BORROWINGS AT AMORTISED COST

in million EUR	31 March	
	2010	2009
Short-term borrowings		
Current portion of long-term bank loans	3.5	7.7
Total short-term borrowings	3.5	7.7
Long-term borrowings		
Bonds issued	289.3	288.5
Bank loans	69.8	33.2
Total long-term borrowings	359.0	321.7
Total borrowings (Notes 3.1, 3.2 and 11)	362.6	329.3

BONDS

in million EUR	31 March	
	2010	2009
Nominal value of bonds (Note 3.1)	300.0	300.0
Proceeds from the issue of bonds	286.2	286.2
Difference between nominal value and initial cost, amortised during the term of the bonds	3.0	2.3
Carrying amount of bonds	289.3	288.5
Market value of bonds on the basis of quoted sales price (Note 3.3)	282.5	255.3

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 March	
	2010	2009
< 1 year	3.5	7.7
1 - 5 years	64.6	19.1
> 5 years	5.5	14.1
Total	73.6	40.9

All loans are denominated in euros. As at 31 March 2010 all loans have floating interest rates, the interest rates were between 1.2 and 4.3% (31 March 2009: 2.2-5.4%). As at 31 March 2010, the weighted average interest rate on loans with floating interest rates was 6-month EURi-bor+1.48% (31 March 2009: 6-month EURibor+0.43%)

As at 31 March 2010, the weighted average nominal interest rate on loans was 2.43% (31 March 2009: 3.73%) 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 March 2010 the Group had undrawn loan facilities of EUR 138.3 million. The decision regarding the undrawn loan facilities of European Investment Bank (EUR 136.0 million) must be made by 25 May 2012. The type of interest rate (fixed or floating) will be decided when the loan is taken. According to the loan agreement concluded with Nordea Bank the loan (EUR 2.3 million) must be fully taken out by March 2011. According to the loan agreement the interest rate of the loan is floating.

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 March	
	2010	2009
< 1 year	73.3	26.4
1 - 5 years	-	7.2
> 5 years	289.3	295.7
Total (Notes 3.1, 3.2 and 11)	362.6	329.3

WEIGHTED AVERAGE EFFECTIVE INTEREST RATES OF BORROWINGS

	31 March	
	2010	2009
Long-term bank loans	2.5%	3.8%
Bonds	4.9%	4.9%

The loan from Nordea Bank is secured by a mortgage in the amount of EUR 5.2 million. Rest of the borrowings are unsecured.

23. TRADE AND OTHER PAYABLES

in million EUR	31 March	
	2010	2009
Trade payables	58.0	57.9
Tax liabilities	25.7	32.0
Accrued expenses	24.8	22.7
Payables to associates	1.4	1.7
Other payables	5.0	11.5
Total trade and other payables	114.9	125.7
<i>of which short-term trade and other payables</i>	<i>114.8</i>	<i>125.6</i>
<i>which long-term trade and other payables</i>	<i>0.1</i>	<i>0.1</i>

As at 31 March 2010, short-term trade payables included a payable to Foster Wheeler Energia Oy in the amount of EUR 11.2 million (31 March 2009: EUR 22.0 million). Under the contract entered into with Foster Wheeler for the construction of new blocks for Eesti Energia Narva Elektriijaamad 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 arbitration court of London. According to the arbitration judgement the amount of EUR 10.8 million will not be paid out and it was recognised as other operating income (Notes 33 and 34)

24. DEFERRED INCOME

CONNECTION AND OTHER SERVICE FEES

in million EUR	1 April - 31 March	
	2009/10	2008/09
Connection and other service fees at the beginning of the period not recognised as income	124.8	109.0
Connection and other service fees received	12.1	22.6
<i>of which connection and other service fees received in continuing operations</i>	<i>10.8</i>	<i>20.0</i>
Connection and other service fees recognised as income	(7.8)	(6.8)
<i>of which connection and other service fees received recognised as income from continuing operations (Notes 4, 26 and 33)</i>	<i>(7.4)</i>	<i>(6.4)</i>
Transferred upon disposal of discontinued operations	(13.0)	-
Connection and other service fees at the end of the period not recognised as income	116.0	124.8

GOVERNMENT GRANTS

in million EUR	1 April - 31 March	
	2009/10	2008/09
Deferred income from grant at the beginning of the period	0.6	0.8
<i>of which short-term deferred income</i>	<i>0.2</i>	<i>0.3</i>
<i>which long-term deferred income</i>	<i>0.4</i>	<i>0.5</i>
Grants received	0.1	2.2
Recognised as income	(0.1)	(2.3)
Deferred income from grant at the end of the period	0.7	0.6
<i>of which short-term deferred income</i>	<i>0.2</i>	<i>0.2</i>
<i>which long-term deferred income</i>	<i>0.4</i>	<i>0.4</i>

Majority of the grants have been received from the Cohesion Fund (ISPA) and have been used to fund the closing of the ash field No 2 of the Baltic Power Plant.

25. PROVISIONS

in million EUR	Opening balance 31 March 2009	Recognition and change in provisions	Interest charge (Note 31)	Use	Closing balance 31 March 2010	
					Short-term provision	Long-term provision
Environmental protection provisions	10.5	6.3	0.7	(0.9)	1.8	14.7
Provision for termination of mining operations (Note 30)	7.7	(0.6)	0.6	-	-	7.7
Employee related provisions (Note 29)	4.6	0.8	0.2	(1.2)	1.0	3.4
Provision for dismantling cost of assets (Note 6)	1.2	1.2	0.1	-	-	2.5
Provision for greenhouse gas emissions (Note 8 and 28)	36.8	(0.2)	-	(25.8)	10.9	-
Total provisions (Notes 4 and 33)	60.8	7.4	1.6	(27.8)	13.7	28.2

Increase in the provisions during financial year 2009/10 in the amount of EUR 6.9 million resulted from the change in discount rate from 8% to 5.4%.

in million EUR	Opening balance 31 March 2008	Recognition and change in provisions (Note 5)	Interest charge (Note 31)	Use	Closing balance 31 March 2009	
					Short-term provision	Long-term provision
Environmental protection provisions (Note 30)	19.2	(7.6)	1.2	(2.2)	2.0	8.4
Provision for termination of mining operations (Note 30)	5.8	1.4	0.5	-	-	7.7
Employee related provisions (Note 29)	3.3	1.6	0.2	(0.5)	1.8	2.9
Provision for dismantling cost of assets	1.1	-	0.1	-	-	1.2
Provision for greenhouse gas emissions (Note 28)	9.1	27.8	-	-	36.8	-
Total provisions (Notes 4 and 33)	38.5	23.1	1.9	(2.7)	40.6	20.2

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;
- eliminating asbestos in power plants.

50% of the cost of the ash field work and the clean-up of contamination of AS Kohtla Järve Soojus, included in the environmental protection provisions, will be covered by the grant from ISPA funds. The government grant receivable has been recognised separately as an asset in the statement of financial position (Note 12)

Long-term environmental protection provisions will be settled at the Eesti Energia Kaevandused in 2011 - 2013,

at Kohtla-Järve Soojus in 2011 - 2014 and at Narva Elektri-jaamad in 2011 - 2038.

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.

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 majority of the provision is expected to be settled in 26 years.

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 are discounted at the rate of 5.4% (2008/09: 8%).

26. REVENUE

Continuing operations

in million EUR	1 April - 31 March	
	2009/10	2008/09
By activity		
Sale of goods		
Electricity (Note 5)	353.5	337.0
Heat (Note 5)	43.1	57.0
Shale oil (Note 5)	44.7	35.4
Oil shale (Note 5)	24.9	24.5
Power equipment	14.2	11.0
Other goods	2.9	12.1
Total sale of goods	483.3	477.0
Sale of services		
Sales of network services (Note 5)	166.9	159.3
Sale of telecommunication services	11.3	10.3
Connection fees (Notes 4, 24 and 33)	7.4	6.4
Repair and construction services	3.3	3.9
Rental and maintenance income (Note 7)	2.3	2.7
Other services	3.1	5.9
Total sale of services	194.4	188.5
Total revenue (Note 5)	677.7	665.5

27. OTHER OPERATING INCOME

Continuing operations

in million EUR	1 April - 31 March	
	2009/10	2008/09
Fines, penalties and compensations received	19.4	2.3
Gain on disposal of emission rights	2.3	-
Gain on disposal of property, plant and equipment	0.7	2.1
Other operating income	1.3	1.6
Total other operating income	23.7	6.1

Fines, penalties and compensations include the derecognition of payable to Foster Wheeler Energia Oy in the amount of EUR 9.4 million (Note 23) and receipt of penalties from infringement of sales contracts in the amount of EUR 7.9 million.

28. RAW MATERIALS AND CONSUMABLES USED

Continuing operations

in million EUR	1 April - 31 March	
	2009/10	2008/09
Electricity	74.5	43.4
Transmission services	59.9	62.6
Technological fuel	31.4	42.8
Maintenance and repairs	26.0	37.3
Resource tax on mineral resources	19.7	19.1
Greenhouse gases emissions expense (Note 25)	(0.2)	27.8
Other raw materials and consumables used	66.6	78.9
Total raw materials and consumables used	278.0	311.9

29. PAYROLL EXPENSES

Continuing operations

	1 April - 31 March	
	2009/10	2008/09
Numbers of employees		
Number of employees		
Number of employees at the beginning of the period	8 004	8 373
Number of employees at the end of the period	7 351	8 004
Average number of employees (Note 5)	7 613	8 221

in million EUR	1 April - 31 March	
	2009/10	2008/09
Payroll expenses		
Wages, salaries, bonuses and vacation pay	93.1	96.0
<i>Average monthly pay (in euros)</i>	1 020	974
Other payments and benefits to employees	4.3	7.7
Payroll taxes	33.7	35.0
Recognition/reversal of employee related provisions (Note 25)	0.8	1.6
Total payroll expenses	131.9	140.3
Of which remuneration to management and supervisory boards		
Salaries, bonuses, additional remuneration	1.6	1.9
Termination benefits	-	0.1
Fringe benefits	0.1	0.1
Total paid to management and supervisory boards	1.7	2.0
Capitalised in the cost of company-built assets	(8.5)	(8.5)
Covered from the provisions for the termination of mining operations and environmental protection	(0.4)	(0.4)
Total payroll expenses	123.1	131.4

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

30. OTHER OPERATING EXPENSES

Continuing operations

in million EUR	1 April - 31 March	
	2009/10	2008/09
Environmental pollution charges	18.3	30.4
Miscellaneous office expenses	5.7	6.0
Rental expense (Note 7)	3.3	2.9
Recognition/reversal of environmental and mining termination provisions (Note 25)	3.1	(6.2)
Research and development costs	1.6	2.3
Other operating expenses	37.4	26.1
Total other expenses	69.5	61.3

31. NET FINANCIAL INCOME (-EXPENSE)

Continuing operations

in million EUR	1 April - 31 March	
	2009/10	2008/09
Financial income		
Interest income		
Interest income from funding of discontinued operations	6.0	7.3
Other interest income	5.8	7.7
Total interest income (Note 5)	11.8	15.0
Foreign exchange gains	-	4.6
Other financial income	0.1	0.1
Total financial income	11.9	19.7
Financial expenses		
Interest expense		
Interest expenses on bonds and loans	(16.2)	(16.5)
Amounts capitalised on qualifying assets	3.8	-
Total interest expenses on borrowings (Note 33)	(12.3)	(16.5)
Interest expenses on provisions (Note 25)	(1.6)	(1.9)
Total interest expenses (Note 5)	(13.9)	(18.5)
Foreign exchange losses	(0.1)	(0.1)
Other financial expenses	(0.1)	(0.1)
Total financial expenses	(14.1)	(18.6)
Net financial income (-expense)	(2.2)	1.1

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 (in 2007: 22/78 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 distributor of the dividends can be deducted by the Group from the corporate income tax payable once the Group distributes its dividends.

AVERAGE EFFECTIVE INCOME TAX RATE

Continuing operations

in million EUR	1 April - 31 March	
	2009/10	2008/09
Estonia		
Net dividends	86.9	41.7
Income tax applicable for dividends	21/79	21/79
Theoretical income tax at applicable rates	23.1	11.1
Impact of dividends paid by discontinued operations (Note 35)	(8.2)	-
Impact of dividends paid by associates	(0.3)	(0.3)
Effective income tax on dividends	14.6	10.8
Average effective income tax rate	13.3%	20.4%
Income tax expense arising from the subsidiaries in Finland and Latvia	0.1	-
Total income tax expense (Note 5)	14.8	10.7

As at 31 March 2010 and 31 March 2009, the Group did not have any deferred income tax assets and liabilities.

33. CASH GENERATED FROM OPERATIONS

Continuing operations

in million EUR	1 April - 31 March	
	2009/10	2008/09
Profit before income tax	129.9	80.2
Adjustments		
Depreciation and impairment of property, plant and equipment (Notes 5 and 6)	106.5	95.2
Amortisation of intangible assets (Notes 5 and 8)	0.8	0.6
Deferred income from connection and other service fees (Notes 4, 24 and 26)	(7.4)	(6.4)
Gain on disposal of property, plant and equipment	(0.7)	(2.1)
Gains calculated under the equity method (Note 9)	(1.4)	(1.7)
Gain from other nonmonetary transactions (Note 23)	(10.8)	-
Unpaid/unsettled gain/loss on derivatives	0.8	(1.2)
Interest expense on borrowings (Note 31)	12.3	16.5
Interest and other financial income	(11.9)	(15.1)
Adjusted net profit before tax	218.2	165.9
Net change in current assets relating to operating activities		
Loss from doubtful receivables (Note 12)	(0.4)	1.8
Change in receivables related to operating activities	(6.1)	(12.3)
Change in inventories (Note 10)	(4.9)	(2.7)
Net change in other current assets relating to operating activities	44.3	(43.2)
Total net change in current assets relating to operating activities	33.0	(56.5)
Net change in current liabilities relating to operating activities		
Change in provisions (Note 25)	(22.6)	22.3
Change in trade payables	14.9	(6.2)
Net change in liabilities relating to other operating activities	(8.5)	5.9
Total net change in liabilities relating to operating activities	(16.2)	22.0
Cash generated from operations	234.9	131.4

34. OFF-BALANCE SHEET ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

(a) Off-balance sheet assets

Reserves of oil shale

As at 31 March 2010, the estimated reserves of mineable oil shale in the mines and quarries of the Group totalled 381 million tonnes (as at 31 March 2009: 396 million tonnes), including underground mining fields of 276 million tonnes (as at 31 March 2009: 285 million tonnes) and ground level mining fields of 105 million tonnes (31 March 2009: 111 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 March 2010, AS Nordic Energy Link had drawn loans of EUR 66.8 million (as at 31 March 2009: EUR 71.5 million).

On 29 January 2010 the arbitration court of London delivered judgement over the commercial dispute between Foster Wheeler Energia Oy and Eesti Energia Narva Elektriijaamad AS. The arbitration judgment determined the amount payable to Foster Wheeler Energia Oy

34. OFF-BALANCE SHEET ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS, CONTINUED

(Note 23), but did not resolve the interest calculation on the payable nor the reimbursement of legal expenses. The amount determined by the arbitrage judgement was paid in April 2010 along with interest accrued from 29 January 2010.

(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 March 2010, the Group had contractual liabilities relating to the acquisition of non-current assets totalling EUR 311.4 million (31 March 2009: EUR 98.2 million).

Contracts for buying greenhouse gas emissions allowances

As at 31 March 2010 the group had concluded contracts for buying greenhouse gas emissions allowances in December 2010, 2011 and 2012 in the amount of EUR 12.9 million (31 March 2009: EUR 46.1 million).

35. 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 April 2009 - 27 January 2010	1 April 2008 - 31 March 2009
Revenue	58.8	81.0
Expenses	(43.6)	(63.6)
Profit before tax from discontinued operations	15.3	17.4
Corporate income tax expense	(8.2)	-
Gain on sale	21.4	-
Profit from discontinued operations	28.5	17.4

in million EUR	27 January 2010	31 March 2009
Assets and liabilities of discontinued operations		
Cash and cash equivalents	6.6	-
Trade and other receivables	20.3	11.6
<i>of which receivables from continuing operations</i>	-	9.1
Property, plant and equipment and intangible assets (Note 6)	351.5	333.3
Borrowings	(192.4)	-
Trade and other payables	(21.9)	(157.7)
<i>of which payables to continuing operations</i>	-	(141.4)
Deferred income (Note 24)	(13.0)	(12.0)
Net assets	151.2	175.2
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	

36. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing profit attributable to the equity holders of the company by the weighted average number of ordinary shares outstanding. As there are no potential ordinary shares, diluted earnings per share equal basic earnings per share for all periods.

	1 April - 31 March	
	2009/10	2008/09
Profit attributable to the equity holders of the company (million EUR)	143.4	87.0
<i>from continuing operations (million EUR)</i>	114.9	69.6
<i>discontinued operations (million EUR)</i>	28.5	17.4
Weighted average number of shares (million)	74	74
Basic earnings per share (EUR)	1.94	1.18
<i>from continuing operations (EUR)</i>	1.56	0.94
<i>discontinued operations (EUR)</i>	0.39	0.24
Diluted earnings per share (EUR)	1.94	1.18
<i>from continuing operations (EUR)</i>	1.56	0.94
<i>discontinued operations (EUR)</i>	0.39	0.24

37. RELATED PARTY TRANSACTIONS

The sole shareholder of Eesti Energia AS is the Republic of Estonia. In preparing the Group's financial statements, the related parties include associates, members of the management and supervisory boards of the parent company, and other companies over which these persons have significant influence.

Related parties also include entities under the control or significant influence of the state.

Continuing operations

in million EUR	1 April - 31 March	
	2009/10	2008/09
Transactions with associates		
Purchase of goods and services	20.7	26.8
Proceeds from sale of goods and services	4.0	4.1
Transactions with companies over which the members of Management and Supervisory Boards have significant influence		
Purchases of goods and services	4.1	0.1

In 2009/10 a sales contract was entered into for the sale of 100% of the shares of Elering OÜ (Notes 35). In 2008/09 the Group didn't conclude any individually-significant transactions with the state-related entities.

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.

38. EVENTS AFTER THE REPORTING PERIOD

On 11 May 2010 the Group signed oil shale concession agreement with the Jordan Government giving the Group the right to use part of oil shale deposits in Jordan for oil and power production.

39. FINANCIAL INFORMATION ON THE PARENT COMPANY

Financial information disclosed on the parent company includes the primary separate financial statements of the parent company, the disclosure of which is required by the Accounting Act of Estonia. The primary financial statements of the parent company have been prepared using the same accounting policies that have been used in the preparation of the consolidated financial statements.

Investments in subsidiaries and associates are reported at cost in the separate financial statements of the parent company.

STATEMENT OF FINANCIAL POSITION

in million EUR	31 March	
	2010	2009
ASSETS		
Non-current assets		
Property, plant and equipment	66.3	38.2
Intangible assets	9.0	5.0
Investments in subsidiaries	498.6	632.8
Investments in associates	8.8	8.8
Derivative financial instruments	0.9	1.6
Receivables from subsidiaries	161.4	311.8
Total non-current assets	744.9	998.2
Current assets		
Inventories	0.1	0.1
Trade and other receivables	323.2	284.0
Derivative financial instruments	4.7	9.7
Deposits at banks with maturities of more than 3 months	380.9	25.1
Financial assets at fair value through profit or loss	1.1	2.0
Cash and cash equivalents	50.7	88.3
Total current assets	760.5	409.2
Total assets	1 505.4	1,407.4

in million EUR	31 March	
	2010	2009
EQUITY		
Share capital	471.6	471.8
Share premium	259.8	259.8
Statutory reserve capital	47.2	47.2
Hedge reserve	4.9	9.8
Retained earnings	264.3	187.3
Total equity	1 047.9	975.9
LIABILITIES		
Non-current liabilities		
Borrowings	357.4	321.7
Other payables	0.1	0.1
Derivative financial instruments	0.4	0.7
Deferred income	0.3	0.1
Provisions	0.7	0.4
Total non-current liabilities	359.0	323.0
Current liabilities		
Borrowings	3.5	7.7
Trade and other payables	94.6	100.8
Derivative financial instruments	0.2	-
Provisions	0.1	0.1
Total current liabilities	98.5	108.6
Total liabilities	457.4	431.5
Total liabilities and equity	1 505.4	1 407.4

39. FINANCIAL INFORMATION ON THE PARENT COMPANY, CONTINUED

INCOME STATEMENT

in million EUR	1 April - 31 March	
	2009/10	2008/09
Revenue	396.9	363.3
Other operating income	49.6	3.5
Raw materials and consumables used	(324.1)	(324.1)
Other operating expenses	(14.8)	(13.6)
Payroll expenses	(16.8)	(13.6)
Depreciation, amortisation and impairment	(12.9)	(1.5)
Other expenses	(15.1)	(0.7)
OPERATING PROFIT	63.0	13.3
Financial income	118.9	78.8
Financial expenses	(18.0)	(18.4)
Total financial income and expenses	101.0	60.5
PROFIT BEFORE TAX	163.9	73.7
NET PROFIT FOR THE FINANCIAL YEAR	163.9	73.7

STATEMENT OF COMPREHENSIVE INCOME

in million EUR	1 April - 31 March	
	2009/10	2008/09
PROFIT FOR THE YEAR	163.9	73.7
Other comprehensive income		
Revaluation of risk hedge instruments	(4.9)	9.3
Other comprehensive income for the year	(4.9)	9.3
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	159.1	83.0

39. FINANCIAL INFORMATION ON THE PARENT COMPANY, CONTINUED

CASH FLOW STATEMENT

in million EUR	1 April - 31 March	
	2009/10	2008/09
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	163.9	73.7
Adjustments		
Depreciation of property, plant and equipment	12.5	1.4
Amortisation of intangible assets	0.4	0.2
Profit/loss from sale of property, plant and equipment	(0.6)	(1.4)
Profit from sale of a subsidiary	(38.3)	-
Other gains/losses on investments	(86.9)	(41.7)
Gain from other nonmonetary transactions	(0.8)	-
Gain/loss on unpaid/unsettled derivatives	0.8	(1.2)
Interest expense on borrowings	17.8	18.2
Interest income	(32.0)	(32.7)
Adjusted net profit	36.8	16.5
Net change in current assets relating to operating activities		
Loss from doubtful receivables	1.0	2.0
Change in receivables relating to operating activities	(4.8)	(10.2)
Net change in current assets relating to other operating activities	17.1	(15.1)
Total net change in current assets relating to operating activities	13.2	(23.3)
Net change in liabilities relating to operating activities		
Change in provisions	0.4	-
Change in trade payables	(1.2)	0.1
Net change in liabilities related to other operating activities	14.5	9.3
Total net change in liabilities relating to operating activities	13.6	9.3
Interest paid and borrowing costs	(17.2)	(17.6)
Interest received	31.6	34.6
Net cash flows from operating activities	78.1	19.4

in million EUR	1 April - 31 March	
	2009/10	2008/09
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(26.0)	(11.9)
Proceeds from sale of property, plant and equipment	4.7	3.8
Finance lease principal payments collected	-	2.3
Dividends received from subsidiaries	86.9	41.7
Net change in term deposits with maturities of more than 3 months	(355.8)	113.1
Purchase of short-term financial investments	(20.9)	(18.9)
Acquisition of subsidiaries	-	(3.6)
Proceeds from sale and redemption of short-term financial investments	21.9	23.7
Proceeds from sale of a subsidiary	172.6	-
Cash outflows on partial sale of business unit	-	(0.1)
Loans granted to subsidiaries	(2.5)	-
Loans paid by subsidiaries	0.7	0.8
Change in overdraft granted to subsidiaries	82.0	(84.2)
Net cash used in investing activities	(36.5)	66.7
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank loans received	40.0	-
Repayments of bank loans	(9.0)	(7.7)
Change in overdraft	-	(0.2)
Change in overnight deposit received from subsidiaries	(23.4)	(1.2)
Short-term loans from subsidiaries	-	-
Short-term loans repaid to subsidiaries	-	(3.0)
Dividends paid	(86.9)	(41.7)
Total cash generated from financing activities	(79.4)	(53.7)
NET CASH FLOWS	(37.7)	32.4
Cash and cash equivalents at the beginning of the period	88.3	56.0
Cash and cash equivalents at the end of the period	50.7	88.3
Net increase/decrease in cash and cash equivalents	(37.7)	32.4

39. FINANCIAL INFORMATION ON THE PARENT COMPANY, CONTINUED

STATEMENT OF CHANGES IN EQUITY

in million EUR	Share capital	Share premium	Statutory reserve capital	Hedge reserve	Retained earnings	Total
Equity as at 31 March 2008	471.8	259.8	46.5	0.5	155.9	934.6
Carrying amount of holdings under controlling and significant influence					(631.7)	(631.7)
Carrying amount of holdings under controlling and significant influence using equity method				(35.5)	784.6	749.2
Adjusted unconsolidated equity as at 31 March 2008 (Note 19)				(35.0)	308.9	1 052.1
Comprehensive income						
Comprehensive income for the year	-	-	-	9.3	73.7	83.0
Transactions with owner						
Transfer of retained earnings to reserve capital	-	-	0.7	-	(0.7)	-
Dividends paid	-	-	-	-	(41.7)	(41.7)
Total transactions with owner	-	-	0.7	-	(42.4)	(41.7)
Equity as at 31 March 2009	471.8	259.8	47.2	9.8	187.3	975.9
Carrying amount of holdings under controlling and significant influence					(632.8)	(632.8)
Carrying amount of holdings under controlling and significant influence using equity method				14.7	799.1	813.8
Adjusted unconsolidated equity as at 31 March 2009 (Note 19)				24.5	353.6	1 156.9

39. FINANCIAL INFORMATION ON THE PARENT COMPANY, CONTINUED

STATEMENT OF CHANGES IN EQUITY

in million EUR	Share capital	Share premium	Statutory reserve capital	Hedge reserve	Retained earnings	Total
Equity as at 31 March 2009	471.8	259.8	47.2	9.8	187.3	975.9
Carrying amount of holdings under controlling and significant influence					(632.8)	(632.8)
Carrying amount of holdings under controlling and significant influence using equity method				14.7	799.1	813.8
Adjusted unconsolidated equity as at 31 March 2009 (Note 19)				24.5	353.6	1 156.9
Comprehensive income						
Comprehensive income for the year	-	-	-	(4.9)	163.9	159.1
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	(0.2)	-	-	-	(86.9)	(87.1)
Equity as at 31 March 2010	471.6	259.8	47.2	4.9	264.3	1 047.9
Carrying amount of holdings under controlling and significant influence					(498.6)	(498.6)
Carrying amount of holdings under controlling and significant influence using equity method				(6.7)	644.3	637.6
Adjusted unconsolidated equity as at 31 March 2010 (Note 19)				(1.8)	410.1	1 186.9

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.



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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 (the Group) which comprise the consolidated statement of financial position as of 31 March 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year (1 April 2009 to 31 March 2010) then ended and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 March 2010, and of its financial performance and its cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

/signed/

Ago Vilu
AS PricewaterhouseCoopers

20 May 2010

/signed/

Laile Kaasik
Authorised Auditor

* 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.

PROFIT ALLOCATION PROPOSAL

The retained earnings of Eesti Energia Group as at 31 March 2010 was EUR 410 078 427.

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. 164 of the Government of Estonia of 29 April 2010, Eesti Energia AS shall pay EUR 109 161 096 as dividends in 2010.

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 March 2010 as follows:

1. to pay EUR 109 161 096 as dividends to shareholder;
2. not to distribute the remaining retained earnings of EUR 300 917 331, due to the continuing financing needs of the Eesti Energia Group.

SIGNATURES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD TO THE ANNUAL REPORT

The Annual Report of the Eesti Energia Group for the financial year to 31 March 2010 consists of the management report, the consolidated financial statements, the auditor's report and the profit allocation proposal.

The Management Board of the public limited company has prepared the management report, the consolidated financial statements and the profit allocation proposal. The Supervisory Board of the public limited company has reviewed the Annual Report and approved it for presentation at the General Meeting of Shareholders.

MANAGEMENT BOARD

20 May 2010

Chairman of the Management Board

Sandor Liive



Members of the Management Board

Margus Kaasik



Harri Mikk



Raine Pajo



Margus Rink



SUPERVISORY BOARD

20 May 2010

Chairman of the Supervisory Board

Jüri Kõo



Members of the Supervisory Board

Meelis Atonen



Rein Kilik



Rein Kuusmik



Toomas Luman



Kalle Palling

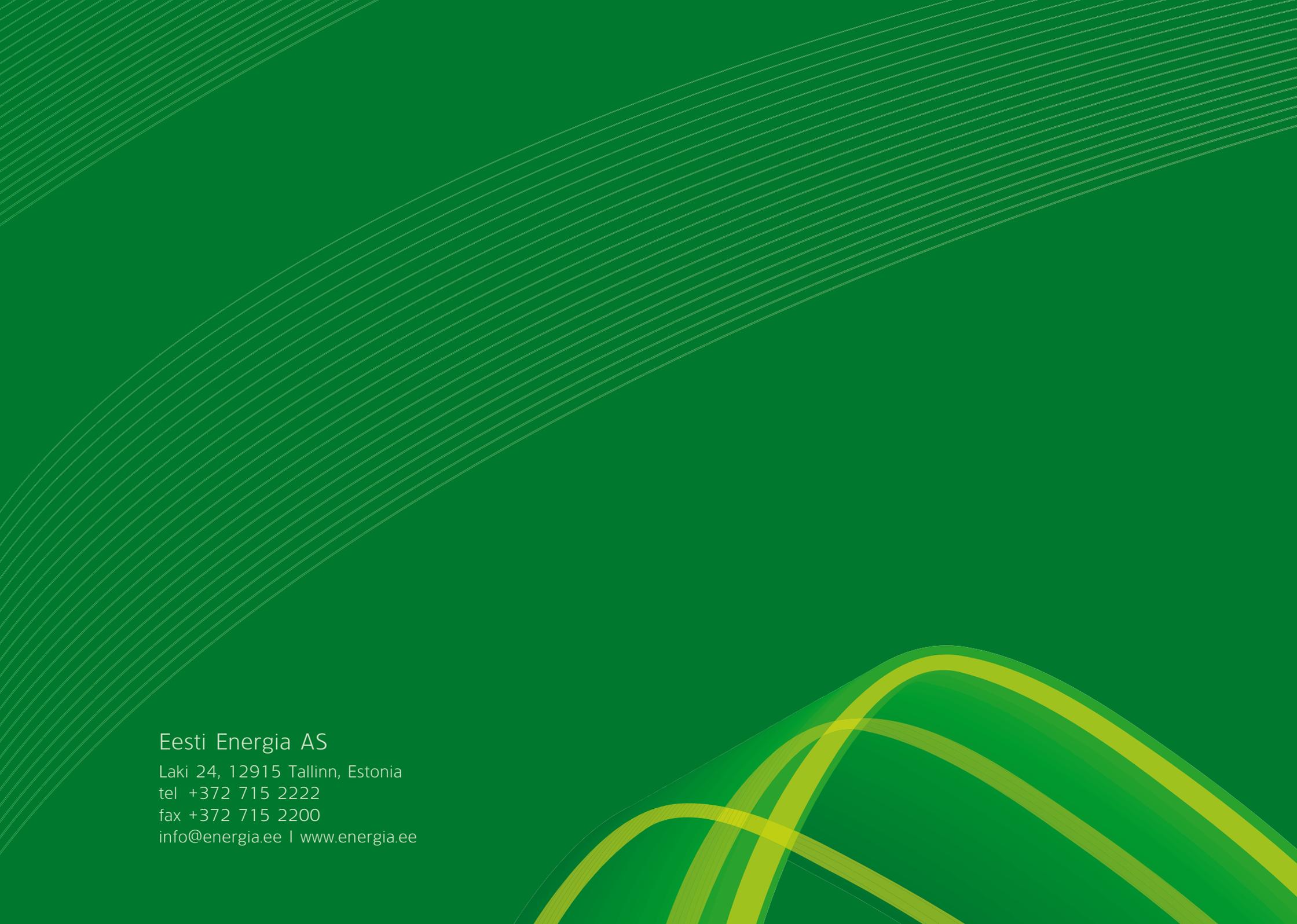


Janek Parkman



Aivar Reivik





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