Annual Report
2010 – 2011

Creating New Energy!

Eesti Energia

Contents


Sandor Liive
Chairman of the Management Board

Dear Owner, Investors, Clients and Partners

The financial year 2011 was a year in which we at Eesti Energia worked to secure our future. Projects we focus on today will lay the foundation of success, strength and competitiveness of Eesti Energia in the future.

Eesti Energia's total revenue grew by 8% in 2011, reaching 858 million euros, and our operating profit increased by 13% to 168 million euros. The major drivers of the growth in operating profit were the increased profitability of our oil sales and an improvement in the sales margin of network services.

More than half of the growth in Eesti Energia's revenue came from markets that are open to competition.
The revenue growth was primarily driven by sales of electricity on the unregulated market and successful energy trading on the Nordic and Baltic power exchanges. More than half of our revenues from the sale of electricity came from highly competitive environments. Sales of electricity at unregulated prices reached a record 273 million euros while sales of electricity at regulated market decreased by 9% to 168 million euros, Sales of network services grew 7% to 189 million euros.

Our financial results were also boosted by increase in the revenues from the sales of liquid fuels due to the higher global oil prices. The sales of liquid fuels produced from oil shale grew by almost 20 per cent to 61 million euros.

Other revenues also showed strong growth with a notable increase in the sales at Technology Industry (Tehnoloogiatööstus) and successful launches for our new maintenance and technical and measurement inspection services. Total other revenue increased by more than half to 97 million euros.

We achieved positive economic value added (EVA) of 34 million euros last year and paid the Estonian state 56 million euros in dividends.

In 2011 we invested half a billion euros in the Estonian electricity network as well as in electricity generation and fuel production capacity.
Our investments were more than double what we earned from operations in 2011.

The decision to build a new power plant in Auvere was the most important investment decision of the year. The new plant will use environmentally more sustainable technology and up to 50% of its fuel mix will be biofuel, alongside the more traditional oil shale. This will cut our CO_2 emissions dramatically and make sure that the environmental impact of electricity generation

from oil shale comply with the principles of the European Union's climate policy. The new plant will also improve Estonia's security of supply for electricity. In order to carry out the investment the government of Estonia is applying for permission from the European Commission for free distribution of CO_2 emissions allowances for 2013–2020.

Electricity clients in Estonia are more directly affected by the investments in the distribution network, to which we expect to invest a total of 300 million euros in the next three years.

Our other important investment projects are the construction of new Enefit-280 oil plant in Auvere, the waste-to-energy unit at the Iru power plant, the wind park on the closed ash fields in Narva, and the installation of desulphurisation filters on the Narva power plants.

The Estonian government plans to strengthen Eesti Energia's investment muscle by increasing our equity by 150 million euros. This increase shows that the state stands solidly behind our activities.

We enhanced our liquidity position by signing loan agreements for 500 million euros in 2011. We also signed a new loan agreement with the European Investment Bank for 95 million euros to finance the construction of wind parks and the Iru waste-to-energy unit. In 2012 the focus will similarly be on raising additional long-term debt to enable us to implement our capital expenditure programme.

Eesti Energia is the leading generator of electricity in the Baltic states

In the past year we generated a total of 10.4 TWh of electricity, which would be sufficient to provide electricity to around 7.5 million people. Our goal is to maintain our generating capacity for the long term while moving towards more diversified and sustainable electricity generation.

We have reached the final stage in the installation of modern desulphurisation equipment on four of the generating units of the Eesti power plant.This investment of more than 100 million euros will help our Narva power plants to meet the limits on sulphur emissions which came into force on 1 January 2012 and which are three times more stringent than before. It allows us to maintain the generating capacity of the Narva power plants at 9 TWh a year.

We increased the use of biofuel in the Balti power plant by partially replacing the usage of oil shale in order to reduce our environmental impact. We are building two new wind parks and investing in small-scale combined heat and power plants.

We are successful in the unregulated electricity markets of Estonia, Latvia and Lithuania.

Eesti Energia has kept a market share of around 72% in the unregulated market.. The market share and number of clients of our subsidiaries in Latvia and Lithuania operating under the Enefit brand have shown significant growth. Enefit now has 15% market share in Latvia and 7% in Lithuania, with client numbers rising by 148% and 39% respectively.

We are making final efforts to be ready for the full electricity market opening in 2013 in Estonia.

We realise that the upcoming changes in the electricity market will mean that our clients have many more questions than usual, and so we have increased the number of operators in our call centre from the usual 80 to almost 180. We also plan to increase the size of our customer service staff in branches across Estonia.

In order to comply fully with the requirements of the unregulated market, we have separated our electricity sales business from our network services, which is a natural monopoly. As a result we rolled out a new client information system last spring.

We want to be able to offer our clients expert and efficient service. We are proud to have been able to maintain the outstanding quality of our customer service, which was confirmed by our excellent fourth place in the independent Estonian Service Index for 2011.

The new network tariffs approved in 2011 will allow us to improve the reliability of the network and the quality of the electricity supply.

The continuing work to improve the quality and reliability of the electricity network is the undoubted first priority of Eesti Energia's Distribution Network. We aim to reduce the number of outages per household by almost 20% over the next three years. In 2011 we built a total of 716 new substations and 1267 kilometres of electrical lines, of which 984 kilometres were underground cables. In the next few years we will increase the pace of network renovation even further.

To avoid increase in scheduled outages we have introduced changes to our working procedures and we now doing more work on live lines. This allows making shorter scheduled outages.

Storms that hit Estonia at the end of the year caused outages for almost 200,000 households and we spared no effort to repair the storm damage quickly, with as many as 168 repair teams out at one time. This was a difficult time for our clients, our repair teams, our managers and our client service teams, and it took ten long days of work to repair all the faults. However, this means we managed the repair work twice as fast as after the storm of January 2005, which is a considerable achievement.

To get the best value out of oil shale, our national resource, we are increasing our production of liquid fuels.
In 2011 we sold 1.2 million barrels of shale oil made from oil shale. Eesti Energia's new generation Enefit-280 oil plant will be commissioned this year and will double our oil production capacity. We want to develop liquid fuel production in Estonia so that by 2016 we can produce high-quality motor fuels from shale oil.

We have secured the supply of oil shale reserves needed for increased production and we have received a mining permit for Uus-Kiviõli which will give us rights to some 150 million tonnes of commercial oil shale.

Eesti Energia's largest oil shale reserves are to be found, however, in Jordan and the USA. In America we acquired Oil Shale Exploration Company, which is working on developing oil shale resources, in the past financial year, giving Eesti Energia oil shale reserves estimated at 3.8 billion tonnes containing 2.6 billion barrels of oil. In Jordan we are exploring part of the largest known deposit of oil shale anywhere in the world, and the area we are researching is estimated to contain 2.3 billion tonnes of oil shale and 1.1 billion barrels of oil.

The current reality is that oil reserves are shrinking and the oil price is rising. The continued high demand for oil means that there is a need for alternative sources of fuel to replace it. Our work now is helping to make sure that our oil shale reserves will be very valuable in the future.

As Estonia's largest company and employer, we are very aware of our responsibility to local communities, the environment and the wider society.
We supported many initiatives to protect the environment, to promote engineering and to contribute to society. Eesti Energia's high ranking in the index of responsible businesses meant we were awarded the official logo of Estonian Responsible Business 2011.

The Entrum youth enterprise development programme that Eesti Energia started made a major contribution to raising the business-awareness of the younger generation in Ida-Viru County. The students who completed the programme started 98 different projects to improve life in their region. Entrum won the title of Corporate Social Responsibility Initiative of the Year at the Swedish Business Awards 2011 and in September it came top in a competition to recognise the promoters of entrepreneurship organised by the Ministry of Economic Affairs and Communication. In 2011 around 200 young people from Jõgeva County, Põlva County, Tartu County, Valga County and Võru County take part in the programme.

Eesti Energia's success is based on services and technology related to oil shale energy and as a forward-looking business we are constantly working to improve our three main areas of operation. The focus of our activity remains on generating electricity, producing liquid fuels and distributing electricity through the network in Estonia. Our strategy calls for us to remain the leading generator of electricity in the Baltic states and an important market participant in the ever more tightly integrated Baltic and Nordic electricity market, and so we are searching to diversify our electricity generation with more efficient and sustainable capacity and to reduce our environmental impact. When the new network tariffs were approved, we promised our clients in Estonia that we would improve the reliability of the distribution network and the quality of electricity supplied to residents of Estonia. Keeping that promise is a matter of honour and trust for us, and failure is not an option; let there be no doubt about it, we will meet our targets. Our international strength and competitive advantages give us unique experience and skills in producing liquid fuels from oil shale. We aim to use our capabilities to the fullest and strive for becoming the world leader in this field.

In Brief

Fast Facts

- The leading electricity producer in the Baltic states, established in 1939
- The shares held by Republic of Estonia
- Operates in Estonia, Latvia, Lithuania, USA and Jordania
- In international markets operates under the Enefit brand
- The largest employer in Estonia, more than 7500 employees
- Approximately half a million customers
- Operates more than 60,000 km of distribution network
- More than 4.07 billion barrels of shale oil in oil shale resources in Estonia, Jordania and USA
- Credit ratings with stable outlook – S&P at BBB+ and Moody's at Baa1
- Bonds listed on London Stock Exchange
- One of the most valuable companies in Estonia (Gild Bankers, ranked second in 2011)

Our integrated business operations make Eesti Energia a professional and reliable partner in all energy related questions. Eesti Energia is the only Estonian energy company, which is engaged in oil shale mining, energy and heat generation, unique shale oil production as well as offering other electricity-related products and services to customers. In foreign markets we operate under the Enefit brand. We sell energy to Latvian and Lithuanian customers as well as introduce our unique and environmentally friendly oil shale processing solutions to customers globally.

Values

The 2011 Financial Year in Brief

Financial results:

- Revenues 857.5 million euros, + 7.7%
- EBITDA 265.1 million euros, +9.4%
- Operating profit 168.0 million euros, +12.8%
- Net profit 149.2 million euros, +27.6%
- Capital expenditure 507.8 million euros, +132.4%

Operational results

- Sales of electricity – 10.7 TWh, (0.1)%
- Sales of network services – 6.2 TWh, (2.2)%
- Network losses – 5.8%, (0.8) percentage points
- Sales of liquid fuels – 164 thousand tonnes, (9.5)%

Key events

- March 2011 – acquisition of oil shale resources in Utah, USA containing approximately 2.6 billion barrels of oil
- April 2011 – disposal of stake in Jordanian development project to leading Malaisian energy company YTLPI
- April 2011 – implementation of new client informations sytem that allows us to service about half a million clients daily
- June 2011 – approval of the construction of the new 300 MW circulating fluidised bed (CFB) power plant
- August 2011 –approval of network tariffs for new three-year regulation period that allows us to reduce power cuts per houshold by 20%
- September 2011 – 500 million euro debt financing agreements with five bank
- (Swedbank, SEB, Nordea, Pohjola Bank, Danske Bank).
- Octoober 2011 – 25-year mining permit to Uus-Kiviõli mine with annual mining right of 4.2 million tonnes
- December 2011 – engaging 95 million euro of new debt financing from European Investment Bank
- December 2011 – Around quarter of million unique users a month in new e-service enviroment compared to 70,000 customers in the beginning of the year

Eesti Energia is an international energy company operating in the Baltic and Nordic energy markets. Our unique oil shale production technology, knowhow and skills are valued all over the world.

2011

Revenues 857.5 million euros

EBITDA 265.1 million euros

Operating profit 168.0 million euros

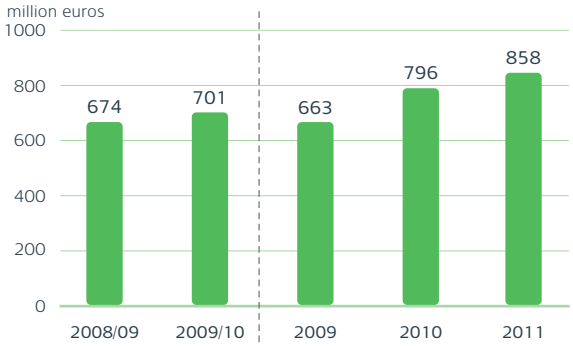
Net profit 149.2 million euros

Capital expenditure 507.8 million euros

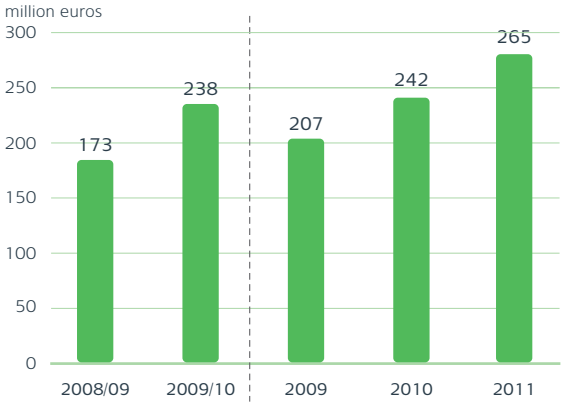
Key Figures for the Group*

		2011	2010	2009	2009/10	2008/09
Sales of electricity	GWh	10,704	10,714	9,541	9,760	10,025
Sales of heat	GWh	1,073	1,428	1,381	1,412	1,689
Sales of oil shale	th tonnes	2,120	1,966	1,662	1,689	1,730
Sales of liquid fuels	th tonnes	164	181	154	171	139
Network losses	%	5.8	6.6	7.8	7.4	6.7
Net profit	m€	149.2	117.0	88.9	115.0	69.0
Cash flow from operating activties	m€	161.8	198.1	174.5	217.0	122.0
Investments	m€	507.8	218.5	208.4	199.0	189.0
Assets at the end of the year	m€	2,036.5	1,844.1	1,760.6	1,834.0	1,802.0
Debt obligations at the end of the year	m€	436.2	358.7	362.4	363.0	329.0
Equity at the end of the year	m€	1,236.6	1,107.1	1,103.4	1,190.0	1,160.0
Equity / assets at the end of the year	%	60.7	60.0	62.7	64.9	64.4
ROIC**	%	11.8	12.6	7.5	11.8	7.6
Net debt / EBITDA		1.5	0.6	1.6	(0.3)	1.3
Interest coverage ratio***		12.5	13.7	11.7	13.4	9.4
Average number of employees		7,585	7,423	7,812	7,613	8,221

REVENUES



EBIDTA



* data for continuing operations

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

- **We operate in** unified Baltic and Nordic electricity market. Our knowledge, skills and technology for processing oil shale are known and respected around the world.
- **Our success is based on** our carefully balanced links between the electricity network in Estonia, the regional electricity market and the global liquid fuels industry. We work to develop the production of electricity and liquid fuels and the technology and services needed for extracting energy from oil shale.
- The unified management of the various business risks associated with our activities **allows us to grow quickly** and create additional value for our shareholder.
- **The workers, specialists and managers we employ**, look after and develop can be recognised for their expertise, responsibility, teamwork and enterprising spirit.
- **We are responsible and open** in our work. We give the highest priority to meeting all environmental and safety requirements. We consider the interests of communities who are affected by our activities and we take responsibility for the development of the local energy industry.

The Electricity Network

The quality of service offered by Eesti Energia's distribution network in Estonia has to develop in line with the expectations of our clients and the regulator. At the centre of our strategy is the balance between ever more rapidly developing technology, the ever higher expectations of our clients, the long life cycle of our network assets and our large-scale capital needs.

Our distribution network provides equal access to network services for all market participants at all times and meets the quality requirements set by the regulator.

The Electricity and Heat Generation

Eesti Energia has enough generation capacity in the regional electricity market to cover all of Estonia's electricity consumption at a minimum, helping ensure energy security in Estonia

We support the development of the regional open market for electricity and we have given our share of the cable connecting Estonia and Finland to the Nord Pool Spot power exchange to use. We are an active and responsible participant in the power exchanges.

We make changes in our generation portfolio to match the European Union's energy, climate and environmental policies and the demands of competition in the regional electricity market.

We do this firstly by making maximum use of the potential of our current generation capacity, secondly by increasing significantly the CO_2-neutral generation capacity in the Baltic states, and thirdly by developing distributed generation of electricity and heat in CHP plants and wind parks. Each individual investment decision is taken carefully with due consideration to the legislative environment and the electricity market.

We are a client service business providing energy, energy saving and seamless customer services. By selling electricity to end users in Estonia, Latvia and Lithuania we maintain the market share of our electricity generating assets over the long term.

Producing Liquid Fuels from Oil Shale

Eesti Energia's strategy is founded on extracting value from oil shale reserves and developing the technology needed to do that.

We are studying underground oil shale resources around the world, we have mining rights and are working on oil shale projects, we license our oil shale technology for others to use and we manufacture critical parts for the technology. The greatest potential for growth in value lies in converting the right to use oil shale resources into operational production facilities.

We own Enefit, the world's leading technology for producing liquid fuels from oil shale, which uses all of the oil shale that is mined, including the shale dust, in an efficient industrial process. The oil shale complex operating in Estonia demonstrates for the international market that the Enefit technology for producing shale oil is efficient and environmentally safe. This allows us to increase the value we extract from our oil shale resources and expand the market for the Enefit technology.

We already own mining rights in Estonia, Jordan and the USA and we use our resources in Estonia to ensure national energy security in electricity and liquid fuel production. Outside Estonia we are developing start-up projects for producing liquid fuels and electricity from oil shale, working with other investors and partners where necessary.

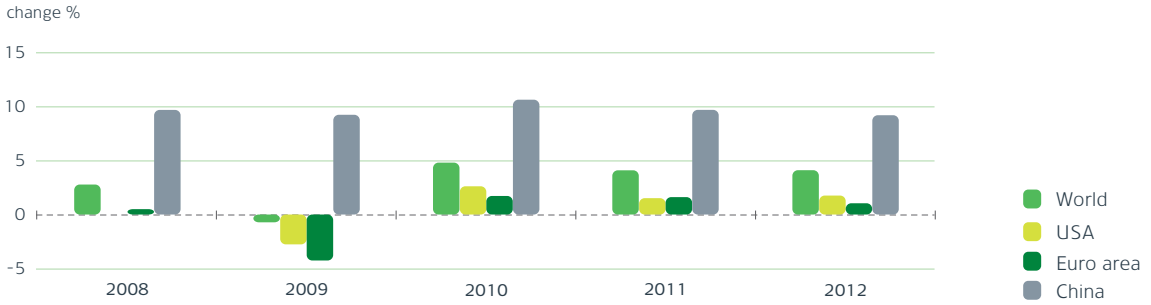
Eesti Energia's strategy is founded on extracting value from oil shale reserves and developing the technology needed to do that.

Business Environment

Economy

The global economy saw low growth in 2011 in developed industrialised countries and much stronger growth in developing countries. In the second half of the year the attention of capital markets was focused on the European debt crisis, and the uncertainty surrounding the crisis will probably continue to have an impact on market sentiment throughout 2012. The Estonian economy grew by 7.5% in 2011, mainly on the back of rising exports. The rapid growth was accompanied by rising prices and the average inflation rate for the year was 5%.

CHANGES IN GDP GLOBALLY AND BY REGION



Source: IMF

Liquid Fuels Market

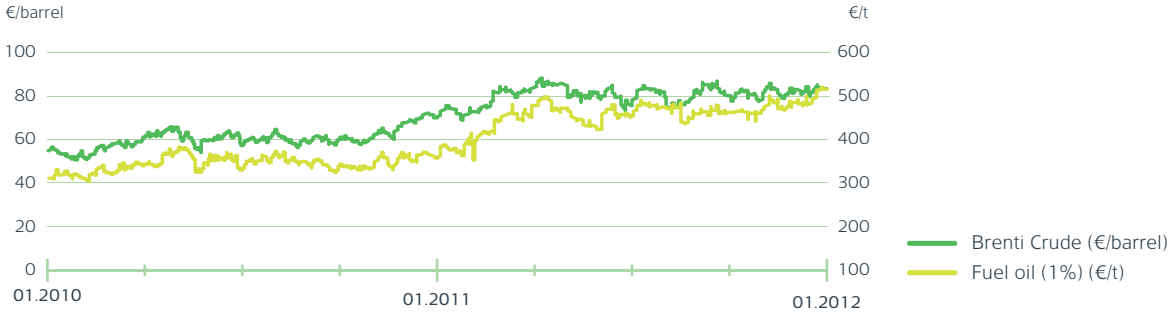
The economic recovery was accompanied by rising oil prices. The average price for Brent crude in 2011 was 80.5 €/barrel (112.2 $/barrel), which was 33.7% (40.5%) higher than in 2010, though prices were volatile throughout 2011 ranging between 69.2 and 88.3 €/barrel (94.5-127.7$/barrel). Prices were boosted by positive news at the start of the year from both the USA and Europe, and they were also pushed up by the unrest that started in January in North Africa and the Middle East and led to concerns over the further spread of uprisings and the possible disruption of oil supplies. Unrest continued throughout the year in various countries in the region, adding to the volatility of the oil price.

The oil price traded weaker in the second half of the year due to disappointing macroeconomic

news from the USA and the deepening of the European debt crisis as the market became increasingly worried about a new recession. Crude oil finished the year trading in December at 84.3 €/barrel (109.2 $/barrel).

The average price for heavy fuel oil in 2011 was 456.3 €/t (635.5$/t), which was 32.4% (39.2%) higher than in 2010. Heavy fuel oil finished the year trading in December at 518.7€/t (671.5$/t).

PRICES OF LIQUID FUELS*



Source: Reuters

* End of day closing prices

Emissions Trading

The market for CO_2 emissions allowances was very volatile in 2011. The average price of futures for CO_2 emission allowances for December 2011 was 13.4 €/t and the price moved between 6.5 and 17.4 €/t.

In the first half of the year the price of allowances increased rapidly, reaching 17.4 €/t by May. The rise was supported by recovery in the European economy and the decision by Germany to close down all its old nuclear power stations following the nuclear disaster caused by the earthquake in Japan. However, in the second half of the year, allowance prices experienced a steep decline.

The main causes of the decline were the uncertainty about the European economy and the European Commission's decision to grant the European Investment Bank 300 million tonnes of allowances for green energy projects. The European Commission also published its draft Energy Efficiency Directive, which calls for greater emphasis to be put on energy efficiency in future, which in turn will reduce demand for emissions allowances.

In the second half of the year concerns grew about the European economy and the debt crisis in Greece. Each month the macroeconomic climate worsened and member states of the European Union were unable to find any solution to the debt problems. Greece started to sell off its reserves of emissions allowances, which meant that supply to the market was increased even further. The price for allowances ended trading for the year at 7 €/t, which was 51% lower than the price in 2010.

The price for allowances for December 2012 ranged between 6.9 and 18.3 €/t in 2011, and closed in December at 7.3 €/t. The price for CO_2 allowances for 2012 started 2011 at 14.6 €/t, and over the year it dropped by 50% to 7.3 €/t.

Electricity Wholesale Market

The regulated producer price for electricity in Estonia is 29.4 €/MWh, which was set by the Competition Authority on 28 July 2009. The average daily price in the Nord Pool Estonia price area in 2011 ranged between 20.5 and 65.9 €/MWh, and the average price for the year was 43.3 €/MWh, or 6.5% lower year-on-year. The average price in the Nord Pool Finland price area in 2011 was 49.3 €/MWh, a fall of 13.0% from the previous year, and the average daily price was between 16.2 and 90.4 €/MWh. The average price on the Lithuanian Balt Pool exchange for 2011 was 2.5% lower year-on-year at 45.2 €/MWh and the day price ranged between 24.5 and 61.6 €/MWh.

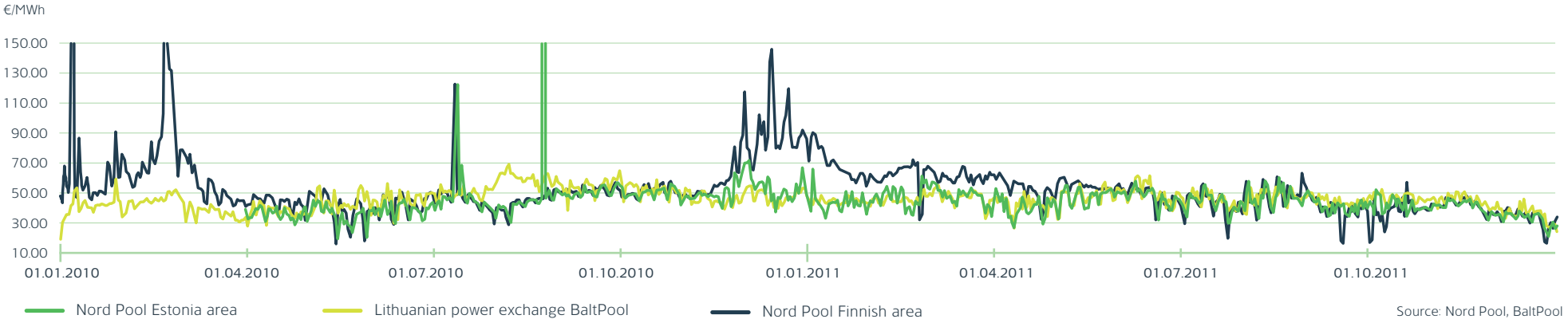
A key feature at the start of the year was the low levels of water in the Nordic reservoirs, which pushed prices in both Finland and the Baltic markets up to high levels. However, summer and autumn were warm and wet and the reservoirs filled up quickly, so that prices in autumn and winter were much lower.

The powerful earthquake in Japan in March had an impact on electricity prices in European markets because the crisis in the Japanese nuclear power station following the earthquake prompted Germany to close all its old nuclear plants for three months for tests. This had an impact on Nord Pool because Germany is connected to the Nordic power exchange, and the price of electricity imports from Germany was affected by the decision. The German move also pushed the price of CO_2 up by 2€/t, which directly affected the supply from CO_2 emitting power plants, including those in Estonia.

Repairs in August to the Finland-Russia and Finland-Sweden transmission lines increased prices on both the Finnish and Baltic exchanges, but in general the price of electricity continued to fall.

At the last quarter of 2011 the prices were continuing their descent on the Finnish and Baltic exchanges. The levels of the Nordic reservoirs continued to rise and passed their historical median levels. The lower price of emission allowances directly affects the production costs of power plants running on fossil fuels and for this reason its fall contributed to the fall in the electricity price.

DAILY AVERAGE PRICE OF ELECTRICITY



Source: Nord Pool, BaltPool

Legislative Environment

European Union Regulations

Eesti Energia's activities are governed by the regulations and directives issued as part of the European Union's energy policy. The European Union passed the climate and energy package of measures in order to advance its energy policy with targets for the efficient use of energy and for the use of energy from renewable sources and biofuels, CO_2 emissions, etc.

The level of greenhouse gas emissions should be cut through a system of emissions trading. The emissions trading scheme prioritises the use of auctions, as these should raise the price of emissions allowances and thus encourage companies to use cleaner technology. The electricity industry, which is responsible for the largest share of emissions, will move to an auction system from 2013. States will still exceptionally be able to distribute the allowances for the 2013-2020 trading period for free in certain strictly defined circumstances, including the modernisation of generating capacity, which will allow Estonia to distribute the allowances to the Narva power plants among others.

The third legislative package for an internal EU electricity and gas market regulates energy trading on the EU's internal market. The regulation of electricity imports from countries outside the EU is very important for Estonia. Electricity producers in such countries currently have a competitive advantage over EU producers who have to follow strict environmental and safety requirements. The Baltic states are tightly connected to the Russian electricity system, meaning there is no technical limit on imports, so regulatory limits are needed to ensure that all producers in the market have equal treatment.

Regulation of the Energy Industry in Estonia

The cost of electricity for end consumers in Estonia is largely based on price components that are regulated by the state. The price paid for electricity covers the actual electricity and network services consumed with taxes on top in the form of the renewable energy charge, excise tax and VAT. The regulated prices are approved by the Competition Authority.

The price of electricity paid by end users contains many elements that need to be approved. The Competition Authority approves the price at which oil shale is sold to the power plants, the wholesale electricity price charged by power plants to distributors, the price of network services and the margin added to retail sales of electricity to cover the direct costs of selling. The Competition Authority considers forecast sales, justified costs and reasonable profit when approving sales revenues. Permitted profitability depends on the company's capital assets and weighted average cost of capital (WACC).

The methods used for calculating and approving prices are published on the Competition Authority's website.

Retail Sales of Electricity

There are two types of retail electricity markets in the Baltic states, sales at regulated prices on the regulated market and sales at prices set by market forces on the unregulated market. The unregulated electricity market in Estonia opened from 1 April 2010 when clients consuming more than 2 GWh through a single connection point lost the right to buy electricity at regulated prices and had to buy it instead from the unregulated market. Regulation of prices on the regulated retail market will cease from 1 January 2013, after which all consumers will have the possibility to buy electricity from the unregulated market.

The partial opening of the Latvian electricity market began in May 2008. Residential consumers and companies with fewer than 50 employees and annual turnover of less than 10 million euros have the right to buy electricity at regulated prices in Latvia while all other consumers must buy it from the unregulated market. As a result up to 35% of the market was expected to open. The regulation that will come in from 1 April 2012 will restrict the right to buy electricity at regulated prices to those whose network connection is lower than 100 A, and this is expected to

widen the unregulated market to some 60% of the total Latvian unregulated market.

The Lithuanian electricity market opening started in January 2010 when all businesses with a network connection of more than 400 kW had to start buying electricity from the unregulated market. The consumption of these companies was estimated at around 35% of total electricity consumption. From 1 January 2012, all businesses with a network connection of more than 30 kW are part of the unregulated market in Lithuania and this is expected to increase the Lithuanian unregulated market to 65% of consumption. From 2013 the market will be open for all business consumers.

In Estonia the law requires the limit on the weighted average price of electricity in the regulated market to be approved. The limit for the weighted average retail price of electricity was last changed on 1 June 2010, when it was confirmed at 30.7 €/MWh. The change in the regulated market electricity price limit was made after the electricity consumed on the unregulated market was taken out of the calculations. The price limit for the regulated market was adjusted to reflect the amount and cost of the consumption that remained within the regulated market.

The electricity price in the regulated market is approved by the Competition Authority, which considers the costs that are unavoidable for the company to comply with the requirements of the law and its operating licences, and a reasonable return on invested capital. The reasonable return is based on the company's weighted average cost of capital.

The price of electricity in the various tariff packages can be adjusted if necessary to maintain the weighted average price. The last adjustments to the prices in the tariff packages applied from 1 June 2011 and 1 January 2012.

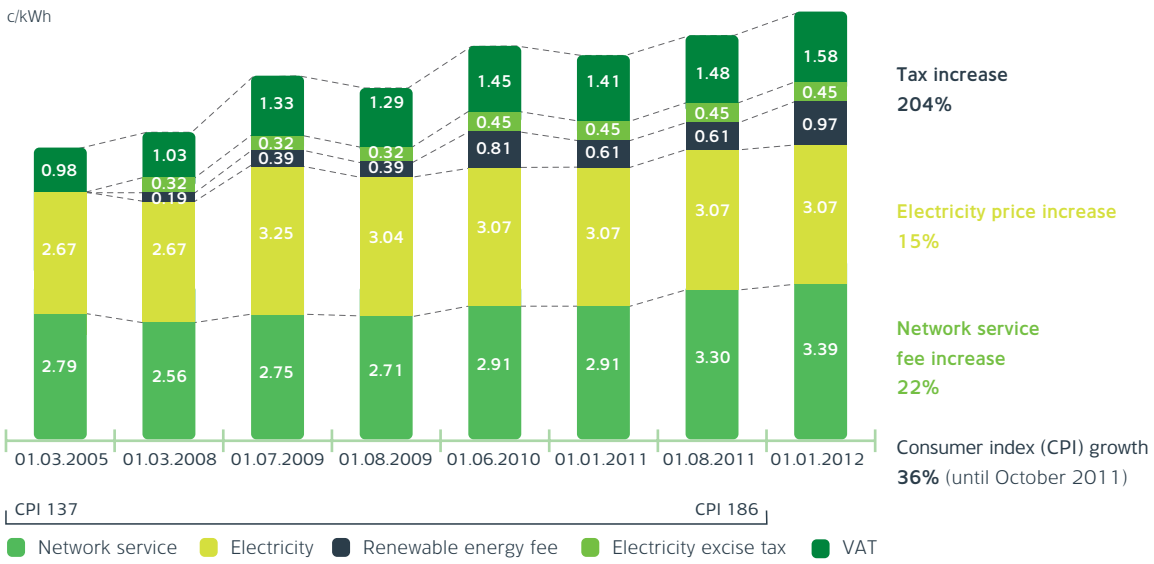
Sales of Network Services

Distribution network businesses are regulated by the state in Estonia. Eesti Energia has its permitted sales revenue approved by the Competition Authority, and this is used as a base for calculating the weighted average network fee with the custom-designed methodology of the Competition Authority.

The Competition Authority approves the network fee for a three-year regulation period. The last approval came into force from 1 August 2011. The method used for calculating the network fee assumes that the fee will be adjusted once a year from one year after the start of the regulation period using the Competition Authority's formula for adjusting the network fee.

The network fee can be changed more than once a year if there are changes in the costs over which the distribution network operator has no control. These costs are the network fees that must be paid to other network operators and the cost of purchasing electricity to compensate for losses.

AVERAGE CHANGES IN THE PRICE COMPONENTS OF ELECTRICITY ON THE REGULATED MARKET



The network fee changed on 1 August 2011 when the new regulation period started. From 1 January 2012 the average price of network services changed by 2.9% following a rise in the network fee charged by Elering.

Heat Generation and Sales

The price of heat energy sold in Estonia is regulated and approved by the Competition Authority. Eesti Energia needs approval from the Competition Authority for its permitted profitability, level of investment, operational and development costs and the costs of meeting all environmental, quality and safety standards. Eesti Energia generates heat as a side product of electricity generation in Narva, in the Iru combined heat and power (CHP) plant and in small CHP plants. The price limit for heat generation agreed between Narva power plants and the Competition Authority in 2011 was 21.03 €/MWh. The price limit for the Iru power plant has a variable and a fixed element, which were set at 44.97 €/MWh and 7 913 €/MW per year for 2011.

When heat is generated in a CHP plant, the producer must record production, distribution, sales and other unrelated activities separately. Cross-subsidies in combined generation are not permitted.

The main factor that affects the price of heat generated in the Iru plant is the price of natural gas, which accounts for over 85% of the cost of production. The calculation method used by the Competition Authority calculates the price of gas from the global price of fuel oil over the preceding six months, meaning that the gas price can change every month leading to changes in the variable element of the sales price of heat.

Electricity Generation and Renewable Energy Subsidies

Eesti Energia generates the majority of its electricity in the Narva power plants. The price limit for electricity sold by Narva power plants to the regulated market is approved by the Competition Authority under the Electricity Market Act. The Competition Authority considers forecast sales, justified costs and reasonable profit when approving the price limit. Permitted profitability depends on the fixed assets and weighted average cost of capital. The last approval came into force from October 2009 when the new price limit was confirmed at 29.4 €/MWh.

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The European Union has set a goal of increasing the share of consumption supplied from renewable energy, which means that there must be an increase in the amount of energy produced from renewable sources. A subsidy system for renewable energy has been set up to help achieve this goal. The Electricity Market Act sets out how the subsidies for the use of renewable sources of energy should be distributed in Estonia. Subsidies are paid for electricity that is generated from renewable sources, from biomass in CHP mode, or in efficient CHP mode. In Estonia, renewable energy receives a fixed subsidy on top of the market price. The renewable energy charge is paid by all consumers in Estonia in proportion to their consumption of network services. Elering, the Estonian transmission system operator, publishes by 1 December of each year its assessment of the amounts needed to finance the subsidies and the amount of network services delivered to consumers for the next calendar year, which it uses to calculate the renewable energy fee for the next year. In 2011 the renewable energy fee was 6.1 €/MWh. For 2012 the renewable energy fee has been set at 9.7 €/MWh. The subsidy is paid to the renewable energy producer by Elering.[1]

Sales and Mining of Oil Shale

The sales price of oil shale is regulated under the Electricity Market Act and approved by the Competition Authority. The Electricity Market Act states that a company mining oil shale in Estonia must sell the oil shale to electricity generating companies with electricity generating equipment in Estonia with a net capacity of 500 MW or more

[1] http://elering.ee/taastuvenergia-toetus-2/

at a price that does not exceed the limit set by the Competition Authority. The only generators to meet that criterion in 2011 were the Eesti Energia power plants in Narva, which generate electricity and heat from oil shale and are the largest consumers of oil shale in Estonia.

The price of oil shale sold to Eesti Energia's oil plant and to clients outside the Group is the same as the regulated price, varying only with the calorific value of the oil shale. From 2011 the sales price of oil shale started to reflect additional costs relating to oil shale production so that it more accurately represented the true cost of oil shale extraction. The regulated price of oil shale did not change in 2011 remaining at 10.5 €/t.

One of the main questions that will affect oil shale mining levels in the near future is the review of the mining volumes permitted by the state.

The Earth's Crust Act allows 20 million tonnes of oil shale to be mined in Estonia each year, of which Eesti Energia can mine almost 15 million tonnes. The national development plan for oil shale use in Estonia for 2008-2015 aims to find ways to reduce oil shale mining to 15 million tonnes a year by 2015 at the latest. The national development plan for the energy industry for 2020 gives 2020 as the latest date for 15 million tonnes to be set as the maximum limit.

Eesti Energia had mining permits at the end of 2011 for saleable oil shale reserves of 465 million tonnes. To ensure the future of its oil shale reserves and to replace the exhausted reserves of the Aidu open pit and the Viru underground mine, Eesti Energia received a mining permit in 2011 for a new mining site in Uus-Kiviõli, with potential commercial oil shale reserves of almost 150 million tonnes

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Regulation of prices on the regulated retail market will cease from 1 January 2013, after which all consumers will have the possibility to buy electricity from the unregulated market.

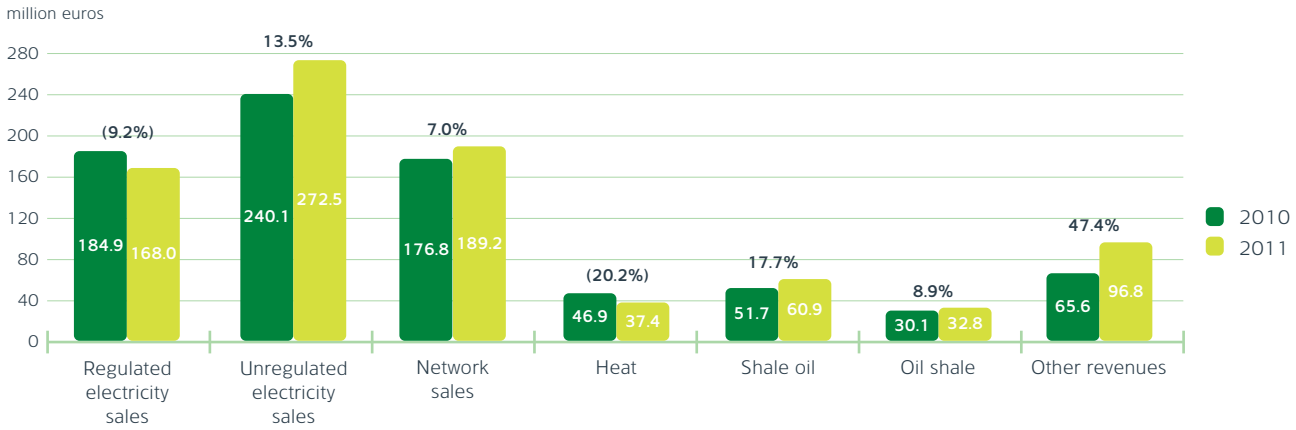
Financial Results

Revenues

The Group's revenue in the financial year 2011 was 7.7% higher than that in the previous financial year, and amounted to 857.5 million euros. The largest share of revenues came from sales of electricity at unregulated prices, which earned 272.5 million euros, an increase of 32.3 million euros or 13.5% year-on-year; sales of electricity at regulated prices, which earned 168.0 million euros, down 16.9 million euros or 9.2%; sales of network services, which earned 189.2 million euros, up 12.4 million euros or 7.0%; and sales of liquid fuels, which earned 60.9 million euros, up 9.1 million euros or 17.7%. Electricity sales at unregulated prices accounted for 62% of the total revenues from electricity sales in the financial year compared to 56% a year before. The growth mainly came from the partial opening of the electricity market in Estonia in April 2010, meaning that the amount sold in the unregulated market in 2010 was smaller than in 2011.

The Eesti Energia Group's total revenue for the financial year 2011 was **857.5** million euros, which was **61.2** million euros or **7.7%** higher year-on-year. EBITDA was **265.1** million euros, up **22.9** million euros or **9.4%**, operating profit was up **19.1** million euros or **12.8%** higher at **168.0** million euros and net profit climbed **32.3** million euros or **27.6%** to **149.2** million euros[2].

CHANGES IN REVENUES

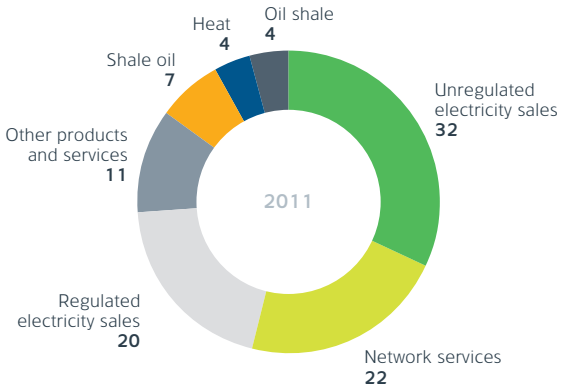


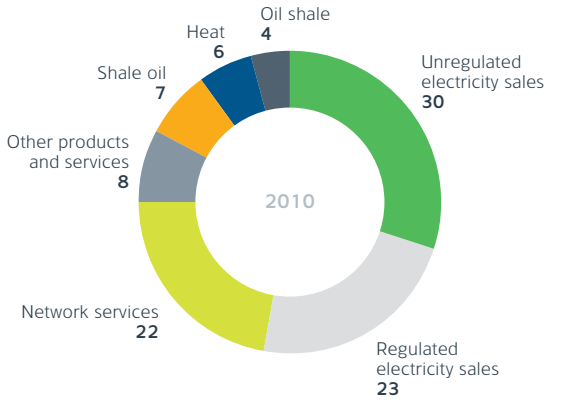
[2] Compared to net profit of continuing operations for the financial year 2010 excluding discontinued operations.

External Sales

	Unit	2011	2010	Change %
Electricity, of which	GWh	10,704	10,714	(0.1)
at regulated prices	GWh	5,473	6,079	(10.0)
at unregulated prices	GWh	5,231	4,635	12.9
Sales of network services	GWh	6,170	6,311	(2.2)
Sales of heat	GWh	1,073	1,428	(24.9)
Sales of oil shale	million tonnes	2.1	2.0	7.8
Sales of liquid fuels	thousand tonnes	164	181	(9.5)

REVENUE SPLIT (%)





The Retail division was mostly impacted by success in the unregulated electricity market in Estonia, continued growth in its client base and sales in the Latvian and Lithuanian retail markets, and the increase in the average distribution network tariff on 1 August 2011 to 33.0 €/MWh. The division's revenues were similar to those of the previous year, rising 0.9% to 480.0 million euros. Sales of electricity accounted for 263.3 million, and were 4.0 million euros or 1.5% lower than in the previous year. The regulated market provided 157.5 million euros of electricity sales, which was 18.7 million euros or 10.6% less than in the previous year, while 105.8 million euros were earned on the unregulated market, an increase of 14.7 million euros or 16.2%. Sales of network services were up by 12.8 million euros or 7.1% at 192.2 million euros, while sales revenue from other retail services was down by 4.4 million euros or 17.0% at 21.4 million euros.

In the financial year 2011, the division sold 7.4 TWh of electricity, 0.4 TWh or 4.8% less than in the previous year. All electricity in Estonia was sold at regulated prices until the end of the first quarter of the financial year 2010. The electricity market opened from 1 April 2010 for clients consuming 2 GWh through a single connection point, which consequently reduced the sale of electricity at regulated prices. Another factor that put downward pressure on sales in the regulated market from their levels of the previous year was the warmer weather, which reduced consumption across the country. Data from the Estonian Meteorological and Hydrological Institute put the average temperature for 2011 at 7.1 degrees, which is 2.0 degrees warmer than in the previous year and 1.2 degrees above the historical average. Sales were boosted by an increase in general economic activity and an improvement in the economic environment in Estonia. The market share of Retail division in the Estonian unregulated market was approximately 72% in 2011, which was 15 percentage points less than in the preceding year due to the increase in competition. The rise in the popularity of renewable sources of energy is worth mentioning. Eesti Energia's Green Energy product, which supplies clients with electricity that is generated only from renewable sources, had 5811 clients at the end of the financial year 2011, which was 2070 more than a year earlier. Purchasers of Green Energy consumed a total of 38.8 GWh of electricity during the financial year, an increase of 4.5 GWh or 13.2%.

The average price of electricity on the regulated market in Estonia for the financial year 2011 was 30.8 €/MWh. The weighted average retail price of electricity approved by the Estonian Competition Authority is 30.7 €/MWh from 1 July 2010.

In Latvia we sold 422 GWh of electricity to end consumers, which was 81 GWh or 23.8% more than in the previous year, while the number of clients grew by 163 to 273. The brand recognition of Enefit rose sharply, doubling to 35% on the index of brand awareness in Latvia. In 2011 our average market share in the unregulated market in Latvia was almost 15%.

Our sales and client numbers in the Lithuanian unregulated market increased equally significantly in the financial year 2011. Sales to end consumers reached 350 GWh[3], an increase of 127 GWh or 57.0%, and our average share of the unregulated market was approximately 7%. Awareness of the Enefit brand increased in Lithuania as it did in Latvia, with the awareness index tripling to 17%. We had 115 clients at the end of the year, 32 more than a year earlier.

We expect that the expanding unregulated markets in Latvia and Lithuania will see us increase our sales in those markets in 2012. The Latvian unregulated market will expand on 1 April, which will expectedly increase the volume of electricity consumed in the unregulated market from 3 TWh to 4 TWh a year. The Lithuanian market was opened further at the start of 2012, the market is expected to increase from 4.7 TWh to 5.7 TWh in 2012.

In the financial year 2011 we sold a total of 6.4 TWh of network services, which was 0.1 TWh or 2% less year-on-year. Sales of network services to private clients fell by 5%, while sales to business clients and network operators fell by 1%. The main factors affecting sales of network services were the warm weather, with higher temperatures than in the previous year decreasing the consumption, and the general improvement of economic environment, which led to increased demand for electricity. The impact of the above-average temperatures was compensated by economic growth and reduced losses.

Electricity sales in the Retail division

GWh	2011	2010	Change	
			GWh	%
Electricity sales at regulated prices, of which	5,009	5,663	(654)	(11.5)
external sales	4,994	5,589	(595)	(10.6)
Electricity sales at unregulated prices, of which	2,359	2,073	285	13.8
external sales	2,206	1,802	404	22.4
Estonian unregulated market, of which	1,208	1,247	(39)	(3.1)
external sales	1,055	976	80	8.2
Latvian unregulated market, of which	430	341	90	26.3
sales to end customers	422	341	81	23.8
Lithuanian unregulated market, of which	720	485	235	48.3
sales to end customers	350	223	127	57.0
Total electricity sales	7,368	7,737	(369)	(4.8)

Sales of network services by Distribution Network (Eesti Energia Jaotusvõrk)

GWh	2011	2010	Change	
			GWh	%
Sales of network services, of which	6,420	6,552	(132)	(2.0)
external sales	6,170	6,311	(141)	(2.2)

Low-voltage network services in 2011 were 4274 GWh, which was 115 GWh or 3% less year-on-year. Medium-voltage network services were 2146 GWh, which was 17 GWh or 1% less than in the year before. Network losses in 2011 were 399 GWh or 5.8%, which represents an improvement from the previous year of 65 GWh or 0.8 percentage points. Losses were affected by the changeover to the new client care and billing software, which led to changes in the measurement data collection and billing processes, allowing previously unrecorded amounts of electricity to be included in the calculations. In addition, we continued the use of the balance settlement method[4], which has proved to be efficient and replaced a significant number of electricity meters as part of the exchange programme, which have therefore improved the measurement results. External factors included the change in network tariffs and renewable energy fees, which motivated customers to submit their readings before the actual deadline. As a result a portion

[3] Under Lithuanian law, electricity that is imported into the Lithuanian market must be first sold on the Lithuanian power exchange then bought back from there and sold on to end customers.
[4] Balance settlement method is measuring the low voltage outward load from substation, which is compared to volume sold at connection points. In case of differences, the network loss operating unit will inspect the respective area to identify the location of network loss.

of the network losses are recorded in the beginning of 2012 instead of end of 2011.

The average price of Distribution Network's network services in 2011 was 30.0 €/MWh, which was 9% higher than in 2010. The new regulation period started on 1 August 2011 and the new network tariff of 33.0 €/MWh was put into effect. The rise in the average price was affected not only by the rise in the tariff at the start of the new regulation period, but also by a price correction on 1 March 2010 which brought the average price up to 27.5 €/MWh. There was also an additional correction in June 2010, which lifted the average price of network services to 29.1 €/MWh due to changes in the company's fixed costs regarding Elering increasing its transmission tariff.

The energy saving service run by the Retail division helped us retain our position as market leader for energy labelling for the third year in succession with 42% of the market, two percentage points more than in the previous year. In 2011 we started active promotion of our maintenance service, which provides a simple electricity system management service for buildings, and of our technical and measurement inspections. We signed 164 new maintenance contracts and sold 239 measurement and technical inspection packages. Sales of energy audits and thermal imaging were insignificant in 2011.

The sales revenue from the Retail division's communication services was 12.4 million euros, which was 0.5 million euros or 4.2% less year-on-year. By the end of 2011 our Kõu mobile internet service had about 21,000 clients, which was around 4000 less than a year earlier. On 16 January 2012, Eesti Energia and Tele2 Eesti signed an agreement for the sale of 100% of the shares of Televõrk AS to Tele2. The enterprise value was 25 million euros and the transaction was completed on 17 February 2012 after the approval from the Estonian Competition Authority.

The Electricity and Heat Generation division's revenues for the financial year 2011 amounted to 506.4 million euros, up by 2.7 million euros or 0.5% year-on-year. Sales of electricity earned 452.5 million euros, an increase of 13.7 million euros or 3.1%, while sales of heat were 39.0 million euros, down 9.7 million euros or 19.9%.

Electricity sales by the division in the year totalled 11.1 TWh, which was 1.6% less year-on-year. Sales at unregulated prices rose by 0.6 TWh or 11.9% while sales at regulated prices fell by 0.7 TWh or 11.3%. The average sales price was 40.6 €/MWh, which was 4.8% higher than in the previous financial year. The rise in the price was mainly due to the increase in the share of sales on the unregulated market. The average selling price for electricity on the unregulated market without the renewable energy subsidy was 49.0 €/MWh in 2011.

In the financial year 2011 we generated 408 GWh of electricity from renewable sources, which is an increase of 34.4% year-on-year. This rise came mainly from the large-scale use of biofuels in the Narva Power Plants and from the increase in the generating capacity of the Aulepa wind park following the installation of three new wind generators in March 2011. The major renovation of the number 11 unit of the Balti Power Plant in 2010, which qualified for the renewable energy subsidy allowed to increase the use of biofuel compared to lower generation output in the previous year. The Group received 21.2 million euros in subsidy for generating electricity from renewable sources, an increase of 4.9 million euros or 30.2% year-on-year.

Sales of heat fell in 2011 by 0.4 TWh or 23.8% to 1.2 TWh. The main cause of this decline in volume was the sale of Kohtla-Järve Soojus in March 2011, which lowered the sales by 144.6

Sales of electricity by the Electricity and Heat Generation division

GWh	2011	2010	Change	
			GWh	%
Electricity sales at regulated prices, of which	5,856	6,599	(744)	(11.3)
external sales	479	491	(12)	(2.4)
Electricity sales at unregulated prices, of which	5,283	4,720	562	11.9
external sales	4,259	3,922	338	8.6
Total electricity sales	11,138	11,320	(181)	(1.6)

GWh and 4.7 million euros, and the much warmer weather in the heating seasons, with temperatures averaging -4.9 degrees in the first quarter of 2011 and +5.2 in the fourth quarter, 2.3 and 5.5 degrees higher respectively than in the previous financial year. Sales of heat were also brought down by discontinued sales of steam to the Kreenholm factory, which lowered sales by 38.9 GWh and 1 million euros, and the connection of the Kesklinn-Lasnamäe and Mustamäe-Haabersti heating networks in Tallinn, which lowered demand for the output of the Iru heating plant. The decline in revenue was slightly increased by the sales of heat in Latvia. In January 2011 Eesti Energia acquired a majority share of the Latvian heating company that will build a biofuel-fired combined heat and power plant for the town of Valka in 2012. Enefit Heat & Power Valka currently produces heat in two boiler houses using biofuel and heating oil. In the fourth quarter the heating company Pogi OÜ from Paide and the Painküla CHP plant near the Werol factory joined the Group, which increased the sales of heat.

The average price for sales of heat outside the Group rose by 2.0 €/MWh or 6.2% to 34.9 €/MWh mainly because of the higher purchase price of the natural gas used and the increase in the share of expensive inputs.

The Fuels division's division's revenues were mostly affected by the rise in the sales price of liquid fuels due to the increase in the global oil prices, and by a sharp increase in the sales of Technology Industry (Tehnoloogiatööstus) subsidiary. The division's revenues in the financial year 2011 were 343.5 million euros, increasing by 66.7 million euros or 24.1% year-on-year.

Sales of oil shale accounted for 179.9 million euros, which was down 0.2 million euros or 0.1%, sales of liquid fuel were up 20.8% or 11.6 million euros at 67.2 million euros, sales of repair and construction services were up 590.9% or 26.2 million euros at 30.7 million euros, and sales of energy industry equipment were up 22.2% or 4.4 million euros at 24.4 million euros.

Sales of heat by the Electricity and Heat Generation division

GWh	2011	2010	Change (GWh)	Change (%)
Sales of heat, of which	1,177	1,545	(368)	(23.8)
external sales	1,073	1,428	(355)	(24.9)

Sales of oil shale by Mining (Eesti Energia Kaevandused)

million tonnes	2011	2010	Change (m tonnes)	Change (%)
Intra-Group sales of oil shale for electricity generation	14.3	14.2	0.1	0.4
Intra-Group sales of oil shale for oil production	1.6	1.7	(0.1)	(5.7)
Oil shale sales outside the Group	2.1	2.0	0.2	7.8
Total oil shale sales	18.0	17.9	0.1	0.6

Sales of oil shale remained at around the level of 2010, rising 0.6% or 0.1 million tonnes to 18.0 million tonnes. Also, the average price of 11.0 €/t remained at the same level as a year before, dropping 1.3% or 0.1 €/t.

Sales of liquid fuels by Oil Production (Eesti Energia Õlitööstus)

thousand tonnes	2011	2010	Change (th tonnes)	Change (%)
Sales of liquid fuels, of which	181	197	(16)	(8.3)
external sales	164	181	(17)	(9.5)

Sales of liquid fuels outside the Group fell by 17.2 thousand tonnes or 9.5% to 164.1 thousand tonnes. The main causes of the fall in the sales were the installation of new electrostatic precipitators at the oil plant and the related stoppage, which reduced the oil production as well as the impact of higher inventory at the end of the year together with the timing of supplies. The lower sales volumes of the oil plant were balanced by the higher price of liquid fuels, and in total the sales revenue from liquid fuels was higher than in 2010. The average sale price of shale oil follows the global price of heavy fuel oil with heavy fuel oil averaging 456.3 €/t in

the financial year 2011, which was 32.4% higher year-on-year. The average price of liquid fuels sold outside the Group in 2011 was 371.0 €/t, or 417.6 €/t if excluding price hedges. The sales hedged against price risk in 2011 amounted to 61,800 tonnes at an average price of 333.4 €/t.

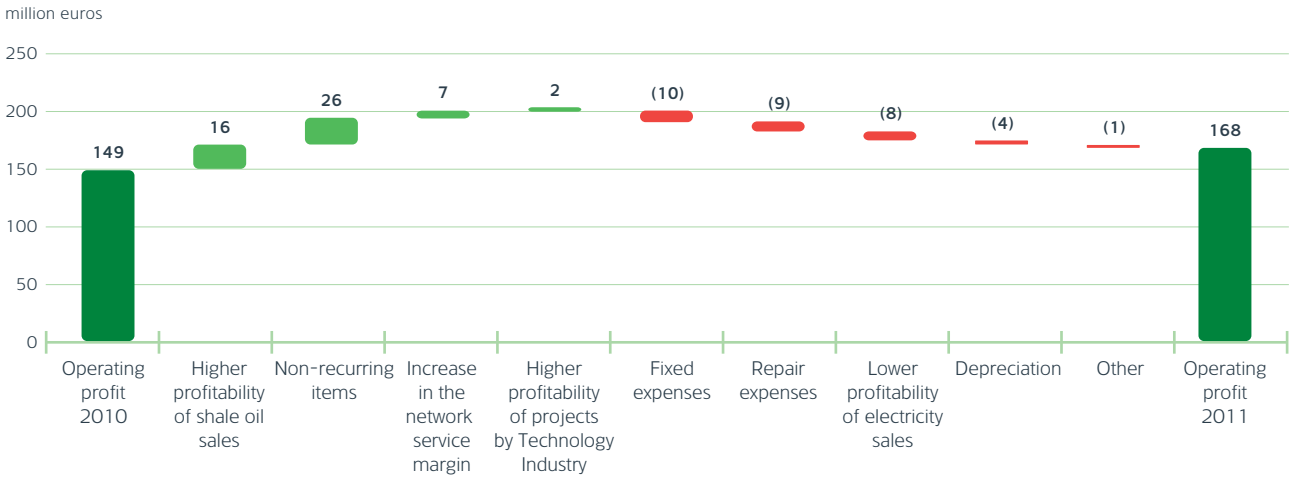
The revenues of Technology Industry (Tehnoloogiatööstus) from outside the Fuels division amounted to 57.5 million euros, which was 31.3 million euros or 119.7% higher year-on-year. The growth was mainly derived from the increased outsourcing to Outotec relating to the building of the new oil plant, which earned 19.8 million euros, and the construction of the biofuel feed system for Narva power plants (Narva Elektrijaamad) accounting for 9.7 million euros.

Operating Expenses and Operating Profit

The Group's EBITDA in the financial year 2011 was 265.1 million euros, an increase of 22.9 million euros or 9.4%, and operating profit was 168.0 million euros, up by 19.1 million euros or 12.8% year-on-year. Operating profit was boosted by increased profitability of oil sales, which added 15.9 million euros, improved sales margin of network services adding 6.9 million euros and more profitable projects at Technology Industry (Tehnoloogiatööstus) that earned additional 1.8 million euros year-on-year. Operating profit was reduced by 7.9 million euros due to declining profitability of electricity sales, an increase in fixed costs of 9.7 million euros, an increase in depreciation by 3.8 million euros and by an increase in repair costs from large-scale repairs of 8.6 million euros. The net effect of non-recurrent items gained the Group 25.9 million euros.

The operating profit of the Retail division fell by 17.0 million euros or 43.0% to 22.5 million euros. The operating profit of Distribution Network (Jaotusvõrk) amounted to 27.9 million, down by 3.9 million euros or 12.4% year-on-year. The main factors impacting the decline in the profitability of Retail division included the decrease in the profitability of electricity sales in the amount of 9.1 million euros; the increases in fixed costs and depreciation in the amount of 6.9 million euros and 3.4 million euros respectively and the change in the amortisation of connection fees of Distribution Network (Jaotusvõrk) by 3.1 million euros. In addition, the division's operating profit was further reduced by lower profitability of repair and construction services and communications services, 1.0 million euros and 0.7 million euros respectively. The results were positively impacted by the increase in Distribution Network's (Jaotusvõrk) profitability from the improved sales margin for network services adding 6.9 million euros and by lower network losses bringing additional 1.7 million euros, while the minor decrease in the amount of electricity distributed had a negative effect of 1.6 million euros.

CHANGE IN OPERATING PROFIT



The Electricity and Heat Generation division had operating profit of 79.9 million euros, which was 2.7 million euros or 3.5% higher year-on-year. The rise in profitability was supported by a higher electricity sales margin, which added 8.0 million euros, lower depreciation added 3.9 million euros; and sales of scrap metal, which earned an additional 2.5 million euros. An increase in the repair expenses following capital repairs reduced the operating profit by 9.4 million euros. In addition; a decrease in sales volume and profitability of heat lowered the operating profit by 3.0 million euros; a decrease of electricity sales volume by 3.7 million euros and higher fixed costs by 2.3 million euros. The net effect of non-recurrent items gained the division 7.1 million euros including the net effect of the discount for the existing CO_2 emissions allowances and the additional free allowances received for 2008-2012 in the amount of 12.3 million euros.

The operating profit of the Fuels division amounted to 70.9 million euros, an increase of 32.1 million euros or 82.7%, of which the operating profit of Mining division (Eesti Energia Kaevandused) accounted for 17.5 million euros, a drop of 1.9 million euros or 10.0%. The high global price of liquid fuels raised the sales margin of shale oil, adding 19.7 million euros year-on-year. The operating profit of the Fuels division was positively impacted by the more profitable projects of Technology Industry (Tehnoloogiatööstus), which earned 3.5 million euros more than in the preceding year; sales of transport services, which earned an additional 2.1 million euros; and capitalisation of costs, which increased profitability by 0.9 million euros. The growth in operating profit was slowed by lower sales of shale oil, which brought in 4.5 million euros less year-on-year; higher depreciation costs of 2.2 million euros; a decline in the profitability of the mining operations in the amount of 2.0 million euros; and higher fixed costs of mining and shale oil business of 5.2 million euros. The sale of a share of the Jordanian oil shale project and a revaluation of the remaining share boosted the non-recurrent profit by an additional 16.2 million euros.

Operating profit

Million euros	2011	2010	Change (m€)	Change (%)
Retail, of which	22.5	39.5	(17.0)	(43.0)
Distribution Network	27.9	31.9	(3.9)	(12.4)
Electricity and Heat Generation	79.9	77.2	2.7	3.5
Fuels, of which	70.9	38.8	32.1	82.7
Mining	17.5	19.4	(1.9)	(10.0)
Other, including eliminations	(5.3)	(6.6)	1.2	(18.6)
Consolidated operating profit	168.0	148.9	19.1	12.8

Net Profit

Eesti Energia's net profit in the financial year 2011 was 149.2 million euros, which was 32.3 million euros or 27.6% more than the net profit earned in the previous year from continued operations. Net profit was mostly affected by the rise in operating profit and by lower income tax costs.

The Group's financial income for 2011 was 4.1 million euros, which was 3.5 million euros or 46.2% down year-on-year. The largest part of the financial income was interest income from bank accounts and deposits, which totalled 2.9 million euros, down 4.3 million euros or 59.4% year-on-year. In the financial year 2010 the disposal of Elering, the transmission system operator, boosted the deposits and the related interest income while in 2011 the extensive capital expenditures shrank the deposits.

Financial expenses were 7.3 million euros, 5.5 million euros or 43.3% lower year-on-year. The largest contributors to financial expenses were the 14.3 million euros of interest paid in 2011 on the Eurobonds issued by the Group, which was 0.2% more than in the previous year, and the interest of 4.8 million euros on long-term bank loans, which was 2.9 million euros or 153.4% higher than a year before. Financial expenses

were lowered by a rise in the capitalisation of interest expenses. In 2011 the amount of capitalised interest increased by 8.7 million euros to 13.8 million euros due to the major capital expenditures to the construction of the oil plant, preparations for the construction of new power plant in Auvere, installing the desulphurisation filters and building new renewable generating capacity.

Income tax in 2011 was 14.7 million euros, which was lower than a year earlier due to a smaller dividend payout.

Net profit

Million euros	2011	2010	Change (m€)	Change (%)
Operating profit	168.0	148.9	19.1	12.8
Interest expense	(19.2)	(16.2)	(2.9)	18.2
Interest expense on provisions and other financial expenses	(1.9)	(1.6)	(0.2)	13.5
Capitalised interest expenses	13.8	5.1	8.7	172.6
Other net financial income	4.1	7.5	(3.5)	(46.3)
Profit (loss) from associates	(0.9)	2.1	(3.0)	(143.4)
Income tax	(14.7)	(28.8)	14.1	(49.1)
Net profit	149.2	117.0	32.3	27.6
Net profit from discontinued operations	0.0	27.4	(27.4)	(100.0)

Economic Value Added

The Group's EVA[5] in the financial year 2011 was positive and reached 34.1 million euros. Invested capital increased as investments grew by 20.9%, while operating profit rose by 12.8%. The Group's weighted average cost of capital in 2011 was 9.4%. We usually revise the inputs used for calculating the Group's weighted average cost of capital on an annual basis, but if there is a significant change in the structure of the Group's balance sheet or in the economic environment, then it is done as often as necessary.

The increase in the EVA of the Fuels division came mostly from higher sales margins of liquid fuels. EVA in the Electricity and Heat Generation division was strengthened by an increase in the sales margin and profitability of electricity. The main causes of the negative EVA in the Retail division were the lower margins on electricity sales, higher fixed costs and depreciation.

Economic Value Added

Million euros	2011	2010	Change (m€)	Change (%)
Retail, of which	(23.1)	(6.5)	(16.6)	(254.6)
Distribution Network	(13.3)	(9.2)	(4.1)	(45.2)
Electricity and Heat Generation	21.1	29.0	(7.9)	(27.3)
Fuels, of which	40.5	19.6	20.9	106.6
Mining	7.1	8.8	(1.7)	(18.8)
Other, including eliminations	(4.4)	(10.1)	5.7	56.4
Group	34.1	32.0	2.1	6.6

[5] EVA = operating profit - annual average invested capital + weighted average cost of capital

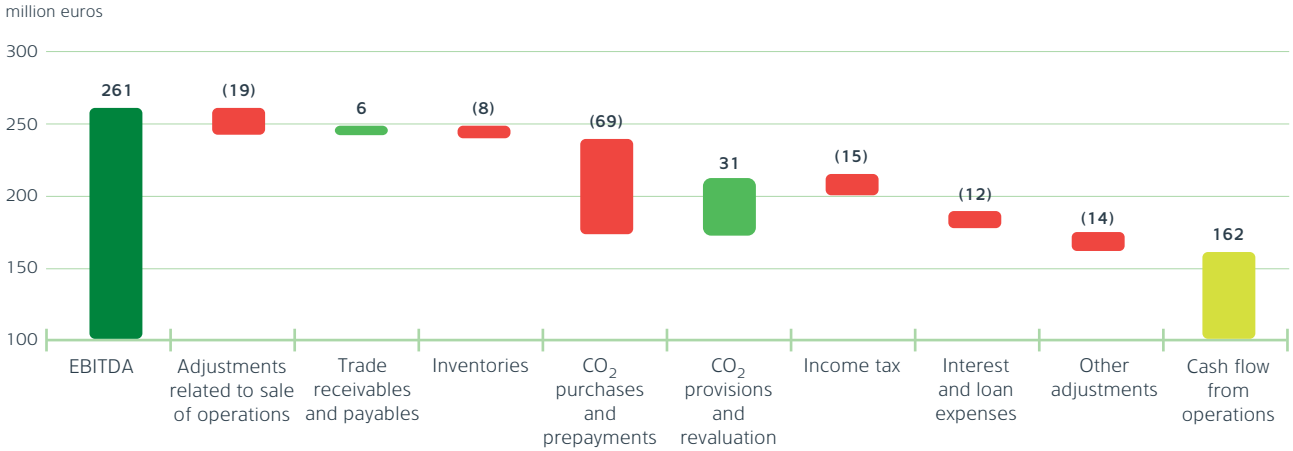
Cash Flow

The Eesti Energia Group's cash flow from operating activities in the financial year 2011 was 161.8 million euros. Compared to the Group's EBITDA of 265.1 million euros the cash flow from operating activities were negatively impacted by a transaction related to CO_2 emissions allowance in the amount of 37.5 million euros, adjustments of 18.7 million euros in connection with sales of business operations and income tax of 14.6 million euros.

The cash flow from operating activities decreased by 36.3 million euros or 18.3% year-on-year. Cash flow from operating activities declined due to the increase in the prepayments for CO_2 emissions allowance in the amount of 16.7 million euros, the adjustments related to the sale of business operations in the amount of 18.7 million euros and the increase in inventory levels by 18.1 million euros. Lower income tax level had a positive effect of 14.2 million euros on the cash flow from operating activities.

The Group's net cash flow was significantly impacted by the increased capital expenditures. The amount paid for the acquisition of fixed assets rose by 103.8% to 417.4 million euros, while 31.5 million euros was paid for the acquisition of subsidiaries. The investments were financed from existing funds and a loan from the European Investment Bank (EIB). The usage of the Group's own funds reduced the deposits with maturities of more than three months by 181.4 million euros. The loans received amounted to 138.1 million euros including 136 million euro investment loan drawn from EIB.

CASH FLOW



million euros	2011	2010	Change (m€)	Change (%)
Cash flows from operating activities	161.8	198.1	(36.3)	(18.3)
Cash flows from investments, incl.:	(198.6)	(75.5)	(123.1)	163.0
Purchase of property, plant and equipment	(417.3)	(204.8)	(212.5)	103.8
Net change in deposits with maturities over 3 months	181.4	(176.3)	(357.7)	(202.9)
Net change in restricted cash	46.1	(43.9)	(90.0)	(205.0)
Proceeds from connection and other fees	12.4	9.4	(3.0)	31.9
Acquisition of subsidiaries, net of cash acquired	(31.4)	-	(31.4)	-
Proceeds from disposal of subsidiaries	6.3	166.0	(159.7)	(96.2)
Change in overdraft provided for discontinued operations	0.0	187.6	(187.6)	(100.0)
Cash flows from financing, incl.:	23.6	(103.6)	(127.2)	122.8
Dividend payments	(56.1)	(109.2)	53.1	(48.6)
Bank loans received	138.1	2.3	(135.8)	53.9x
Repayments of bank loans	(59.1)	(3.5)	(55.6)	16.9x
Net cash flow	(13.2)	18.9	(32.1)	(169.8)

Financing and Investments

Credit Ratings

At the end of the financial year, Eesti Energia had a credit rating of Baa1 with stable outlook from Moody's and BBB+ with stable outlook from Standard & Poor's. Moody's lowered its rating by one notch on 19 December 2011 as it considered that the deregulation of Estonia's power market and the extensive capital expenditure programme will put pressure on the company's financial profile. Standard & Poor's raised the outlook to positive on 28 April 2011 when the outlook for the Estonian sovereign rating was raised, but it returned the outlook to stable on 10 August 2011 as it anticipates that the Group's debt level will increase due to the substantial capital expenditure programme, and it sees a CO_2-intensive generation portfolio, which is ever more exposed to risks of the open market, as a weakness. At the end of the year Eesti Energia maintained a strong investment-grade rating that allows the Group to access debt capital markets if needed.

Eesti Energia had a credit rating of Baa1 with stable outlook from Moody's and BBB+ with stable outlook from Standard & Poor's.

Financing

Eesti Energia's equity stood at 1236.7 million euros on 31 December 2011. 100% of the shares in AS Eesti Energia are owned by the Estonian state. The national budget for 2012 contains 150 million euros of additional equity to expand the Group's capital base in 2012.

At the end of the financial year the Group's total debt stood at 436 million euros, a rise of 77.5 million euros over the year:

- The Group's largest long-term borrowing is the 300 million euro 4.5% fixed rate Eurobond listed on the London Stock Exchange, due 2020.
- The remaining part of debt outstanding includes 146 million euro in the form of loans from European Investment Bank, 136 million euros of which were drawn out as a new loan in July 2011. The interest on the new loan is fixed for the first five years. Repayments are scheduled to start in 2016 and the loan has a final maturity in 2026.

- The loans from the Nordic Investment Bank were repaid in full during the year.

The Group's undrawn loans and credit lines amounted to 595 million euro at the end of 2011:

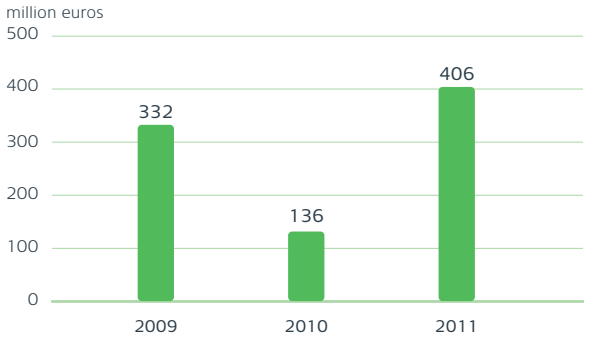
- In September 2011 we signed bilateral revolving credit facilities in the amount of 500 million euros with five regional banks. These credit facilities are aimed to provide a sufficient liquidity buffer to the Group. These will also provide flexibility with regards to the timing of raising any long-term funding. As at the end of 2011 these credit facilities have not been drawn. The facilities will expire in September 2014.
- In December 2011 we signed two loan agreements for 95 million euros with the European Investment Bank to finance the Iru waste-to-energy plant and the wind parks. These loans remained undrawn at the end of the financial year.

The weighted average interest rate of the Group's borrowings at the end of 2011 was 4.05%, which represented a fall of 0.1 percentage points over the year. The weighted average rate of borrowings with fixed interest rates was 4.10% and that for borrowings with floating interest rates was 2.01% including the base rate. Borrowings with fixed interest rate made up 98% of the total Group debt as at the end of the financial year. All borrowings are denominated in euros. The Group's interest cover ratio in the year was 12.5, which was 1.2 percentage points lower than last year due to the increased size of the borrowing portfolio.

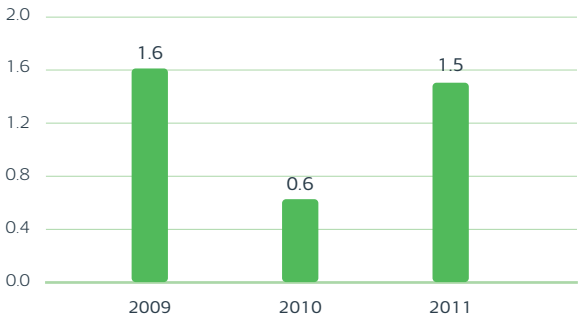
At the end of 2011, the Group's net debt stood at 405.5 million euros, having risen by 270 million euros during the year. The rise in net debt was caused by the Group's substantial investment programme, which requires cash outflows in excess of what the Group earns from its operations. The ratio of net debt to EBITDA also rose, although it remained at a conservative level of 1.5 in 2011. The ratio of net debt to equity reached 32.8% at the end of the year, a rise of 20.5 percentage points over the year.

Based on its loan agreements, Eesti Energia is bound to conform to certain financial covenants, As at the end of 2011 the Group complied with these financial covenants.

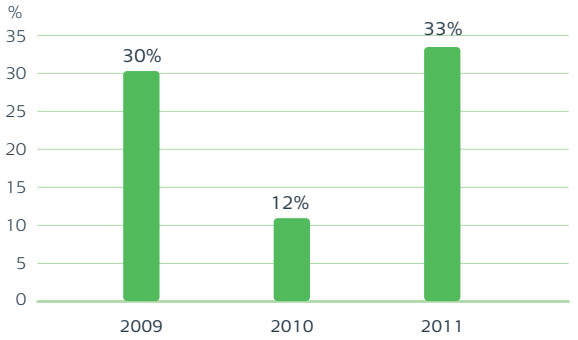
NET DEBT



NET DEBT / EBITDA



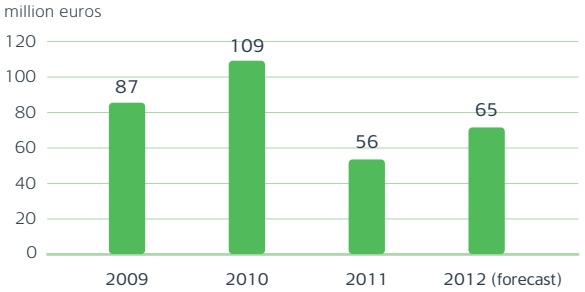
NET DEBT / EQUITY



Dividends

The Group paid out dividends of 56 million euros to its owner in 2011. The dividends were paid out in the second quarter of the year. The state budget for 2012 plans to receive net dividends from Eesti Energia of 65 million euros and the company must also pay tax on top of the dividends, calculated as 21/79 of the net dividends.

DIVIDENDS



Investments

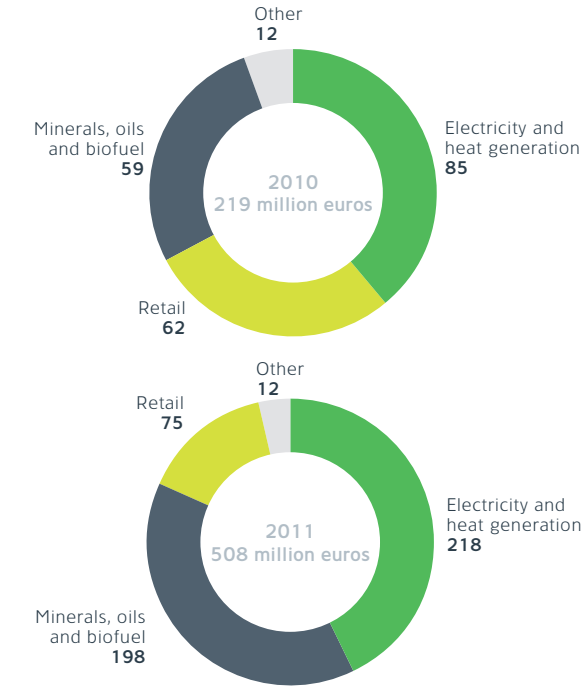
In the financial year 2011 the Group invested 507.8 million euros, which is 132.4% more year-on-year. The capital expenditure mainly went on renovating the distribution network, building new electricity generation capacity and reducing the environmental impact of existing capacity, and building the new oil plant.

Distribution Network (Jaotusvõrk) invested a total of 73.3 million euros in the financial year 2011, of which 18 million euros were for building network connections and 46 million euros for improving the quality and the reliability of the network. A new three-year regulatory period started in August 2011 during which around 300 million euros will be invested in the network.

The Electricity and Heat Generation division invested 69.1 million euros in building a new power plant, 48.9 million euros in the Narva wind park and 30.0 million euros in installing desulphurisation filters on the generating units of the Eesti power plant in Narva, while 24.9 million euros were invested in the waste-to-energy unit at Iru.

The largest capital expenditure in the Minerals, Oil and Biofuels division was the 111.5 million euros invested in building the new Enefit technology-based oil plant. Renovating existing and building new equipment and facilities for oil shale mining amounted to 31.7 million euros.

INVESTMENT STRUCTURE



The status of the major investment projects at the end of the financial year 2011:

- Construction of the new circulating fluidised bed (CFB) power plant - In January 2011 we signed a contract with Alstom to build a new power station next to the Eesti power plant. The new plant will have up to two 300 MW CFB generating units that allow alongside oil shale to burn biofuels for up to 50% of its fuel intake. The final decision to build the first 300 MW generating unit was taken in June 2011 and the expected commissioning of the plant is in 2016. The decision whether to construct also the second unit will be taken in 2012. The total cost of the first unit is approximately 638 million euros. Building permits for the power plant have been issued and the building work is expected to start at the beginning of 2012. During 2012 the focus will be on design and building work and the purchase of machinery for the plant. The machinery is expected to be installed and fitted starting from 2013. A total of 69.1 million euros was invested in the project in 2011.

- Installation of desulphurisation equipment on the Narva power plants – The project started in spring 2009 with the goal of fitting desulphurisation equipment to four generating units of the Eesti power plant by 2012. By the start of 2011, the installation work had been done on Energy Unit 3, and started on Energy Unit 6. At the end of 2011 the filtering equipment on Energy Unit 5 was being tested and commissioning were planned on Energy Unit 4 for January 2012. The testing revealed that for the exhaust gases from some mixes of fuel to be cleaned sufficiently, limestone would have to be used in the desulphurisation process alongside the oil shale ash that was being used as a reagent. For this reason we signed a contract for further work with the main contractor Alstom in December 2011 for the installation of a dosing system for lime in the filtering equipment on all four units. This building work will start in spring 2012 and the start-up and testing of the lime system will start in November. The project will be completed in the first quarter of 2013, and the total cost is expected at 8 million euros. We have invested 91.7 million euros in the desulphurisation project so far, and the total cost is 117 million euros.

- Building of the new Enefit-280 oil plant in Auvere – By the end of the financial year 2011 we had invested a total of 159.7 million euros in the project. The new vehicle loading bay was completed and ready for operation in 2011, the new turbine and substation building was built and the retort building reached its final height. The main operating machinery was installed and work is now underway to connect together in a single system all the piping, electrical fittings and automations. We plan to invest a total of 207.4 million euros in the project and to commission the plant in the second quarter 2012.

- Shale oil support infrastructure development in Auvere. The investment went into the fuel handling system, which supports the existing shale oil plant, the new and future Enefit-280's and CFB power units. We have invested a total of 5.7 million to the project and the total cost of the project is budgeted at 25.0 million euros. In 2011 the focus was on design works as well as on construction of main equipment. By the end of the year foundations for the buildings have been completed and the erection of structural steel was commenced.

- The Iru waste-to-energy unit – We have invested a total of 35.1 million euros in this project while the total cost is 104.6 million euros. Design work was finished in 2011 and general building work was done for a large part of the new generating unit, and installation work started for the exhaust gas filtering system. The furnace and boiler have been made in factories in Europe and installation work will start for them at the beginning of 2012. Manufacturing of the other main components such as the turbine, the generators and the transformers also started in 2011, and these will be finished and installed during 2012.

- The 39-MW capacity wind park on the ash field in Narva – We have invested a total of 48.9 million euros in the project and the total expected cost of the project is 59.4 million euros. The construction of the wind park was completed in December 2011. The next step is the connection to main grid and start-up of the wind turbines. The wind park is set to be complete during the second quarter of 2012.

- The 22.5 MW capacity wind park in Paldiski. The construction of the wind park began in June 2011. We have invested a total of 6.8 million euros to the project while the total

cost is 33 million euros. The park is set to be complete by June 2012. Before the installation of the wind park set to begin in April 2012 we are focusing on the construction and support works.

- Preliminary development of electricity and oil production in Jordan - In 2011 a transaction was completed, by which a 30% share in the Jordanian oil and electricity project was acquired by YTL Power International Berhad (YTLPI), the Malaysian power company. Eesti Energia continues to be the majority owner of the Jordanian project with 65%. We carried out the first stages of the detailed geological and hydro-geological assessment programme of the Attarati oil shale reserves in 2011, during which 81 boreholes were drilled to provide oil shale samples that were then analysed, and almost 10 km of holes were drilled. We started negotiations with the Jordanian government over the terms for a long-term Power Purchase Agreement, while the Jordanian natural resources office gave us a development license for the oil project and our development centre in Frankfurt carried out detailed tests of the Jordanian oil shale using Enefit testing equipment. The total budget for preliminary work on the oil and electricity project in Jordan is 30 million euros, and this phase should be completed for the oil side of the project by 2016 and potentially by 2013 for the electricity side.

- Preliminary development of oil production in the USA - In March 2011 Eesti Energia acquired a 100% holding of the US based oil shale development company Oil Shale Exploration Company (OSEC), for 42 million USD (acquisition cost of 29.6 million euros at the exchange rate at the time of the transaction). The transaction gave us ownership of the oil shale reserves in Uintah County, Utah, which are estimated at 3.8 billion tonnes of oil shale containing 2.6 billion barrels of oil. Eesti Energia's shale oil production project in America will proceed under the name Enefit American Oil. We plan to use our oil shale resources in Utah as a base for the liquid fuels' industry with a capacity of 50,000 barrels of shale oil per day. In 2011 we invested 1.8 million euros in preliminary work, including geological tests, planning for mining work, and environmental and market research. The total budget for preliminary work is 70.3 million euros, and the preliminary phase should be completed in 2016.

Outlook for 2012

Main Factors Affecting the Group's Results

Investments

The results of Eesti Energia's capital expenditure programme will be seen in 2012 as new production capacity are commissioned, which will have a significant impact on the Group's operating income and profitability. The new Enefit-280 oil plant will be commissioned and ready for production from III quarter 2012. Two wind parks are being built in Narva and Paldiski, and they will increase Eesti Energia's renewable energy generating capacity by a total of 121 GWh.

Investment	First expected production	Planned annual production
Narva wind park	II quarter 2012	90 GWh electricity
Paldiski wind park	III quarter 2012	43 GWh electricity
Enefit-280	III quarter 2012	290,000 tonnes shale oil 307,000 MWh electricity 78,000 m^3 retort gas

Market prices

Eesti Energia's revenues and profitability are directly affected by electricity prices in the Nord Pool Spot power exchange, prices for CO_2 emissions allowances, and the price for fuel oil with 1% sulphur content in the NWE ARA price area. The adjacent table is the basis for Eesti Energia's budget for 2012:

	Average market price in 2011	Eesti Energia forecast for 2012
Nord Pool Spot system price (EUR/MWh)	47.0	43.8
Nord Pool Spot Helsinki price area (EUR/MWh)	49.3	47.0
Nord Pool Spot Estonia price area (EUR/MWh)	43.3	45.7
CO_2 2012 allowances futures (EUR/t)	13.8	11.8
1% sulphur content fuel oil NWE ARA (EUR/t)	456.2	438.0

Protection against exposure to price risk

Eesti Energia uses various hedging instruments in the electricity market to cover the risks of our generation portfolio, and in 2012 these will include electricity sales on the regulated retail market in Estonia, unregulated retail and wholesale electricity sales in the Baltic region, and future transactions with financial instruments derived from the electricity price on Nord Pool Spot and the price of CO_2 emissions allowances. We mostly use financial instruments with a fixed price agreed with counterparties for hedging the price risks of shale oil production. We also use options for financial transactions. For 2012 we have hedged

87% of our electricity generating capacity against price risk at an average price of EUR 35.4/MWh, most of which is intended to cover the expected consumption in the unregulated retail market in Estonia. For 2012 we have hedged 96,900 tonnes of shale oil production at an average price of 393 euros per tonne. At the end of 2011 we had hedged the price risk of 12,488,120 tonnes of the Group's expected CO_2 emissions for 2012 at an average price of 2.47 euros per tonne (includes the free allowance received).

	2012 price risk covered	Average price in 2012
Electricity generation	9,036 GWh	35.4 €/MWh
CO_2 emissions	12,488,120 tonnes	2.47 €/t
Shale oil production	96,900 tonnes	393 €/t

	2011	Outlook for 2012
Revenues	858 million euros	Stable
EBITDA	265 million euros	Slight growth
Operating profit	168 million euros	Stable

Revenues, EBITDA and operating profit outlook in 2012 and sensitivity analysis

The Group's results for 2012 will be affected not only by the factors already mentioned, but also by sulphur emission limits which will apply to and reduce our electricity generation capacity. The success of the commissioning of our new Enefit-280 oil plant will also have an impact on our results. At present we foresee that the Group's revenues in 2012 will remain approximately on the same level as in 2011 because of the high shale oil prices, increasing shale oil production and higher average tariff for electricity distribution. The expected increase of and stability of in the Group's EBITDA and operating profit respectively is mainly due to the completion of generating assets, profitable oil sales and the increased profitability of the distribution network.

Eesti Energia's operating results are sensitive to movements in the market prices mentioned above and are also affected by the Group's share of positions hedged against the price risks. A rise of 1 euro in the price of electricity in the Nord Pool Estonia price area would affect the Group's EBITDA for 2012 by 1 million euros. A fall of 1 euro in the average price of CO_2 emissions allowances would increase the Group's EBITDA for 2012 by 2 million euros. A rise of 10 euros in the price of 1% sulphur content fuel oil would increase the Group's EBITDA for 2012 by 1 million euros.

Planned capital expenditure for 2012-15

In 2012 the Eesti Energia Group will continue with its major programme of investments, under which we will invest 560 million euros in 2012. The largest investment is planned for the new 300-MW power plant in Auvere, in which we plan to invest 220 million euros in 2012. We plan to invest about 40 million euros in finishing the construction of the Enefit-280 oil plant and 90 million euros in renovating our distribution network.

In 2013-15 Eesti Energia plans to invest a total of 918 million euros in projects that have already been decided. By the end of 2012 new investment projects will also have come closer to the point of decision, and Eesti Energia plans to increase its equity in 2012 by 150 million euros so that they can be successfully realised.

Sustainability

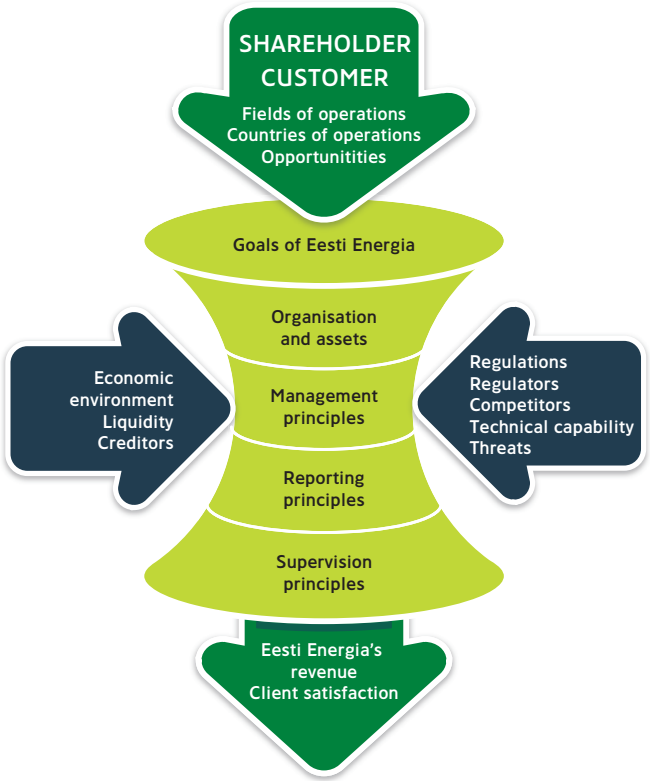
Corporate Governance

Adherence to the principles of good corporate governance is a feature of Eesti Energia's management. For several years we have followed the principles of the Combined Code on Corporate Governance of the United Kingdom's Financial Reporting Council, which we believe covers all the principles in the Corporate Governance Code drawn up in 2005 by the Estonian Financial Supervision Authority and the Tallinn Stock Exchange.

We also observe the principles in the Baltic Guidance on the Governance of Government-owned Enterprises of the Baltic Institute of Corporate Governance, which gives recommendations to executive management, reporting and auditing. In our opinion those parts that cover recommendations for how the management and supervisory boards of state-owned entities should organise governance do not apply to us.

A model of governance is used for Eesti Energia that complies with the Combined Code and our expectations, influences and outcomes, and puts these factors in the focus of management attention.

Expectations – Eesti Energia's goals are at the heart of the planning of all our activities. The strategy and budget that our shareholder approves through the supervisory board connect the



expectations on us into a single package that balances investment needs, development, efficiency and conformity with all regulations. The plans and preparations for the opening of the electricity market in 2013 call for changes to be made in our business model for electricity sales and a sharp reduction in the size of our regulated business. Meeting these expectations will require us to focus ever more on the needs of our clients. Because we operate in different countries, we need to consider the operating principles that are required in the various jurisdictions when planning our targets.

Influences – Our work to meet our targets can be affected by many different factors and risks, including the general state of the economy, access to capital, the regulations impacting our business operations, the requirements of supervisory bodies, the actions of our competitors, the success of our market and price risk management, the oil price, the market price of electricity in our region, and much more. Our awareness of these factors that can affect us and our constant work to deal with them help us avoid unwanted consequences for our business and increase our chances of meeting our targets.

Outcomes – The outcomes of Eesti Energia's activities are directly connected to our targets. By measuring these outcomes and recognising their effectiveness we have been able to implement many different processes within the organisation. In this chapter on corporate governance we cover the most important of these outcomes, explain how they were achieved, present the main events of the financial year 2011 and confirm that we find the results of the financial year presented in this report to be a fair and correct representation of the results of the management and the functioning of our processes.

We have divided our governance model for this purpose into the following inter-linked components:

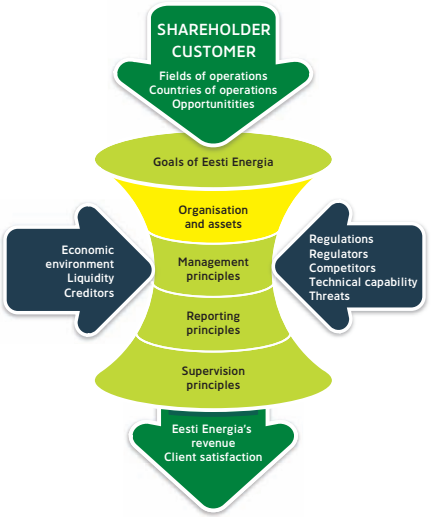
1. A single organisational structure and understanding of authority
2. Clear and clearly stated principles of management
3. Agreed reporting principles
4. Effective supervision

A Single Organisational Structure and Our Authority

For the principles of corporate governance to be followed successfully, a set of compulsory rules is required. For Eesti Energia to maintain its top quality governance, it is important to ensure that all activities comply with the State Assets Act, the Commercial Code and the company's Articles of Association.

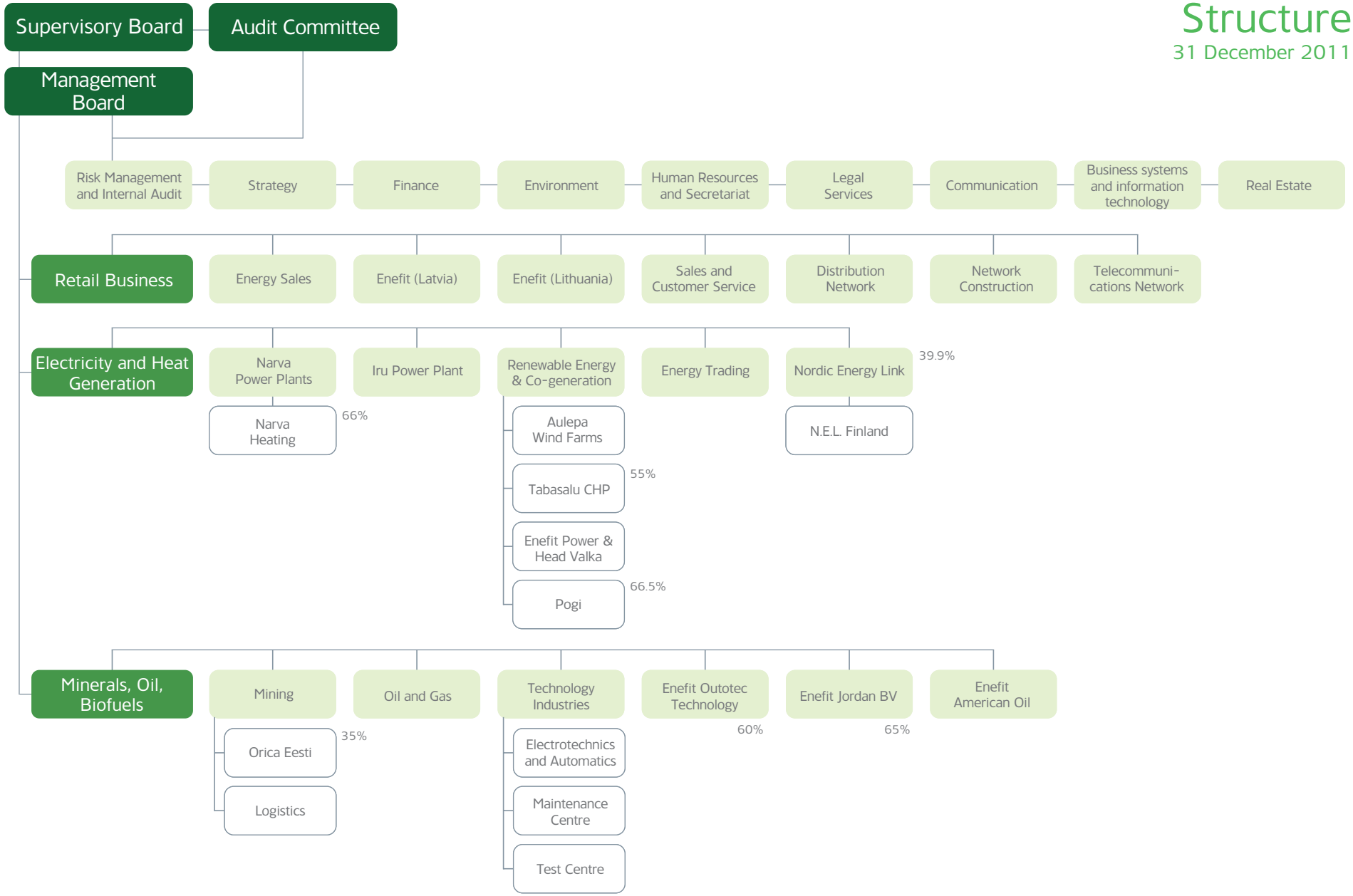
The structure of Eesti Energia has been stable for a long time. It has been crucial for us to keep the structure simple and rely above all on the Group's goals and requirements. We consider the single consolidated goals as our top priority.

The consolidated organogram of Eesti Energia that meets all these requirements and reflects the decisions taken in the financial year 2011 looks like this (see page 38):



Structure

31 December 2011



General Meeting

As the shares of Eesti Energia are owned by the Republic of Estonia, 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, who approved the following in 2011:

- The acquisition of Enefit Power & Heat Valka SIA;
- The acquisition of a majority share in Pogi OÜ;
- The founding of Enefit US LLC and the acquisition of Oil Shale Exploration Company;
- The founding of Enefit Jordan BV and some restructuring of activities;
- The founding of Eesti Energia Hoolduskeskus OÜ.

In the financial year 2011 the following actions previously approved by the sole shareholder were completed:

- The reorganisation of Eesti Energia Elektritööd OÜ as a structural unit of Eesti Energia;
- The disposal of the 59.2% share of Kohtla-Järve Soojus AS.

The shareholder also passed the following decisions:

- The approval of Eesti Energia's results for the financial year 2010 and the profit allocation proposal;
- the recalling and nominating members of the Eesti Energia Supervisory Board;
- The construction of the 300-MW circulating fluidised bed generating unit at the Narva power plants;
- The appointment of auditors for the financial years 2011, 2012 and 2013.

Nine general meetings were held in accordance with the State Assets Act, the Commercial Code and the company's Articles of Association.

Supervisory Board

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

The primary functions of the Supervisory Board are to enforce the strategy agreed at the General Meeting, to approve major strategic and tactical decisions and to supervise the work of the Management Board of the Group. The work of the Supervisory Board is organised by the Chairman of the Supervisory Board. The requirements and expectations for the Supervisory Board members are set forth in the State Assets Act.

In the financial year 2011 the membership of three Supervisory Board members, Rein Kuusmik, Aivar Reivik and Janek Parkman terminated.

In the financial year 2011 the membership of the Supervisory Board changed, and its membership as at 31 December 2011 was:

JÜRI KÄO (46)
Chairman
Date appointed 30 May 2007
Expiration of term 25 May 2013

MEELIS ATONEN (45)
Member
Date appointed 16 May 2005
Expiration of term 19 May 2014

REIN KILK (58)
Member
Date appointed 30 May 2007
Expiration of term 25 May 2013

MÄRT VOOGLAID (43)
Member
Date appointed 21 September 2011
Expiration of term 20 September 2014

KALLE PALLING (26)
Member
Date appointed 26 November 2009
Expiration of term 25 November 2012

ANDRES SAAME (52)
Member
Date appointed 1 July 2011
Expiration of term 30 June 2014

TOOMAS TAUTS (39)
Member
Date appointed 1 July 2011
Expiration of term 30 June 2014

TOOMAS LUMAN (52)
Member
Date appointed 17 March 1998
Expiration of term 5 July 2012

Supervisory Board meetings generally take place once a month, except during the summer. In the financial year 2011 the Supervisory Board held 10 meetings. The Supervisory Board fulfilled all its legal obligations and approved the following strategically important items:

- The acquisition of the shares of Oil Shale Exploration Company (OSEC)
- The founding of Enefit US LLC
- The budget for the financial year 2011
- The building of the Paldiski wind park
- The report for the financial year 2010
- The building of the new 300-MW circulating fluidised bed generating unit plant
- The acquisition of a majority share in OÜ Pogi and the investment in Pogi's combined heat and power plant
- The establishing of a new subsidiary for Eesti Energia Tehnoloogiatööstuse AS
- The consent to the sole shareholder to increase the Group's equity by 150 million euros
- The signing of 500-million euro liquidity loan agreements
- The budget for the financial year 2012
- The disposal of Televõrgu AS
- The signing of loan agreements to borrow 95 million euros from the European Investment Bank

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

Participation of Supervisory Board members in meetings:

Name	Number of times mandated to attend meetings	Participation in meetings	Participation %
Jüri Käo	10	10	100
Rein Kilk	10	9	90
Kalle Palling	10	10	100
Meelis Atonen	10	9	90
Toomas Luman	10	6	60
Andres Saame	4	4	100
Toomas Tauts	4	3	75
Märt Vooglaid	4	4	100
Rein Kuusmik	6	5	83
Aivar Reivik	6	6	100
Janek Parkman	6	4	67

The Supervisory Board has appointed an audit committee from its own members (see page 45) and assigned to it the rights and duties that are listed in the rules of procedure for the audit committee. The Supervisory Board has not found it necessary to set up a remuneration committee or an appointments committee, partly because this is not usual practice in Estonia and partly because of the legal constraints imposed under the State Assets Act.

The principles of remuneration for members of the Eesti Energia Supervisory Board are regulated by the State Assets Act. Decisions on the level and conditions of payment are taken by the sole shareholder or at the direction of the sole shareholder. A directive from the Minister of Finance sets the limits on the remuneration of the members of the Supervisory Board. Based on the general salary fund of Eesti Energia these limits are € 472.95 per month for the Chairman of the Supervisory Board and € 354.71 for members. A further payment can be made for participation in the work of bodies run by the Supervisory Board. Members of the Supervisory Board are not paid severance pay or other additional payments beyond those for participation in the work of the Supervisory Board.

In the financial year 2011 the remuneration of the members of the Supervisory Board was the following:

Name	Total remuneration (€)
Jüri Käo	5,675.40
Rein Kilk	4,256.52
Kalle Palling	4,256.52
Meelis Atonen	3,901.81
Toomas Luman	2,482.97
Andres Saame	2,128.26
Toomas Tauts	1,773.55
Märt Vooglaid	1,418.84
Rein Kuusmik	1,773.55
Aivar Reivik	2,128.26
Janek Parkman	2,482.97

Supervisory Boards of Subsidiaries

The powers and responsibilities of the Supervisory Boards of Eesti Energia's subsidiaries are set forth in their Articles of Association. The Supervisory Boards are generally comprised of members of the Eesti Energia Management Board. The exception is Eesti Energia Narva Elektrijaamad AS, which has additional Supervisory Board members Ants Pauls and Meelis Atonen. Meetings of the Supervisory Boards of subsidiaries take place as needed and are convoked

in accordance with the Group's internal rules, the subsidiary's Articles of Association, and the law. In the financial year 2011 the Eesti Energia Supervisory Board has been guided by its own rules of procedure, the Articles of Association, the General Meeting and the State Assets Act.

Management Board

The Management Board of Eesti Energia AS is responsible for operational management. There are five members of the Management Board, who are appointed by the Supervisory Board. The Chairman is appointed separately. The Chairman of the Management Board also fulfils the role of Managing Director or CEO.
There were no changes to the areas of responsibility of the members of the Management Board in the financial year 2011.

Members of the Management Board as at 31 December 2011:

SANDOR LIIVE (41)
Chairman and CEO

Date appointed
1 December 2009
(Member of the Board since 31 March 1998)

Expiration of term
30 November 2014

Experience: Sandor Liive has 17 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).

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.

MARGUS KAASIK (38)
Member, CFO

Date appointed
1 December 2009

Expiration of term
30 November 2014

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

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 (39)
Member, Head of the Retail Business division

Date appointed
14 April 2008

Expiration of term
13 April 2016

Experience: Mr Rink has over 16 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

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

RAINE PAJO (35)
Member, Head of the Electricity and Heat Generation division

Date appointed
1 December 2009

Expiration of term
30 November 2014

Experience: Mr Pajo has 14 years of experience in engineering and management. From 2001 to 2006, Mr Pajo worked in various roles within Elering as 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.

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 (38)
Member, Head of the Minerals, Oil and Biofuels division

Date appointed
1 December 2009

Expiration of term
30 November 2014

Experience: Mr Mikk has 18 years of experience of management and 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.

Management Board meetings generally take place once a week and if necessary voting can take place electronically. During the financial year 2011, 49 meetings and 11 electronic meetings were held, in which the participation of the Management Board members was:

Name	Participation in meetings	Participation in electronic meetings
Sandor Liive	46 (94%)	6 (55%)
Margus Kaasik	46 (94%)	8 (73%)
Margus Rink	47 (96%)	11 (100%)
Raine Pajo	49 (100%)	10 (91%)
Harri Mikk	36 (73%)	8 (73%)

The principles of remuneration for members of the Eesti Energia Management Board are regulated by the State Assets Act, under which the Supervisory Board sets the level of remuneration. Members of the Management Board are paid their remuneration for fulfilling their responsibilities as Members of the Board. The remuneration is set out in the agreement signed with the Management Board member and can only be amended by mutual agreement. Management Board members are also paid performance pay within the restrictions set by the State Assets Act and the results of the Group, but this performance pay cannot exceed four month's of the Board member's average monthly salary of the previous financial year. Performance pay must be justified and reflect achievement of the Group's targets, value added and its 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.

Total remuneration paid to the members of the Management Board in the financial year 2011 was:

Name	Total remuneration (€)
Sandor Liive	135,826.09
Margus Kaasik	93,322.62
Margus Rink	93,459.15
Raine Pajo	93,353.72
Harri Mikk	92,604.13

The CEO and members of the management boards of subsidiaries are appointed by the supervisory boards of the subsidiaries.

Clear and Clearly Stated Principles of Management

In Eesti Energia we treat the principles of management as a whole supporting integrated multi-directional exchange of information. It is important for us that they are unambiguous and simple to understand. The Group's Management Board is responsible for the development and implementation of these principles.

The results focused goal setting is used throughout the Group including all processes and management levels up to each and every employee. The Group management accounting department sets common assumptions and scenarios. The Management Board sets and approves the targets within the Group.

Responsibility for achieving goals is shared all the way down the employment pyramid of the Group. At the same time multiple interfaces for managing the goal setting, achieving results and coordinating reporting are in place.

The business divisions in the Group bring together companies that work in similar areas or that support each other. Each division is run by a management group which comprises the head of the division, who is a member of the Management Board of Eesti Energia, members of the Management Boards of the subsidiaries and entities within the division, and other experts where needed. The role of the management group is:

- to coordinate and monitor the implementation of key decisions;
- to ensure cooperation between the companies in the division;
- to develop a strategic plan for the division;
- to approve the strategic decisions of the division;
- to approve transactions exceeding 300,000 euros in value, except for sales policy transactions and transactions in the Electricity and Heat Generation division, for which the limit is 60,000 euros;
- to approve investment projects exceeding 300,000 euros in value and the addition of such projects to the strategic plan, including preliminary analyses and investigations, before discussion of the projects in the Group's Management Board or the company's Supervisory Board;
- to set 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.

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

No material changes took place during the financial year 2011 in the work of the division management groups.

Support services are generally centralised in order to make the best use of people and time and to ensure consistent quality. The support services that are run at Group level to help us achieve our business goals are:

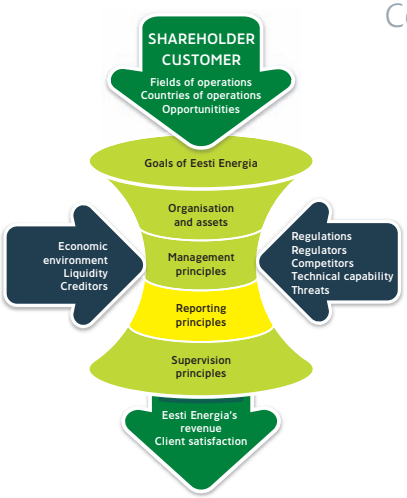
- Strategy
- Human resources and training
- Environment safety management
- Real estate and transport management
- Fire safety, emergency rescue and security services
- Treasury, accounting and management accounting
- IT management and development
- Legal services
- Communications and marketing
- Risk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

As an exception from the management structure under the Electricity Market Act Distribution Network (Jaotusvõrk), as the network operator, must ensure the equal treatment of market participants and protect the network operator's restricted information. It is particularly important that access to client and business data is separated between network operators and electricity sellers by procedures and technological solutions. Eesti Energia is aware of this obligation and has segregated management duties to ensure compliance with the law and best practice. These provisions ensure that Distribution Network (Jaotusvõrk) is completely independent when deciding on investments, conducting procurements and maintaining the confidentiality of information about client contracts.

In the financial year 2011 there were no major changes to our management principles and the focus remains on increasing efficiency and outsourcing services where this is reasonable and allows better usage of the Group's resources.

Agreed Reporting Principles

Getting sufficient and timely information is the basis of top-quality management. It is important that reporting is factual and forward-looking, allowing the best information to be used to avoid risks being realised and to turn them instead into competitive advantage. In general the reporting of the Group can be split into two parts: (a) financial reporting and (b) management reporting.



Financial reporting consists mainly of the consolidated reporting of financial results for the whole Group, which are consolidated at the level of companies. Eesti Energia releases information that is significant and of public interest to the media and Eurobond investors.

We give out information that concerns company operations and that may have an impact on the price of the Eurobond in accordance with the rules of the London Stock Exchange using its information system. We release information that is 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 financial year 2011 we put out 13 stock exchange notices through the London Stock Exchange information system, of which 4 were regular notices of financial results and 9 were non-scheduled announcements.

We will release the Group's consolidated interim reports for the financial year 2012 as follows:

- 1st quarter – 27 April 2012
- 2nd quarter – 27 July 2012
- 3rd quarter – 26 October 2012

The audited results for the full financial year 2012 will be released on 1 March 2013.

We do not usually publish the financial results of subsidiaries separately, but they can be obtained either directly from Eesti Energia or from the commercial register.

Management reporting is mainly used internally within the Group. There is a distinction between the performance based reporting focusing on the company results, and project based reporting, which focuses on implementation of investments and development. We put a lot of effort into the latter during the financial year 2011 and we believe it helps us to be even more careful and effective when changes are happening.

Effective Supervision

The Eesti Energia Group has implemented a multi-level and balances supervision system, which focuses on the most serious risks. The risk-based supervision allows us the supervising bodies flexibly adapt its activities and support goal achievement as much as possible.

The work of the Eesti Energia Audit Committee is governed principally by the statutes of the Audit Committee and the Authorised Public Accountants Act. The Audit Committee has four members. The number of committee members is decided by the Eesti Energia Supervisory Board, which also nominates the chairman. The primary function of the Committee is to provide consultation to the Supervisory Board in supervision related matters. 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.

Because the membership of the Eesti Energia Supervisory Board changed during the financial year 2011, one member of the Audit Committee also changed. Rein Kuusmik left the Committee and Andres Saame joined it. Membership of the Committee is usually for three years.

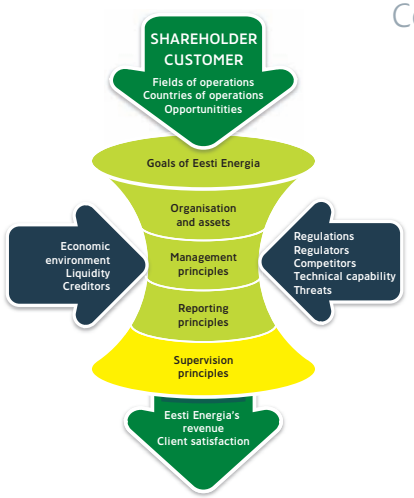
Members of the Audit Committee as at 31 December 2011:

JÜRI KÄO (46)
Chairman
Date appointed 17 December 2009
Expiration of term 16 December 2012

MEELIS ATONEN (45)
Member
17 December 2009
16 December 2012

ANDRES SAAME (52)
Member
22 September 2011
21 September 2014

MEELIS VIRKEBAU (53)
Member
17 December 2009
26 January 2013



Meetings of the Audit Committee take place to an agreed schedule, and at least once a quarter. In the financial year 2011, five ordinary meetings were held, in which the participation of the members was:

Name	Number of times mandated to attend meetings	Participation in meetings	Participation %
Jüri Käo	5	5	100
Meelis Virkebau	5	5	100
Andres Saame	2	2	100
Meelis Atonen	5	4	80
Rein Kuusmik	3	3	100

The Audit Committee submits a report to the Supervisory Board twice a year. The half-year report was submitted to the Supervisory Board by the Audit Committee on 22 September 2011. The Audit Committee's report is submitted to the Supervisory Board before the Supervisory Board approves the annual report. The conclusion of the report is presented in the Eesti Energia Annual Report 2011 on page 48.

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

Subsidiaries do not have audit committees. The internal audit function of the Group allows the Audit Committee to get any information about subsidiaries that it needs for its analyses.

The principles of remuneration for members of the Eesti Energia Audit Committee are regulated by the State Assets Act. A directive from the Minister of Finance sets the limit that the remuneration of a member of the Audit Committee can not exceed 25% of the remuneration of a member of the Supervisory Board. The total remuneration may not exceed 50% of the total payment to a member of the Supervisory Board. The Chairman of the Audit Committee is allowed to receive payment that is 50% higher than these amounts. Members of the Supervisory Board are not paid severance pay or other additional payments beyond those for participation in the work of the Supervisory Board.

In the financial year 2011 the members of the Audit Committee received the following remuneration:

Name	Total remuneration (€)
Jüri Käo	665.00
Meelis Virkebau	889.35
Andres Saame	88.71
Meelis Atonen	354.84
Rein Kuusmik	354.84

In the financial year 2011 the Audit Committee fulfilled all its duties and it has widened its scope of activity for 2012 to reflect international best practice.

The financial audit is based on the International Standards on Auditing. The Articles of Association of Eesti Energia give the responsibility for appointing an auditor to the General Meeting. The selection process is led by the Audit Committee and the results of the process are submitted to the General Meeting for approval. Following a competition, the General Meeting confirmed PwC as the auditor for the financial years 2011–2013. Depending on the country where the company is located the signatory auditor may be different. Sworn Auditor Ago Vilu signs the consolidated annual report.

Eesti Energia does not publish the fee paid for the audit service as we believe this could harm the results of the competition for the next period and thus have a negative financial impact on Eesti Energia.

The audit plan for 2011 was approved by the Audit Committee. PwC presented its results in two stages: (i) an interim audit at the meeting of the Audit Committee on 15 December 2011 and (ii) the final audit on 22 February 2012. The auditor's opinion on the annual report is on page 132 of this report.

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

In the financial year 2011, PwC did not provide Eesti Energia any services that could have compromised the auditor's independence.

We find that the audit for 2011 meets all regulatory standards, international standards and other expectations.

The internal audit service supplies the third part of the supervision system and bases its work on the internal audit standards of the International Professional Practices Framework. Its work covers the entire Group and the internal audit department is responsible for the internal audits.

The department reports to the Audit Committee and the Supervisory Board and its plans and reports are also evaluated and approved by the Eesti Energia Audit Committee. The role of the internal audit department is to contribute to improving the internal control environment, risk management and the business management culture. The internal audit department personnel are guaranteed full independence and complete access to all the data they need.

In the financial year 2011, the internal audit department employed five internal auditors and two controllers.

The reports of the internal audit department were submitted to the Audit Committee on two occasions in the financial year 2011. The consolidated report for the calendar year 2010 was submitted to the Eesti Energia Supervisory Board on 27 January 2011 and the consolidated report for the calendar year 2011 on 19 January 2012. The internal audit reports are available to the auditor as well.

The Group ensures that the management is

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

Risk management at Eesti Energia is based on the Group's unified risk management principles. The process is coordinated by the risk management department.

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 goals. Taking risks is a normal part of business, but there should be certainty that each unit can continue to carry out its functions sustainably should the risks materialise. In other words, the Group must not incur losses that exceed the limits of its risk tolerance.

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 management group of the divisions, 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 financial year 2011.

To prevent conflict of interest or fraud we continuously observe the fraud risk management strategy within the Group and the related action plan, which falls under the responsibility of the internal audit service.

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

In the financial year 2011 Eesti Energia continued taking measures to avoid any possible conflicts of interest its employees might have. A system for reporting economic interests has been introduced where employees who may have conflicts of interest in their work can declare their own economic interests and confirm their independence through regular self-assessment.

To the knowledge of Eesti Energia, the members of the Group's Management Board and of the Management Boards of subsidiaries had no conflicts of interest in the financial year 2011 and no **transactions with associated parties.**

We consider the following to be associated parties: a) entities in which the shareholder of Eesti Energia has a material holding of more than 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 financial year 2011 can be found on page 126 of the financial statements.

The handling of insider information is subject to requirements concerning insider information as the Group has issued Eurobonds listed on the London Stock Exchange Energia is. Proper handling of insider information is important to protect the interests of bondholders and ensure the fair trading of bonds.

All bondholders and potential investors must have access to significant information on Eesti Energia and its subsidiaries in a timely, consistent manner and on equal conditions, so that they all get the same amount of information at the same time and in the same manner.

It is inevitable that at certain times, due to their position, some people connected with Eesti Energia will have more information about the Group than investors and the public. To prevent the misuse of such information, we have established procedures to protect insider information.

To our knowledge there were no cases of the misuse of insider information in the financial year 2011.

Representation of the Management Board

In the financial year 2011, the Eesti Energia Management Board complied as required with the duties of members of the Management Board, and led the Eesti Energia Group to achieve its targets. The Management Board has regularly reported to the Supervisory Board, has acted within its powers and has submitted all of the information necessary for decision-making to the Supervisory Board.
The Management Board is aware of and hereby confirms its responsibility for the preparation of the annual report and for the data therein.

Representation of the Audit Committee

The work of the Audit Committee in the financial year 2011 has been based on the statutes of the Committee and its plan of activity. No restrictions have been imposed on our actions, and the Group's representatives have made all necessary information available to us. Well-defined reporting lines have ensured a fluent flow of necessary information to us. We have informed the members of the Management Board.

During the financial year 2011, we have assessed the following points that have an impact on the operations of the Group:

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

The Audit Committee as the body that creates confidence and is responsible for supervision finds that the activities of the Eesti Energia Group do not show any flaws of which the management is unaware or which could have a material impact on the Annual Report for the financial year 2011.
We have submitted our assessments with the activity report to the Supervisory Board of Eesti Energia

Jüri Käo
Chairman of the Audit Committee

22.02.2012

Conformity to Principles of Good Corporate Governance

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

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

The following legislative non-conformities were found between the Combined Code and our activities in the financial year 2011:

- no nomination committee has been set up, as under Articles 80 and 81 of the State Assets Act, the appointment of Supervisory Board members takes place at the decision of the Minister of Economic Affairs and Communications and the Minister of Finance;
- the regularity of and rules for the re-election of Supervisory Board members are at variance from the Combined Code, as under Articles 80 and 81 of the State Assets Act, the appointment of Supervisory Board members takes place at the decision of the Minister of Economic Affairs and Communications and the Minister of Finance;
- the election of members of the Management Board and appointment of the Chairman of the Management Board takes place at the decision of the Supervisory Board;
- no remuneration committee has been set up, as the principles of remuneration of members of the management bodies of state-owned companies are governed by Articles 85 and 86 of the State Assets Act;
- the self-assessment of the activities of the Supervisory Board is at variance from the Combined Code, as under Subsection 84 (1) of the State Assets Act, a Supervisory Board member is obliged to report to the minister who appointed him or her;
- chapter D on dialogue with institutional investors and chapter E on dialogue with entrepreneurs do not apply to Eesti Energia, as it is a state-owned business.

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

Regulators

The nature of Eesti Energia's business means that its activities are covered by a variety of regulations. Our main partners in state supervision are the Competition Authority, 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 financial year 2011, there were no significant amendments to these legal acts which could have had a material effect on our business.

Employees

Employment Relations

In the financial year 2011 the number of people working for Eesti Energia grew by 133. There was a lot of internal restructuring and reorganisation of employment positions within the Group during the year in order to increase efficiency and avoid work being duplicated in different companies within the Group.

The number of employees has particularly increased in those parts of the business that have been developing and expanding, such as oil production and international business.

At the end of the financial year a total of **7685** people were working for the Group, of whom **24** were working outside Estonia. The average age of our employees was **48.1** and each employee had on average worked for the Group for **14.2** years. Men made up **80%** of the total staff and women **20%**. Among the Eesti Energia staff, **32%** have been through higher education, **43%** vocational education, **21%** secondary school and **4%** basic school.

Health and Safety

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

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

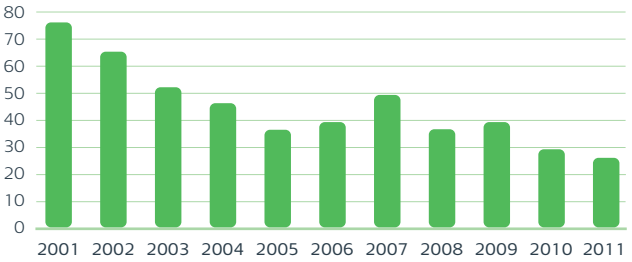
Our risk analyses show that the most dangerous working environments for the health of our employees are mines, quarries and oil shale power plants. The risks in mines stem from strenuous work, humidity, low temperatures, drafts, dust and the threat of explosion; the risks in power plants come from the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

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

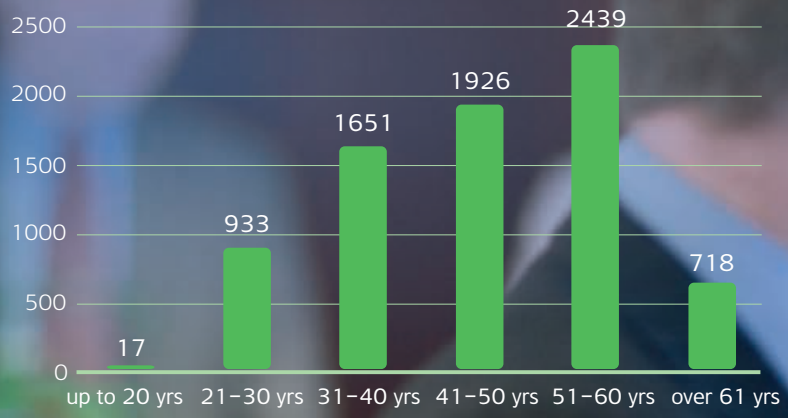
To mitigate the risks to employees, we adhere to and comply attentively with all legal requirements, we invest continuously in safer working conditions and equipment, and we are steadily reducing the amount of insulation containing asbestos throughout the Group.

Eesti Energia Kaevandused, Eesti Energia Jaotusvõrk, Eesti Energia Võrguehitus and Iru Elektrijaam all have an occupational health and safety management system that conforms to the OHSAS 18001 standard.

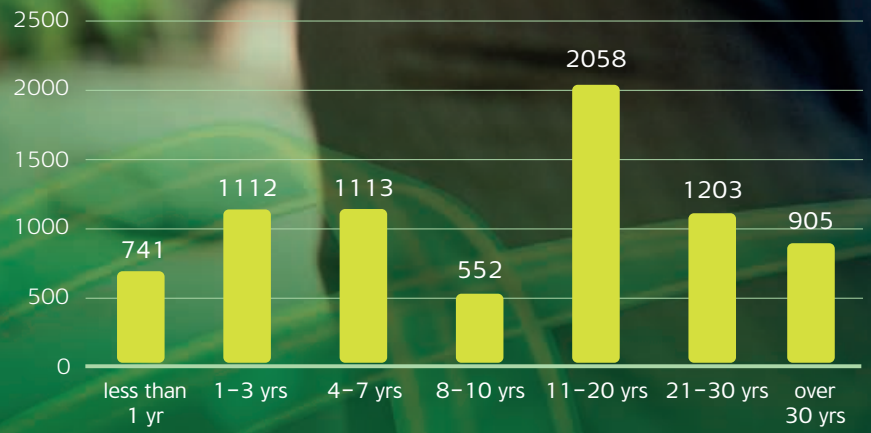
OCCUPATIONAL ACCIDENTS



DISTRIBUTION OF EMPLOYEES BY AGE, as at 31 December 2011



DISTRIBUTION OF EMPLOYEES BY LENGTH OF EMPLOYMENT, as at 31 December 2011



In the financial year 2011 there were no major changes in our occupational health and safety policies or activities. The number of occupational accidents has been falling steadily for the last twelve years.

Human Resource Planning and Working with the Next Generation

Our aim is to be a respected, socially responsible and trustworthy employer, the first and lasting choice for engineers. We ensure the competitiveness and sustainability of Eesti Energia by focusing on systematic and long-term human resource planning and creating a reserve of future talent. We plan our human resources in accordance with our business strategy and in full awareness of the average age of our staff. We map our staffing requirements and use this to work out who we will need in future, both inside and outside of the Group.

The businesses that have the greatest need for a new generation of workers are Eesti Energia's mining operations and the rapidly expanding production of liquid fuels. There is a particular shortage of engineers and other specialist workers in Ida-Virumaa region. Bringing young specialists into the company at the right time and letting them gain greater experience of their profession is very important for us.

In the 2011 financial year we gave stipends of a total of 46,000 euros to 15 young students for vocational education, further education, Master's studies and Doctoral studies and we launched two new scholarships when we sent two young engineers to study on Master's courses in famous universities in Great Britain as part of our foreign scholarship programme so that they could work as highly qualified specialists in our rapidly growing liquid fuels business.

It is important for us as a company that power engineering and other subjects related to energy are popular and that they are taught by the best teachers, and so we are keen to support highly qualified and motivated young people who want to start a career teaching such subjects. The 2011 young teacher's scholarship went to a heating engineer with a PhD, who has started teaching in the Department of Thermal Engineering of Tallinn University of Technology.

In addition to awarding scholarships we are trying above all to encourage young people to move into energy studies by making energy-relted careers more attractive to young people. In November 2011 we went with representatives of Tallinn University of Technology and its Virumaa College to visit students of eleven high schools in Ida-Virumaa to tell them about careers and studies in the energy industry. The response from the schools and parents was very positive.

To broaden their education last year, we offered around 250 of the best students on vocational and university courses in power engineering the chance to gain work experience in Eesti Energia companies all over Estonia. Our summer interns were able to take a programme put together specially for them which gave them the chance to find out about us from an introductory information day, visits to our various companies and seminars summarising our practical experience.

Development of Management and Managers

We are a result-oriented business organisation and our competitive advantage lies in our excellent engineering and technical skills and our skilled managers. Our team consists of people who can be recognised for their expertise, responsibility, teamwork and enterprising spirit.

We are putting ever more resources into professional development for our managers, because it is the high quality of our management that will guarantee the success of our business. In the past year we collated the concept behind our management development into a single whole with the aim of systematising the professional development needs and opportunities of Eesti Energia managers and of consciously directing management tools towards the development of best practice. We want our company to have successful people and managers who act in harmony with our values. We mapped our expectations for different levels of management and defined the key skills at different levels of business and management.

We also started several longer-term management development programmes this year to match our business and development needs. We put them in place in the Distribution Network and Network Construction in Retail division and in Eesti Energia Kaevandused, with different

features in each case to suit the specific circumstances. These are long-term development programmes with participants from the most senior down to the lowest management level.

Our Russian language Management ABC course was launched successfully for managers in our companies in Ida-Virumaa. Our people management skills need ever more attention and they are a top priority and will certainly remain so in the next few years.

Teamwork and cooperation were the biggest priorities in our work in 2011. People management requires more and more attention and remains one of our top priorities also in the coming years.

Remuneration

The fundamental principle of our remuneration strategy in 2011 was that we pay our employees a competitive salary using the median salary level in the market as a basis for comparison. In business critical positions we considered the upper decile level for comparison.

Our approach is to differentiate salaries, which means that we watch changes in the market salary for each position type. In the past year we took part in various salary research programmes, including the general research by Fontes and their research into the salaries of top managers and the IT industry, and we took part in the employers' salary research. We raised salaries in 2011 in positions where the salary was significantly behind the median in the market, notably client service staff and IT analysts and project managers.

In 2011 we mapped the business-critical positions in the company and the positions subject to international competition where we feel there is increasing pressure from the international labour market. We added employment positions in the USA and in Latvia and Lithuania and in 2012 jobs will also be added in Germany and Jordan. We agreed a separate motivation system for positions that compete on the international market, taking the labour and wage markets in various countries into account.

We balance the result-based remuneration by considering the interests of the employees and the employer. In the past year we continued to devise result-based remuneration systems for various groups and gradually started to apply them. At the end of 2011, 97% of our employees had result-based remuneration systems, using both annual and short-term results.

Relations with Social Partners

In 2011 we continued negotiations at company-level for a unified set of principles for the Group. As a result six collective agreements were signed between different companies and trade unions and one between a company and representatives of its workers.

A new agreement was reached for the Narva power plants with notable changes in the remuneration system that saw a rise in the basic salary as a proportion of the total package and the addition of a results based performance pay linked to the financial results of the Group and the success of the company and the worker in achieving their goals for the year, and a sharp reduction in the proportion of guaranteed benefits.

During the year we held a joint New Year party for all our employees, a summer event to tie in with the Narva Energy Run and a Christmas party for all of our employees' children aged 13 and under. We gave the traditional Star of the Year award to remarkable employees who has stood out during 2011 for their results and the Achievement of the Year 2011 for the project that has created the most value for Eesti Energia.

Human Rights

It is very important to us at Eesti Energia that all our activities are in full compliance with all international and national laws, standards and best practice. We are particularly careful about:

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

Internal rules at Eesti Energia ensure the protection of these rights. Eesti Energia and its subsidiaries and all supervisory departments are fully aware of the need to protect human rights and respond immediately if any questions arise concerning the protection of rights.
In the financial year 2011, there were no cases in the Group that could be classified as human rights violations.

We pay our employees a competitive salary.

The Environment

Eesti Energia's range of activities covers all the processes connected to energy generation, from oil shale mining to electricity distribution and sales, and all these activities have an impact on the environment.

We always aim to act in a way that minimises our environmental impacts. This is done by using new and cleaner technology and finding ways to lower the effects of our current equipment and facilities.

To achieve these goals we have set out the general principles of environmental protection at Eesti Energia:

- We use environmental management systems that conform to the international standards ISO 14001 and EMAS to manage environmental impacts.
- We analyse the environmental impact of our activities constantly and use the best available technology (BAT) to reach our targets.
- We use all our resources carefully and conservatively, we are increasing our reuse and recycling of waste and we are lessening our environmental emissions.
- We are reducing the CO_2 intensity of the energy we supply to our clients lessening in this way our contribution to climate change.
- We are open to new and environmentally sustainable solutions in our activities.
- We work actively together with science and research institutions and consultation firms to reach the set goals.
- In procurement tenders if all other conditions are equal we prefer suppliers with a certified environmental management system

The environmental principles of each Eesti Energia company are based on the general principles and focused for the activities and environmental impacts of the individual company.

Changes in the Legal Environment

Eesti Energia's activities in 2011 were impacted by new enforced directives and directives still under the revision. Also several national development programmes that will affect our work were approved during 2011.

The European Union's Industrial Emissions Directive (IED) came into force at the start of 2011, bringing together five different directives including Large Combustion Plants Directive (LCPD), Waste Incineration Directive (WID) and the Integrated Pollution Prevention and Control Directive (IPPCD). Eesti Energia's existing combustion plants are covered by the conditions in Estonia's EU accession agreement, which will remain in force until the end of 2015. The requirements for new combustion plants have changed and become stricter and the conditions of use for the current combustion facilities after 2015 have been set out more precisely. The directive should be adopted in Estonian legislation by the beginning of 2013 at the latest.

In 2011 the revision of the Fuel Quality Directive, which came into force in 2010, started to add the requirements for the management of climate change. The revision has led to serious discussions about calculating and limiting the CO_2 emissions created by fuels and about calculating and limiting the greenhouse gases (GHG) from the whole life-cycle of fuel production, which could affect the competitiveness of liquid fuels produced from oil shale. The revision process for the directive will continue in 2012.

At the end of 2011, negotiations started between the EU and member states about revision of the National Emissions Ceilings Directive (NECD). This directive sets the annual limits for all of the main pollutants for all member states on the basis of the sources of pollution on the territory of each state. The aim of the revision of the directive is to lower the permitted emissions for the member states and bring the EU requirements into line with the Gothenburg Protocol of the Convention on Long-range Transboundary Air Pollution. This would mean stricter pollution limits for Estonia, which would affect the oil shale industry. The negotiations will continue in 2012.

Eesti Energia's environmental principles include efforts to reuse and recycle the waste produced from our operations. In March 2011 the government approved the National Development Plan for Mineral Resources Used in the Construction Industry for 2010-2020, which listed the waste rock left over from the oil shale enrichment process used in mining as an important resource. This development plan also creates a better legal basis for the wider use of the waste rock and other mineral materials produced in mining.

Eesti Energia has started diversifying its electricity generation through the increased use of biomass and wood in particular. A very important condition for this was the Estonian Forestry Development Plan until the year 2020, which was approved by the Estonian Parliament in February 2011. The sustainable levels of logging set out in this development plan support Eesti Energia's plans for diversifying generation by increasing use of the biomass.

There were also important events within the EU ETS implementation in 2011. In the middle of the year the certification of historical references for CO_2 was done at much stricter levels than before and used as the basis for the CO_2 trading permits and free CO_2 emissions allowances for EU ETS third period starting from 2013. The requirements for the verification of GHG reports for the current CO_2 trading period were also changed from 2011.

Use of Resources

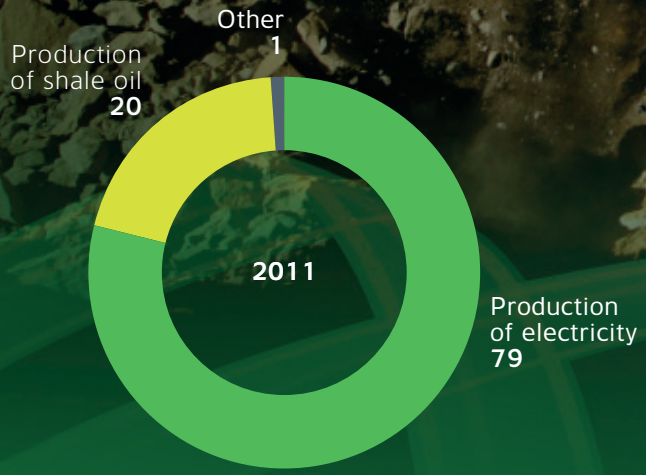
Eesti Energia's activities are on a large scale based on oil shale. We generate heat and electricity from oil shale and we produce liquid fuels from it. However, we have also started to diversify the range of primary energy sources we use. In 2011 we used a total of 15.8 million tonnes of oil shale, 98.2 million m3 of natural gas, 415.4 tonnes of biomass and 12.0 tonnes of liquid fuel. We also used wind and water power to produce electricity.

In the past year, a total of 18.0 million tonnes of oil shale were delivered to customers from our mining business, of which 88% were used within the Group and 12% by other clients. At the end of 2011 Eesti Energia had 559 million tonnes of mineable oil shale resources in Estonia.

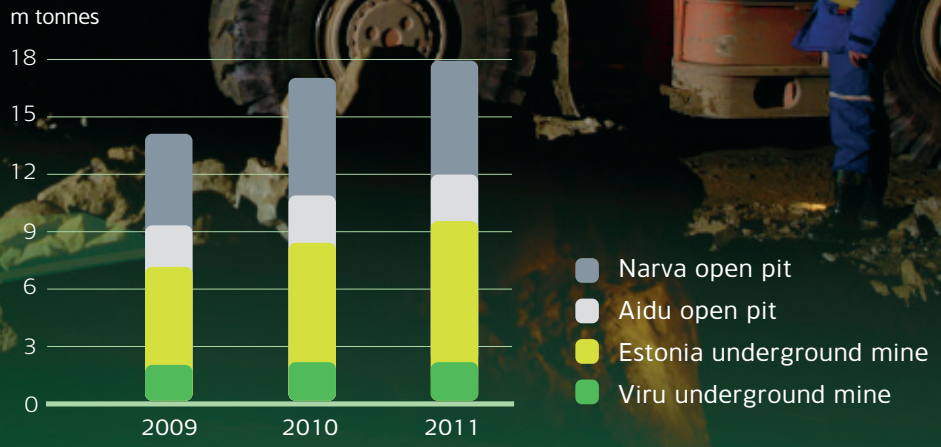
We mine oil shale in two opencast mines or quarries and two underground mines. To ensure the security of supply of oil shale over the long term we have started detailed preparations for the opening of the new underground mine in Uus-Kiviõli. After thorough assessment of the environmental impacts, we were granted mining licences for extraction work in the Uus-Kiviõli mining site. The mitigation of environmental

In the past year, a total of 18.0 million tonnes of oil shale were delivered to customers from our mining business, of which **88%** were used within the Group and **12%** by other clients.
At the end of 2011 Eesti Energia had **559.2** million tonnes of commercial oil shale resources in Estonia.

USE OF COMMERCIAL OIL SHALE (%)



PRODUCED COMMERCIAL OIL SHALE



impacts continues during all the steps of the opening process of the mine in close cooperation with local authorities and community.

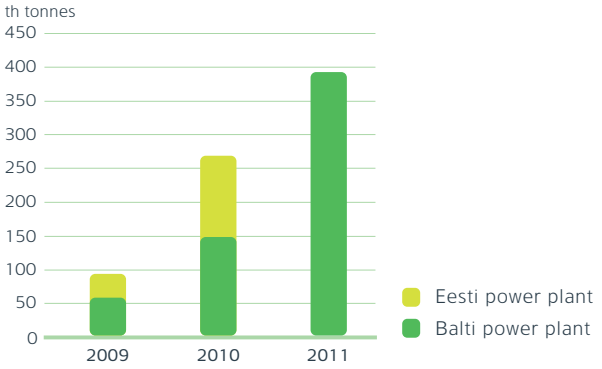
After thorough assessment of the environmental impacts, we were granted mining licences for extraction work in the Uus-Kiviõli mining site.

The systematic recultivation of mining areas continued in 2011 on around 200 hectares of land, which is the same area as was mined from the quarries during last year. Mined areas are recultivated according to the plans that are agreed with local authorities and are mostly reforested. As a part of the International Year of Forests we organised an event in Aidu quarry together with the Centre for State Forest Management in summer to present the recultivated and reforested mining land. Aidu quarry is the oldest of our mines and is becoming exhausted and will need to be closed down. In parallel with the planning for the future of the quarry, which foresees an international rowing course, a resort, a shooting range and more, we are looking at ways of extracting the oil shale resources that remain in the area of the quarry. Preparations for the closure of Aidu quarry show clearly that the place will be valuable and can be used in many different ways in the future.

Important research also continued last year into ways of extracting oil shale from underneath of wetlands. Mining new areas in future and getting the maximum possible resources out of existing mining areas will require new mining technology with low environmental impact to be used to extract oil shale also from under bogs and marshland without damaging the sensitive natural environment. Recent research results shows that this is possible, but the research needs to continue in 2012 to produce clear conclusions .

In order to lessen the environmental impact of electricity generation, Eesti Energia has started to use increasing amounts of biomass to partly substitute oil shale. The use of biomass for generating heat and electricity in the Balti power plant was increased last year 243.8 thousand tonnes from the level of the previous year, reaching at least 20% of energy that went into the boilers. We have improved the reliability of the co-combustion system in various weather conditions by working with our partners on the preparation and storage conditions of the biofuel. At the end of 2011 a separate biofuel feed system in the Balti power plant was completed at a cost of 14.6 million euros, increasing the maximum biomass usage up to 50% and ensuring the stability of the process. The new 300-MW generating unit of the Eesti power plant will to use biomass for up to 50% of energy input, which could lead to a massive rise in the use of biomass in future. In our current and future procurements for biomass, we look closely at the sustainability of the supply sources, which helps us to avoid any adverse environmental impacts from our increased biomass usage.

USE OF BIOMASS IN ELECTRICITY GENERATION



Construction and the preparations for commissioning of the first combined heat and power (CHP) generating unit in the Baltic states using municipal waste as a fuel source continued in 2011. It is worth noting that we are carrying out additional environmental impact assessment and thorough research into ways of re-using the ash created from the waste to energy process to reduce the impact of the generated ash on the environment. The generating unit will be commissioned in 2013 and will significantly reduce the amount of municipal waste that is stored in landfills by turning it into energy.

Year 2011 was important for the wind energy developments because a 39 MW wind park was built.

Year 2011 was important for the wind energy developments because a 39 MW wind park was built on the closed oil shale ash field of the Balti power plant. The wind park contains 17 2.3-MW E82 generators made by Enercon GmbH and is unique for having been built on the old industrial landfill site rather than on a freshly developed site. Doing this has allowed to use the closed ash field in a much better and efficient way.

Another successful development was the addition of three 3-MW WinWind generators to the Aulepa windpark, bringing the total capacity of the park to 48 MW. Also the development of Paldiski wind park of 9 GE generators with a total capacity of 22.5-MW has started well.

Eesti Energia continues to operate the Linnamäe and Keila-Joa hydro-electric power plants. The Linnamäe hydro plant is the largest working one in Estonia and was renovated in 2002. In summer 2011 we carried out extensive research to assess the technical condition of the dam and improve the movement of fish on the site.

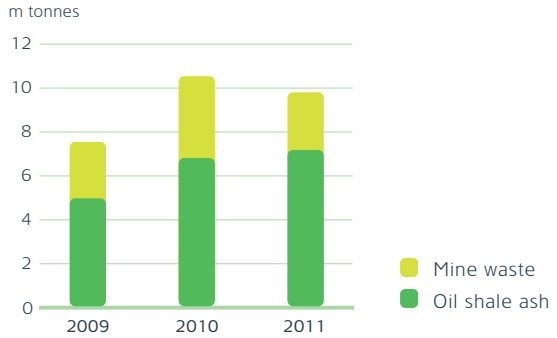
Waste Handling

Thermal treatment of the oil shale to get electricity, heat and liquid fuels creates a significant amount of ash. In 2011 we stored a total of 7.1 million tonnes of fly and bottom ash in the ash fields of the Balti and Eesti power plants. We usea closed hydro transportation system to remove and store the oil shale ash, as our long experience has shown this to be technically and environmentally the best solution. This helps us to ensure that the whole system meets all the environmental requirements. We have increased the environmental safety of the whole ash removal system markedly through systematic maintenance, sediment removal from the water return system and continuous monitoring of ground and surface water. In 2012 we plan to conduct additional geo-technical investigations of the soil properties around the ash field to get additional information to enhance the safety of the ash fields.

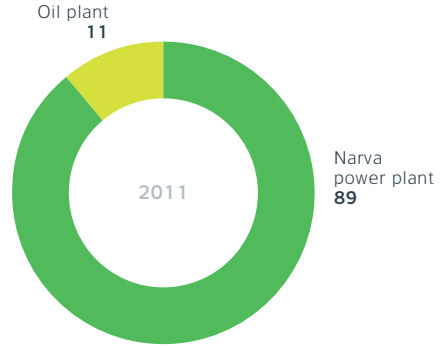
Oil shale ash is in fact a very good raw material in various applications, for example in the production of construction materials, as a replacement for cement in various mixes, in large-scale mass stabilisation processes, and for neutralising acidic agricultural land. We have started to develop these potential solutions by working with various research institutions on several research and development projects. In 2011 we initiated with our partners the OSAMAT project cofinanced by the EU LIFE+ programme to study the usage of oil shale ash in road construction. In parallel a research group led by Tallinn University of Technology is working with Eesti Energia on various aspects of recycling ash and widening the types of oil shale ash that can be recycled. Preparatory work continued for tests to backfill mines with oil shale ash and waste rock. Planning of the tests of using oil shale ash CO_2 binding properties were ongoing. With every planned oil shale ash recycling option we are preventively assessing very carefully the possible environmental impacts.

As well as researching the recycling possibilities of oil shale ash, we are also preparing to expand significantly our capacity for removing ash from the power plants in dry way as this is an important factor of increasing the amount of ash

DEPOSITED WASTE



ORIGIN OF OIL SHALE ASH (%)



recycled. Our strategic target is to increase the amount of recycled oil shale ash at least fivefold over the next five years.

When oil shale is mined, it is usually enriched, meaning that the oil shale is separated from limestone and other minerals in a process that gives the oil shale its required calorific value. Enrichment produces waste rock, which is mostly limestone. In 2011, 2.6 million tonnes of waste rock produced from mining was stored in waste rock heaps.

The waste rock that is produced in quarries is used for recultivating the quarry areas. The waste rock from underground mining has so far mostly been stored onto waste rock heaps. For more efficient use of our resources, we have built gravel production units from waste rock at Aidu quarry and the Estonia mine with a total production capacity of 1.5 million tonnes of gravel a year. As well as producing gravel, we have found several other ways of using waste rock in large amounts. A good example of this is the motor sport park being built in Mäetaguse parish and other large building projects using waste rock.

It is an important principle in waste handling that all the waste that is produced is recycled to the maximum possible extent in the simplest possible processes. We are already engaged in further assessment of the environmental impact of making safe, recycling or landfilling the fly and bottom ash from the waste to energy heat and electricity generating unit that is due to start up in 2013 at the Iru power plant, aiming for the minimum possible environmental impact and the maximum possible level of recycling. The results of the assessment and the proposed next steps will be announced in 2012.

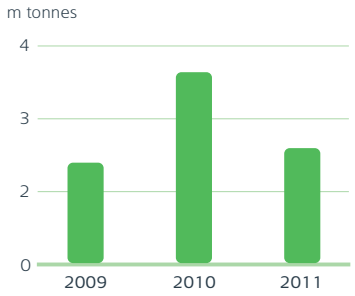
Air Pollution

The thermal treatment of any type of fossil fuel through combustion or pyrolysis creates emissions into the air as well as solid waste.

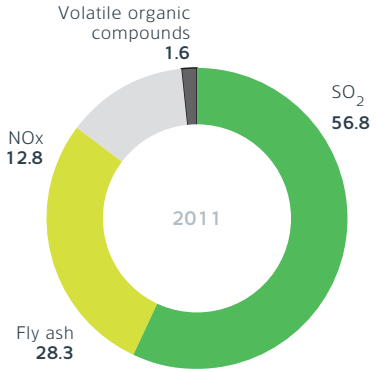
In 2012 much stricter environmental restrictions will apply to Eesti Energia's emissions and the overall amount of SO_2 emitted from the Balti and Eesti power plants will be limited to 25,000 tonnes a year. Because of this, we continued working to install and fine-tune the NID technology-based emission reduction filters to cut SO_2 emissions from four generating units of the Eesti power plant. This solution means that these filter equipped units will meet the tighter limits on sulphur emissions in flue gasses that will come in from 2016. Measures are also being taken to reduce nitrogen emissions and this will mean that the units will be able to work at full capacity after 2016, without limits.

As well as installing the filtering system, we also worked all year round on testing alternative solutions for reducing SO_2 emissions from the other generating units of the Eesti power plant, in order to increase their possible working time from 2012 and ensure that they can also be used for limited periods after 2016. The tests have been successful so far and the amount of SO_2 released from the boilers appears to be significantly lower.

MINE WASTE STORED IN HEAPS



AIR EMISSIONS (th tonnes)



In the past year work started on a new 300 MW capacity generating unit using fluidised bed technology at the Eesti power plant. Our extensive experience of using fluidised bed technology for the combustion of oil shale means that the atmospheric emissions from the new unit will be substantially lower than those from older units. Further environmental benefit will be achieved by the use of biomass for up to 50% of the fuel input capacity. The new unit will mean that electricity generation capacity can be maintained even as environmental restrictions become more stringent.

The same situation applies for the Enefit-280 plant, which we are currently building. It is a modernised version of the Enefit-140 plant currently used in our oil plant. The new improved technology will be more reliable and have a lower environmental impact. In 2011 the Enefit-140 was fitted with new chimneys and the old electrostatic precipitator (ESP) used until now on the Enefit-140 was renovated. The result of this is that the new ESP cut emissions of particulates and related heavy metals from the Enefit-140 to one twentieth of the levels permitted in the environmental licences, improving significantly the quality of the air in the surrounding area.

Climate Change and GHG

Eesti Energia's activities released a total of 12.3 million tonnes of CO_2 into the atmosphere in 2011. In the light of the EU's climate policy and international measures on climate change management, Eesti Energia has set a target of cutting the CO_2 content of our electricity generation by 30% from the 2007 level by 2015 and by 70% by 2025. To achieve those targets we have various solutions in place such as diversifying the fuels that we use and increasing the proportion of biomass, increasing the efficiency of our generation by introducing new equipment and using more combined generation of electricity and liquid fuel, and expanding the use of wind power etc. By combining all these methods we can reach our set targets.

Eesti Energia has set a target of cutting the CO_2 content of our electricity generation by 30% from the 2007 level by 2015 and by 70% by 2025.

The discussions last year between Estonia and the European Commission about the National Allocation Plan (NAP) for greenhouse gases for second period (2008-2012) were successful for us. After almost five years of negotiations, the Estonian NAP for 2010-2012 was approved at the end of 2011. The allowances in the approved plan were based on actual verified average CO_2 emissions from 2005-2010, which gave Eesti Energia's installations allowances for 1.26 million tonnes of CO_2 emissions per year. The approved NAP also allows 10% of the CO_2 emissions of 2011 and 2012 to be covered by CERs and ERUs under the Kyoto mechanisms. The approval of the NAP was important for Eesti Energia to be able to plan future activities.

In the past year preparatory work started for the GHG trading period 2013-2020, which will see major changes in the principles for distributing emissions allowances. The new GHG trading directive does not normally permit electricity generation to receive allowances for free from 2013, and they will have to be bought from the market. Decreasing quantities of free allowances are still available for heat generation. The directive also allows states to give limited amounts of free CO_2 allowances to electricity generators under strict conditions for investment in building new and environmentally sustainable generating capacity. It is possible that the allocation distribution principles for industries that are sensitive to carbon leakage may apply to the production of liquid fuels from oil shale.

As a consequence of this, we had independent accredited agents carry out a verification of our past reference values and we presented the results of this verification to the Ministry of the Environment together with the application for free allowances for heat generation. Given that Estonia has derogations for the distribution of allowances, Eesti Energia applied to the Ministry of the Environment for free allowances for the new and much more sustainable electricity generation capacity that is being built. The application is currently under consideration at the European Commission. In addition to all this, Eesti Energia applied for CO_2 trading licences for the next trading period for all of our plants that come within the GHG trading system.

Social Responsibility

As the country's largest company and largest employer, Eesti Energia is responsible for the impact of its decisions and its actions on its employees, clients and partners and also on local communities, the environment and the wider society. For this reason we continued to support projects relating to the energy industry, environmental protection and society in 2011. We put a total of 570,849 euros into our support for various efforts in 2011.

vastutustundlik ettevõte 2011

In 2011 the Responsible Business Index drawn up by Äripäev, the Responsible Business Forum, the EBS Centre for Ethics and the Ministry of Economic Affairs and Communications ranked Eesti Energia fourth in its list of socially responsible businesses and awarded us with the official logo of Estonian Responsible Business 2011.

We are promoting youth entrepreneurship in Estonia

In 2010 we launched the Estonia-wide Entrum youth enterprise development programme, which encourages young people to be active and entrepreneurial with backing from top Estonian achievers. In the first year, 644 young people from Ida-Virumaa took part in the Entrum programme, and together they launched 87 projects. In September 2011 Entrum came top in a competition organised by the Ministry of Economic Affairs and Communication to acknowledge the promoters of entrepreneurship and it won title of Corporate Social Responsibility Initiative of the Year at the Swedish Business Awards 2011. The programme that started in autumn 2011 will see around 200 young people from Jõgevamaa, Põlvamaa, Tartumaa, Valgamaa and Võrumaa take part and try to develop their business leader instincts with the help of some of the most successful people in the country. The young entrepreneurs from south Estonia who have joined the Entrum programme have now set up 98 projects in their local region.

We are promoting a healthy lifestyle and living environment

In August 2011 we held the first Narva Energy Run, our new annual sporting and cultural event, which hopes to put Ida-Virumaa more clearly on the map of Estonian sporting events and encourage people in Estonia to find out more about this beautiful region. More than 2000 runners took part in the first run, of whom over 400 work for Eesti Energia.

The Eesti Energia Jogging (Eesti Energia Tervisejooks) and Eesti Energia Nordic Walk (Eesti Energia Tervisekõnd) series have proved popular with the public and among fitness enthusiasts.

The Eesti Energia Jogging and Eesti Energia Nordic Walk series have proved popular with the public and among fitness enthusiasts. The ninth season finished in September with 2122 runners and walkers having taken part.

The ninth season finished in September with 2122 runners and walkers having taken part. A grand total of 133,520 kilometres was covered by all the participants, enough to stretch three times round the world.

We are working together with Swedbank and Merko on the Estonian Health Trails (Eesti Terviseradajad) to offer the people possibilities for various outdoor activities. More than 80 health trails have been fixed across Estonia to give everyone in the country access to a place outdoors where they can exercise for free all year round. In autumn 2011 Eesti Energia employees worked with the Äkke sports club to fix the Narva Pähklimäe health trail and build an outdoor gym there.

In September the Eesti Energia sports club started a monthly health day to promote healthy and sporty lifestyles among the company's employees.

We care for the natural environment

Among other local initiatives, we supported the Purtse river festival Purfest 2011 in August 2011 to attract attention and explain to the representatives of the local community the pollution and environmental problems of the Purtse river.

We worked with Looduse Omnibuss (Nature Omnibus) to run 101 nature and cultural trips which took over 6000 people out into the country to learn something new in 2011, and more than 7000 came along to the 32 weekly nature evenings to find out about our environment. The support from Eesti Energia allowed Looduse Omnibuss to start its nature and culture trips in Ida-Virumaa too and to carry out several major educational events in Tallinn and Jõhvi. Üheskoos korraldatud konkursile Looduse Aasta Foto 2011 saabus fotosid 1850 autorilt.

We are helping Looduse Omnibuss to broaden its work so that even more people can get good energy from the Estonian natural environment.

We spread information about electrical safety

For several years now we have run a spring campaign across Estonia to promote electrical safety so that children and parents become more aware of the dangers of electricity and how to avoid them, and of what to do in dangerous situations. Greater awareness will mean that there will be fewer accidents and deaths caused by electricity or its misuse. The awareness campaign saw people from Eesti Energia Jaotusvõrk working with almost 3000 children in regional safety camps and attention was also drawn to electrical safety through articles and an advertising campaign under the slogan "It is OK to be scared of wires!".

We promote discussion about electricity and energy

We encourage debate within society about energy issues by hosting public forums on questions that affect the future of the energy industry and possible scenarios for its future development, and by presenting innovative solutions that can make the energy business cleaner and more efficient. In September 2011 the energy forum Where Will Tomorrow's Energy Come From? debated the future of the electricity market in Estonia and across Europe, while in Jõhvi in Ida-Virumaa we organised the oil shale day for the eleventh time, focusing on new mining technology and the production of liquid fuels. We demonstrated the reality of liquid fuels produced from oil shale by giving the first test drive to a vehicle running on diesel made by Eesti Energia from oil shale.

We helped with the Oil Shale – Opportunities for Cooperation conference organised by the Virumaa College of Tallinn University of Technology and its Centre of Excellence in Oil Shale Technology. The conference aimed to promote partnerships between education, science, business and society where they share an interest in the sustainable development and use of oil shale.

We advance the energy industry

Eesti Energia places a high value on applied education in engineering, a scientific approach to the world and innovative thinking, and these are also important for all of Estonia. For this reason we aim to promote energy as a subject of popular interest and to encourage understanding of energy and engineering throughout society.

We believe that it is particularly important to promote education in engineering and popula-

In August 2011 we held the first Narva Energy Run, our new annual sporting and cultural event.

rise it among the younger generation. We need to make sure we will have a well-trained future generation, and to achieve this we are contributing to modernising and broadening the teaching of subjects that are important to us. Among other things we give students the chance to see and get to know the real world of their chosen subject during their studies. To read more about our work with future generations see the chapter Employees on page 52.

We are one of the founders of the Energy Discovery Centre (Energia Avastuskeskus), which organises exhibitions for children and adults on topics related to energy. The exhibitions of the Energy Discovery Centre use hands-on examples to help make subjects that are in the national curriculum for science more exciting and easier to understand. In the past year the centre hosted two exhibitions on mythical creatures in Estonia and natural phenomena.

We helped with an engineering competition run by the student organisation Best-Estonia by setting the challenges for the young IT specialists taking part.

We are supporting the systematisation, archiving and publication of the history of electricity in Estonia, because we appreciate the importance of our own history. In the past year we organised and systematised the Eesti Energia museum archive and we are collecting valuable historical materials from our current and former employees.

We support local initiatives in Ida-Virumaa

A majority of Eesti Energia's employees and activity are based in Ida-Virumaa and we have focused above all on promoting development in the region.

We are planning to work with the Ministry of Culture, the Estonian Olympic Committee, the Estonian Rowing Association and the district of Maidla to build a water sports centre with a rowing course on the territory of the Aidu quarry, which is currently in the process of being closed. We want to redevelop the quarry area so that it could greatly improve the social and economic environment in the Maidla district. The planning work for the redevelopment has started and by 2015 the water centre should be finished together with a rowing course that will meet all the international standards and become a local visitor attraction.

We are working with the Kohtla-Nõmme Mining Museum on a modern visitor centre for the energy industry, funded by the European Union's structural funds. We want to make the European Union's only museum dedicated to oil shale energy into a theme park showcasing oil shale mining and use and also the broader energy industry. We are helping to create and install the permanent interactive exhibition covering the history and current state of oil shale energy in Estonia. The new preliminary design for the exhibition in the visitor centre was drawn up together with experts. Building work on the underground part of the visitor centre started in 2011.

Consolidated Financial Statements

Consolidated Income Statements

in million EUR	1 January - 31 December 2011	1 January - 31 December 2010	Note
Continuing operations			
Revenue	831.9	784.1	5, 26
Other operating income	25.6	12.1	27
Change in inventories of finished goods and work-in-progress	3.9	(9.3)	
Raw materials and consumables used	(389.7)	(348.0)	28
Payroll expenses	(135.6)	(130.5)	29
Depreciation, amortisation and impairment	(97.1)	(93.4)	5, 6, 8, 33
Other operating expenses	(71.0)	(66.2)	30
OPERATING PROFIT	**168.0**	**148.9**	5
Financial income	4.1	7.5	31
Financial expenses	(7.3)	(12.8)	31
Net financial income (-expense)	**(3.2)**	**(5.3)**	31
Profit (loss) from associates using equity method	(0.9)	2.1	5, 9, 33

in million EUR	1 January - 31 December 2011	1 January - 31 December 2010	Note
PROFIT BEFORE TAX	**163.9**	**145.8**	
Corporate income tax expense	(14.7)	(28.8)	5, 32
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**149.2**	**117.0**	
PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS	**-**	**27.4**	36
PROFIT FOR THE YEAR	**149.2**	**144.3**	
PROFIT ATTRIBUTABLE TO:			
Equity holder of the Parent Company	**149.3**	**144.2**	
Non-controlling interest	**(0.1)**	**0.1**	
Basic earnings per share (euros)	*0.32*	*0.31*	38
Diluted earnings per share (euros)	*0.32*	*0.31*	38

The notes on pages 71-131 are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

in million EUR	1 January - 31 December		Note
	2011	2010	
PROFIT FOR THE YEAR	**149.2**	**144.3**	
Other comprehensive income			
Revaluation of hedging instruments	34.2	(31.5)	21
Currency translation differences attributable to foreign subsidiaries	3.5	-	
Other comprehensive income for the year	**37.7**	**(31.5)**	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**186.9**	**112.8**	
ATTRIBUTABLE TO:			
Equity holder of the Parent Company	**187.0**	**112.7**	
Non-controlling interest	**(0.1)**	**0.1**	

The notes on pages 71-131 are an integral part of these consolidated financial statements.

Consolidated Statements of Financial Position

in million EUR	31 December 2011	31 December 2010	Note
ASSETS			
Non-current assets			
Property, plant and equipment	1,658.6	1,293.6	5.6
Intangible assets	56.1	23.3	5.8
Investments in associates	23.3	11.8	5.9
Derivative financial instruments	13.6	0.3	11, 13, 14
Long-term receivables	17.9	0.4	12
Total non-current assets	**1,769.5**	**1,329.4**	
Current assets			
Inventories	37.9	29.1	10
Greenhouse gas allowances	28.0	45.2	8
Trade and other receivables	125.2	169.9	12
Derivative financial instruments	8.1	0.4	11, 13, 14
Available-for-sale financial assets	10.2	10.0	11, 14, 15
Financial assets at fair value through profit or loss	4.9	3.2	11
Deposits at banks with maturities of more than three months	-	181.4	11, 14, 17
Cash and cash equivalents	40.9	54.8	11, 14, 18
Total current assets	**255.2**	**494.0**	
Assets of disposal group classified as held for sale	**11.8**	20.7	35
Total assets	**2,036.5**	**1,844.1**	

in million EUR	31 December 2011	31 December 2010	Note
EQUITY			
Capital and reserves attributable to equity holder of the Parent Company			
Share capital	471.6	471.6	19
Share premium	259.8	259.8	
Statutory reserve capital	47.2	47.2	19
Hedge reserve	(0.4)	(34.6)	21
Unrealised exchange rate differences	3.5	-	
Retained earnings	453.5	360.3	19
Total equity and reserves attributable to equity holder of the Parent Company	**1,235.2**	**1,104.3**	
Non-controlling interest	**1.4**	**2.8**	
Total equity	**1,236.6**	**1,107.1**	
LIABILITIES			
Non-current liabilities			
Borrowings	434.7	331.9	11, 22
Other payables	0.4	0.3	23
Derivate financial instruments	1.9	4.9	11, 13
Deferred income	126.4	118.6	24
Provisions	31.1	28.6	25
Total non-current liabilities	**594.5**	**484.3**	
Current liabilities			
Borrowings	1.5	26.8	11, 22
Trade and other payables	176.1	132.7	23
Derivative financial instruments	9.2	31.8	11, 13
Deferred income	0.2	0.5	24
Provisions	14.4	49.9	25
Total current liabilities	**201.4**	**241.6**	
Liabilities of disposal group classified as held for sale	**4.0**	**11.0**	35
Total liabilities	**799.9**	**737.0**	
Total liabilities and equity	**2,036.5**	**1,844.1**	

The notes on pages 71-131 are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

in million EUR	1 January - 31 December 2011	1 January - 31 December 2010	Note
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash flows from operating activities from continuing operations			
Cash generated from operations	187.9	233.7	33
Interest and loan fees paid	(17.1)	(15.4)	
Interest received	5.6	5.2	
Corporate income tax paid	(14.6)	(28.8)	
Net cash generated from operating activities from continuing operations	**161.8**	**194.7**	
Net cash generated from operating activities from discontinued operations	**-**	**3.4**	
Net cash generated from operating activities	**161.8**	**198.1**	
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash flows from investing activities from continuing operations			
Purchase of property, plant and equipment and intangible assets	(417.3)	(204.8)	
Proceeds from connection and other fees	12.4	9.4	24
Proceeds from sale of property, plant and equipment	2.8	1.3	
Dividends collected from associates	1.3	1.2	9
Net change in deposits at banks with maturities of more than 3 months	181.4	(176.3)	17
Net change in cash restricted from being used	46.1	(43.9)	12, 41
Loans granted	(4.1)	-	
Loans repayments	5.3	-	
Purchase of short-term financial investments	(47.9)	(37.4)	15, 16
Proceeds from sale and redemption of short-term financial investments	46.5	24.6	15, 16
Acquisiton of subsidiaries, net of cash acquired	(31.4)	-	37
Proceeds from disposal of subsidiaries	6.3	-	9, 35
Change in overdraft provided for discontinued operations	-	187.6	
Net cash used in investing activities from continuing operations	(198.6)	(238.3)	
Net cash used in investing activities from discontinued operations	**-**	**(3.3)**	
Proceeds from sale of discontinued operations	**-**	**166.0**	36
Net cash used in investing activities	**(198.6)**	**(75.5)**	

in million EUR	1 January - 31 December 2011	1 January - 31 December 2010	Note
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash flows from financing activities from continuing operations			
Bank loans received	138.1	2.3	
Other borrowings received	-	0.2	
Repayments of bank loans	(59.1)	(3.5)	
Proceeds from non-controlling interest	0.7	-	
Dividends paid	(56.1)	(109.2)	20
Net cash used in financing activities from continuing operations	**23.6**	**(110.1)**	
Net cash from (used in) financing activities from discontinued operations	**-**	**6.5**	
Net cash used in financing activities	**23.6**	**(103.6)**	
NET CASH FLOWS	**(13.2)**	**18.9**	
Cash and cash equivalents at beginning of the period	54.8	36.2	11, 14, 18
Cash and cash equivalents classified as held for sale	*0.3*	*(0.3)*	35
Cash and cash equivalents of subsidiaries classified as associates	*(1.0)*	-	9
Cash and cash equivalents at end of the period	40.9	54.8	11, 14, 18
Net increase/(-)decrease in cash and cash equivalents	**(13.2)**	**18.9**	

The notes on pages 71-131 are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Equity

in million EUR	Attributable to equity holder of the Company						Non-controlling interest	Total equity	Note
	Share capital	Share premium	Statutory reserve capital	Other reserves	Retained earnings	Total			
Equity as at 31 December 2009	**471.6**	**259.8**	**47.2**	**(3.1)**	**325.2**	**1,100.7**	**2.7**	**1,103.4**	
Profit for the year	-	-	-	-	144.2	144.2	0.1	144.3	
Other comprehensive income for the year	-	-	-	(31.5)	-	(31.5)	-	(31.5)	
Total comprehensive income for the year	**-**	**-**	**-**	**(31.5)**	**144.2**	**112.7**	**0.1**	**112.8**	
Dividends paid	-	-	-	-	(109.2)	(109.2)	-	(109.2)	20, 32
Total contributions by and distributions to owners of the company, recognised directly in equity	**-**	**-**	**-**	**-**	**(109.2)**	**(109.2)**	**-**	**(109.2)**	
Equity as at 31 December 2010	**471.6**	**259.8**	**47.2**	**(34.6)**	**360.3**	**1,104.3**	**2.8**	**1,107.1**	
Profit for the year	-	-	-	-	149.3	149.3	(0.1)	149.2	
Other comprehensive income for the year	-	-	-	37.7	-	37.7	-	37.7	
Total comprehensive income for the year	**-**	**-**	**-**	**37.7**	**149.3**	**187.0**	**(0.1)**	**186.9**	
Dividends paid	-	-	-	-	(56.1)	(56.1)	-	(56.1)	20, 32
Total contributions by and distributions to owners of the company, recognised directly in equity	**-**	**-**	**-**	**-**	**(56.1)**	**(56.1)**	**-**	**(56.1)**	
Decrease in non-controlling interest due to the disposal of subsidiaries	-	-	-	-	-	-	(2.6)	(2.6)	9, 35
Increase in non-controlling interest due to the acqusition of a subsidiaries	-	-	-	-	-	-	0.6	0.6	37
Proceeds from non-controlling interest	-	-	-	-	-	-	0.7	0.7	
Total transactions with owners of the company, recognised directly in equity	**-**	**-**	**-**	**-**	**(56.1)**	**(56.1)**	**(1.3)**	**(57.4)**	
Equity as at 31 December 2011	**471.6**	**259.8**	**47.2**	**3.1**	**453.5**	**1,235.2**	**1.4**	**1,236.6**	

The notes on pages 71-131 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial statements

1 General information

The consolidated financial statements of Eesti Energia Group for the years ended 31 December 2010 and 31 December 2011 include the financial information concerning Eesti Energia AS (parent company, legal form: public limited company) and its subsidiaries (the Group) and the Group's participation in associated entities.

Eesti Energia is an international company that provides customers with complex energy solutions from heat, electricity and fuel to sales, maintenance and additional services. The Group operates in the Baltic states, Finland, Jordan and the USA.

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 20 February 2012. Under the Commercial Code of the Republic of Estonia, the annual report must additionally be approved by the Supervisory Board of the Parent Company and authorised for issue by the General Meeting of Shareholders.

2 Summary of principal accounting and reporting policies

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

2.1 Basis of preparation

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

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

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

2.2 Changes in accounting policy and disclosures

(a) Adoption of new or revised standards and interpretations

The new or amended standards or interpretations that became effective for the first time for the financial year beginning on 1 January 2011 didn't have a material impact to the Group.

(b) New accounting standards and interpretations

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1 January 2012, and which the Group has not adopted early:

- *IFRS 9, Financial Instruments: Classification and Measurement*. The standard will be mandatory for the Group from 1 January 2015. IFRS 9 issued in November 2009 replaces those parts of IAS 39 that relate to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities, and in December 2011 to change its effective date and add transition disclosures. The key

features of the standard are as follows:

1. Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
2. An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
3. All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
4. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

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.

- *IFRS 12, Disclosure of Interest in Other Entities*. The standard will be mandatory for the Group from 1 January 2013. The standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on the share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities

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

  As at the date of authorisation of these consolidated financial statements for issue, the European Union had not yet endorsed this standard.

- *IFRS 13, Fair Value Measurement*. The standard will be mandatory for the Group from 1 January 2013. The standard aims to improve consistency and reduce complexity by providing a revised definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.

  The standard may have an effect on the estimation of the fair value of the assets and liabilities recognised in the fair value and the disclosures in the consolidated financial statements.

As at the date of authorisation of these consolidated financial statements for issue, the European Union had not yet endorsed this standard.

- *IAS 27 (revised 2011), Separate Financial Statements.* The amended standard will be mandatory for the Group from 1 January 2013. The objective of the revised standard is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The standard may have an effect on the disclosures in the parent company's separate financial statements. As at the date of authorisation of these consolidated financial statements for issue, the European Union had not yet endorsed this standard.

- *Presentation of Items of Other Comprehensive Income, amendments to IAS 1.* The standard will be mandatory for the Group from 1 January 2013. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change the presentation of its financial statements, but to have no impact on the measurement of transactions and balances. As at the date of authorisation of these consolidated financial statements for issue, the European Union had not yet endorsed this standard.

- *IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine.* The interpretation will be mandatory for the Group from 1 January 2013. The interpretation clarifies that benefits from the stripping activity are accounted for in accordance with the principles of IAS 2, Inventories, to the extent that they are realised in the form of inventory produced. To the extent the benefits represent improved access to ore, the entity should recognise these costs as a 'stripping activity asset' within non-current assets, subject to certain criteria being met. The interpretation may have an effect on the recognition of the mining costs in the consolidated financial statements. As at the date of authorisation of these consolidated financial statements for issue, the European Union had not yet endorsed this interpretation.

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

2.3 Preparation of consolidated financial statements

(a) Subsidiaries

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

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

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group.

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

Acquisition-related costs are expensed as incurred.

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

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

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of the non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

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

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

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

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

(c) Disposal of subsidiaries

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

(d) Associates

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

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

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in the associate's other comprehensive income is recognised directly in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

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

2.4 Segment reporting

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

2.5 Foreign currency transactions and assets and liabilities denominated in a foreign currency

(a) Functional and presentation currency

Group entities use the currency of their primary economic environment as their functional currency. The consolidated financial statements are presented in euros, which is the functional currency of the parent company and the presentation currency of the Group. Until 31 December 2010 the Group's functional currency was the Estonian kroon, which was pegged to the euro at the fixed exchange rate of 1 euro = 15.6466 Estonian kroons. The financial statements have been rounded to the nearest million, unless otherwise stated.

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

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

equivalents are reported as finance income and costs; other foreign exchange gains and losses are recognised as other operating income or other operating expenses.

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

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

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

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

2.6 Classification of assets and liabilities as current or non-current

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

2.7 Property, plant and equipment

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

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

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

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

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

Buildings	25–40 years
Facilities, including	
electricity lines	20–50 years
other facilities	10–30 years
Machinery and equipment, including	
transmission equipment	7–40 years
power plant equipment	7–20 years
other machinery and equipment	3–20 years
Other property, plant and equipment	3–8 years

The expected useful lives of items of property, plant and equipment are reviewed during the annual stocktaking, when subsequent expenditures are recognised and in the case of significant changes in development plans. When the estimated useful life of an asset differs significantly from the previous estimate, it is treated as a change in the accounting estimate, and the remaining useful life of the asset is changed, as a result of which the depreciation charge of the following periods also changes.

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

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

2.8 Intangible assets

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

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

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

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

(a) Goodwill

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

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

(b) Development costs

Development costs are costs that are incurred in applying research findings for the development of specific new products or processes. Development costs are capitalised if all of the criteria for recognition specified in IAS 38 have

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

(c) Contractual rights

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

(d) Computer software

Costs associated with the ongoing maintenance of computer software programs are recognised as an expense as incurred.

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

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

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

(e) Right of use of land

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

(f) Greenhouse gas emission allowances

Greenhouse gas emission allowances controllable by the Group are accounted for as current 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 or at the market price, if the Group has acquired the greenhouse gas emission allowances more than presumably needed and the Group has a plan to sell the allowances. If the quantity of greenhouse gases emitted exceeds allowances received, a provision is set up for the difference, based on the market prices at the end of the reporting period or the prices fixed in the committed purchase arrangements

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(g) Exploration and evaluation assets of mineral resources

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

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

After initial recognition, exploration and evaluation assets are measured using the cost model.

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

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on future exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

(h) Mining rights

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

2.9 Impairment of non-financial assets

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

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

If the fair value of the asset less costs to sell cannot be determined reliably, the recoverable amount of the asset is its value in use. The value in use is calculated by discounting the expected future cash flows generated by the asset to their present value.
An impairment test is carried out if any of the following indicators of impairment exist:

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

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

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

At the end of each reporting period, it is assessed whether there is any indication that the impairment loss recognised in the prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. According to the results of the estimate, the impairment loss can be partially or wholly reversed. An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

2.10 Discontinued operations and non-current assets (or disposal groups) held-for-sale

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

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

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

2.11 Financial assets

2.11.1 Classification

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

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

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

(b) Available-for-sale financial assets

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

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets, except for those with maturities of more than 12 months after the end of reporting period. In such case, they are classified as non-current assets. The Group's loans and receivables are included in the statement of financial position lines "Cash and cash equivalents", "Bank deposits with maturities of more than 3 months", "Trade and other receivables".

2.11.2 Recognition and measurement

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

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the

income statement line "Net financial income (-expenses)" in the period in which they arise or are incurred (Note 31). Interest income on available-for-sale financial assets and on loans and receivables is reported in the income statement line "Financial income" (Note 31). The Group has not received any interest income or dividend income on financial assets recognised at fair value through profit or loss in the current and comparative reporting period.

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

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

2.12 Offsetting financial instruments

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

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

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

(b) Assets classified as available for sale

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference

between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

2.14 Derivative financial instruments and hedging activities

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

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

The fair values of derivative financial instruments used for hedging purposes are disclosed in Note 13. The movements of the hedge reserve reported in equity are disclosed in Note 21. The full fair value of hedging derivatives is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months. Derivatives held for trading are classified as current assets or liabilities.

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

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

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

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

2.15 Inventories

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

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

2.16 Trade receivables

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

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. A provision for the impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. Material receivables are assessed individually. The rest of the receivables are collectively assessed for impairment, using previous years' experience of impairment which is adjusted to take account of current conditions. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within other operating expenses. When a receivable is classified as uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement against other operating expenses.

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

2.17 Cash and cash equivalents

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

2.18 Share capital and statutory reserve capital

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

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

2.19 Trade payables

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

2.20 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred, and are subsequently measured at amortised cost. Any

difference between the cost and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest method. Borrowing costs attributable to qualifying assets are capitalised in the cost of the assets.

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

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

2.21 Borrowing costs

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

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

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

2.22 Taxation

(a) Corporate income tax on dividends in Estonia

Under the Income Tax Act, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. From 1 January 2008, the tax rate on the net dividends paid out of retained earnings is 21/79. In certain circumstances, it is possible to distribute dividends without any additional income tax expense. The corporate income tax arising from the payment of dividends is accounted for as a liability and expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. The income tax liability is due on the 10th day of the month following the payment of dividends.

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

(b) Other taxes in Estonia

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

Tax	Tax rate
Social security tax	33% of the payroll paid to employees and of fringe benefits
Unemployment insurance tax	1.4% of the payroll paid to employees
Fringe benefit income tax	21/79 of fringe benefits paid to employees
Sales tax	1% from sale of goods and services to individuals in the territory of Tallinn (except for sales of electricity and heat and e-commerce)
Pollution charges	Paid for contamination of the air, water, ground water, soil and waste storage, and based on tonnage and type of waste
Fee for extraction right for oil shale	1.10 euros per tonne of oil shale extracted (in 2010 0.92 euros per tonne of oil shale extracted)
Water utilisation charges	1.59-132.23 euros per 1000 m^3 of pond or ground water used (in 2010 1.60–120.22 euros per 1000 m^3 of pond or ground water used)
Land tax	0.1–2.5% on taxable value of land per annum
Tax on heavy trucks	3.50 – 232.60 euros per truck per quarter (in 2010 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	23.45 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	15.01 euros per 1000 kg of shale oil
Excise tax on oil shale	0.15 euros per giga-joule (until 31 December 2010 0 euros)
Corporate income tax on non-business related expenses	21/79 on non-business related expenses (until 1 January 2008: 22/78 on non-business related expenses)

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

Jordan	Income earned by resident legal persons in Jordan is taxed at an income tax rate of 14-30%
Latvia	Income earned by resident legal persons is taxed at an income tax rate of 15%
Lithuania	Income earned by resident legal persons is taxed at an income tax rate of 15%
Finland	Income earned by resident legal persons is taxed at an income tax rate of 26%
USA	Income earned by resident legal persons is taxed at an income tax rate of 35%

(d) Deferred income tax

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

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

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

As at 31 December 2011 and 31 December 2010, the Group had neither any deferred income tax assets nor deferred income tax liabilities

2.23 Employee benefits

Short-term employee benefits

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

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

Termination benefits

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

Other employee benefits

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

2.24 Provisions

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

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

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

Provisions are reviewed at the end of each reporting period and adjusted to reflect current best estimates. The costs related to setting up provisions are charged to operating expenses or are included within the acquisition cost of an item of PPE when the provision is related to the dismantlement, removal or restoration obligation, incurred either when the item is acquired or as a consequence of use of the item during a particular period.

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

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

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

If the Group has the obligation to pay post-employment benefits to their former employees, a provision is set up to cover these costs. The provision is based on the terms of the obligation and the estimated number of people eligible for the compensation.
Provisions for work-related injuries are recognised to cover expenditure related to future payments to former employees according to court orders over the estimated period of such an obligation.

(b) Environmental protection provisions

Environmental protection provisions are recognised to cover environmental damages that have occurred before the end of the reporting period when this is required by law or when the Group's past environmental policies have demonstrated that the Group has a constructive present obligation to liquidate this environmental damage. Experts' opinions and prior experience in performing environmental work are used to set up the provisions.

(c) Provisions for the termination of mining operations

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

(d) Provision for termination benefits

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

(e) Provision for the dismantling cost of assets

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

(f) Provisions for greenhouse gas emissions

A provision for greenhouse gas emissions is set up to meet the obligations arising from legislation relating to greenhouse gas emissions. If the quantity of greenhouse gases emitted exceeds allowances received free of charge from the state, a provision is set up for the difference. Provision that is expected to be covered by allowances acquired is measured at the cost of these allowances; the remaining provision is measured either based on the prices fixed in the committed purchase arrangements, if any, or at the market prices at the end of the reporting period. 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 quantities and amounts.

(g) Provisions for onerous contracts

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

2.25 Contingent liabilities

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

2.26 Revenue recognition

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

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

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

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

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

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

2.27 Government grants

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

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

2.28 Leases

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

(a) The Group as the lessee
Payments made under operating leases are charged to the income statement over the lease term in equal portions, reduced by incentives granted by the lessor.

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

2.29 Dividend distribution

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

2.30 Related party transactions

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

3 Financial risk management

3.1 Financial risks

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

The purpose of financial risk management is to mitigate financial risks and minimise the volatility of financial results. The risk and internal audit department under the Chairman of the Management Board is engaged in risk management and is responsible for the development, implementation and maintenance of the Group's risk management system. The Group's financial risks are managed in accordance with the principles established by the Management Board at the Group level. The Group's liquidity, interest rate and currency risks are managed in the finance department of the Parent Company.

(a) Market risks
1. Currency risk
Currency risk is the risk that the fair value of financial instruments or cash flows will fluctuate in the future due to exchange rate changes. The financial assets and liabilities denominated in euros are considered to be free of currency risk. All long-term borrowings and electricity export contracts are also concluded in euros to avoid currency risk. To mitigate currency risk further, the future transactions for the sale of shale oil have been also conducted in euros since the 2009 reporting period.

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

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

In million EUR	31 December	
	2011	2010
Cash and cash equivalents (Note 18)	0.1	1.8
Trade and other receivables	8.0	3.8
Trade and other payables	1.8	0.1

Had the US dollar's exchange rate at 31 December 2011 been 13% (31 December 2010: 22%) higher or lower (with other factors remaining constant), the Group's profit for the financial year would have been EUR 0.8 million higher/lower (2010: EUR 1.2 million higher/lower) as a result of the revaluation of the balances of cash and cash equivalents, trade and other receivables and trade and other payables.

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

2. Price risk

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

2.1 The price risk of commodities

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

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

The need to buy greenhouse gas emission allowances arises when CO_2 emissions exceed the number of greenhouse gas emission allowances allocated free of charge by the state. To lower the risk from changes in the price of the amount of greenhouse gas emissions allowed, the Group uses forward and future transactions (Note 13). According to the trading rules concerning greenhouse gas emission allowances approved by the Management Board, the missing quantity is purchased on a dispersed basis throughout the year based on the expected shortage of greenhouse gas emission allowances.

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

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

Any reasonably possible change in the fair value of financial assets at fair value through profit or loss would not have had 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. Cash flow interest rate risk arises to the Group from floating interest rate borrowings and lies in the danger that financial expenses increase when interest rates increase.

Sensitivity analysis is used to assess the interest rate risk. For managing the Group's interest rate risks, the principle that the share of fixed interest rate borrowings in the portfolio should be over 50% is followed. As at the financial year-end, 98% of the Group's borrowings were fixed and 2% had floating interest rates (31 December 2010: fixed 81% and floating

19%). Due to that the changes in the market interest rate don't have material effect on the Group's borrowings.

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

(b) Credit risk

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

Under the principles of depositing of available monetary funds of the Group, the following principles are followed:

- preserving capital
- ensuring liquidity at the right moment;
- achieving optimal return given the previous two goals.

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

- money market funds and interest rate funds;
- deposits of credit institutions;
- freely negotiable bonds and other debt instruments.

The list of emitters and partners is approved by the committee of financial risks.

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 and bonds of credit institutions	minimal rating A3/A-
Government bond and other debt instruments, debt instruments secured by governments, debt instruments of international organisations	minimal rating Aa3/AA-
Money market funds	Minimal average rating of investments A3
Bonds and other debt instruments of other companies (except credit institutions)	Minimal credit rating Aa3/AA-

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

The unpaid invoices of clients are handled on a daily basis in the departments specifically set up for this purpose. The automated reminder and warning system sends messages to customers about overdue invoices with the warning that if they are not paid, the clients will be cut off from the electricity network. After that, a collection petition is filed at the court or a collection agency. Special agreements are in the jurisdiction of special credit committees.

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

In million EUR	31 December	
	2011	2010
Deposits with maturities of more than 3 months at banks (Notes 11 and 17)	-	181.4
Trade and other receivables (Notes 11 and 12)*	122.3	164.5
Bank accounts and term deposits with maturities lower than 3 months at banks (Note 18)	40.9	54.8
Available-for-sale financial assets (Notes 3.3, 11, 14 and 15)	10.2	10.0
Nominal amount of financial guarantee (Note 34)	22.5	24.6
Derivatives with positive value (Notes 3.3, 11, 13 and 14)	21.7	0.7
Total amount exposed to credit risk	**217.6**	**436.0**

* Total trade and other receivables less prepayments.

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

More detailed information on credit risk is disclosed in Notes 12 and 14. Information about the financial guarantee is disclosed in Note 34.

(c) Liquidity risk

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

In order to finance its extensive capital expenditure programme, the Group has issued 15-year international bonds for EUR 300 million (Note 22) and has drawn loans for a total of EUR 146.3 million (Note 22). To lower the level of the interest rate on the borrowings, the Group has obtained credit ratings from the agencies Standard & Poor's and Moody's; as at 31 December 2011, the ratings were BBB+ stable and Baa1 stable, respectively (31 December 2010: BBB+ stable and A3 stable). For the bond transaction which took place in October 2005, Standard & Poor's assigned the rating A- and Moody's assigned the rating A1.

As at 31 December 2011, the Group had undrawn loan facilities of EUR 595.0 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 40.9 million (31 December 2010: EUR 236.2 million). The cash flow forecasts are prepared for a 12-month period and approved by the Supervisory Board once a year. Bank account limits are used within the Group to manage the liquidity of subsidiaries.

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

Division of liabilities by maturity date as at 31 December 2011 (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)*	16.0	89.8	503.0	608.8	436.2
Derivatives (Notes 3.3, 11 and 13)	9.2	1.9	-	11.1	11.1
Trade and other payables (Notes 11 and 23)	129.6	0.4	-	130.0	130.0
Tax liabilities and payables to employees (Note 23)	45.7	-	-	45.7	45.7
Potential financial guarantee obligations (Notes 11, 23 and 34)	2.1	20.4	-	22.5	0.1
Total	**202.6**	**112.5**	**503.0**	**818.1**	**623.1**

* Interest expenses have been estimated using the interest rates prevailing as at 31 December 2011.

Division of liabilities by maturity date as at 31 December 2010 (in million EUR):

	Less than 1 year	Between 1 and 5 years	Later than 5 years	Total undiscounted cash flows	Carrying amount
Borrowings (Notes 3.2, 11 and 22)*	40.4	93.1	372.4	505.9	358.7
Derivatives (Notes 3.3, 11 and 13)	31.8	4.9	-	36.7	36.7
Trade and other payables (Notes 11 and 23)	86.3	-	-	86.3	86.3
Tax liabilities and payables to employees (Note 23)	42.4	-	-	42.4	42.4
Potential financial guarantee obligations (Notes 11, 23 and 34)	2.1	22.5	-	24.6	0.1
Total	**203.0**	**120.5**	**372.4**	**695.9**	**524.2**

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

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

3.2 Management of equity risk

All shares of Eesti Energia AS belong to the state. Decisions concerning dividend distribution and increases or decreases of share capital are made by the Republic of Estonia through the Ministry of Economic Affairs and Communications. Each financial year, the dividends payable by Eesti Energia AS to the state budget are defined by order of the Government of the Republic of Estonia (Notes 19 and 20).

The Group follows a strategy according to which net debt should not exceed EBITDA by more than three times and equity should be at least 50% of the total assets. As at 31 December 2011 and 31 December 2010, the net debt to EBITDA ratio and the equity to assets ratio were as follows (in million EUR):

In million EUR	31 December	
	2011	2010
Debt (Notes 3.1, 11 and 22)	436.2	358.7
Less: cash and cash equivalents and bank deposits with maturity longer than 3 months (Notes 3.1, 11, 17 and 18)	(40.9)	236.2
Net debt	395.3	122.5
Equity	1,236.6	1,107.1
EBITDA	265.1	242.3
Assets	2,036.5	1,844.1
Net debt/EBITDA	1.49	0.51
Equity/assets	61%	60%

3.3 Fair value

The Group estimates that the fair values of assets and liabilities reported at amortised cost in the statement of financial position as at 31 December 2011 and 31 December 2010 do not materially differ from the carrying amounts reported in the consolidated financial statements, with the exception of bonds (Note 22). The carrying amount of current accounts receivable and payable less impairments is estimated to be approximately equal to their fair value. For disclosure purposes, the fair value of financial liabilities is determined by discounting the contractual cash flows at the market interest rate which is available for similar financial instruments of the Group.

The following tables present the Group's assets and liabilities that are measured at fair value by the level in the fair value hierarchy as at 31 December 2011 and 31 December 2010:

In million EUR	31 December 2011		
	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with inputs not observable in markets (Level 3)	Total
Financial assets at fair value through profit or loss (Notes 11 and 16)	4.9	-	4.9
Available-for-sale financial assets (Notes 3.1, 11, 14 and 15)	-	10.2	10.2
Trading derivatives (Notes 13 and 14)	11.6	-	11.6
Cash flow hedges (Notes 13 and 14)	10.1	-	10.1
Total financial assets (Notes 3.1, 11, 13, 14 and 16)	**26.6**	**10.2**	**36.8**
Derivatives used for hedging (Notes 3.1, 11 and 13)	11.1	-	11.1
Total financial liabilities (Notes 3.1, 11 and 13)	**11.1**	**10.2**	**21.3**

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

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

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. An instrument is included in level 2 if all the significant inputs required to establish the fair value of the instrument are observable. If one or more significant inputs are not based on observable market data

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

3.4 Impact of the economic crisis on the Group

Management has evaluated the effects of the global liquidity crisis and the related general economic crisis on the Group's business. In management's opinion, the major continuing short and long-term threats include:

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

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

4 Critical accounting estimates and assumptions

Accounting estimates and assumptions

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

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

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

The estimated useful lives of items of property, plant and equipment are based on management's estimate of the period during which the asset will be used. Previous experience has shown that the actual useful lives have sometimes been longer than the estimates. As at 31 December 2011, the net book amount of property, plant and equipment of the Group totalled EUR 1.7 billion (31 December 2010: EUR 1.3 billion), and the depreciation charge of continuing operations of the reporting period was EUR 93.3 million (2010: EUR 92.0 million) (Note 6). If depreciation rates were changed by 10%, the annual depreciation charge would change by EUR 9.3 million (2010: EUR 9.2 million).

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

As needed, the Group performs impairment tests to determine the recoverable amount of items of property, plant and equipment. When carrying out impairment tests, management uses various estimates for the cash flows arising from the use of the assets, sales, maintenance, and repairs of assets, as well as estimates for inflation and growth rates. The estimates are based on forecasts of the general economic environment, consumption and the sales price of electricity. If the situation changes in the future, either additional impairment could be recognised, or previously recognised impairment could be partially or wholly reversed. The recoverable amounts of fixed assets used for mining oil shale, generating electricity and distributing electricity are impacted by the Competition Authority which determines the reasonable rate of return to be earned on these assets. If the income, expenses and investments related to the sale of electricity, oil shale and distribution services remain within the expected limits, the revenue derived from the sale of goods and services guarantees a reasonable rate of return for these assets. Information about impairment losses incurred in the reporting period and the comparative period is disclosed in Note 6.

(c) Recognition and revaluation of provisions

As at 31 December 2011, the Group had set up provisions for environmental protection, termination of mining operations, issues relating to employees and greenhouse gas emissions totalling EUR 45.5 million (31 December 2010: EUR 78.5 million) (Note 25). The amount and timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been

used to determine the present value of provisions, including the amount of future expenditure, inflation rates, and the timing of settlement of the expenditure. The actual expenditure may also differ from the provisions recognised as a result of possible changes in legislative norms, technology available in the future to restore environmental damages, and expenditure covered by third parties.

(d) Inventory valuation
When valuing inventories, the management relies on its best knowledge and it takes into consideration historical experience, general background information and potential assumptions and the conditions of future events. When the impairment of inventories is determined, the sales potential and the net realisable value of goods for resale are considered. As at 31 December 2011, the Group had inventories totalling EUR 37.9 million (31 December 2010: EUR 29.1 million) (Note 10).

(e) Contingent assets and liabilities
When estimating contingent assets and liabilities, the management considers historical experience, general information about the economic and social environment and the assumptions and conditions of possible events in the future based on the best knowledge of the situation. Further information is disclosed in Note 34.

(f) Recognition of connection and other service fees
Connection and other service fees are recognised as income over the estimated average useful lives of the assets acquired for connections, which is 32 years. In the reporting period, connection and other service fees totalled EUR 4.6 million (2010: EUR 7.9 million). If the estimated average useful lives of the assets acquired for connections were reduced by 10%, the annual income from connection fees would increase by EUR 0.5 million (2010: EUR 0.8 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 outstanding (including receivables not yet due). All receivables which are 90 days overdue are written down in full. The amount of doubtful receivables is adjusted as at the end of each reporting period using previous years' experience on how many doubtful receivables will be collected in subsequent periods and how many doubtful receivables overdue more than 90 days as at the end of reporting period will not be collected in a subsequent period. As at 31 December 2011, the Group's doubtful receivables totalled EUR 3.5 million (31 December 2010: EUR 3.3 million) (Note 12).

(h) Effectiveness testing of hedging instruments
The Group has conducted a significant number of future transactions to hedge the risk of the changes in the prices of electricity and shale oil with regard to which hedge accounting is applied, meaning that the gains and losses from changes in the fair value of effective hedging instruments are accounted through other comprehensive income. The evaluation of the effectiveness of hedging is based on management's estimates for future sales transactions concerning electricity and liquid fuels. When hedging instruments turn out to be ineffective, the total gain/loss from the changes in the fair value should be recognised in the income statement. As at 31 December 2011, the amount of the hedge reserve was EUR -0.4 million (31 December 2010: EUR -34.6 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.

In the segment reporting the relevant financial measures are presented that are regularly provided to the parent company's management board and evaluated by the parent company's management board.

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

- Retail Business (consisting of companies and business units Energiamüük, Enefit UAB, Enefit SIA, Müük ja Teenindus, Eesti Energia Jaotusvõrk OÜ, Eesti Energia Elektritööd AS,

Eesti Energia Võrguehitus AS, Televõrgu AS);
- Electricity and Heat Generation (consisting of companies and business units Eesti Energia Narva Elektrijaamad AS, Taastuvenergia, Iru Elektrijaam, Energiakaubandus, Solidus Oy, AS Narva Soojusvõrk, Eesti Energia Aulepa Tuuleelektrijaam OÜ, Eesti Energia Tabasalu Koostootmisjaam OÜ, SIA Enefit Power & Heat Valka, OÜ Pogi);
- Minerals, Oil, Biofuels (consisting of companies and business units Eesti Energia Kaevandused Group, Eesti Energia Õlitööstus AS, Eesti Energia Tehnoloogiatööstus Group, Enefit Outotec Technology OÜ, Enefit U.S., LLC, Enefit American Oil Group, Enefit Jordan B.V. Group until 28 April 2011).

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.

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

On 8 March 2011 the transaction of the sale of the shareholding in AS Kohtla-Järve Soojus was completed (Note 35). Until its disposal, AS Kohtla-Järve Soojus was part of the Electricity and Heat Generation segment.

On 28 April 2011 the transaction of the sale of 11% shareholding in Enefit Jordan B.V. was completed after which the Group does not have control over Enefit Jordan B.V. and its subsidiaries (Jordan Oil Shale Energy Company and Attarat Power Company) any more. As the result Enefit Jordan B.V. Group is recognised as associate (Note 9).

Operating income and expenses are allocated to different segments based on internal invoicing prepared by business units. The prices for inter-segmental transfers are based on the prices approved by the Estonian Competition Authority or are agreed based on market prices.
Under the Electricity Market Act of Estonia, the following indicators need to be approved by the Estonian Competition Authority:
- the price limit for oil shale sold to Narva Elektrijaamad for the production of heat and electricity
- the price limit for electricity sold from Narva Elektrijaamad to the closed market
- the weighted average price limit for electricity sold to meet sales obligations
- network fees.

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

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

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

5 Segment reporting, continued

Segment information for reportable segments for the year ended 31 December 2011

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)	477.6	*198.5*	501.1	325.2	*213.3*	19.5	(491.5)	831.9
Inter-segment revenue	(12.9)	*(4.2)*	(217.5)	(187.6)	*(178.2)*	(18.9)	436.9	-
Revenue from external customers (Note 26), including	464.7	*194.3*	283.6	137.6	*35.1*	0.6	(54.6)	831.9
electricity exports	*54.1*	-	*38.2*	-	-	-	-	*92.3*
domestic electricity sales	*202.4*	-	*184.6*	-	-	-	*(54.6)*	*332.4*
sales of network services	*188.3*	*188.3*	*16.6*	-	-	-	-	*204.9*
heat	-	-	*37.4*	-	-	-	-	*37.4*
oil shale	-	-	-	*32.8*	*32.8*	-	-	*32.8*
shale oil	-	-	-	*60.9*	-	-	-	*60.9*
other goods and services	*19.9*	*6.0*	*6.8*	*43.9*	*2.3*	*0.6*	-	*71.2*
Depreciation and amortisatsion (Notes 6, 8 and 33)	(40.4)	*(37.7)*	(26.8)	(24.6)	*(22.0)*	(3.5)	(0.3)	(95.6)
Impairment loss (Notes 6 and 33)	-	-	(1.5)	-	-	-	-	(1.5)
Setting up of and change in provisions (Note 25)	-	-	14.6	0.7	*0.7*	-	-	15.3
Operating profit	22.5	*27.9*	79.9	70.9	*17.5*	(2.9)	(2.4)	168.0
Interest income (Note 31)	0.1	-	0.1	0.1	-	37.1	(33.4)	4.0
Interest expenses (Note 31)	(11.8)	*(10.4)*	(18.2)	(5.1)	*(2.1)*	(19.4)	47.0	(7.5)
Profit (loss) from associates using equity method (Note 9)	-	-	0.5	(1.4)	*1.4*	-	-	(0.9)
Corporate income tax (Note 32)	(1.0)	-	(10.1)	(3.6)	*(2.9)*	-	-	(14.7)
Profit for the year	9.8	*17.3*	52.1	60.9	*13.8*	74.0	(47.6)	149.2
Total assets	**761.8**	**708.0**	**791.2**	**415.3**	**138.4**	**1,293.3**	**(1,225.1)**	**2,036.5**
including investments in associates (Note 9)	-	-	*10.4*	*12.9*	*1.9*	-	-	*23.3*
including property, plant and equipment, and intangibles	*675.5*	*676.7*	*652.7*	*330.4*	*90.9*	*38.4*	*17.7*	*1,714.7*
Capital expenditure (Notes 6 and 8)	74.6	*73.3*	218.5	197.8	*31.7*	4.9	12.0	507.8
Total liabilities	**482.1**	**456.1**	**368.4**	**248.2**	**90.2**	**452.7**	**(751.5)**	**799.9**
Average number of employees (Note 29)	**1,471.7**	**816.7**	**1,343.5**	**4,455.2**	**3,131.8**	**314.9**	**-**	**7,585.3**

5 Segment reporting, continued

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

in million EUR	Retail Business		Electricity and Heat Generation	Minerals, Oil, Biofuels		Corporate Functions	Eliminations	Total
	Total	*of which Distribution*		Total	*of which Mining*			
Total revenue (Note 26)	473.3	*188.9*	495.5	275.0	*208.3*	15.0	(474.7)	784.1
Inter-segment revenue	(23.2)	*(4.0)*	(215.6)	(169.3)	*(175.7)*	(14.1)	422.2	-
Revenue from external customers (Note 26), including	450.1	*184.9*	279.9	105.7	*32.6*	0.9	(52.5)	784.1
electricity exports	*38.0*	-	*65.6*	-	-	-	-	*103.6*
domestic electricity sales	*211.4*	-	*147.2*	-	-	-	*(52.5)*	*306.2*
sales of network services	*175.9*	*175.9*	*16.2*	-	-	-	-	*192.1*
heat	-	-	*46.9*	-	-	-	-	*46.9*
oil shale	-	-	-	*30.1*	*30.1*	-	-	*30.1*
shale oil	-	-	-	*51.7*	-	-	-	*51.7*
other goods and services	*24.8*	*9.1*	*4.0*	*23.8*	*2.4*	*0.9*	-	*53.5*
Depreciation and amortisatsion (Notes 6, 8 and 33)	(37.0)	*(34.4)*	(32.2)	(22.4)	*19.7*	(1.7)	-	(93.4)
Setting up of and change in provisions (Note 25)	0.1	*0.1*	50.4	3.2	*3.2*	0.1	-	53.8
Operating profit	39.3	*31.8*	77.2	38.8	*19.4*	30.3	(36.7)	148.9
Interest income (Note 31)	0.4	-	0.7	0.5	-	37.8	(31.9)	7.5
Interest expenses (Note 31)	(16.3)	*(14.9)*	(13.1)	(2.4)	*(2.2)*	(17.7)	36.9	(12.6)
Profit from associates using equity method (Note 9)	-	-	0.6	1.6	*1.6*	-	-	2.1
Corporate income tax (Note 32)	(1.3)	-	(22.1)	(5.4)	*(5.1)*	-	-	(28.8)
Profit for the year	22.3	*17.0*	43.2	32.9	*13.7*	159.4	-113.5	144.3
Total assets	**727.3**	**673.8**	**663.8**	**233.1**	**115.9**	**1,244.4**	**(1,024.5)**	**1,844.1**
including investments in associates (Note 9)	-	-	*9.8*	*2.0*	*2.0*	-	-	*11.8*
including property, plant and equipment, and intangibles	*651.6*	*641.1*	*468.5*	*152.4*	*76.6*	*36.0*	*8.4*	*1,316.9*
Capital expenditure (Notes 6 and 8)	62.6	*60.2*	85.3	58.6	*22.6*	7.0	5.0	218.5
Total liabilities	**467.5**	**439.1**	**304.6**	**107.2**	**69.3**	**394.9**	**(537.2)**	**737.0**
Average number of employees (Note 29)	**1,437.6**	**779.3**	**1,581.3**	**4,044.0**	**2,982.2**	**290.2**	**-**	**7,353.1**

5 Segment reporting, continued

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 147.1 million, of total eliminations of revenue (2010: EUR 149.9 million); and the sale of electricity by Electricity and Heat Generation to Retail, which accounted for EUR 210.8 million, of total eliminations of revenue (2010: EUR 206.9 million).

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

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

in million EUR	31 December	
	2011	2010
Segment assets for reportable segments	1,968.3	1,624.2
Assets of Corporate Functions	1,293.3	1,244.4
Eliminations:		
The carrying amount of investments in subsidiaries*	(489.9)	(494.7)
Intra-segment receivables	(743.7)	(528.8)
Unrealised profit/loss and other eliminations	8.5	(1.0)
Total eliminations	**(1,225.1)**	**(1,024.5)**
Total assets per consolidated statement of financial position	**2,036.5**	**1,844.1**

* recognised as assets of Corporate Functions

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

in million EUR	31 December	
	2011	2010
Segment liabilities for reportable segments	1,098.7	879.4
Liabilities of Corporate Functions	452.7	394.9
Eliminations:		
Intra-segment payables	(743.6)	(537.3)
Other eliminations	(7.9)	-
Total eliminations	**(751.5)**	**(537.3)**
Total liabilities per consolidated statement of financial position	**799.9**	**737.0**

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

in million EUR	1 January - 31 December	
	2011	2010
Segment operating profits for reportable segments	173.3	155.3
Operating profit of Corporate Functions	(2.9)	30.3
Eliminations:		
Corporate Function's profit from sale of the ownership of Elering OÜ	-	(38.3)
Other eliminations	(2.4)	1.6
Total operating profit per consolidated income statement	**168.0**	**148.9**

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

5 Segment reporting, continued

The Group operates mostly in Estonia, but electricity and some other goods and services are also sold in other countries. The Group's main geographical regions are Estonia, Latvia and Lithuania. In the reporting period, the Group acquired assets in the USA (Note 37), where it has started a development project for oil shale mining and shale oil production.
Until 1 April 2010 electrical energy was sold to Nordic power exchange Nord Pool; since 1 April 2010 Nord Pool Spot Estonian price area came into existence, where electricity sold is reported as electricity sold in Estonia.

External revenue by location of clients

in million EUR	1 January - 31 December	
	2011	2010
Estonia	675.0	640.5
Lithuania	74.7	61.6
Latvia	27.5	16.7
Nordic countries	6.3	31.4
Other countries	48.4	33.9
Total external revenue (Note 26)	**831.9**	**784.1**

Allocation of non-current assets by location*

in million EUR	31 December	
	2011	2010
Estonia	1,672.8	1,316.6
Lithuania	33.7	-
Latvia	8.2	-
Other countries	-	0.3
Total (Notes 6 and 8)	**1,714.7**	**1,316.9**

* other than financial instruments and investments in associates

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

6 Property, plant and equipment

in million EUR	Land	Buildings	Facilities	Machinery and equipment	Other	Total
Property, plant and equipment as at 31 December 2009						
Cost	41.7	148.2	696.6	1,147.0	4.9	2,038.4
Accumulated depreciation	-	(82.5)	(283.4)	(555.7)	(4.1)	(925.8)
Net book amount	41.7	65.7	413.3	591.2	0.8	1,112.6
Construction in progress	-	1.2	26.5	27.7	-	55.5
Prepayments	-	-	2.5	20.5	-	23.1
Total property, plant and equipment as at 31 December 2009 (Notes 4 and 5)	**41.7**	**66.9**	**442.3**	**639.5**	**0.8**	**1,191.2**
Movements, 1 January – 31 December 2010						
Purchases (Note 5)	0.1	2.4	29.9	176.5	0.2	209.1
Depreciation charge (Notes 4, 5 and 33)	-	(4.2)	(22.4)	(65.0)	(0.4)	(92.0)
Disposals	(0.5)	(0.1)	-	(0.2)	-	(0.8)
Provision for dismantling cost of assets (Note 25)	-	-	0.1	1.1	-	1.1
Classified as held for sale(Note 35)	(0.1)	(0.1)	(5.3)	(9.6)	-	(15.0)
Total movements, 1 January – 31 December 2010	**(0.5)**	**(1.9)**	**2.3**	**102.8**	**(0.2)**	**102.4**
Property, plant and equipment as at 31 December 2010						
Cost	41.2	149.0	719.5	1,201.0	4.9	2,115.7
Accumulated depreciation	-	(84.8)	(297.0)	(600.4)	(4.3)	(986.6)
Net book amount	41.2	64.3	422.6	600.6	0.6	1,129.2
Construction in progress	-	0.7	21.8	98.8	-	121.3
Prepayments	-	-	0.3	42.8	-	43.1
Total property, plant and equipment as at 31 December 2010 (Notes 4 and 5)	**41.2**	**65.0**	**444.6**	**742.2**	**0.6**	**1,293.6**

6 Property, plant and equipment, continued

in million EUR	Land	Buildings	Facilities	Machinery and equipment	Other	Total
Movements, 1 January – 31 December 2011						
Purchases (Note 5)	0.2	3.4	57.6	404.9	0.2	466.3
Acquisition of subsidiary (Note 37)	1.5	0.3	0.8	1.1	-	3.7
Depreciation charge (Notes 4, 5 and 33)	-	(4.3)	(22.2)	(65.1)	(0.2)	(91.8)
Impairment loss (Notes 4, 5 and 33)	-	-	-	(1.5)	-	(1.5)
Disposals	(0.8)	(0.3)	-	(0.4)	-	(1.5)
Disposal of subsidiary (Note 9)	-	-	(0.2)	-	-	(0.2)
Classified as held for sale (Note 35)	-	-	(2.2)	(8.0)	-	(10.2)
Exchange differencies	0.1	-	0.1	-	-	0.2
Total movements, 1 January – 31 December 2011	**1.0**	**(0.9)**	**33.9**	**331.0**	**-**	**365.0**
Property, plant and equipment as at 31 December 2011						
Cost	42.2	150.6	756.8	1,289.2	4.9	2,243.7
Accumulated depreciation	-	(87.8)	(311.6)	(627.9)	(4.3)	(1,031.6)
Net book amount	42.2	62.8	445.2	661.3	0.6	1,212.1
Construction in progress	-	1.3	33.3	355.7	-	390.3
Prepayments	-	-	-	56.2	-	56.2
Total property, plant and equipment as at 31 December 2011 (Notes 4 and 5)	**42.2**	**64.1**	**478.5**	**1,073.2**	**0.6**	**1,658.6**

In 2011 the assets of Iru Power Plant and Energy Units 9, 10 and 12 of the Baltic power plant were tested for impairment. According to the results of the test an impairment loss of EUR 1.1 million of Iru Power Plant and EUR 0.4 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 10%. The impairment was caused by the decreased demand on the production capacities of those assets. The capitalisation rate of 4.6% (2010: 4.5%) was used to determine the amount of borrowing costs eligible for capitalisation (Note 31).

Buildings and facilities leased out under operating lease terms

in million EUR	31 December	
	2011	2010
Cost	5.3	6.1
Accumulated depreciation at the beginning of the financial year	(2.5)	(2.8)
Depreciation charge	(0.2)	(0.2)
Net book amount	**2.6**	**3.1**

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

7 Operating lease

in million EUR	1 January - 31 December	
	2011	2010
Continuing operations		
Rental and maintenance income		
Buildings	1.2	1.4
of which contingent rent	*0.6*	*0.7*
Facilities	0.7	0.7
Total rental and maintenance income (Note 26)	**1.9**	**2.1**
Rental expense		
Buildings	0.6	0.6
Transport vehicles	0.9	1.4
Other machinery and equipment	2.9	1.9
Total rental expense (Note 30)	**4.4**	**3.9**

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

in million EUR	1 January - 31 December	
	2011	2010
Rental income		
< 1 year	0.9	1.0
1 - 5 years	3.7	4.2
> 5 years	14.9	17.8
Total rental income	**19.5**	**23.0**

The oil terminal has been leased out under non-cancellable lease agreement. The lease agreement will expire in 2033.
Operating lease agreements, where the Group is lessee, are mostly cancellable with short-term notice.

8 Intangible assets

Intangible non-current assets

in million EUR	Goodwill	Computer software	Right of use of land	Exploration and evaluation assets for mineral resources	Contractual rights	Total
Intangible assets as at 31 December 2009						
Cost	2.5	3.3	2.3	1.0	0.1	9.2
Accumulated amortisation	-	(0.9)	(0.2)	-	-	(1.0)
Net book amount	2.5	2.5	2.2	1.0	0.1	8.2
Intangible assets not yet available for use	-	7.1	-	-	-	7.1
Total intangible assets as at 31 December 2009 (Note 5)	**2.5**	**9.5**	**2.2**	**1.0**	**0.1**	**15.2**
Movements, 1 January - 31 December 2010						
Purchases	-	9.0	0.1	0.1	0.2	9.4
Amortisation charge (Notes 5 and 33)	-	(1.2)	(0.1)	-	(0.1)	(1.4)
Total movements, 1 January - 31 December 2010	**-**	**7.8**	**0.1**	**0.1**	**0.1**	**8.0**
Intangible assets as at 31 December 2010						
Cost	2.5	6.3	2.4	1.1	0.3	12.5
Accumulated amortisation	-	(2.1)	(0.2)	-	(0.1)	(2.4)
Net book amount	2.5	4.1	2.2	1.1	0.2	10.0
Intangible assets not yet available for use	-	13.2	-	-	-	13.2
Total intangible assets as at 31 December 2010 (Note 5)	**2.5**	**17.3**	**2.2**	**1.1**	**0.2**	**23.3**
Movements, 1 January - 31 December 2011						
Purchases	-	5.0	-	2.9	0.1	8.0
Acquisition of subsidiaries (Note 37)	1.0	-	-	-	27.9	28.9
Amortisation charge (Notes 5 and 33)	-	(3.5)	(0.2)	-	(0.1)	(3.8)
Classified as intangible assets of associates (Note 9)	-	-	-	(2.7)	-	(2.7)
Classified as held for sale (Note 35)	-	-	-	-	(0.1)	(0.1)
Exchange differencies	-	-	-	(0.2)	2.7	2.5
Total movements, 1 January - 31 December 2011	**1.0**	**1.5**	**(0.2)**	**-**	**30.5**	**32.8**
Intangible assets as at 31 December 2011						
Cost	3.5	21.8	2.5	1.1	30.7	59.6
Accumulated amortisation	-	(5.5)	(0.5)	-	-	(6.0)
Net book amount	3.5	16.3	2.0	1.1	30.7	53.6
Intangible assets not yet available for use	-	2.5	-	-	-	2.5
Total intangible assets as at 31 December 2011 (Note 5)	**3.5**	**18.8**	**2.0**	**1.1**	**30.7**	**56.1**

8 Intangible assets, continued

Goodwill

in million EUR	Mining	Paide co-generation plant	Valka co-generation plant
Allocation of goodwill by cash-generating units			
Carrying amount at 31 December 2011	2.5	0.6	0.4
Carrying amount at 31 December 2010	2.5	-	-

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

Key assumptions used in determining value in use

	31 December	
	2011	2010
Discount rate		
Mining	11.0%	9.3%
Valka co-generation plant	10.0%	-
Paide co-generation plant	10.0%	-

Exploration and evaluation assets of mineral resources

The costs related to the exploration of an oil shale mine located in the Kingdom of Jordan and oil shale reserves acquired in the state of Utah, USA are recognised as exploration and evaluation assets of mineral resources (Note 37).
The assets were reviewed for impairment. No impairment was identified during thesetests.

Contractual rights

The amount of contractual rights acquired in the reporting period contains the value of mining rights acquired in the state of Utah, USA in the amount of EUR 27.7 million (Note 37), which estimated useful life is 20 years.

Intangible current assets - greenhouse gas allowances

The value of greenhouse gas allowances acquired is recognised as intangible current assets.
In 2011 3 533 000 tonnes (2010: 3 147 000 tonnes) of greenhouse gas allowances were acquired.
In 2011 12 373 576 tonnes (2010: 8 605 195 tonnes) of greenhouse gas emission allowances were surrended to state.

in million EUR	1 January - 31 December	
	2011	2010
Greenhouse gas allowances at the beginning of the period	**45.2**	**-**
Acquired	51.8	45.8
Surrendered to state for the greenhouse gas emissions (Note 25)	(49.1)	(0.6)
Revaluation (Note 28)	(19.9)	-
Greenhouse gas allowances at the end of the period	**28.0**	**45.2**
of which recognised in the fair value	18.0	-
of which recognised in cost	*10.0*	*45.2*

9 Investments in associates

Change in investments in associates

in million EUR	1 January - 31 December	
	2011	2010
Book value at the beginning of the period	**11.8**	**12.1**
Profit (loss) from associates using equity method	(0.3)	2.1
of which recognised in the income statement (Notes 5 and 33)	*(0.9)*	*2.1*
of which recognised in other comprehensive income	*0.6*	-
Dividends declared by the associate	(1.4)	(2.4)
Recognition of associates at fair value	13.2	-
Book value at the end of the period (Note 5)	**23.3**	**11.8**

On 28 April 2011 the transaction of the sale of 11% shareholding in Enefit Jordan B.V. was completed after which the Group does not have control over Enefit Jordan B.V. and its subsidiaries (Jordan Oil Shale Energy Company and Attarat Power Company) any more.
As the result Enefit Jordan B.V. Group is recognised as associate.

Derecognised assets and liabilities

in million EUR	28 April 2011
Cash and cash equivalents	1.0
Property, plant and equipment (Note 6)	0.2
Intangible assets (Note 8)	2.7
Trade and other payables	(4.4)
Non-controlling interest	(0.6)
Unrealised exchange rate differences	0.2
Total derecognised assets and liabilities	(0.9)
Fair value of the associates	13.2
Sales proceeds	2.2
Gain on disposal of subsidiary (Note 27)	16.3

Information on associates

in million EUR	Location	Assets	Liabilities	Operating income	Net profit	Ownership (%)
Company		31 December 2011		1 January - 31 December 2011		31 December 2011
Nordic Energy Link Group	Estonia, Finland	85.5	58.9	14.4	1.3	39.9
Enefit Jordan B.V. Group	Netherlands, Jordan	11.1	12.7	-	(4.3)	65.0
Orica Eesti OÜ*	Estonia	13.1	7.6	24.7	3.9	35.0
		109.7	**79.2**	**39.1**	**0.9**	

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

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

Enefit Jordan B.V. Group is recognised as associate as according to the Shareholders' Agreement, the Group does not have the right to make any relevant decisions regarding Enefit Jordan B.V. Group without the consent of the minority holding.

10 Inventories

in million EUR	31 December	
	2011	2010
Raw materials and materials at warehouses	**17.4**	**12.2**
Work-in-progress		
Stored oil shale	14.8	12.1
Stripping works in quarries	2.4	2.0
Other work-in-progress	1.2	1.0
Total work-in-progress	**18.4**	**15.1**
Finished goods		
Shale oil	1.7	1.2
Other finished goods	0.3	0.4
Total finished goods	**2.0**	**1.6**
Prepayments to suppliers	**0.1**	**0.3**
Total inventories (Note 4)	**37.9**	**29.1**

In the reporting period, the Group wrote down damaged and slow-moving inventories of raw materials and materials totalling EUR 0.2 million (2010: EUR 0.5 million).

11 Division of financial instruments by category

in million EUR	Loans and receivables	Financial assets at fair value through profit or loss	Held-to-maturity financial assets	Derivatives for which hedge accounting is applied	Total
As at 31 December 2011					
Financial asset items in the statement of financial position					
Trade and other receivables excluding prepayments (Notes 3.1 and 12)	122.3	-	-	-	122.3
Derivative financial instruments (Notes 3.1, 3.3, 13 and 14)	-	11.6	-	10.1	21.7
Financial assets at fair value through profit or loss (Notes 3.3 and 16)	-	4.9	-	-	4.9
Available-for-sale financial assets (Notes 3.3 and 15)	-	-	10.2	-	10.2
Cash and cash equivalents (Notes 3.1, 3.2, 14 and 18)	40.9	-	-	-	40.9
Total financial asset items in the statement of financial position	**163.2**	**16.5**	**10.2**	**10.1**	**200.0**
As at 31 December 2010					
Financial asset items in the statement of financial position					
Trade and other receivables excluding prepayments (Notes 3.1 and 12)	164.5	-	-	-	164.5
Derivative financial instruments (Notes 3.1, 3.3, 13 and 14)	-	0.7	-	-	0.7
Term deposits at banks with maturities of more than 3 months (Notes 3.1, 3.2 and 17)	181.4	-	-	-	181.4
Financial assets at fair value through profit or loss (Notes 3.3 and 16)	-	3.2	-	-	3.2
Available-for-sale financial assets (Notes 3.3, 14 and 15)	-	-	10.0	-	10.0
Cash and cash equivalents (Notes 3.1, 3.2, 14 and 18)	54.8	-	-	-	54.8
Total financial asset items in the statement of financial position	**400.7**	**3.9**	**10.0**	**-**	**414.6**

11 Division of financial instruments by category, continued

in million EUR	Liabilities at fair value through profit or loss	Derivatives for which hedge accoun ting is applied	Other financial liabilities	Total
As at 31 December 2011				
Financial liability items in the statement of financial position				
Borrowings (Notes 3.1, 3.2 and 22)	-	-	436.2	436.2
Trade and other payables (Notes 3.1 and 23)	-	-	130.0	130.0
Derivative financial instruments (Notes 3.1, 3.3 and 13)	-	11.1	-	11.1
Total financial liability items in the statement of financial position	**-**	**11.1**	**566.2**	**577.3**
As at 31 December 2010				
Financial liability items in the statement of financial position				
Borrowings (Notes 3.1, 3.2 and 22)	-	-	358.7	358.7
Trade and other payables (Notes 3.1 and 23)	-	-	86.4	86.4
Derivative financial instruments (Notes 3.1, 3.3 and 13)	1.9	34.9	-	36.8
Total financial liability items in the statement of financial position	**1.9**	**34.9**	**445.1**	**481.9**

12 Trade and other receivables

in million EUR	31 December	
	2011	2010
Short-term trade and other receivables		
Trade receivables		
Accounts receivable	104.8	110.7
Allowance for doubtful receivables (Note 4)	(3.5)	(3.3)
Total trade receivables	**101.3**	**107.4**
Accrued income		
Amounts due from customers under the stage of completion method (Note 14)	4.5	2.8
Accrued receivable for electricity from unreported or delayed meter readings, or estimates (Note 14)	-	0.3
Accrued interest (Note 14)	-	3.1
Other accrued income (Note 14)	0.9	0.1
Total accrued income	**5.4**	**6.3**
Prepayments	10.3	5.3
Receivables from associates (Note 14)	2.4	1.8
Cash restricted from being used (Note 14)	2.3	48.4
Other receivables (Note 14)	3.5	0.7
Total short-term trade and other receivables	**125.2**	**169.9**
Long-term receivables		
Prepayments	10.5	0.4
Receivables from associates (Note 14)	7.4	-
Total long-term receivables	**17.9**	**0.4**
Total trade and other receivables (Notes 3.1 and 11)	**143.1**	**170.3**

The fair values of receivables and prepayments do not significantly differ from their carrying amounts. Collection of receivables and prepayments for services and goods is not covered by securities. Most of the Group's receivables and prepayments are in euros (31. December 2010: either Estonian kroons or euros). The amount of receivables denominated in US dollars is disclosed in Note 3.1.

Analysis of accounts receivable

in million EUR	31 December	
	2011	2010
Accounts receivable not yet due (Note 14)	**81.3**	**98.8**
Accounts receivable due but not classified as doubtful		
1-30 days past due	9.0	7.3
31-60 days past due	5.1	0.8
61-90 days past due	3.1	0.5
Total accounts receivable due but not classified as doubtful	**17.2**	**8.6**
Accounts receivable written down		
3-6 months past due	2.9	0.7
more than 6 months past due	3.4	2.7
Total accounts receivable written down	**6.3**	**3.4**
Total accounts receivable	**104.8**	**110.7**

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.

12 Trade and other receivables, continued

Changes in allowance for doubtful receivables

in million EUR	1 January - 31 December	
	2011	2010
Allowance for doubtful receivables at the beginning of the period	**(3.3)**	**(7.2)**
Classified as doubtful and collections during the accounting period	(0.9)	0.3
Classified as irrecoverable	0.6	2.6
Classified as held for sale	0.1	0.9
Allowance for doubtful receivables at the end of the period (Note 4)	**(3.5)**	**(3.3)**

The other receivables do not contain any impaired assets.

Revenue under the stage of completion method

in million EUR	31 December	
	2011	2010
Unfinished projects at the end of the period		
Revenue of unfinished projects	24.0	13.7
Progress billing submitted	(19.5)	(10.8)
Amounts due from customers under the stage of completion method (Note 14)	4.5	2.8
Total expenses on unfinished projects in the financial year	(23.2)	(12.5)
Gains/losses calculated on unfinished projects	0.8	1.2
Total revenue from construction projects in the financial year	40.9	23.0
Total expenses on construction projects in the financial year	(36.9)	(21.7)
Total gains calculated on construction projects	**4.0**	**1.3**

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

13 Derivative financial instruments

in million EUR	31 December 2011		31 December 2010	
	Assets	Liabilities	Assets	Liabilities
Forward contracts for buying and selling electricity as cash flow hedges	9.6	-	-	28.2
Forward and option contracts for buying and selling electricity as trading derivatives	1.4	-	-	1.9
Option contracts for buying and selling greenhouse gas emissions allowances as trading derivatives	10.2	-	0.7	-
Swap and futures contracts for selling shale oil as cash flow hedges	0.5	11.1	-	6.7
Total derivative financial instruments (Notes 3.1, 3.3, 11 and 14)	**21.7**	**11.1**	**0.7**	**36.8**
including non-current portion:				
Forward contracts for buying and selling electricity as cash flow hedges	1.6	-	-	0.5
Forward and option contracts for buying and selling electricity as trading derivatives	1.4	-	-	0.7
Option contracts for buying and selling greenhouse gas emissions allowances as trading derivatives	10.1	-	0.3	-
Swap and futures contracts for selling shale oil as cash flow hedges	0.5	1.9	-	3.7
Total non-current portion	**13.6**	**1.9**	**0.3**	**4.9**
Total current portion	**8.1**	**9.2**	**0.4**	**31.8**

13 Derivative financial instruments, continued

Forward and option contracts for buying and selling electricity

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

Those forward contracts which are entered into for the purpose of earning income from the change in the price of electricity are classified as trading derivatives at fair value with changes through profit or loss. The forward contracts of buying and selling electricity the goal of which is to hedge the risk in the price of electricity will realise in 2012-2013 (31 December 2010: in 2011-2012). As at 31 December 2011 605 558 MWh had been hedged for the year 2012 and 797 160 MWh for the year 2013 (31 December 2010: 1 284 414 MWh had been hedged for the year 2011 and 118 558 MWh for the year 2012). 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.

Option contracts for buying and selling greenhouse gas emissions allowances

The option contracts for buying and selling greenhouse gas emission allowances are classified as trading derivatives. The fair value changes of these transactions are recognised as gains or losses in the income statement. The basis for determining the fair value of transactions is the quotes of SEB Futures. The prices are denominated in euros.

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 2012-2013 (31 December 2011: in 2011-2013). As at 31 December 2011 96 900 tonnes had been hedged for the year 2012 and 96 000 tonnes for the year 2013 (31 December 2010: 61 800 tonnes for the year 2011, 44 400 tonnes for the year 2012 and 36 000 tonnes for the year 2013).

14 Credit quality of financial assets

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

in million EUR	31 December	
	2011	2010
Trade receivables		
Receivables from new clients (client relationship shorter than 6 months)	0.6	0.9
Receivables from existing clients (client relationship longer than 6 months), who in the last 6 months have not exceeded the due date	39.1	54.6
Receivables from existing clients (client relationship longer than 6 months), who in the last 6 months have exceeded the due date	41.6	43.3
Total trade receivables (Note 12)	**81.3**	**98.8**
Accrued interest		
Receivables from banks with Moody's credit rating of A2	-	1.6
Receivables from banks with Moody's credit rating of Aa3	-	0.7
Receivables from banks with Moody's credit rating of Aa2	-	0.5
Receivables from banks with Moody's credit rating of A1	-	0.4
Total accrued interest (Note 12)	**-**	**3.1**

in million EUR	31 December	
	2011	2010
Bank accounts, deposits and documentary credits in banks		
At banks with Moody's credit rating of Aa3	16.0	69.8
At banks with Moody's credit rating of A2	12.8	54.2
At banks with Moody's credit rating of A1	12.0	72.0
At banks with Moody's credit rating of A3	0.1	-
At banks with Moody's credit rating of Aa2	-	40.2
Total bank accounts and deposits in banks (Notes 3.1, 3.2, 11, 17 and 18)	**40.9**	**236.2**
Other receivables and accrued income		
Other receivables with Moody's credit rating of A1	2.3	48.4
Receivables without credit rating from an independent party	18.7	5.7
Total other receivables (Note 12)	**21.0**	**54.1**
Available-for-sale financial assets		
Fund units of a credit institution with Moody's credit rating of A2 (Notes 3.1, 3.3, 11 and 15)	10.2	10.0
Derivative financial instruments		
Derivatives with positive value with Moody's credit rating of Aa1	0.2	-
Derivatives with positive value with Moody's credit rating of Aa3	0.2	-
Derivatives with positive value with Moody's credit rating of A1	21.3	0.7
Derivatives with positive value (Notes 3.1, 3.3, 11 and 13)	**21.7**	**0.7**

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

As at 31 December 2011 and 31 December 2010, the Group did not have any major credit risk concentrations.

15 Available-for-sale financial assets

in million EUR	31 December	
	2011	2010
Unquoted financial assets (at fair value):		
Swedbank savingsbonds (fixed interest rate 1.6%, maturity date: October 2012) (Notes 3.1, 3.3, 11 and 14)	10.2	10.0

Changes in available-for-sale financial assets

in million EUR	1 January - 31 December	
	2011	2010
Fair value at the beginning of the period	**10.0**	**-**
Acquired	-	10.0
Amortisation of difference between cost and nominal value	0.2	-
Fair value at the end of the period (Notes 3.1, 3.3, 11 and 14)	**10.2**	**10.0**

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

16 Financial assets at fair value through profit or loss

in million EUR	31 December	
	2011	2010
Unquoted financial assets:		
Units of Danske Invest Euro Interest Fund	4.9	3.2
Total unquoted financial assets (Notes 3.3 and 11)	**4.9**	**3.2**

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

in million EUR	1 January - 31 December	
	2011	2010
Fair value at the beginning of the period	**3.2**	**0.4**
Acquired	47.9	27.4
Disposed	(46.5)	(24.6)
Gain from change in fair value	0.3	-
Fair value at the end of the period (Notes 3.3 and 11)	**4.9**	**3.2**

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

17 Deposits at banks with maturities of more than 3 months

in million EUR	31 December	
	2011	2010
Deposits at banks with maturities of more than 3 months	-	181.4
Total deposits at banks with maturities of more than 3 months (Notes 3.1, 3.2, 11 and 14)	**-**	**181.4**

In the financial year, the effective interest rates of term deposits with maturities of more than 3 months were between and 1.2-4.7% (2010: 0.6-4.7%). In the reporting period the due dates of deposits were 89 to 367 days (2010: 29-367 days). The remaining maturities at the ends of reporting periods were less than 12 months. As at 31 December 2010 of term deposits with maturities of more than 3 months EUR 47.9 million were nominated in Estonian kroons and EUR 133.5 million were nominated in euros.

18 Cash and cash equivalents

in million EUR	31 December	
	2011	2010
Bank accounts	12.5	8.4
Short-term deposits	28.4	46.4
Total cash and cash equivalents (Notes 3.1, 3.2, 11 and 14)	**40.9**	**54.8**

Cash and cash equivalents by currencies

in million EUR	31 December	
	2011	2010
Euro	39.7	44.7
Latvian lat	1.0	0.5
US dollar	0.1	1.8
Lithuanian lit	0.1	0.3
Estonian kroon	-	7.5
Total cash and cash equivalents (Notes 3.1, 3.2, 11 and 14)	**40.9**	**54.8**

In the financial year, the effective interest rates of term deposits with maturities of up to 3 months were between 0.4 and 2.1% (2010: 0.2-5.0%).

19 Share capital, statutory reserve capital and retained earnings

As at 31 December 2011, Eesti Energia AS had 471 645 750 registered shares (31 December 2010: 471 645 750 registred shares). The nominal value of each share is 1 euro. The nominal value of a share was changed in December 2010 when the share capital was converted into euros, until then the nominal value of each share was 100 Estonain kroons. The sole shareholder is the Republic of Estonia. The administrator of the shares and the exerciser of the rights of shareholders is the Estonian Ministry of Economic Affairs, represented by the Minister of Economic Affairs at the General Meeting of Shareholders. According to the articles of association of Eesti Energia AS, the minimum share capital is EUR 250,0 million and the maximum share capital is EUR 1000,0 million.

As at 31 December 2011, the Group's statutory reserve capital totalled EUR 47.2 million (31 December 2010: EUR 47.2 million). As at 31 December 2011, Eesti Energia AS had an obligation to transfer an additional EUR 0 to statutory reserve capital (31 December 2010: EUR 0).

As at 31 December 2011, the Group's distributable equity was EUR 453.5 million (31 December 2010: EUR 360.3 million). Corporate income tax is payable upon the distribution of dividends to shareholders (from 1 January 2008, the corporate income tax on dividends is 21/79 of the amount payable as net dividends).

If all retained earnings were distributed as dividends, the corporate income tax would amount to EUR 95.2 million (31 December 2010: EUR 75.7 million). It is possible to pay out EUR 358.3 million (31 December 2010: EUR 284.6 million) as net dividends.

According to the dividend distribution plan disclosed by the Government of the Republic, Eesti Energia AS is required to pay EUR 65.2 million as dividends after the approval of the 2011 Annual Report by the General Meeting of Shareholders. The corresponding income tax totals EUR 17.3 million.

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

in million EUR	31 December	
	2011	2010
Retained earnings (Note 42)	453.5	360.3
Distributable shareholder's equity	453.5	360.3
Corporate income tax on dividends if distributed	95.2	75.7
Net dividends available for distribution	358.3	284.6

20 Dividends per share

In 2011, Eesti Energia paid dividends of EUR 56.1 million to the Republic of Estonia or EUR 0.12 per share (2010: EUR 109.2 million, dividends per share EUR 1.48).

The Management Board proposed to the Annual Meeting to pay dividends of EUR 0.14 per share for the financial year ended 31 December 2011, totalling EUR 65.2 million. These financial statements do not reflect this amount as a liability as the dividend had not been approved as at 31 December 2011.

21 Hedge reserve

in million EUR	1 January - 31 December	
	2011	2010
Hedge reserve at the beginning of the period	**(34.6)**	**(3.1)**
Change in fair value of cash flow hedges	23.5	(40.3)
Recognised as a reduction of revenue	10.7	8.9
Hedge reserve at the end of the period	(0.4)	(34.6)

22 Borrowings

Borrowings at amortised cost

in million EUR	31 December	
	2011	2010
Short-term borrowings		
Current portion of long-term bank loans	1.5	26.8
Total short-term borrowings	**1.5**	**26.8**
Long-term borrowings		
Bonds issued	290.6	289.8
Bank loans	144.1	42.1
Total long-term borrowings	**434.7**	**331.9**
Total borrowings (Notes 3.1, 3.2 and 11)	**436.2**	**358.7**

Bonds

in million EUR	31 December	
	2011	2010
Nominal value of bonds (Note 3.1)	300.0	300.0
Market value of bonds on the basis of quoted sales price (Note 3.3)	286.5	293.1

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

Long-term bank loans at nominal value by due date

in million EUR	31 December	
	2011	2010
< 1 year	1.5	26.8
1 - 5 years	17.8	37.5
> 5 years	127.0	4.8
Total	**146.3**	**69.1**

All loans are denominated in euros. As at 31 December 2011 the interest rates of loans were between 2.0 and 3.2% (31 December 2010: 1.6-4.6%). As at 31 December 2011, the weighted average interest rate on loans with floating interest rates was 6-month Euribor+0.46% (31 December 2010: 6-month Euribor+1.48%).

As at 31 December 2011, the weighted average nominal interest rate on loans was 3.13% (31 December 2010: 2.72%). 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.

During the reporting period the Group repaid prematurely the loans drawn form Nordic Investment Bank in the amount of EUR 32.1 million and loan drawn from Latvian SEB Bank in the amount of EUR 0.2 million (2010: 0 euros).

As at 31 December 2011 the Group had undrawn loan facilities of EUR 595.0 million (31 December 2010: EUR 136.0 million), of which EUR 500 million can be taken into use until 22 August 2014 and the decision regarding the undrawn loan facilities of EUR 95 million must be made by 7 December 2012. All the undrawn loan facilities have floating interest rate.

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

Borrowings by period that interest rates are fixed for

in million EUR	31 December	
	2011	2010
< 1 year	9.7	68.9
1 - 5 years	12.3	-
> 5 years	414.2	289.8
Total (Notes 3.1, 3.2 and 11)	**436.2**	**358.7**

22. Borrowings

Weighted average effective interest rates of borrowings

in million EUR	31 December	
	2011	2010
Long-term bank loans	3.2%	2.8%
Bonds	4.9%	4.9%

23 Trade and other payables

in million EUR	31 December	
	2011	2010
Financial payables within trade and other payables		
Trade payables	119.2	76.4
Accrued expenses	4.4	2.1
Payables to associates	2.9	2.2
Other payables	3.5	5.7
Total financial payables within trade and other payables (Note 11)	**130.0**	**86.4**
Payables to employees	19.2	18.1
Tax liabilities	26.5	24.3
Prepayments	0.8	4.1
Total trade and other payables	**176.5**	**132.9**
of which short-term trade and other payables	*176.1*	*132.7*
of which long-term trade and other payables	*0.4*	*0.3*

24 Deferred income

Connection and other service fees

in million EUR	1 January - 31 December	
	2011	2010
Deferred connection and other service fees at the beginning of the period	**117.9**	**116.5**
Connection and other service fees received	12.4	9.4
Connection and other service fees recognised as income (Notes 4 and 33)	(4.6)	(7.9)
Classified as held for sale (Note 35)	-	(0.1)
Deferred connection and other service fees at the end of the period	**125.7**	**117.9**

Government grants

in million EUR	1 January - 31 December	
	2011	2010
Deferred income from grant at the beginning of the period	**1.2**	**0.6**
of which short-term deferred income	*0.5*	*0.2*
which long-term deferred income	*0.7*	*0.4*
Grants received	0.4	1.0
Transferred grants	(0.3)	-
Recognised as income (Note 27)	(0.4)	(0.3)
Deferred income from grant at the end of the period	**0.9**	**1.2**
of which short-term deferred income	*0.2*	*0.5*
which long-term deferred income	*0.7*	*0.7*

Majority of the grants have been received from the Cohesion Fund (ISPA), LIFE programme, Enterprise Estonia, Environmental Investment Center and Estonian Unemployment Insurance Fund.

25 Provisions

in million EUR	Opening balance 31 December 2010	Recognition and change in provisions	Interest charge (Note 31)	Use	Classified as held-for-sale	Closing balance 31 December 2011	
						Short-term provision	Long-term provision
Environmental protection provisions (Note 30)	15.0	3.2	1.2	(0.9)	-	1.6	16.9
Provision for termination of mining operations (Note 30)	9.9	0.3	0.5	-	-	2.3	8.4
Employee related provisions (Note 29)	3.9	0.5	0.3	(0.4)	-	1.2	3.1
Provision for dismantling cost of assets (Note 6)	2.6	-	0.1	-	-	-	2.7
Provision for greenhouse gas emissions (Notes 8 and 28)	47.1	11.3	-	(49.1)	-	9.3	-
Total provisions (Notes 4 and 33)	**78.5**	**15.3**	**2.1**	**(50.4)**	**-**	**14.4**	**31.1**

in million EUR	Opening balance 31 December 2009	Recognition and change in provisions	Interest charge (Note 31)	Use	Classified as held-for-sale	Closing balance 31 December 2010	
						Short-term provision	Long-term provision
Environmental protection provisions (Note 30)	16.5	4.2	0.8	(0.8)	(5.7)	2.4	12.6
Provision for termination of mining operations (Note 30)	7.7	1.8	0.4	-	-	-	9.9
Employee related provisions (Note 29)	4.2	0.2	0.2	(0.7)	-	0.4	3.5
Provision for dismantling cost of assets (Note 6)	1.3	1.1	0.1	-	-	-	2.6
Provision for greenhouse gas emissions (Notes 8 and 28)	-	47.7	-	(0.6)	-	47.1	-
Total provisions (Notes 4 and 33)	**29.7**	**55.0**	**1.5**	**(2.1)**	**(5.7)**	**49.9**	**28.6**

Recognition and change in the provisions during financial year 2010 in the amount of EUR 6.9 million resulted from the change in discount rate from 8% to 5.4%.

Environmental protection provisions and provisions for the termination of mining operations have been set up for:
- restoring land damaged by mining;
- cleaning contaminated land surfaces;
- restoring water supplies contaminated as a result of mining activities;
- closing landfills and neutralising excess water;
- maintenance of closed ash fields;
- eliminating asbestos in power plants.

Long-term environmental protection provisions will be settled at the Eesti Energia Kaevandused in 2013 - 2014, and at Narva Elektrijaamad in 2013 - 2044.

Provisions related to the termination of mining operations will be settled in 2012 - 2046.

Employee related provisions have been set up for:
- payment of benefits laid down in collective agreements and other acts;
- compensation of work-related injuries;
- payment of termination benefits;
- payments of scholarships.

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

Employee related provisions include provisions for payments of termination benefits to Aidu quarry employees. No provisions for payments of termination benefits to employees of other quarries and mines have been set up as no detailed plans for the closure of these mines and quarries have been announced.

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

25 Provisions, continued

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. As at 31 December 2011 in setting up the provision for greenhouse gas emissions an additional amount of 2.5 million tonnes of greenhouse gas emission allowances was deducted that was allocated additionally to the Group for the years 2010 and 2011 by the decree of the Government of Estonia no. 183 of 22 December 2011. An additional amount of 1.3 million tonnes of greenhouse gas emission allowances allocated to the Group for the year 2012 will be deducted from the volume of emission allowances needed to cover greenhouse gas emissions in 2012 (Note 34)

The provision are discounted at the rate of 5.4% (2010: 5.4%).

26 Revenue

in million EUR	1 January - 31 December	
	2011	2010
Continuing operations		
By activity		
Sale of goods		
Electricity (Note 5)	424.7	409.7
Heat (Note 5)	37.4	46.9
Shale oil (Note 5)	60.9	51.7
Oil shale (Note 5)	32.8	30.1
Power equipment	24.4	19.9
Other goods	8.2	5.1
Total sale of goods	588.4	563.4
Sale of services		
Sales of network services (Note 5)	204.9	192.1
Sale of telecommunication services	10.9	11.5
Connection fees (Notes 4, 24 and 33)	4.6	7.9
Repair and construction services	17.1	4.2
Rental and maintenance income (Note 7)	1.9	2.1
Other services	4.1	2.9
Total sale of services	243.5	220.7
Total revenue (Note 5)	**831.9**	**784.1**

27 Other operating income

in million EUR	1 January - 31 December	
	2011	2010
Continuing operations		
Gain on disposal of subsidiaries and reclassification as associates (Notes 9, 33 and 35)	18.7	-
Fines, penalties and compensations received	3.1	10.1
Gain on disposal of property, plant and equipment	1.4	0.5
Government grants (Note 24)	0.4	0.3
Other operating income	2.0	1.2
Total other operating income	**25.6**	**12.1**

Fines, penalties and compensations of the comparative period include the net amount of the compensation from Foster Wheeler Energia Oy in the amount of EUR 5.2 million from the infringement of contract for the construction of new power blocks in Narva and receipt of penalties from infringement of the sales contract in the amount of EUR 2.2 million.

28 Raw materials and consumables used

in million EUR	1 January - 31 December	
	2011	2010
Continuing operations		
Electricity	41.6	42.3
Transmission services	76.7	70.0
Technological fuel	49.2	42.6
Maintenance and repairs	41.3	31.5
Resource tax on mineral resources	28.7	24.3
Greenhouse gases emissions expense (Note 25)	11.3	47.7
Revaluation of the greenhouse gas allowances (Note 8)	19.9	-
Other raw materials and consumables used	121.0	89.6
Total raw materials and consumables used	**389.7**	**348.0**

29 Payroll expenses

	1 January - 31 December	
	2011	2010
Continuing operations		
Number of employees		
Number of employees at the beginning of the period*	7,455	7,413
Number of employees at the end of the period*	7,631	7,455
Average number of employees (Note 5)	7,585	7,353

* Without the employees of disposal groups and discontinued operations

in million EUR	1 January - 31 December	
	2011	2010
Payroll expenses		
Wages, salaries, bonuses and vacation pay	110.9	98.5
Average monthly pay (in euros)	*1,218*	*1,116*
Other payments and benefits to employees	5.5	4.7
Payroll taxes	39.7	35.9
Recognition/reversal of employee related provisions (Note 25)	0.5	0.2
Total calculated payroll expenses	**156.6**	**139.3**
Of which remuneration to management and supervisory boards		
Salaries, bonuses, additional remuneration	1.8	1.9
Fringe benefits	0.1	0.1
Total paid to management and supervisory boards	1.9	2.0
Capitalised in the cost of self-constructed assets	(20.8)	(8.6)
Covered from the provisions for the termination of mining operations and environmental protection	(0.2)	(0.3)
Total payroll expenses	**135.6**	**130.5**

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

30 Other operating expenses

in million EUR	1 January - 31 December	
	2011	2010
Continuing operations		
Environmental pollution charges	19.8	18.8
Miscellaneous office expenses	7.4	6.6
Rental expense (Note 7)	4.4	3.9
Recognition of environmental and mining termination provisions (Note 25)	3.5	5.9
Research and development costs	2.6	2.8
Other operating expenses	33.3	28.2
Total other expenses	**71.0**	**66.2**

31 Net financial income (-expense)

in million EUR	1 January - 31 December	
	2011	2010
Continuing operations		
Financial income		
Interest income		
Interest income from funding of discontinued operations	-	0.2
Other interest income	4.0	7.3
Total interest income (Note 5)	**4.0**	**7.5**
Other financial income	0.1	-
Total financial income	**4.1**	**7.5**
Financial expenses		
Interest expense		
Interest expenses on bonds and loans	(19.2)	(16.2)
Amounts capitalised on qualifying assets	13.8	5.0
Total interest expenses on borrowings (Note 33)	**(5.4)**	**(11.2)**
Interest expenses on provisions and reimbursements from other parties (Note 25)	(2.1)	(1.4)
Total interest expenses (Note 5)	**(7.5)**	**(12.6)**
Foreign exchange losses	0.3	(0.1)
Other financial expenses	(0.1)	(0.1)
Total financial expenses	**(7.3)**	**(12.8)**
Net financial income (-expense)	**(3.2)**	**(5.3)**

32 Corporate income tax

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

Average effective income tax rate

in million EUR	1 January - 31 December	
	2011	2010
Continuing operations		
Estonia		
Net dividends	56.1	109.2
Income tax applicable for dividends	21/79	21/79
Theoretical income tax at applicable rates	14.9	29.0
Impact of dividends paid by associates	(0.3)	(0.3)
Effective income tax on dividends	14.6	28.7
Average effective income tax rate	20.6%	20.8%
Income tax expense arising from the subsidiaries in Finland and Latvia	0.1	0.1
Total income tax expense (Note 5)	**14.7**	**28.8**

As at 31 December 2011 and 31 December 2010, the Group did not have any deferred income tax assets and liabilities.

33 Cash generated from operations

in million EUR	1 January - 31 December	
	2011	2010
Continuing operations		
Profit before income tax	**163.9**	**145.8**
Adjustments		
Depreciation and impairment of property, plant and equipment (Notes 5 and 6)	93.3	92.0
Amortisation of intangible assets (Notes 5 and 8)	3.8	1.4
Deferred income from connection and other service fees (Notes 4, 24 and 26)	(4.6)	(7.9)
Gain on disposal of subsidiaries (Note 35)	(2.4)	-
Gain on disposal of property, plant and equipment	(1.4)	(0.5)
Amortisation of government grant received to purchase non-current assets	(0.1)	(0.1)
Profit (loss) from associates using equity method (Note 9)	0.9	(2.1)
Gain from other nonmonetary transactions (Note 27)	-	(10.8)
Other gains from investments (Notes 9 and 27)	(16.3)	-
Unpaid/unsettled gain/loss on derivatives	(12.2)	1.5
Interest expense on borrowings (Note 31)	5.4	11.2
Interest and other financial income	(3.4)	(7.5)
Adjusted net profit before tax	**226.9**	**223.0**
Net change in current assets relating to operating activities		
Change in receivables related to operating activities	5.5	(33.7)
Change in inventories	(8.5)	9.6
Net change in other current assets relating to operating activities	(1.2)	(42.5)
Total net change in current assets relating to operating activities	**(4.2)**	**(66.6)**
Net change in current liabilities relating to operating activities		
Change in provisions (Note 25)	(33.0)	53.1
Change in trade payables	0.4	27.4
Net change in liabilities relating to other operating activities	(2.2)	(3.3)
Total net change in liabilities relating to operating activities	**(34.8)**	**77.2**
Cash generated from operations	**187.9**	**233.7**

34 Off-balance sheet assets, contingent liabilities and commitments

(a) Off-balance sheet assets

Mining rights

As at 31 December 2011, the estimated reserves of mineable oil shale in the mines and quarries of the Group totalled 559 million tonnes (as at 31 December 2010: 367 million tonnes), including underground mining fields of 452 million tonnes (as at 31 December 2010: 267 million tonnes) and ground level mining fields of 108 million tonnes (31 December 2010: 100 million tonnes).

Emission rights

The allocation plan established by the decree of the Government of Estonia no. 183 of 22 December 2011 allocated to the companies of the Eesti Energia Group for the years 2008 - 2012 greenhouse gas emission allowances totalling 49.0 million tonnes (the quantity allocated for the period 2005 - 2007 totalled 46.7 million tonnes) (Note 8). By the decree of the Government of Estonia no. 183 of 22 December 2011 the amount of the greenhouse gas emission allowances allocated to the Group was increased compared to the previous allocation plan for the same period (Note 25).

(b) Contingent liabilities

Contingent liabilities arising from potential tax audit

Tax authorities have neither started nor performed any tax audits at the Company or single case audits at any group company. Tax authorities have the right to review the Company's tax records within 6 years after the reported tax year and if they find any errors they may impose additional taxes, interest and fines. The Group's management considers that there are not any circumstances which may give rise to a potential material liability in this respect.

Collaterals, guarantees and court actions

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

The Group has granted a guarantee of up to 39.9% for the obligations arising from the loan contracts entered into between its associate AS Nordic Energy Link and the banks if the banks should require full payment of loans from AS Nordic Energy Link due to breach of contractual terms (Notes 3.1). As at 31 December 2011, AS Nordic Energy Link had drawn loans of EUR 56.5 million (as at 31 December 2010: EUR 61.6 million).

(c) Commitments

Requirement to comply with the environmental norms of the European Union

Under the accession agreement between the European Union and Estonia, the pollutants from oil shale boilers into atmospheric air need to comply with the requirements set for large combustion plants by the year 2016. Completing this obligation requires additional investment to be made.

Capital commitments arising from construction contracts

As at 31 December 2011, the Group had contractual liabilities relating to the acquisition of non-current assets totalling EUR 1111.6 million (31 December 2010: EUR 254.9 million).

Contracts for buying greenhouse gas emissions allowances

As at 31 December 2011 the group had concluded contracts for buying greenhouse gas emissions allowances in December2012, 2013 and 2014 in the amount of EUR 52.9 million (31 December 2010: EUR 33.5 million).

35 Assets and liabilites of disposal group classified as held for sale

Assets of disposal group classified as held for sale

in million EUR	31 December	
	2011	2010
Cash and cash equivalents	-	0.3
Trade and other receivables	1.4	5.1
Inventories	0.1	0.3
Property, plant and equipment and intangible assets (Notes 6 and 8)	10.3	15.0
Total assets classified as held for sale	**11.8**	**20.7**

Liabilities of disposal group classified as held for sale

in million EUR	31 December	
	2011	2010
Borrowings	-	3.3
Trade and other payables	4.0	1.8
Provisions	-	5.8
Deferred income (Note 24)	-	0.1
Total liabilities classified as held for sale	**4.0**	**11.0**

(a) Assets and liabilities of disposal group as at 31 December 2011

The assets and liabilities of Televõrgu AS have been presented as held for sale in these financial reports, as at 31 December 2011 the Group was in the middle of the sale process of Televõrgu AS and was conducting negotiations with the potential buyer. On 16 January 2012 the Group entered into a sales contract for the sale of the shareholding in Televõrgu AS (Note 40).

(b) Assets and liabilities of disposal group as at 31 December 2010

As at 31 December 2010 the assets and liabilities related to AS Kohtla-Järve Soojus were presented as held for sale as on 22 December 2010 the Group entered into a sales contract for the sale of the shareholding in AS Kohtla-Järve Soojus to OÜ VKG Energia. The transaction was completed on 8 March 2011 after the Estonian Competition Authority had given the permission to concentrate. Until its disposal, AS Kohtla-Järve Soojus was part of the Electricity and Heat Generation segment.

Net assets of the subsidiary disposed

in million EUR	8 March 2011
Cash and cash equivalents	1.5
Trade and other receivables	4.3
Inventories	0.2
Property, plant and equipment	16.0
Borrowings	(3.4)
Trade and other payables	(7.7)
Deferred income	(0.1)
Provisions	(5.8)
Total net assets of th subsidiary disposed	**5.0**
Non-controlling interest's share of the net assets	(2.0)
The obligation to compensate the amount of greenhouse gas allowances	0.2
Sales price	5.6
Gain on sale (Note 33)	2.4
Cash in flows in transaction	
Proceeds from sale	5.6
Cash and cash equivalents of subsidiary in bank accounts	(1.5)
Total cash inflows in transaction	**4.1**

36 Discontinued operations

In August 2009 the Government of Estonia approved the plan to buy 100% of the shares of Elering OÜ from the Group. The transaction was completed on 27 January 2010. Until its disposal, Elering OÜ represented the electricity transmission segment of the Group and is presented as a discontinued operation in these financial statements.

Analysis of the results of discontinued operations

in million EUR	1 January 27 January 2010
Revenue	10.0
Expenses	(4.0)
Profit before tax from discontinued operations	6.0
Gain on sale	21.4
Profit from discontinued operations	**27.4**

Assets and liabilities of discontinued operations

in million EUR	27 January 2010
Cash and cash equivalents	6.6
Trade and other receivables	20.3
of which receivables from continuing operations	*15.1*
Property, plant and equipment and intangible assets	351.5
Total assets of discontinued operations	**378.4**
Borrowings	(192.4)
Trade and other payables	(21.9)
of which payables to continuing operations	*(3.3)*
Deferred income	(13.0)
Total liabilities of discontinued operations	**(227.2)**

in million EUR	27 January 2010
Net assets	**151.2**
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**

37 Business combinations and other entities acquired

Business combinations

(a) SIA Enefit Power & Heat Valka

On 17 January 2011 the Group acquired 75% of the shares of Latvian company SIA "Valkas Bioenergo Kompanija" (new name SIA Enefit Power & Heat Valka) and increased the share capital, after which the Group owns 90% of the enterprise. The acquired company generates thermal energy in two boiler plants that operate on biofuel and fuel oil and has started building a new biofuel-fired electricity and heat co-generation plant. The new co-generation plant will be completed in 2012.

The purpose of the acquisition of the company is to diversify generation portfolio of the Group and to develop effective co-generation of electricity and heat. The goodwill arising from the acquisition, that did not qualify for separate recognition, amounted to EUR 0.6 million and is attributable to the development project of the co-generation plant.

The following table summarises the consideration paid for SIA Enefit Power & Heat Valka, the fair value of assets aquired, liabilities assumed and the non-controlling interest at the acquisition date.

in million EUR	
Consideration	
Cash paid	0.6
Cash to be paid in the future	0.2
Total cost of acquisition	**0.8**

37 Business combinations and other entities acquired, continued

Recognised amounts of identifiable assets acquired and liabilites assumed	
Trade receivables	0.1
Property, plant and equipment (Note 6)	0.3
Intangible assets (Note 8)	0.2
Borrowings	(0.2)
Trade and other payables	(0.1)
Total identifiable net assets	**0.3**
Non-controlling interest	**(0.1)**
Goodwill (Note 8)	**0.6**
Total	**0.8**

Acquisition-related costs have been charged to the other operating expenses in the consolidated income statement for the year ended 31 December 2011.

According to the contract an additional consideration of EUR 0.2 million will be paid after the receipt of the subsidy from the European Union.

The fair value of the trade receivables at the acquisition date was EUR 0.1 million, that was equal to the contractual amount of the receivables.

The fair value of the non-controlling interest in SIA Enefit Power & Heat Valka was estimated according to the non-controlling interest in the fair value of the net identifiable assets acquired.

The revenue included in the consolidated statement of comprehensive income from 17 January 2011 to 31 December 2011 contributed by SIA Enefit Power & Heat Valka was EUR 0.6 million. SIA Enefit Power & Heat Valka also contributed loss of EUR 0.3 million over the same period.

(b) Osaühing Pogi

On 10 October 2011 the Group acquired 66.5% share in Osaühing Pogi, whose primary activities include the production of heat and sales of heat in town Paide. In 2012 a new effective and environmentally friendly co-generation plant using biomass will be completed.

The purpose of the acquisition of the company is to diversify generation portfolio of the Group and to develop effective co-generation of electricity and heat. The goodwill arising from the acquisition, that did not qualify for separate recognition, amounted to EUR 0.4 million and is attributable to the development project of the co-generation plant.

The following table summarises the consideration paid for Osaühing Pogi, the fair value of assets aquired, liabilities assumed and the non-controlling interest at the acquisition date.

in million EUR	
Consideration	
Cash paid	1.2
Total cost of acquisition	**1.2**
Recognised amounts of identifiable assets acquired and liabilites assumed	
Trade and other receivables	0.3
Inventories	0.4
Property, plant and equipment (Note 6)	1.3
Borrowings	(0.2)
Trade and other payables	(0.5)
Total identifiable net assets	**1.3**
Non-controlling interest	**(0.5)**
Goodwill (Note 8)	**0.4**
Total	**1.2**

Acquisition-related costs have been charged to the other operating expenses in the consolidated income statement for the year ended 31 December 2011.

The fair value of the trade receivables at the acquisition date was EUR 0.2 million, that was equal to the contractual amount of the receivables.

The fair value of the non-controlling interest in Osaühing Pogi was estimated according to the non-controlling interest in the fair value of the net identifiable assets acquired.

The revenue included in the consolidated statement of comprehensive income from 10 October 2011 to 31 December 2011 contributed by Osaühing Pogi was EUR 0.6 million. Osaühing Pogi also contributed profit of EUR 0 million over the same period.

Had Osaühing Pogi been consolidated from 1 January 2011, the consolidated statement of income would show revenue of EUR 1.6 million and profit of EUR 0 million.

37 Business combinations and other entities acquired, continued

Other entities acquired

(c) Enefit American Oil
On 14 January 2011 the Group signed a contract for acquiring 100% of the shares of the Oil Shale Exploration Company (new name Enefit American Oil) in the USA for the purchase price of USD 42 million (EUR 29.6 million). The transaction was completed on 30 March 2011. The management estimates that the transaction was not a business combination as the assets that were acquired do not constitute a business.

Allocation of the cost between the identifiable assets and liabilities

in million EUR	
Property, plant and equipment (Note 6)	2.1
Contractual rights (Note 8)	27.7
Trade and other payables	-0.2
Total assets and liabilities	**29.6**

38 Earnings per share

Basic earnings per share are calculated by dividing profit attributable to the equity holders of the company by the weighted average number of ordinary shares outstanding. As there are no potential ordinary shares, diluted earnings per share equal to basic earnings per share all the periods. The amount of shares changed in December 2010 due to the change in the nominal value of a share from 100 Estonian kroons to 1 euro (Note 19). In this note the weighted average number of shares for 2010 is calculated as if the nominal value 1 euro per share had been in effect from the beginning of 2010 in order to ensure the comparability of information.

	1 January - 31 December	
	2011	2010
Profit attributable to the equity holders of the company (million EUR)	**149.3**	**144.3**
from continuing operations (million EUR)	*149.3*	*116.9*
discontinued operations (million EUR)	*-*	*27.4*
Weighted average number of shares (million)	**471.6**	**471.6**
Basic earnings per share (EUR)	**0.32**	**0.31**
from continuing operations (EUR)	*0.32*	*0.25*
discontinued operations (EUR)	*-*	*0.06*
Diluted earnings per share (EUR)	**0.32**	**0.31**
from continuing operations (EUR)	*0.32*	*0.25*
discontinued operations (EUR)	*-*	*0.06*

39 Related party transactions

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

Continuing operations

in million EUR	1 January - 31 December	
	2011	2010
Transactions with associates		
Purchase of goods and services	27.4	25.4
Proceeds from sale of goods and services	3.5	3.3
Financial expenses	0.6	-
Transactions with companies over which the members of Management and Supervisory Boards have significant influence		
Purchases of goods and services	3.2	4.5

In 2011 the Group didn't conclude any individually-significant transactions with the entities over which the state has control or significant influence.
In 2010 a sales contract was entered into for the sale of 100% of the shares of Elering OÜ (Notes 36).

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 comparative period.

Upon premature termination of the service contract with a member of the Management Board, the service contracts stipulate the payment of 3 months' remuneration as termination benefits.

In purchasing and selling electricity, the prices set by the Estonian Competition Authority are used. All other transactions are concluded using agreed prices.

40 Events after the reporting period

On 16 January 2012 the Group entered into a sales contract for the sale of the shareholding in Televõrgu AS. The transaction was completed on 17 February 2012 after the approval from the Estonian Competition Authority.

41 The effect of the change in the presentation of consolidated cash flow statements

In these consolidated financial statements the presentation of the net change in cash restricted from being used in the consolidated statement of cash flows has been changed compared to the consolidated financial statements of year 2010, as a result of which the net change in cash restricted from being used is presented as cash flows from investing activities (previously within the cash flows from operating activities).

According to the Group's estimates the new way of presentation reflects more appropriately the nature of the transactions.

The effect of the change in the presentation of consolidated cash flow statements

in million EUR	Comparative information in the financial statements of year 2011	Information in the financial statements of year 2010	Change
Total cash flows from operating activities	198.1	154.2	43.9
Total cash flows from investing activities	(75.5)	(31.6)	(43.9)

42 Financial information on the parent company

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

Income Statements

in million EUR	1 January – 31 December	
	2011	2010
Revenue	391.5	406.5
Other operating income	29.2	47.6
Government grants	0.2	-
Raw materials and consumables used	(356.8)	(381.9)
Other operating expenses	(18.7)	(16.7)
Payroll expenses	(23.3)	(19.5)
Depreciation, amortisation and impairment	(6.8)	(3.7)
Other expenses	(1.2)	(5.9)
OPERATING PROFIT	**14.1**	**26.5**
Financial income	84.1	141.7
Financial expenses	(16.2)	(16.9)
Total financial income and expenses	**67.9**	**124.7**
PROFIT BEFORE TAX	**82.0**	**151.2**
NET PROFIT FOR THE FINANCIAL YEAR	**82.0**	**151.2**

Statements of Comprehensive Income

in million EUR	1 January – 31 December	
	2011	2010
PROFIT FOR THE YEAR	**82.0**	**151.2**
Other comprehensive income		
Revaluation of risk hedge instruments	37.7	(30.0)
Other comprehensive income for the year	**37.7**	**(30.0)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**119.7**	**121.2**

42 Financial information on the parent company, continued

Statements of Financial Position

in million EUR	31 December	
	2011	2010
ASSETS		
Non-current assets		
Property, plant and equipment	157.8	80.7
Intangible assets	15.6	12.0
Investments in subsidiaries	498.8	501.3
Investments in associates	22.0	8.8
Derivative financial instruments	13.1	0.3
Receivables from subsidiaries	208.6	158.9
Total non-current assets	**915.9**	**762.0**
Current assets		
Inventories	0.1	0.1
Trade and other receivables	617.0	494.0
Derivative financial instruments	8.1	0.4
Available-for-sale financial assets	10.2	10.0
Financial assets at fair value through profit or loss	4.9	3.2
Deposits at banks with maturities of more than 3 months	-	181.4
Cash and cash equivalents	33.9	46.4
Total current assets	**674.2**	**735.5**
Total assets	**1,590.1**	**1,497.5**

in million EUR	31 December	
	2011	2010
EQUITY		
Share capital	471.6	471.6
Share premium	259.8	259.8
Statutory reserve capital	47.2	47.2
Hedge reserve	9.5	(28.2)
Retained earnings	282.4	256.7
Total equity	**1,070.5**	**1,007.2**
LIABILITIES		
Non-current liabilities		
Borrowings	434.7	331.9
Other payables	0.1	0.1
Derivative financial instruments	-	1.2
Deferred income	0.3	0.3
Provisions	0.9	0.4
Total non-current liabilities	**436.0**	**333.9**
Current liabilities		
Borrowings	1.4	26.8
Trade and other payables	81.3	100.0
Derivative financial instruments	0.8	29.1
Provisions	0.1	0.4
Total current liabilities	**83.6**	**156.4**
Total liabilities	**519.6**	**490.3**
Total liabilities and equity	**1,590.1**	**1,497.5**

42 Financial information on the parent company, continued

Cash Flow Statements

in million EUR	1 January - 31 December	
	2011	2010
Cash flows from operating activities		
Profit before tax	82.0	151.2
Adjustments		
Depreciation of property, plant and equipment	4.6	3.2
Amortisation of intangible assets	2.2	0.5
Amortisation of government grant received to purchase non-current assets	(0.1)	-
Profit/loss from sale of property, plant and equipment	(3.2)	(0.2)
Profit from sale of a subsidiary	(5.3)	(38.3)
Other gains/losses on investments	(69.1)	(107.4)
Gain from other nonmonetary transactions	-	-
Gain/loss on unpaid/unsettled derivatives	(12.2)	1.5
Interest expense on borrowings	19.2	16.7
Interest income	(27.4)	(32.4)
Adjusted net profit	**(9.3)**	**(5.2)**
Net change in current assets relating to operating activities		
Loss from doubtful receivables	0.7	0.5
Change in receivables relating to operating activities	13.5	(22.5)
Net change in current assets relating to other operating activities	9.0	(46.5)
Total net change in current assets relating to operating activities	**23.2**	**(68.5)**
Net change in liabilities relating to operating activities		
Change in provisions	0.1	0.1
Change in trade payables	(7.5)	1.9
Net change in liabilities related to other operating activities	(0.6)	8.2
Total net change in liabilities relating to operating activities	**(8.0)**	**10.3**
Interest paid and borrowing costs	**(17.2)**	**(16.0)**
Interest received	**27.9**	**29.8**
Net cash flows from operating activities	**16.6**	**(49.6)**

in million EUR	1 January - 31 December	
	2011	2010
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(79.7)	(24.6)
Proceeds from sale of property, plant and equipment	4.6	0.8
Net change in cash restricted from being used	46.1	(43.9)
Dividends received from subsidiaries	56.1	109.2
Net change in term deposits with maturities of more than 3 months	181.4	(176.3)
Purchase of short-term financial investments	(17.9)	(37.4)
Acquisition of subsidiaries	(0.3)	(3.4)
Proceeds from sale and redemption of short-term financial investments	16.3	24.6
Proceeds from sale of a subsidiaries	7.8	172.6
Proceeds from liquidation of subsidiary	-	1.5
Purchase of subsidiaries	(2.3)	-
Repayments of loans granted to subsidiaries	(37.8)	(3.8)
Loans paid by subsidiaries	7.4	0.6
Change in overdraft granted to subsidiaries	(208.1)	166.9
Other loans granted	(4.1)	-
Repayments of other loans	0.1	-
Net cash used in investing activities	**(30.4)**	**186.7**
Cash flows from financing activities		
Bank loans received	136.0	-
Repayments of bank loans	(58.9)	(3.5)
Change in overnight deposit received from subsidiaries	(19.7)	(5.7)
Dividends paid	(56.1)	(109.2)
Total cash generated from financing activities	**1.3**	**(118.4)**
Net cash flows	**(12.5)**	**18.7**
Cash and cash equivalents at the beginning of the period	46.4	27.7
Cash and cash equivalents at the end of the period	33.9	46.4
Net increase/decrease in cash and cash equivalents	**(12.5)**	**18.7**

42 Financial information on the parent company, continued

Statements of Changes in Equity

in million EUR	Share capital	Share premium	Statutory reserve capital	Hedge reserve	Currency translation differences	Retained earnings	Total
Equity as at 31 December 2009	**471.6**	**259.8**	**47.2**	**1.9**	**-**	**214.6**	**995.2**
Carrying amount of holdings under controlling and significant influence						(635.3)	(635.3)
Carrying amount of holdings under controlling and significant influence using equity method				(5.0)	-	745.8	740.8
Adjusted unconsolidated equity as at 31 December 2009 (Note 19)				**(3.1)**	**-**	**325.2**	**1,100.7**
Comprehensive income							
Comprehensive income for the year	-	-	-	(30.0)	-	151.2	121.2
Transactions with owner							
Dividends paid	-	-	-	-	-	(109.2)	(109.2)
Total transactions with owner	**-**	**-**	**-**	**-**	**-**	***(109.2)***	***(109.2)***
Equity as at 31 December 2010	**471.6**	**259.8**	**47.2**	**(28.2)**	**-**	**256.7**	**1,007.2**
Carrying amount of holdings under controlling and significant influence						(501.3)	(501.3)
Carrying amount of holdings under controlling and significant influence using equity method				(6.4)	-	604.8	598.4
Adjusted unconsolidated equity as at 31 December 2010 (Note 19)				**(34.6)**	**-**	**360.3**	**1,104.3**

42 Financial information on the parent company, continued

Statements of Changes in Equity

in million EUR	Share capital	Share premium	Statutory reserve capital	Hedge reserve	Currency translation differences	Retained earnings	Total
Equity as at 31 December 2010	**471.6**	**259.8**	**47.2**	**(28.2)**	**-**	**256.7**	**1,007.2**
Carrying amount of holdings under controlling and significant influence						(501.3)	(501.3)
Carrying amount of holdings under controlling and significant influence using equity method				(6.4)	-	604.8	598.4
Adjusted unconsolidated equity as at 31 December 2010 (Note 19)				**(34.6)**	**-**	**360.3**	**1,104.3**
Comprehensive income							
Comprehensive income for the year	-	-	-	37.7	-	82.0	119.7
Transactions with owner							
Dividends paid	-	-	-	-	-	(56.1)	(56.1)
Business combination under common control	-	-	-	-	-	(0.2)	(0.2)
Total transactions with owner	**-**	**-**	**-**	**-**	**-**	***(56.3)***	***(56.3)***
Equity as at 31 December 2011	**471.6**	**259.8**	**47.2**	**9.5**	**-**	**282.4**	**1,070.5**
Carrying amount of holdings under controlling and significant influence						(498.8)	(498.8)
Carrying amount of holdings under controlling and significant influence using equity method				(9.9)	3.5	669.9	663.5
Adjusted unconsolidated equity as at 31 December 2011 (Note 19)				**(0.4)**	**3.5**	**453.5**	**1,235.2**

Under the Accounting Act of Estonia, adjusted unconsolidated retained earnings are the amount from which a public limited company can make payments to its shareholders.

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder of Eesti Energia AS

We have audited the accompanying consolidated financial statements of Eesti Energia AS and its subsidiaries (the Group), which comprise the consolidated statements of financial position as of 31 December 2011 and 31 December 2010 and the consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

Management Board is responsible for the preparation, and true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation, and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2011 and 31 December 2010, and of their financial performances and cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

Ago Vilu
Auditor's Certificate No.325

Aleksei Kadõrko
Auditor's Certificate No.557

21 February 2012

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

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Profit Allocation Proposal

The retained earnings of Eesti Energia Group as at 31 December 2011 were 453 486 227.02 EUR .

Paragraph 1 of § 77 of the State Assets Act states that the dividends payable by an entity where the state has controlling interest shall be approved by the Government of Estonia at the proposal of the Minister of Finance. According to the dividend distribution plan disclosed by the Government of the Republic, Eesti Energia AS is required to pay 65 187 000 EUR as dividends in 2012.

The Management Board thus proposes under section 332 of the Commercial Code of Estonia to allocate the retained earnings of Eesti Energia Group as at 31 December 2011 as follows:

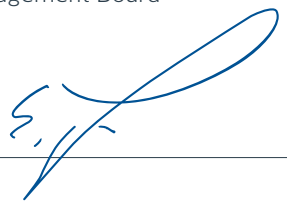
1. to pay 65 187 000 EUR as dividends to shareholder;
2. not to distribute the remaining retained earnings of 388 299 227.02 EUR, due to the continuing financing needs of the Eesti Energia Group.

Signatures of the Management Board to the Annual Report for Financial Years 2010 and 2011

The Annual Report of the Eesti Energia Group for the financial years ended on 31 December 2011 and 31 December 2010 consists of the management report, the consolidated financial statements, the auditor's report and the profit allocation proposal.
The Management Board has prepared the management report, the consolidated financial statements and the profit allocation proposal.

MANAGEMENT BOARD
20 February 2012

Chairman of the Management Board

Sandor Liive 

Members of the Management Board

Margus Kaasik 

Harri Mikk 

Raine Pajo 

Margus Rink 

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