IMPORTANT NOTICE

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EESTI ENERGIA AS

(*incorporated as a joint-stock company under the laws of the Republic of Estonia*)

€300,000,000
4.250% Notes due 2018

Issue price: 99.163%

The €300,000,000 4.250% Notes due 2018 (the "**Notes**") of Eesti Energia AS (the "**Issuer**") will, unless previously redeemed or purchased and cancelled, be redeemed by the Issuer at their principal amount on 2 October 2018. The Issuer may, at its option, redeem all, but not some only, of the Notes in the event of certain tax changes at their principal amount plus accrued interest, in each case as described under "*Terms and Conditions of the Notes – Redemption and Purchase*".

The Notes will bear interest from, and including, 2 April 2012 at the rate of 4.250% per annum payable annually in arrear on 2 October each year. The first payment will be made on 2 October 2012. See "*Terms and Conditions of the Notes – Interest*". Payments on the Notes will be made in euro without deduction for or on account of taxes imposed or levied by the Republic of Estonia ("**Estonia**"), to the extent described under "*Terms and Conditions of the Notes – Taxation*".

This document has been approved by the United Kingdom Financial Services Authority (the "**FSA**"), which is the United Kingdom competent authority for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**") and relevant implementing measures in the United Kingdom as a prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of the Notes. Applications have been made for the Notes to be admitted to listing on the Official List of the FSA and to trading on the Regulated Market of the London Stock Exchange plc (the "**London Stock Exchange**"). The London Stock Exchange is a regulated market for the purposes of Directive 2004/39/EC on markets in financial instruments.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**") and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Managers (as defined in "**Subscription and Sale**") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Estonia has not guaranteed the Notes and the Notes do not constitute obligations of Estonia.

The Notes will be in bearer form and in the denomination of €100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000 each. The Notes will initially be represented by a temporary global note (the "**Temporary Global Note**"), without interest coupons, which will be deposited on or around 2 April 2012 (the "**Closing Date**") with a common safekeeper for Euroclear Bank S.A. /N.V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). The Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (the "**Permanent Global Note**"), without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form in the denomination of €100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000 each with interest coupons attached. See "*Summary of Provisions Relating to the Notes in Global Form*".

On issue, the Notes are expected to be rated BBB+ and Baa1 by Standard & Poor's Credit Market Services Europe Limited ("**S&P**") and Moody's Investors Service Limited ("**Moody's**") respectively. S&P and Moody's are established in the European Economic Area ("**EEA**") and registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**"). A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. An investment in the Notes involves certain risks. For a discussion of these risks, see "*Risk Factors*".

Joint Lead Managers and Joint Bookrunners

DEUTSCHE BANK ***NORDEA***

Co-Managers

DANSKE BANK ***POHJOLA BANK PLC*** ***SEB*** ***SWEDBANK***

Prospectus dated 28 March 2012

The Issuer accepts responsibility for the information contained in this document. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Certain of the information set out under "*The Republic of Estonia*" has been extracted, where indicated, from publicly available data published by the Statistical Office of Estonia, the Ministry of Finance of Estonia, the Estonian Unemployment Insurance Fund and Eurostat on each of their respective websites. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by each of the Statistical Office of Estonia, the Estonian Unemployment Insurance Fund, the Ministry of Finance of Estonia and Eurostat, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this document or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Trustee (as defined in "*Terms and Conditions of the Notes – Redemption and Purchase*") or the Managers that are named as Managers under "*Subscription and Sale*" below (the "**Managers**").

Neither the Managers nor any of their respective affiliates have authorised the whole or any part of this document and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this document. Neither the delivery of this document nor the offering, sale or delivery of any Note shall in any circumstances create any implication that the information contained in this document is true subsequent to the date of this document or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this document.

This document does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of this document and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this document and other offering material relating to the Notes, see "*Subscription and Sale*".

The Notes have not been, and will not be, registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons. In addition, the Notes will not be registered in Estonia as a public offer of securities and, therefore, may not be offered or sold publicly in Estonia.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this document or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the potential investor's currency is not euro;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how they will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

In this document, unless otherwise specified, references to a "**Member State**" are references to a Member State of the EEA (being the European Union (the "**EU**") plus Iceland, Liechtenstein and Norway), references to "**EEK**" and "**Estonian Kroon**" are to the lawful currency of Estonia prior to the adoption of the euro on 1 January 2011, references to "**euro**" or "**€**" are to the currency introduced at the start of the third stage of European Economic and Monetary Union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended and references to "**billions**" are to thousands of millions.

Certain figures included in this document have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In connection with the issue of the Notes, Deutsche Bank AG, London Branch (the "Stabilising Manager") (or persons acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

CONTENTS

FORWARD LOOKING STATEMENTS

This document includes certain ''forward-looking statements''. Statements that are not historical facts, including statements about the beliefs and expectations of the Issuer, the Group, its directors or management, are forward-looking statements. Words such as ''believes'', ''anticipates'', ''estimates'', ''expects'', ''intends'', ''plans'', ''aims'', ''potential'', ''will'', ''would'', ''could'', ''considered'', ''likely'', ''estimate'' and variations of these words and similar future or conditional expressions, are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend upon future circumstances that may or may not occur, many of which are beyond the control of the Issuer and the Group and all of which are based on their current beliefs and expectations about future events. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Issuer and the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the present and future business strategies of the Issuer and the Group and the environment in which the Issuer or the Group will operate in the future. These forward-looking statements speak only as at the date of this document.

Except as required by the FSA, the London Stock Exchange, the Listing Rules, the Prospectus Rules, the Disclosure and Transparency Rules or any other applicable law or regulation, the Issuer expressly disclaims any obligations or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

RISK FACTORS

The Issuer believes that the following factors are material risks specific to it and may affect the Issuer's ability to fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are described below. The Issuer believes that the factors described below represent the principal risks specific to the Issuer and inherent in investing in the Notes but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. The realisation of one or more of these factors could individually or together with other circumstances adversely affect the business activities and financial position of the Group. Prospective investors should carefully consider the factors set out below and the detailed information set out elsewhere in this document before making a decision about acquiring the Notes.

Factors that may affect the Issuer's ability to fulfil its obligations under the Notes

State ownership

The sole shareholder of the Issuer is Estonia and its representatives in the Supervisory Board are appointed by the Minister of Finance, and the Minister of Economic Affairs and Communications. The Group's primary businesses are of strategic national importance to Estonia and the Estonian government, in particular the generation, distribution and supply of electricity and mining of oil shale. Currently, the Estonian government allows the Group to be independent and to manage its activities in a manner consistent with its business strategy. However, there is a risk that the Estonian government may intervene in the conduct of the Group's business and if there was such an intervention, the Group may not receive fair and adequate compensation from the Estonian government, which could have a material adverse effect on the Group's business and financial position. There is also a risk that a larger than normal dividend could be requested by the Estonian government as sole shareholder, which, if paid, could negatively impact the capital requirements of the Group. In addition, as at the date of this document, whilst there is no indication that the Estonian government will divest any of its equity stake in the Group, any such divestment could affect the Group's borrowing costs, which could have a material adverse effect on the Group's business and financial position.

Deregulation of the electricity market

For the financial year ending 31 December 2011, 41.7% of the Group's revenue came from the distribution and sale of electricity at regulated prices and 31.8% came from the sale of electricity at unregulated prices. The Estonian Competition Authority ("**ECA**") calculates price limits for each regulatory period based on various pricing methodologies and the Group has limited ability to pass any additional costs incurred during the regulatory period on to its customers through price increases. The ECA may also disagree with the Group as to the expected value of such costs and pricing decisions may be significantly impacted by social and political considerations, which may cause delays in price determinations or result in lower price increases than necessary to compensate the Group for its cost increases and investments.

The Estonian government is now in the process of fully liberalising the electricity market, such liberalisation being a condition to Estonia's accession to the EU and expected to take effect on 1 January 2013. Delay, suspension or reversion of the liberalisation process is now unlikely, with a draft act being discussed by the Estonian parliament to fully liberalise the Estonian electricity market. However, uncertainty remains as to the final contents of the draft act and the Group's business and financial position may be adversely affected by any changes. The Group may need to adjust its business plans (potentially making some of the investments already made uneconomic) or fail to benefit from some or all of the new opportunities currently contemplated by the Group's long term strategy.

The opening of the electricity market is expected to create a more competitive market and the Group expects new market entrants and competitors. Some of these competitors may have greater financial resources and more extensive operational experience than the Group, which may allow them to respond to challenges and exploit opportunities more quickly or effectively than the Group. In addition to potential Estonian competitors, the Group faces potential competitors from neighbouring countries that can generate large volumes of electricity through various means, including hydro, nuclear power, carbon-based methods and wind, which could allow such competitors to generate electricity at a lower marginal cost than the Group and accordingly, sell electricity to customers on more favourable terms than the Group. Liberalisation could decrease the Group's market share as well as the price at which the Group is able to sell its electricity. Indeed, the Group's market share in the unregulated section of the Estonian electricity market has decreased by 15% during the financial year ended 31 December 2011. Moreover, some competitors, for example those operating in Russia, do not have to comply with a CO_2 emissions scheme such as the EU ETS (as defined below) and, accordingly, do not need to purchase CO_2 allowances in the market place. This may enable these competitors to sell their electricity at lower prices than the Group.

Price levels in the free market for electricity (including price levels on the Nordic power exchange for Finland, Sweden, Denmark, Norway and Estonia ("**Nord Pool**")) will have a direct impact on the revenues and profitability of the Group, and there is a risk that the Group may not be able to manage price volatility effectively. There can be no assurance that revenues in a liberalised market will adequately compensate the Group for its cost base and investment expenses or that its sales will not fall as a result of lower demand due to higher prices, either of which could have a material adverse effect on the Group's business and financial position.

Hedging risk

The Group seeks to mitigate the effect of fluctuations in commodity prices on its generation portfolio and revenues from fuel oil sales through the use of hedging, including certain long-term hedge contracts. The Group's hedging strategy is focused on hedging the price risks of electricity, CO_2 emission allowances and fuel oil. The Group uses hedges on a selective basis and does not hedge its exposures fully. If effective, the hedging strategy would at best moderate the effect from unfavourable changes in commodity prices, but it would not offer full or long term protection from such trends. There is also a risk that the Group's hedging and risk management strategies may not be successful or efficient, which could have a material adverse effect on the Group's business and financial position. The Group's hedging needs will grow with the full liberalisation of the Estonian electricity market and the resulting increase in price volatility, as well as the Group's growing need for CO_2 emission allowances and the proposed expansion in oil production.

Foreign exchange risk

The Group has short term exposure to changes in the US dollar exchange rate, largely through the Group's oil sales, which are predominantly US dollar denominated and some exposure to changes in the Latvian lats, Lithuanian litas and Jordanian dinar exchange rates. The Group's foreign exchange exposures are not fully hedged and could adversely affect the Group's business and financial position.

Liquidity risk

Liquidity risk is the risk that the Group is unable to maintain a sufficient reserve of cash and other liquid financial assets that can be used to meet its payment obligations as they fall due. Managing liquidity risk is particularly important in the current economic environment where the financial markets are volatile and the availability of capital is uncertain. The availability of liquidity for business activities and the ability to access long-term financing are necessary to enable the Group to meet its payment obligations in cash, scheduled or unscheduled. This is particularly relevant in the context of the Group's capital expenditure programme and growing hedging volumes, whereby large margin calls may become payable due to sudden movements in commodity prices. The Group's ability to access liquidity during periods of liquidity stress may also be constrained as a result of current and future market conditions. Although the Group monitors its liquidity position and follows procedures to manage liquidity risk, a reduction in the Group's liquidity position may have a material adverse effect on its business and financial position.

Counterparty risk

In conducting its business, the Group, as with any other business, faces counterparty risk. Counterparty risk may result in financial losses (including, but not limited to, money receivable under the Group's hedging arrangements, funds deposited at banks, partners in long term construction projects, partners of bilateral power purchase contracts and revenues to be received from customers). Although the Group monitors its counterparty risks and has a risk management policy that includes the management of these risks, there is a possibility that if these risks are realised, they may impact the Group's business and financial position.

Downgrade to the Issuer's credit ratings

There is a risk that the Issuer's credit rating could be downgraded, for example if the Estonian government, as the sole shareholder of the Issuer, was to review its levels of support for the Issuer (for example, the uncommitted sum of €150 million for a share capital increase incorporated into the Estonian State Budget for 2012). A material deterioration in the Issuer's credit ratings is likely to increase its costs of funding and/or reduce its access to funding, and may lead to the Group having to increase levels of security for hedging contracts which may limit its ability to trade in commodity markets and to implement its hedging strategy. Any adverse change in an applicable credit rating could also adversely affect the trading price of the Notes. Each of these factors could have a material adverse effect on the Group's business and financial position.

Capital intensity

The Group's investment plan envisages significant capital expenditures, including in mining, generation, shale oil production, maintaining a distribution network and compliance costs with respect to environmental laws. Further details on the Group's capital expenditure policy, financing and recent and planned investments are set out in '*Description of the Group*' on pages 33 to 57 of this document. For the financial years ended 31 December 2011 and 31 December 2010 respectively, the Group had capital expenditure of €507.8 million and €218.5 million, respectively.

During discussions on the Estonian State Budget for 2012, the Estonian parliament indicated that an equity injection of around €150 million would be made available to finance the Group's committed investments. While the €150 million equity injection has been incorporated to the Estonian State Budget for 2012, it has not yet become a binding commitment and there is a possibility that it may not be forthcoming or made within the time period envisaged. It is also not known whether the Estonian government will provide any further additional equity injection for financing the Group's possible future investments. There is also no certainty regarding other equity raising opportunities.

All of this uncertainty could undermine the economic viability of some of the Group's investments. For example, the Group has commissioned Alstom Consortium to construct up to two new oil shale and biomass-fired CFB units with a total capacity of 600 MW. Construction of the first 300 MW unit commenced during 2011, and the Group will have to make a final decision in relation to the construction of the second unit in 2012. The cost of the second unit based on the engineering, procurement and construction ("**EPC**") contract totals at least €410 million, and the total cost of the whole project is expected to be greater than this amount. If the Group decides to proceed with the construction of this second unit, it is likely that the financing of the investment will be finalised only after the investment decision has been taken. In particular, it is likely that no firm decision will have been taken by that time regarding the possible provision of additional equity to the Group by the Estonian government. There is also a risk that the Group's investment plans could disproportionately increase the Group's debt, resulting in a breach of financial covenants and/or affect the Group's overall liquidity position.

International investments

As part of its business strategy, the Group hopes to market and export its oil shale know-how and proprietary Enefit technology internationally, including to Jordan and the United States where it is currently seeking to commercialise its oil shale expertise and intellectual property. Such international investments are subject to significant legal, financing, political, technological (including those relating to the Enefit280 technology) and operational risks, including the risk that the project could be expropriated without adequate compensation. Failure of these international investments could have a material adverse effect on the Group's business and financial position.

The Group faces numerous risks in connection with its investments in Jordan, where the Group is involved in two projects concerning oil production and power generation. The Jordanian projects are subject to political risks associated with the region, including potential conflicts, political instability and changes in the approach of the Jordanian government. While the Group currently has no material capital expenditure obligations in relation to such projects, if they proceed the projects also involve a variety of material operational and technological risks, including substantial procurement, construction and other risks relating to the building of a shale oil and power plant as well as the performance and commissioning of facilities in connection with the mining of oil shale. These risks may lead to expenditure in excess of that contemplated or the deferral, reduction, or elimination of a financial return for the Group from its investment. For further details of the Jordanian projects, see '*Description of the Group*' on pages 41, 48, 49 and 54 of this document.

The Issuer is also sole owner of Enefit American Oil Co., the company responsible for development of the oil project in Utah, in the United States. This project has material technological, environmental, legal and financing risks. In terms of the environmental risks, the United States environmental regulations are complex, strict and different in their application compared to EU environmental regulations, and as a result, the Group may not be able to fully comply with such regulations. The Group has also not yet started to negotiate with the United States local authorities regarding the construction of oil plants in the Utah area, or applied for the necessary environmental licences, as the project is still in the development phase. There is therefore a risk that the United States local authorities will object to the construction of such oil plants or not grant the necessary environmental licences, which could delay or undermine the project.

The Issuer faces risks relating to potential liabilities arising from its possible participation in the Visaginas nuclear power plant project

The Issuer is in discussions regarding the possibility of its participation in a project that relates to the proposed construction and operation of a nuclear power plant at Visaginas, Lithuania. The other parties to these discussions are AS Latvenergo, UAB Visagino atomine elektrine and Hitachi-GE Nuclear Energy Ltd. In particular, discussions have begun as to the terms of a concession agreement which may be granted by the Lithuanian government to a third party company to commence technical and feasibility studies. The project remains at an early stage, however, and the Issuer has not yet undertaken any financial commitments regarding it (other than in respect of the fees of its own advisers). These technical and feasibility studies as well as customary due diligence, the terms of the project and of any participation in the project by the Issuer, a financial and business plan and timetable for the project and changes to the applicable Lithuanian regulatory regime will need to be negotiated, drafted, and agreed by all relevant parties before any final investment decision in relation to the project is made by the Issuer. There can, therefore, be no assurance at this stage that the project will proceed or, if it does, as to the terms on which the project may proceed and the Issuer may participate.

The project will involve very substantial capital commitments if it does proceed and, if the Issuer does participate in it, the Issuer will likely be required to raise additional finance proportionate to its interest in the project. The amount and sources of such finance would need to be determined and agreed prior to any final investment decision of the Issuer. Dependent on prevailing market conditions, the Issuer may not be able to raise funds on commercially acceptable terms to participate in the project.

If the Issuer does participate in the project it is also likely to be exposed to a number of risks which could have a material adverse effect on the Issuer's business and financial position. Whilst the Issuer will not have day-to-day responsibility for the principal operations of the nuclear power plant, as a participant in the project, the Issuer may, nonetheless, still be exposed to risks including risks in relation to the operation and decommissioning of nuclear facilities, the manipulation, treatment, disposal and storage of radioactive materials and the potential harmful effects on human health of such materials. In addition, changes to the regulatory regime in Lithuania and/or the European Union could have a material impact on the Issuer's ability to participate in, or raise finance for, the project.

Restrictions placed on CO_2, SO_2, NO_x and other air emissions

The Group's electricity generation installations are subject to EU Directive 2003/87/EC, which established the EU Emissions Trading Scheme ("**EU ETS**"). The EU has designed the EU ETS to ensure reductions in CO_2 emissions annually until 2020 and beyond. Although there are no proposals currently in place, the EU ETS could be changed in future, including for the purposes of implementing a new global agreement on climate change. This could potentially result in the future imposition of more onerous obligations regarding the emission of CO_2, for example quicker reductions in yearly available CO_2 allowances. There is a risk that more onerous obligations regarding CO_2 and other emissions could make the Group's electricity generation, in particular from oil shale, less economically viable, which could have a material adverse effect on the Group's business and financial position.

With the opening of EU ETS Phase III, starting from 2013, the Group will incur substantial additional costs in purchasing CO_2 allowances since CO_2 allowances will no longer be made available for free to electricity producers on a general basis but sold on an auction basis. In addition, certain free allowances might be available for the production of heat and steam. Some free allowances may also be allocated in order to facilitate investment in new capacities for the generation of electricity.

The Group has applied to receive some of these free CO_2 allowances in connection with its investment into new oil shale and biomass fired CFB units. However, at this stage it is not known if such allocation of free allowances would be approved by the European Commission. As the market price for CO_2 allowances is volatile, the Group's profitability and cash flows will be materially affected by the development of, and short-term and long-term fluctuations in, that price.

Regulatory measures are also being taken at both national and international levels to reduce the quantities of other atmospheric pollutants, such as SO_2 and NO_x from industrial activities, including power generation. The Group currently benefits from certain derogations under the EU Large Combustion Plant Directive ("**LCPD**") (which imposes limitations on concentration levels of SO_2, NO_x and particulate matter in flue gases from power stations and other large industrial boilers) until the end of 2015 which exempt the Eesti power plant and Balti power plant located near the town of Narva (together the "**Narva Power Plants**") from compliance with SO_2 emission limits. The Iru power plant, however, is required to comply with these limits without any derogation and one production unit is working under limited operating hours as a result of the conditions set out in the LCPD until the end of 2015.

In addition, the EU Industrial Emissions Directive ("**IED**") came into force on 6 January 2011 and has to be transposed into national legislation by EU Member States by 7 January 2013. For existing units currently benefitting from derogations, the IED sets new emission limit values from 2016, which could reduce the operating hours of the Group's combustion units and in some cases, require the closure of those combustion units. New EU requirements under a revised Fuel Quality Directive are also being discussed which could limit the sale of shale oil within Estonia and the EU, but not outside of the EU, due to its CO_2 intensity during the production life cycle and such requirements could have a material impact on the Group's oil business by reducing the competitiveness of the Group's product. Further changes to the national and international regulatory framework in relation to CO_2, SO_2, NO_x and other emissions could affect the Group's ability to use its current production methods and limit its generation capacity.

Due to regulations limiting the emission of SO_2 and NO_x, the Group has made, and plans to make, significant capital expenditures. For example, desulphurisation equipment is being installed at the Group's power plants, the investment cost of which is around €117 million. This equipment is expected to reduce SO_2 emissions to under the regulatory limit of 25,000 tonnes of SO_2 emissions per year arising from the EU Accession Treaty and any further limitations arising from the IED from 2016. Such expenditure carries technical risks and involves material costs for the Group. The full extent to which the desulphurisation technology will reduce emissions to the required limits is not yet known. The works may also be disruptive to production and if the new emission limits are still exceeded, there is a risk that the Group will have to reduce generation at its power plants. Such risks and costs could adversely affect the Group's business and financial position.

Ageing distribution infrastructure, production facilities and technology

Despite periodic modernisation works, the use of the Group's distribution network, production facilities and technology for extended periods means that investment in maintenance, repair and, in some instances, replacement is required. For example, over 12% of the Group's power lines, more than 9% of the Group's medium voltage substations and more than 26% of the Group's high voltage substations are more than 40 years old, which exposes the Group to a heightened risk of failure or non-compliance with safety legislation. The supply by the Group of electricity to its customers has been, and is likely to continue to be, subject to interruptions caused by failure of the distribution networks. In addition, the regulation of prices by the ECA has effectively restricted the Group from making network investments; unless those investments are reflected in the prices set by the ECA, the Group will not be able to recoup its investment costs. This has contributed to less than optimal levels of investment over long periods. As a consequence of the age of a large part of the distribution network, the level of investment required each year increases steadily, as do maintenance and repair costs. In order to improve the reliability of the network around 3% of the network needs to be replaced each year.

The Group is also required to obtain compliance certificates for its electrical installations, but it has not always done so and is in the process of rectifying the situation. The failure to comply with technical or other standards relating, for example, to service levels set out in the law or by regulatory authorities may result in the reduction of regulated service charges or significant liability, fines or administrative penalties, including remedial action being required which could take investment away from other projects, or disrupt the affected parts of the infrastructure. Lapses in compliance with administrative obligations could also lead to fines and/or third-party claims against the Group for accidents or failures and outages that could result in significant damages, penalties and/or negative publicity. Further investment in the distribution network is also required to reduce electricity losses during distribution.

If such investment is not undertaken, there is a risk that electricity losses from distribution as well as maintenance and repair costs could materially increase, which could have an adverse effect on the Group's business and financial position.

Extensive regulation

The Group's principal businesses, including oil shale mining, electricity generation, distribution and sale of electricity and shale oil, are subject to significant and complex regulations, which materially affect the structure and profitability of such operations. These regulations include those derived from EU regulations relating to health and safety, technical requirements and environmental matters, including the emission of CO_2, SO_2, NO_x and other hazardous substances into the environment. The requirements of such regulations are complex, and compliance represents a significant expense to the Group. Any changes in those requirements that impose higher standards of compliance than the Group currently achieves could have a material adverse effect on the Group's business and financial position.

EU environmental legislation is becoming increasingly stringent and uncertainty as to future environmental restrictions increases the risk that the Group's investments are less competitive, if competitive at all. The Group's operations include the production, manufacture, use, storage, disposal, emission, transport and sale of materials that are an unavoidable feature of an integrated energy business, but which may be considered to be contaminants when released into the environment. Preventive or remedial measures in connection with the Group's activities can be costly and such measures may affect the Group's business strategy and decisions. The Group is also exposed to compliance costs associated with legislation concerning waste, although the amount of these costs is not yet known. For example, the Mining Waste Directive sets out measures for the management of extractive waste to prevent or reduce the risk of damage to the environment and human health. It has been gradually implemented in Estonia since 1 May 2008. Each mine needs to have a mining waste plan detailing the mining activities undertaken and the re-use and disposal methods for the mining waste.

In terms of health and safety regulation, the Group's business carries an inherent risk of incidents which could lead to personal injury or death of employees, contractors or other third parties. Estonian legislation imposes obligations on employers in relation to the occupational health and safety of its employees. Any accidents or breaches of occupational health and safety legislation may require the payment of penalties and/or compensation and would result in negative publicity for the Group.

According to early 2012 estimates, there were approximately 10,300 tonnes of asbestos in the Narva Power Plants and 500 tonnes in the Narva oil plant. Estonian legislation classifies waste materials containing asbestos as hazardous waste and as such, subject to special treatment. The asbestos in the Narva Power Plants and in the Narva oil plant is being removed and replaced with other materials during regular maintenance or dismantling of asbestos containing equipment. While the Group is not aware of any third-party claims relating to asbestos, it may be compelled to maintain or remove remaining asbestos more quickly than it currently plans, which could have a material adverse effect on the Group's business and financial position.

Expiry or revocation of licences, or failure to acquire new licences

The Group requires licences from various regulators and authorities in Estonia and the other countries in which the Group operates. In particular, the Group is required to hold licences to mine oil shale, generate electricity, provide distribution network services and sell electricity. Such licences may be amended, suspended or revoked and there is no certainty that the Group will be able to secure renewal of any expired licences on comparable terms, if at all.

The Earth's Crust Act regulates the procedure for the grant of exploration and extraction permits in Estonia. Upon the expiry of the Group's mining licences, or the Group seeking a new licence, competitors may emerge who are willing and able to bid more than the Group to obtain such licences if they are put out for auction. Although the Group believes that it will have preferential rights in respect of auctions for certain of its current and related licences, there is no assurance that, if contested, regulatory authorities will agree with the Group. As at the date of this document, OÜ

VKG Kaevandused and TLA Invest OÜ have disputed the Group's mining licence with regards to the Uus-Kivióli mine and have brought proceedings challenging the award of the licence in the Tallinn Administrative Court. If such challenges are successful, the results could have a material adverse effect on the Group's business and financial position.

Other licences may also be disputed by third parties. For example, there are ongoing disputes as to the building permit and IPPC permit for the Iru waste-to-energy generation facility and in a worst case scenario, the Group may not be allowed to construct or operate the plant nor use municipal waste at this plant. IPPC permits are granted under the Integrated Pollution Prevention and Control Directive ("**IPPCD**"), which regulates the environmental impact of a wide range of industrial activities through the use of permits. IPPC permits have no expiry date and continue to apply until they are revoked or surrendered. IPPC permits are subject to annual revisions. Facilities that do not hold IPPC permits require separate, additional environmental permits where necessary for the special use of water, waste disposal and recovery and air pollution.

The failure to renew a licence or permit or the amendment, suspension or revocation of a licence or permit, or dispute of a licence or permit, could materially limit or prevent the Group's continued operations, or limit the Group's ability to expand its operations, which could have a material adverse effect on the Group's business and financial position.

Availability of government subsidies and State Aid

Certain aspects of the Group's plans to develop new generation capacity, including those relating to renewable sources and other similar investments, depend upon price subsidies and other incentives that are highly contingent on the prevailing political and regulatory environment in Estonia and the EU. The development of new generation capacity may not be economic if such subsidies are withdrawn, restricted or prohibited and uncertainty as to whether such subsidies are permissible under EU State Aid rules may prevent the Group from executing its investment plans.

Subsidies or other arrangements between the Estonian government and the Issuer from time to time (including any loans, capital or financial contributions that were made other than on arm's length commercial terms, or any mining rights, special tax treatment or otherwise) may be found to constitute non-approved State Aid if these are not approved by the European Commission or otherwise deemed incompatible with the common market. Receipt of any non-approved State Aid may result in the European Commission requiring the Estonian government to withdraw State support, seek repayment (including any interest on any aid received prior to any European Commission decision, whether or not the aid is approved), and cease from providing any similar support in the future. The Issuer has limited control over such matters, which relate primarily to actions taken by the Estonian government and the European Commission.

The Group's investment plans are underpinned in part by its expectation that it will receive subsidies from the Estonian government for renewable energy and energy produced in qualifying co-generation plants (together "**renewable subsidy**" or "**renewable energy subsidy**"). Over the three financial years ended 31 December 2009, 2010 and 2011, the Group has received approximately €45 million in relation to renewable subsidies, in particular in relation to the wind park at Aulepa and biomass based power generation in power plants. In addition, the Group expects to receive further such subsidies in relation to the wind parks being constructed at Narva and Paldiski as well as the waste-to-energy co-generation plant being constructed at Iru. There is a risk that the Estonian government will reduce its renewable subsidies to the Group and other electricity producers. A draft act has been prepared by the Ministry of Economic Affairs and Communications setting out a material reduction of the renewable subsidies. For the time being, it remains unclear whether and to what extent the renewable subsidies may be reduced and indeed when the act will come into force, but if the act materially reduces subsidies, it could have a material adverse effect on the Group's business and financial position.

Similarly, if such subsidies (for example, the approximate €45 million in relation to renewable subsidies received by the Group or expected subsidies in relation to the wind parks being constructed at Narva and Paldiski, as mentioned above) or other arrangements are not received by the Group or found to constitute non-approved State Aid or otherwise deemed incompatible with the common market, the Issuer may be required to repay the subsidies or other arrangements (including any interest on any aid received prior to any European Commission decision, whether or not the aid is approved) and the Estonian government may be required to cease from providing any similar support in the future. Each of these situations could have a material adverse effect on the Group's business and financial position.

A complaint has recently been made to the European Commission that the subsidy for energy produced from the waste-to-energy co-generation plant being constructed at Iru is unapproved State Aid. If an approval for such subsidy is required and is not forthcoming or other renewable subsidies are successfully challenged, the Issuer may be required to repay the subsidies (including any interest on any aid received prior to any European Commission decision, whether or not the aid is approved) and the Estonian government may be required to cease from providing any similar support in the future. Each of these situations could have a material adverse effect on the Group's business and financial position.

In addition, while the sum of €150 million for a share capital increase has been incorporated into the Estonian State Budget for 2012 (as further described in the section headed "*Description of the Group*"), it is not yet committed as the Government has yet to approve the equity injection. There is a possibility that it may not be forthcoming or, if it is forthcoming, may not be made within the time period envisaged. There is also no assurance that this equity injection will not be subject to challenge as unapproved State Aid and as a result, may be subject to State Aid approval and/or repayment (including any interest on any aid received prior to any European Commission decision, whether or not the aid is approved). If the equity injection is not forthcoming or is not made within the time period envisaged, these events could have a material adverse effect on the Group's business and financial position. Similarly, if the equity injection is paid and is subsequently challenged as unapproved State Aid, the Issuer may be required to repay the equity injection (including any interest on any aid received prior to any European Commission decision, whether or not the aid is approved) and the Estonian government may be required to cease from providing any similar support in the future. Each of these situations could have a material adverse effect on the Group's business and financial position.

The occurrence of one or more of these aforementioned events could have a material adverse effect on the Group's business and financial position.

Failure to attract and retain key personnel

Any limitations placed on the Group's ability to recruit and retain a skilled and experienced management team and operating staff may affect the Group's capability to implement its business strategy successfully. In particular, the Group relies on certain key employees who have specific experience, technical know-how and skills in respect of technology development, shale oil production and electricity generation, although the Group is trying to reduce its reliance on such employees by documenting know-how, amongst other methods. In an increasingly competitive environment, there is an increased risk of losing staff to competitors, who may be willing and able to pay higher salaries. The failure to attract and retain key personnel could have an adverse effect on the Group's business and financial position.

Seasonality, climate conditions, terrorism, natural disasters and insurance

Seasonality and weather fluctuations, as well as long-term shifts in climate, affect demand for the Group's products, such as power and heat. Higher demand for power and heat is typically experienced from October to March, and lower demand from April to September. Periods of unseasonably warm weather during the autumn and winter months typically reduce demand below anticipated levels. Long-term shifts in climate conditions may result in more permanent changes in demand for the Group's products. Adverse weather conditions can also affect the Group's equipment and power networks.

In addition, the Group's business is vulnerable to acts of terrorism and natural disasters, such as storms (that may result in power outages), earthquakes, fire and flooding. This in particular affects mines, generating units and the distribution network. Such situations may result in the Group being liable for repair and maintenance costs, damages and fines, all of which may undermine the Group's financial position. These events can also occur to third parties whose operations have a material influence on the Group, for example Elering AS ("**Elering**"), the transmission system operator ("**TSO**").

Moreover, adequate insurance cover might not be available, either as a result of the lack of relevant insurance or excessive costs (in particular with respect to the risk of terrorist attacks and similar occurrences) and any insurance proceeds received may be inadequate to cover all liabilities incurred, lost revenue or increased expenses. These risks could have a material adverse effect on the Group's business and financial position.

Resource risk

The Group's operations depend on a consistent and commercially adequate supply of raw materials and fuels, including woodchips, municipal waste, natural gas and other fuels used in operations. The market price for these commodities may fluctuate widely beyond the Group's control. Relationships with suppliers are also very important. There is a risk that supplies may not be available, or may only be available on unfavourable terms that would adversely affect the Group's profitability, which could adversely affect the Group's business and financial position.

The Group's business also depends on a substantial and consistent supply of oil shale for the production of the majority of its electricity and shale oil and any interruption to, or decrease in, the supply of oil shale may negatively impact the Group's operations. The Group mines oil shale in Estonia pursuant to licences granted by the Estonian government. Estonia has a national limit on the amount of oil shale that may be mined annually which currently stands at 20 million tonnes of geological oil shale resource, although a decrease in the national limit was envisaged by the Estonian National Development Plan for the Utilisation of Oil Shale 2008-2015 ("**NDPOS**") to 15 million tonnes; however, no steps have yet been taken to implement this plan. The Group is the largest miner of oil shale in Estonia and currently has the right to mine 15 million tonnes of geological oil shale per year. There is a material risk that if the national limit on the amount of oil shale that can be mined per year is decreased, the Group's existing rights to mine may be curtailed. The Group may thereafter be unable to mine a sufficient amount of oil shale. Any inability of the Group to mine sufficient quantities of oil shale (as a result of technical, geological licence or allocation issues or otherwise) could have a material adverse effect on the Group's business and financial position. In addition, grants of mining permits may be subject to dispute as is currently the case with regards to the Uus Kiviõli mine, where OÜ VKG Kaevandused and TLA Invest OÜ have disputed the Group's mining licence. If such challenges are successful the results could have a material adverse effect on the Group's business and financial position.

The Group's oil shale reserves and resources are based on the best information available at the time of estimation and certain assumptions. Actual reserves, resources, life of mines and future production profiles may vary from the Group's estimated data, and the variations may be material, for numerous reasons, including, for example, geological irregularities and inconsistent depth and accessibility. The consequences of such variations may include lower production, reserves and resources than expected or the need for impairment write downs and may therefore materially adversely affect the Group's business and financial position. Furthermore, the economic viability of the Group's international investments depends on the value of the resource being acquired through those investments. Detailed geological surveys are ongoing and there is a risk that reserves at the Group's sites will turn out to be lower than expected, which could adversely affect the Group's business and financial position.

Technology risk

The Group's business is heavily reliant on technology; in particular, its Enefit280 technology, which forms the core of the new shale oil plant in Narva expected to become operational during 2012 and the basis of the Group's proposed shale oil production in Jordan and the United States. The development of Enefit280 and other technologies involves significant technological, operating, procurement and financing risks. In particular, there is a material risk that the planned technology improvements will not meet design specifications or will only meet such expectations at costs that are higher than anticipated, or that the costs to develop such technology will materially exceed expectations. Moreover, developing the contemplated technology and facilities requires significant amounts of funding, and there can be no assurance that the Group will be able to acquire such funding on commercially attractive terms, if at all.

Furthermore, potential competitors to the Group are seeking to develop technology comparable or superior to the Group's Enefit technology. Some of these competitors may have greater financial resources than the Group and may be in a position to invest in and develop such competing technology. Furthermore, while the Group has intellectual property rights to certain aspects of its Enefit technology, several critical aspects of the technology are not protected by intellectual property rights. Accordingly, the Group may not be in a position to prevent competitors from modelling their technology on the Group's or to prevent them from improving thereon. If any of the Group's competitors, in Estonia or elsewhere, are able to develop oil shale technology comparable or superior to that of the Group, it could have a material adverse effect on the Group's business and financial position.

Environmental damage

The Group's facilities, mining and power infrastructure may damage the natural environment, and accidents in or near, or external attacks to, such facilities and infrastructure may have serious consequences. Many of the Group's production processes, raw materials and products are potentially destructive and dangerous in uncontrolled or catastrophic circumstances, such as fires, explosions, accidents or major equipment failures. Any such occurrence could adversely affect the Group's business and financial position, and potentially expose the Group to third party claims.

The oil shale ash produced at the Group's power plants and shale oil plant is currently mainly land filled and subject to the Landfill Directive, which aims to reduce the negative environmental effects from the land filling of waste by introducing stringent technical requirements for waste and landfills and their impact on surface water, groundwater, soil, air and human health. The Landfill Directive prohibits the land filling of liquid waste. Although it was envisaged that the Group's ash disposal system should be closed as the hydro-transportation system was considered to be the land filling of liquid waste, since July 2009 the Estonian regulatory authority, in discussions with the European Union, began to treat the water used to dispose of the ash as the transportation media for the ash rather than the waste and that meant that the system could remain operational. The landfill material is the solid oil shale ash and renewed IPPC permits have been issued to the Group on this basis.

The Group is required to invest in environmentally safe technology to improve the environmental security of land filling and to avoid any leaching or infiltration of the highly alkaline transportation media to the surrounding environment. Together with other steps, planned technological advancements by the Group include improvements to the neutralisation of the transportation media and partial insulation of the ash fields with anti-filtration walls. The investment required to treat the water will have a financial impact for the Group and it is still uncertain as to whether the Group will benefit from any EU funding for that purpose, particularly as State Aid approval is looking unlikely.

In addition, the transportation of oil shale and liquid fuels, the generation and distribution of electricity and the use of heavy equipment and hazardous materials at power plants pose risks to health and safety, the human environment, disruption of business and the reputation and finances of the Group. If any one or more of these risks were to materialise, it could materially adversely impact the Group's business and financial position. Furthermore, the Group's operations include extensive mining activities in Estonia. These activities by their nature are capable of having a significant environmental impact and give rise to various risks, including subsidence and dewatering. These activities subject the Group to potential material risks, including third party claims.

Taxes and fees

Tax rules, including those relating to the energy industry, and their interpretation, may change, possibly with retrospective effect, in any of the jurisdictions in which the Group operates. Significant tax disputes with tax authorities, any change in the tax status of any member of the Group and any change in taxation legislation or its scope or interpretation could affect the Group's business and financial position. In addition, the Group is required to pay environmental fees in relation to an amount of the emissions and waste generated by its operations as well as resource taxes for extracting oil shale and water. For example, the Group's landfilling of mining enrichment waste from underground mines incurs environmental fees. These fees and taxes, which may be substantial, are set and adjusted regularly by the Estonian government by reference to quantity and other criteria. At the moment, the environmental fees and resource taxes are set until 2015 under the Environmental Charges Act. Any increase in these fees and taxes, and/or their application to materials not currently subject to such fees and taxes, such as oil, could increase the Group's costs.

Decommissioning liabilities

The Group is required to decommission its mines and related infrastructure and restore surrounding land when a mine's reserves are exhausted or the mining licence expires and mining activities are terminated. The Group is also required to make financial provision for liabilities relating to such decommissioning and restoration. There can be no assurance that current or future provisions are or will be sufficient and additional investments may be required, either as a result of change in applicable law or otherwise. Any significant increase in the actual or estimated decommissioning and restoration costs that the Group incurs may adversely affect its business and financial position.

Competition

The Group is subject to Estonian and EU competition and antitrust laws, which are administered by the ECA and the European Commission, respectively. In particular, the ECA has already declared that the Group is dominant in certain markets, including the wholesale supply of electricity (including production and import) in Estonia and the wholesale supply of energetic oil shale (including production) in Estonia. The Group's dominance in these markets may lead to Estonian and/or EU competition enquiries. At the moment, for example, the ECA is carrying out a market analysis into the pricing structure of sales of oil shale and shale oil to third parties. As the Group is the largest oil shale seller in Estonia, the ECA's analysis largely focuses on the pricing structure of the Group's oil shale sales and the Group's supply to third parties.

The Group is currently a vertically integrated energy utility. No assurance can be given that changes in competition or other law affecting the Group or changes in the application of these laws might not require the Group to sell one or more of its business units or subsidiaries. In those circumstances, the Group may not be able to affect a sale at the best commercial terms and/or on terms that are in the best interests of Noteholders.

Local community or individual complaints

The Group is subject to potential complaints by communities in the locality of the Group's sites, which may lead to individuals or groups taking legal action against the Group in relation to physical damage that has been caused to their property or interference with the enjoyment of their property. Relations with local communities are especially important for the Group in getting permission to locate its wind farms or other facilities at specific sights. The potential consequences of a complaint or third party claim could be: the payment of substantial damages for personal injury; damage to property or interference with the enjoyment of property rights; the loss of a regulatory permit or other regulatory enforcement action; and/or the imposition of fines or obligations to investigate and clean up/remediate environmental pollution or contamination. Each of these potential consequences could have a material adverse effect on the Group's business and financial position.

Litigation and disputes

The Group is a party to legal proceedings from time to time, including investigations by regulatory authorities. By way of example, the Group's mining licence for the Uus-Kiviõli mine has been disputed in Tallinn Administrative Court by OÜ VKG Kaevandused and TLA Invest OÜ. In addition, the Group's building permit relating to the construction of the Iru waste to energy unit and the IPPC permit of the Iru Power Plant have been challenged in court. For further details of these and other material legal proceedings, see '*Description of the Group*' on page 33 of this document. There can be no assurance that the Group will not be a party to court and administrative proceedings in the future or that, with respect to its current proceedings, it will not be subject to fines, damages or other penalties which could have a material adverse effect on the Group's business and financial position.

Macroeconomic trends

A large part of the Group's production facilities are based in Estonia but its business and financial results are increasingly exposed to macroeconomic developments in a wider region, including the Baltic countries and the Nordics. Macroeconomic trends in these countries have a significant impact on the Group's business and financial position and any negative macroeconomic trends could have a material adverse effect on the Group's business and financial position.

The Group's business is influenced by: electricity prices on the Nordic markets; by the price of CO_2 allowances; and by the price of certain global commodities such as oil, fuel oil and metals. All of these prices are affected by supply and demand constraints in the relevant markets and global macroeconomic trends.

Sovereign debt crisis in Europe

Estonia acceded to the euro as of 1 January 2011. There has recently been increased focus on the potential for sovereign debt defaults and/or significant bank failures in the eurozone and elsewhere. The large sovereign debts and/or fiscal deficits of a number of eurozone countries (in particular, Greece, Italy, Ireland, Spain and Portugal) and the United States have raised concerns regarding the financial condition of financial institutions, insurers and other companies that have had direct or indirect exposure to these countries and/or whose banks, counterparties, custodians, customers, service providers and/or sources of funding have direct or indirect exposure to these countries.

If other eurozone countries were to suffer an increase in borrowing costs, a default on their debt obligations or an economic crisis similar to that of Greece, Italy, Ireland, Spain and Portugal, this could have a negative impact on the Group's activities in Europe, for example, by reducing demand for the Group's electricity within and outside of Estonia, just as the impact of these events on Europe and the global financial system could be severe.

The eurozone sovereign debt crisis could lead to the reintroduction of national currencies in one or more eurozone countries or, in extreme circumstances, the dissolution of the euro entirely. Such reintroduction or dissolution could have a major negative effect on both existing contractual relations and the fulfilment of obligations by the Group and/or its customers, including the Group's financing obligations to its banks and other third parties, all of which could have a significant negative impact on the Group's business and financial position.

Factors which are material for the purpose of assessing the market risks associated with the Notes

There is no active trading market for the Notes

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although applications have been made for the Notes to be admitted to listing on the Official List of the FSA and to trading on the the London Stock Exchange, there is no assurance that such application(s) will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed trading market.

The Notes may be redeemed prior to maturity

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Estonia or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Terms and Conditions.

Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer

The Notes will be represented by the Global Notes except in certain limited circumstances described in the Permanent Global Note. The Global Notes will be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Permanent Global Note, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Notes by making payments to, or to the order of, the common safekeeper for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

Risks related to the Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification, waivers and substitution

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders (as defined in "*Terms and Conditions of the Notes*") to consider matters affecting their interests generally.

These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Trustee (as defined in "*Terms and Conditions of the Notes – Redemption and Purchase*") may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes, (ii) determine without the consent of the Noteholders that any Event of Default or Potential Event of Default (as defined in "*Terms and Conditions of the Notes*") shall not be treated as such, in the circumstances described in Condition 13 of the Terms and Conditions of the Notes or (iii) the substitution of another company, being a Subsidiary (as defined in "*Terms and Conditions of the Notes*") of the Issuer, as principal debtor under the Notes in place of the Issuer, in the circumstances described in Condition 14 of the Terms and Conditions of the Notes.

The Terms and Conditions of the Notes contain provisions allowing the Trustee to take action on behalf of the Noteholders in certain circumstances subject to the Trustee being indemnified to its satisfaction. It may not be possible for the Trustee to take such action in every case and accordingly in such circumstances the Trustee will be unable to do so, notwithstanding the provision of an indemnity to it, and it will be for Noteholders to take such action directly.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, EU Member States are required to provide to the tax authorities of another EU Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other EU Member State or to certain limited types of entities established in that Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). Belgium has replaced this withholding tax with a regime of exchange of information to the EU Member State of residence as from 1 January 2010. A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

The European Commission has proposed certain amendments to EC Council Directive 2003/48/EC which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment is made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent (as defined in "*Terms and Conditions of the Notes*") nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a EU Member State that will not be obliged to withhold or deduct tax pursuant to EC Council Directive 2003/48/EC.

Change of law

The Terms and Conditions of the Notes are based on English law in effect as at the date of this document. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this document.

Trading in the clearing systems

As the Notes have a denomination consisting of the minimum denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of €100,000 (or its equivalent) that are not integral multiples of €100,000 (or its equivalent). In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination may not receive a Definitive Note (as defined on page 30) in respect of such holding (should Definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to the minimum denomination.

Sovereign Immunity and Immunity of Assets

Pursuant to Condition 17.2 of the Terms and Conditions, the Issuer has irrevocably and unconditionally waived and agreed not to raise with respect to the Notes and the Coupons (as defined in "*Terms and Conditions of the Notes*"), to the extent permitted by applicable law, any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, should any such immunity become available to it.

There is no law or jurisprudence of Estonian courts in respect of sovereign immunity. Accordingly, if, notwithstanding the provisions of Condition 17.2, the Issuer sought to claim immunity in respect of any action or proceeding brought in connection with the Notes, there is no guarantee that such claim of immunity by the Issuer would not be successful.

In addition, the Estonian Code of Enforcement Procedure (*täitemenetluse seadustik*) provides a list of assets which may not be attached or sold in the course of enforcement proceedings. It is possible that an Estonian court may consider that the attachment of assets of the Issuer that are necessary for, or employed in, *inter alia,* the generation or distribution of electricity may conflict with good morals or the public interest (as such terms are interpreted under the Estonian Code of Enforcement Procedure) due to the security of supply obligations of the Issuer. If so, any such assets owned by the Issuer would be immune from attachment in the course of enforcement of any judgement or claim in respect of the Notes or Coupons.

Certification of non-Estonian residency in respect of Notes in definitive form

Holders should be aware that, if definitive Notes are issued, holders of any definitive Notes that are not held through Euroclear or Clearstream, Luxembourg, who are natural persons, will be required to present evidence of non-Estonian residency to the relevant Paying Agent or other evidence as required by the Issuer, in order to receive payments of interest free of Estonian withholding tax (which, as at the date of this Prospectus, is charged at a rate of 21%).

The Estonian Law on Restructurings

Pursuant to the Estonian Law on Restructurings (*Saneerimisseadus*) (the "**Restructuring Act**"), companies may make an application to court for the commencement of restructuring proceedings and, in the event that the court commences such restructuring proceedings, any enforcement proceedings against, or bankruptcy applications in respect of, such company will be stayed until the reorganisation plan is approved or restructuring proceedings are terminated. In addition, the Restructuring Act provides that, in connection with any reorganisation plan, creditors may agree to certain modifications to the terms of any obligations owed by the relevant company to its creditors.

Each potential investor should note that if restructuring proceedings were commenced and/or a reorganisation plan was approved by the relevant court in respect of the Issuer, there is no guarantee that Noteholders would be able to enforce the payment of amounts due and payable under or in respect of the Notes, either immediately or during restructuring proceedings. If this was approved by the creditors of the Issuer (including creditors of the Issuer other than the Noteholders), modifications to the claims of Noteholders may be made in connection with any such restructuring proceedings and/or reorganisation plan, including, *inter alia*, the Issuer's payment obligations in relation to amounts due and payable under the Notes being satisfied by issuing Noteholders with shares in the Issuer, an extension of the due date for the payment of any such amounts or a reduction in any such amounts. Similarly, claims under the Notes could also be subject to modification by extension of the due date or reduction of the claim in a "compromise" agreed amongst the creditors in the course of insolvency proceedings.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to euro would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Credit ratings may not reflect all risks

The Notes are expected to be assigned on issue ratings of BBB+ by S&P and Baa1 by Moody's. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency operating in the EEA before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration has not been refused, (2) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (3) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation. Both Moody's and S&P are established in the European Union and are registered under the CRA Regulation.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to modification) will be endorsed on each Note in definitive form (if issued).

The €300,000,000 4.250 per cent. Notes due 2018 (the "**Notes**", which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 16 and forming a single series with the Notes) of Eesti Energia AS (the "**Issuer**") are constituted by a Trust Deed dated 2 April 2012 (as amended or supplemented from time to time, the "**Trust Deed**") made between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include its successor(s)) as trustee for the holders of the Notes (the "**Noteholders**") and the holders of the interest coupons appertaining to the Notes (the "**Couponholders**" and the "**Coupons**" respectively).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed and the Agency Agreement (as defined below). Copies of the Trust Deed and the Agency Agreement dated 2 April 2012 (the "**Agency Agreement**") made between the Issuer, Citibank N.A. as principal paying agent (the "**Principal Paying Agent**", which expression shall include any successor(s)), the Paying Agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression shall include any successor(s)) and the Trustee are available for inspection during normal business hours by the Noteholders and the Couponholders at the principal office for the time being of the Trustee (being at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB) and at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1. FORM, DENOMINATION AND TITLE

(1) Form and Denomination

The Notes are in bearer form, serially numbered, in the denominations of €100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000, each with Coupons attached on issue. Notes of one denomination will not be exchangeable for Notes of another denomination.

(2) Title

Title to the Notes and to the Coupons will pass by delivery.

(3) Holder Absolute Owner

The Issuer, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the holder of any Note or Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon).

2. STATUS

The Notes and the Coupons are direct, unconditional and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

3. NEGATIVE PLEDGE

So long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, and will procure that none of its Subsidiaries (as defined in Condition 9) shall, create or permit to be outstanding any mortgage, lien, charge, pledge or other security interest (each a "**Security Interest**"), other than a Permitted Security Interest, upon the whole or any part of its undertaking or assets, present or future, to secure any liability (including any contingent liability) in respect of any present or future Relevant Indebtedness without at the same time or prior thereto according to the Notes to the satisfaction of the Trustee either the same security as is granted to or is outstanding in respect of such Relevant Indebtedness or such other security as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the interests of the Noteholders or as shall be approved by an Extraordinary Resolution (which is defined in the Trust Deed as a resolution duly passed by a majority of not less than three-fourths of the votes cast thereon) of the Noteholders.

For the purposes of this Condition:

"**Group**" means the Issuer and its Subsidiaries (as defined in Condition 9) from time to time;

"**Permitted Security Interest**" means any Security Interest created over any asset of any company which becomes a member of the Group after the issue of the Notes where such Security Interest is created (a) prior to the date on which the company becomes a member of the Group provided that such Security Interest was not created in contemplation of the acquisition of such company or (b) simultaneously with the acquisition of such company for the sole purpose of financing the acquisition of such company; and

"**Relevant Indebtedness**" means any Indebtedness which is in the form of, or represented by, bonds, notes, debentures or other similar securities which are issued by the Issuer or any of its Subsidiaries and which are, or are capable of being, quoted, listed or ordinarily traded on any stock exchange, over-the-counter or other established securities market but shall not include any Project Finance Indebtedness.

4. INTEREST

(1) Interest Rate and Interest Payment Dates

The Notes bear interest from and including 2 April 2012 (the "**Issue Date**") at the rate of 4.250 per cent. per annum, payable annually in arrear on 2 October (each an "**Interest Payment Date**"). The first interest payment, amounting to €2,125 per €100,000 principal amount of the Notes, shall be paid in respect of the period from and including the Issue Date to but excluding 2 October 2012 (the "**First Interest Period**"). Thereafter for each successive period from and including an Interest Payment Date to but excluding the next Interest Payment Date an amount of €4,250 per €100,000 principal amount of the Notes shall be paid.

(2) Interest Accrual

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment in which event interest shall continue to accrue until whichever is the earlier of: (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(3) Calculation of Broken Interest

When interest is required to be calculated in respect of a period of less than a full year other than in respect of the First Interest Period, it shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the "**Accrual Date**") to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

5. PAYMENTS

(1) Payments in respect of Notes

Payments of principal and interest in respect of each Note will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Note, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

(2) Method of Payment

Payments will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by euro cheque.

(3) **Missing Unmatured Coupons**

Each Note should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of the relevant Note (whether or not the Coupon would otherwise have become void pursuant to Condition 8) or, if later, five years after the date on which the Coupon would have become due, but not thereafter.

(4) **Payments subject to Applicable Laws**

Payments in respect of principal and interest on the Notes are subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7.

(5) **Payment only on a Presentation Date**

A holder shall be entitled to present a Note or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 4, be entitled to any further interest or other payment if a Presentation Date is after the due date.

"**Presentation Date**" means a day which (subject to Condition 8):

(a) is or falls after the relevant due date;

(b) is a Business Day in the place of the specified office of the Paying Agent at which the Note or Coupon is presented for payment; and

(c) in the case of payment by credit or transfer to a euro account as referred to above, is a TARGET2 Settlement Day.

In this Condition:

(i) "**Business Day**" means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place.

(ii) "**TARGET2 Settlement Day**" means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system is open.

(6) **Initial Paying Agents**

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents **provided that** (a) it will at all times maintain a Paying Agent having its specified office in London, (b) it will ensure that it maintains a Paying Agent in a Member State of the European Union (so long as there is such a Member State) that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced to conform to, such Directive and (c) there will at all times be a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Issuer is incorporated. Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 12.

(7) **Partial payments**

If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

6. REDEMPTION AND PURCHASE

(1) **Redemption at Maturity**

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 2 October 2018.

(2) **Redemption for Taxation Reasons**

If the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that (a) as a result of any change in, or amendment to, the laws or regulations of the Republic of Estonia ("**Estonia**"), or any change in the official interpretation of the laws or regulations of Estonia, which change or amendment becomes effective after 2 April 2012 on the next Interest Payment Date the Issuer would be required to pay additional amounts as provided or referred to in Condition 7 and (b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it, the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable), redeem all the Notes, but not some only, at any time at their principal amount together with interest accrued to but excluding the date of redemption, **provided that** no notice of redemption shall be given earlier than 90 days before the earliest date on which the Issuer would be required to pay the additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the requirement referred to in (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders and the Couponholders.

(3) **Redemption on a Change of Control**

If at any time there occurs (a) a Change of Control and within the Change of Control Period (if at the relevant time there are Rated Securities) a Rating Downgrade in respect of that Change of Control occurs or (b) a Change of Control (if at the relevant time there are no Rated Securities) (each a "**Put Event**"), the Issuer shall, at the option of any Noteholder (in respect of the Notes held by such Noteholder), redeem such Notes on the Put Redemption Date (as defined below), at their principal amount plus interest accrued to but excluding the date fixed for redemption.

The Issuer shall promptly notify the Noteholders in accordance with Condition 12 of the occurrence of a Put Event and shall, in the notice, specify a date being not more than 90 nor less than 60 days after the date on which the notice was given as the Put Redemption Date.

To exercise such option the Noteholder must deposit each Note to be redeemed, together with all Coupons relating to it maturing after the Put Redemption Date, with any Paying Agent together with a duly completed redemption notice in the form obtainable from the specified office of any of the Paying Agents, not less than 30 nor more than 60 days before the Put Redemption Date. No Note so deposited may be withdrawn without the prior consent of the Issuer.

If 80 per cent. or more in principal amount of the Notes then outstanding have been redeemed or purchased pursuant to the foregoing provisions of this Condition 6(3), the Issuer may, on not less than 30 or more than 60 days' notice to the Noteholders given within 30 days after the Put Redemption Date, redeem, at its option, the remaining Notes as a whole at their principal amount plus interest accrued to be excluding the date of such redemption.

If the rating designations employed by any of S&P or Moody's are changed from those which are described in the definition of "Ratings Downgrade" below, the Issuer shall determine, with the agreement of the Trustee, the rating designations of S&P or Moody's as are most nearly equivalent to the prior rating designations of S&P or Moody's and this Condition shall be construed accordingly.

For the purposes of this Condition 6(3):

a "**Change of Control**" shall be deemed to have occurred if, at any time, Estonia ceases to own, directly or indirectly, at least 51 per cent. of the issued share capital of the Issuer;

"**Change of Control Period**" means the period commencing on the first to occur of (i) a Change of Control and (ii) any official public announcement by the Issuer or any shareholder of the Issuer that states that a Change of Control shall occur and ending 30 days after the Change of Control occurs;

"**Rated Securities**" means (i) the Notes so long as they shall have an effective rating from any Rating Agency at the invitation of the Issuer and (ii) any unsecured and unsubordinated debt of the Issuer (or any Subsidiary of the Issuer which is guaranteed on an unsecured and unsubordinated basis by the Issuer) which is rated at the invitation of the Issuer by one or more of the Rating Agencies;

"**Rating Agency**" means Moody's Investors Service, Inc. or Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc., and their respective successors; and

a "**Rating Downgrade**" shall be deemed to have occurred in respect of a Change of Control if within the Change of Control Period the rating assigned to the Rated Securities by any Rating Agency is (a) withdrawn or (b) changed from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or (c) (if the rating assigned to the Rated Securities by any Rating Agency shall be below an investment grade rating (as described above)) lowered one full rating category (by way of example, from BB+ to BB or such lower or equivalent rating), **provided that** a Rating Downgrade otherwise arising by virtue of a particular change in rating shall be deemed not to have occurred in respect of a Change of Control if the Rating Agency making the change in rating to which this definition would otherwise apply has not announced or confirmed (whether publicly or in writing to the Issuer and/or the Trustee) that the withdrawal or the reduction was wholly or substantially the result of the Change of Control.

(4) **Purchases**

The Issuer or any of its Subsidiaries may at any time purchase Notes (**provided that** all unmatured Coupons appertaining to the Notes are purchased with the Notes) in any manner and at any price. Such Notes may be held, reissued, resold or surrendered by the purchaser through the Issuer for cancellation. Notes held by or for the account of the Issuer or any of its Subsidiaries for their own account will cease to carry the right to attend and vote at meetings of Noteholders and will not be taken into account in determining how many Notes are outstanding for the purposes of these Conditions and the provisions of the Agency Agreement.

(5) **Cancellations**

All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer or any of its Subsidiaries and are surrendered for cancellation by the Issuer will forthwith be cancelled, together with all relative unmatured Coupons attached to the Notes or surrendered with the Notes, and accordingly may not be reissued or resold.

(6) **Notices Final**

Upon the expiry of any notice as is referred to in paragraphs (2) and (3) above the Issuer shall be bound to redeem the Notes to which the notice refers in accordance with the terms of such paragraph. No notice may be given under Condition 6(2) if a notice has previously been given under Condition 6(3) and no notice may be given under Condition 6(3) if a notice has previously been given under Condition 6(2).

7. TAXATION

(1) **Payment without Withholding**

All payments in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of Estonia, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note or Coupon:

(a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Note or Coupon by reason of his having some connection with Estonia other than the mere holding of the Note or Coupon; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a member state of the European Union; or

(d) presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Presentation Date.

(2) **Interpretation**

In these Conditions "**Relevant Date**" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to the Noteholders by the Issuer in accordance with Condition 12.

(3) **Additional Amounts**

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

(4) **Jurisdiction**

If the Issuer becomes subject at any time to any taxing jurisdiction other than Estonia, references in these Conditions to Estonia shall be construed as references to Estonia and/or such other jurisdiction.

8. PRESCRIPTION

Notes and Coupons will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Notes or, as the case may be, the Coupons, subject to the provisions of Condition 6.

9. EVENTS OF DEFAULT

(1) **Events of Default**

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall, (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) give notice to the Issuer that the Notes are, and they shall accordingly thereby forthwith become, immediately due and repayable at their principal amount, together with accrued interest as provided in the Trust Deed, in any of the following events ("**Events of Default**") shall occur and be continuing:

(a) ***Non-payment***

the Issuer fails to pay any amount of principal or interest due on the Notes within five London Banking Days of the due date for payment thereof; or

(b) ***Breach of other obligations***

the Issuer defaults in the performance or observance of any of its other obligations under or in respect under these Conditions or the Trust Deed and (except in any case where the Trustee considers the failure to be incapable of remedy when no continuation or notice as is hereinafter mentioned will be required) such default remains unremedied for the period of 45 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or

(c) ***Cross-default***

(i) any Indebtedness the Issuer or any of its Subsidiaries (other than in respect of Project Finance Indebtedness) is not paid when due or, as the case may be, within any applicable grace period;

(ii) any Indebtedness by the Issuer or any of its Subsidiaries (other than in respect of Project Finance Indebtedness) becomes due and payable prior to its stated maturity as a result of an event of default howsoever described thereunder; or

(iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any guarantee or indemnity in respect of any Indebtedness (other than in respect of Project Finance Indebtedness);

provided that the amount of any such Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any such guarantee or indemnity referred to in sub-paragraph (iii) above either individually or in the aggregate exceeds an amount equal to €25,000,000 (or its equivalent in other currencies); or

(d) ***Security enforced***

a secured party (other than the Issuer or any of its Subsidiaries) takes possession, or a receiver, manager or other similar officer is appointed, of the whole or a substantial part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries; or

(e) ***Insolvency etc***

(i) the Issuer and its Material Subsidiaries cease, or threaten to cease, to carry on all or a substantial part of the Issuer's and its Material Subsidiaries' business (taken as a whole) other than (in respect of any such substantial part, but not all, of such business): (I) pursuant to any sale, disposal, demerger, amalgamation, reorganisation or restructuring or any cessation, or threat of cessation, of business in each case on a solvent basis (each a "**Solvent Reorganisation**") or (II) for the purposes of, or pursuant to, any amalgamation, reorganisation or restructuring on terms approved in writing by the Trustee or an Extraordinary Resolution of Noteholders; or

(ii) the Issuer or any of its Material Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to pay its debts as they fall due or is adjudicated or found bankrupt or insolvent by a court of competent jurisdiction; or

(iii) the management or supervisory board of the Issuer or any of its Material Subsidiaries incorporated in Estonia resolves to initiate restructuring proceedings under the Estonian Restructuring Law; or

(iv) if (I) proceedings are initiated against the Issuer or any of its Material Subsidiaries under any applicable liquidation, insolvency, composition or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any of its Material Subsidiaries or, as the case may be, in relation to the whole or any substantial part of the undertaking or assets of any of them or an encumbrancer takes possession of the whole or any substantial part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any substantial part of the undertaking or assets of any of them and (II) in any such case (other than the appointment of an administrator), unless initiated by the relevant company, is not discharged within 45 days and (III) in any such case this does not result from, or relate to, proceedings pursuant to the Estonian Law on Restructurings (Saneerimisseadus) of 2008, as amended (the "**Estonian Law on Restructurings**"); or

(v) if (I) the Issuer or any of its Material Subsidiaries (or their respective directors or shareholders) applies for commencement or consents to judicial proceedings relating to the Issuer or any of its Material Subsidiaries under any applicable liquidation, insolvency, composition or other similar laws (including, without limitation, any application by the Issuer or any of its Material Subsidiaries for the commencement of restructuring proceedings pursuant to the Estonian Law on Restructurings and/or the obtaining of a moratorium) or (II) the Issuer or any of its Material Subsidiaries makes a conveyance or (other than as a result of, or relating to, proceedings pursuant to the Estonian Law on Restructurings) assignment for the benefit of, or enters into any composition or other similar arrangement with, its creditors generally (or a substantial part of its creditors by value) or (III) any meeting is convened to consider a proposal for such a composition or arrangement with its creditors generally (or a substantial part of its creditors by value).

(f) ***Winding up etc***

an order is made by a court of competent jurisdiction or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Material Subsidiaries (otherwise than, in the case of a Material Subsidiary, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders); or

(g) ***Analogous event***

any event occurs which under the laws of Estonia has an analogous effect to any of the events referred to in paragraphs (d) to (f) above;

provided that, in the case of any Event of Default other than those described in paragraphs (a) and (f) (in the case of a winding up, liquidation or dissolution of the Issuer) and (g) (to the extent the relevant event is analogous to the winding up, liquidation or dissolution of the Issuer) above, the Trustee shall have certified to the Issuer that the Event of Default is, in its opinion, materially prejudicial to the interests of the Noteholders.

(2) **Interpretation**

In these Conditions:

"**Consolidated Net Worth**" means at any time the aggregate of: (i) the amount paid up or credited as paid up on the issued share capital of the Issuer; and (ii) the amounts standing to the credit of the consolidated capital stock, retained earnings and legal reserves of the Issuer calculated by reference to the latest audited consolidated accounts of the Issuer;

"**Indebtedness**" means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of (a) moneys borrowed (other than from the Issuer to any of its wholly-owned Subsidiaries), (b) liabilities (other than to the Issuer from any of its wholly-owned Subsidiaries) under or in respect of any acceptance or acceptance credit, or (c) any bonds, notes, debentures or other debt securities (other than those beneficially owned by the Issuer or any of its wholly-owned Subsidiaries);

"**London Banking Day**" means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in London;

"**Material Subsidiary**" means:

(i) any Subsidiary of the Issuer whose net worth (consolidated in the case of a Subsidiary which itself has Subsidiaries and in each case calculated in the same way as Consolidated Net Worth) represents not less than 10 per cent. of the Consolidated Net Worth, all as calculated by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Issuer; or

(ii) any Subsidiary of the Issuer whose sales (consolidated in the case of a Subsidiary which itself has Subsidiaries, and excluding any sales made to members of the Group) represent not less than 10 per cent. of the consolidated net sales of the Issuer, all as calculated by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Issuer; or

(iii) any Subsidiary of the Issuer (the "**receiving Subsidiary**") to which is transferred either (A) all or substantially all the assets of another Subsidiary of the Issuer which immediately prior to the transfer was a Material Subsidiary (the "**disposing Subsidiary**") or (B) sufficient assets of the Issuer such that the receiving Subsidiary would have been a Material Subsidiary had the transfer occurred on or before the date of the most recent audited consolidated accounts of the Issuer.

A certificate or report of two Directors of the Issuer as to whether, in their opinion, a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any particular period a Material Subsidiary may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall, in the absence of manifest or proven error, be conclusive and binding on all parties. Such certificate may, if requested by the Trustee may be accompanied by a report from the Auditors (as defined in the Trust Deed) addressed to the Directors of the Issuer as to the proper extraction of figures from the appropriate financial statements used by the Directors of the Issuer in determining whether a Subsidiary is a Material Subsidiary and as to the mathematical accuracy of the calculations used;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Project Finance Indebtedness**" means any Indebtedness incurred by a debtor or debtors to finance the ownership, acquisition, construction, development and/or operation of an asset, assets or portfolio of assets in respect of which the Person or Persons to whom such Indebtedness is, or may be, owed has/have no recourse whatsoever to any member of the Group for the repayment thereof other than:

(i) for amounts limited to the aggregate cash flow or net cash flow (other than historic cash flow or historic net cash flow) from such asset, assets or portfolio of assets; and/or

(ii) recourse under any form of assurance, undertaking, representation or other obligation, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation, representation or warranty (not being a payment obligation, representation or warranty or an obligation, representation or warranty to procure payment by another or an obligation, representation or warranty to comply or to procure compliance by another with any financial ratios or other test of financial condition) by any member of the Group; and/or

(iii) if such debtor or debtors have been established specifically for the purpose of constructing, developing, owning and/or operating the relevant asset, assets or portfolio of assets and they own no other significant assets and carry on no other business, recourse to all of the assets and undertaking of such debtors and the shares in the capital of such debtors; and/or

(iv) recourse for the purpose only of enabling amounts to be claimed in respect of such Indebtedness in an enforcement of any encumbrance given over such asset or the income, cash flow or other proceeds deriving therefrom (or given by any shareholder or the like in the borrower over its shares or the like in the capital of the borrower) to secure such Indebtedness, provided that (1) the extent of such recourse is limited solely to the amount of any recoveries made on any such enforcement, and (2) such person or persons is/are not entitled, by virtue of any right or claim arising out of or in connection with such Indebtedness, to commence proceedings for the winding up or dissolution of any member of the Group or to appoint or procure the appointment of any receiver, trustee or similar person or officer in respect of any member of the Group or any of its assets (save for the assets the subject of such encumbrance); and/or

(v) recourse under any form of guarantee, bond, indemnity, security, assurance, undertaking or support, where that recourse is designed to be withdrawn or cease to apply to, in accordance with its terms, prior to the repayment of that Indebtedness.

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**") whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person.

10. ENFORCEMENT

(1) The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Notes and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Notes or the Coupons unless (a) it shall have been so directed by an

Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-fifth in principal amount of the Notes then outstanding, and (b) it shall have been indemnified to its satisfaction.

(2) No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

11. REPLACEMENT OF NOTES AND COUPONS

Should any Note or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer, the Principal Paying Agent or the Paying Agent (as the case may be) may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

12. NOTICES

All notices to the Noteholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Issuer may, with the prior written approval of the Trustee, decide. It is expected that publication will normally be made in the Financial Times. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

13. MEETINGS OF NOTEHOLDERS AND MODIFICATION

(1) **Provisions for Meetings**

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that at any meeting the business of which includes the modification of certain of these Conditions and certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting, and on all Couponholders.

(2) **Modification**

The Trustee may agree, without the consent of the Noteholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such, which in any such case is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error or an error which is proven to the satisfaction of the Trustee.

(3) **Interests of Noteholders as a class**

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, substitution or determination), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

(4) **Notification to Noteholders**

Any modification, waiver, authorisation or determination shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 12.

14. SUBSTITUTION

The Trustee may, without the consent of the Noteholders or Couponholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Notes, the Coupons and the Trust Deed, of any other company being a Subsidiary of the Issuer, subject to:

(a) the Notes being unconditionally and irrevocably guaranteed by the Issuer;

(b) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution; and

(c) certain other conditions set out in the Trust Deed being complied with.

15. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into business transactions with the Issuer and/or any of the Issuer's Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/ or any of the Issuer's Subsidiaries, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders or Couponholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

16. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Noteholders or Couponholders to create and issue further notes or bonds either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same be consolidated and form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further notes or bonds which are to form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or any supplemental deed shall, and any other further notes or bonds may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes or bonds of other series in certain circumstances where the Trustee so decides.

17. GOVERNING LAW AND SUBMISSION TO JURISDICTION

(1) **Governing Law**

The Trust Deed, the Notes and the Coupons and any non-constructional obligations arising out of or in connection with the Trust Deed, the Notes and the Coupons are governed by English law.

(2) **Jurisdiction of English Courts**

The Issuer has in the Trust Deed (i) agreed for the benefit of the Trustee and the Noteholders that the courts of England shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes); (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; (iii) designated a person in England to accept service of any process on its behalf; (iv) consented to the enforcement of any judgment; and (v) to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction. The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Noteholders from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions.

18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 but this does not affect any right or remedy of any person which exists or is available apart from that Act.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will initially be represented by the Temporary Global Note which will be deposited on or around the Closing Date with a common safekeeper for Euroclear and Clearstream, Luxembourg.

The Notes will be issued in new global note (''**NGN**'') form. On 13 June 2006 the European Central Bank (the ''**ECB**'') announced that Notes in NGN form are in compliance with the ''Standards for the use of EU securities settlement systems in ESCB credit operations'' of the central banking system for the euro (the ''**Eurosystem**''), provided that certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Notes in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used.

The Notes are intended to be held in a manner which would allow Eurosystem eligibility that is, in a manner which would allow the Notes to be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Closing Date upon certification as to non U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non U.S. beneficial ownership.

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form (''**Definitive Notes**'') in the denomination of €100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000 each at the request of the bearer of the Permanent Global Note against presentation and surrender of the Permanent Global Note to the Principal Paying Agent if either of the following events (each, an ''**Exchange Event**'') occurs: (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 9 of the Terms and Conditions occurs.

So long as the Notes are represented by a Temporary Global Note or a Permanent Global Note and the relevant clearing system(s) so permit, the Notes will be tradeable only in the minimum authorised denomination of €100,000 and higher integral multiples of €1,000, notwithstanding that no Definitive Notes will be issued with a denomination above €199,000.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent within 30 days of the occurrence of the relevant Exchange Event.

In addition, the Temporary Global Note and the Permanent Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Note or (as the case may be) the Permanent Global Note, the Issuer shall procure that the payment is entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg.

Payments on business days: In the case of all payments made in respect of the Temporary Global Note and the Permanent Global Note ''**business day**'' means any day (other than a Saturday or a Sunday) which commercial banks are open for business and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London.

Exercise of put option: In order to exercise the option contained in Condition 6(3) of the Terms and Conditions the bearer of the Permanent Global Note must, within the period specified in the Terms and Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Notices: Notwithstanding Condition 12 of the Terms and Conditions, while all the Notes are represented by the Permanent Global Note (or by the Permanent Global Note and/or the Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 12 on the date of delivery to Euroclear and Clearstream, Luxembourg.

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be used by the Issuer for its general corporate purposes, including financing its capital expenditure programme.

DESCRIPTION OF THE GROUP

Introduction

The Issuer's legal and commercial name is Eesti Energia AS. The Issuer is a public limited company (*aktsiaselts*), whose sole shareholder is Estonia.

The Issuer was incorporated under the Commercial Code in Estonia as a public limited company on 31 March 1998 with the name "*Eesti Energia Aktsiaselts*". The Issuer is registered in the Estonian Commercial Register under number 10421629. The principal legislation under which the Issuer operates is the law of Estonia.

The principal activities of the Group are: (i) oil shale mining; (ii) the production of shale oil; (iii) the generation of electricity and heat, principally from oil shale; (iv) the sale of electricity to industrial, commercial and household customers; and (v) the provision of electricity distribution network services.

The table below provides an overview of the Group's key performance indicators for the two financial years ended 31 December 2011 and 2010:

	2011	2010
Electricity sold (GWh)	10,704	10,714
– of which electricity sold on the regulated market (GWh)	5,473	6,079
– of which electricity sold on the open market (GWh)	5,231	4,635
Sales of network services (GWh)	6,170	6,311
Shale oil sales (thousand tonnes)	164	181
Heat sales (GWh)	1,073	1,428
Oil shale sales (million tonnes)	2.1	2.0

The Group is one of the leading utility companies in the Baltic region with total revenue and other operating income of €857.5 million for the financial year ended 31 December 2011. Outside of Estonia, the Group operates under the "*Enefit*" brand name.

The tables below provide an overview of the Group's financial performance for the two financial years ended 31 December 2011 and 2010:

	2011	2010
	(€ million)	
Revenue	831.9	784.1
Other operating income	25.6	12.1
Operating profit	168.0	148.9
Corporate income tax expense	14.7	28.8
Profit for the year	149.2	144.3
Total equity	1,236.6	1,107.1
Total assets	2,036.5	1,844.1
EBITDA(1) (unaudited)	265.1	242.3
Investments(2)	507.8	218.5
Dividends paid	56.1	109.2

(1) EBITDA refers to operating profit plus depreciation, amortisation and impairment. EBITDA is calculated by the Issuer and is not a figure that has been audited or is contained in the Financial Statements.

(2) Investments refer to the amount spent during the relevant financial year on fixed assets.

	2011	2010
Return on Equity(1) (%) (unaudited)	12.7	13.1
Equity/Assets(2) (%) (unaudited)	60.7	60.0
Net Debt/EBITDA(3) (unaudited)	1.5	0.6

(1) Return on equity refers to profit for the year divided by the average total equity during the relevant financial year.

(2) The equity/assets ratio has been calculated by the Issuer by dividing total equity by total assets as at the end of the relevant financial year.

(3) The net debt/EBITDA ratio has been calculated by dividing net debt (that is, borrowings minus cash and cash equivalents) as at the end of the relevant financial year by EBITDA.

Shareholder

Estonia is the sole shareholder of the Issuer. As at the date of this document, the Issuer is unaware of any plans that may result in a change of ownership. The Ministry of Economic Affairs and Communications holds all the shares in the Issuer on behalf of Estonia and, accordingly, it is the registered shareholder of the Issuer in the Estonian Central Depositary for Securities (the "**Shareholder**").

The relationship between the Shareholder and the Issuer is conducted through members of the Supervisory Board, half of whom are nominated by the Shareholder and the other half by the Minister of Finance. Day-to-day management of the Issuer, however, is undertaken by the Issuer's Management Board.

Under the Commercial Code, the shareholders of a public limited company (including the State) are neither liable for the debts of the company nor obligated to supply additional capital in the event of a financial crisis. Save for an obligation of the Issuer's subsidiary, Eesti Energia Jaotusvõrk OÜ ("**Jaotusvõrk**"), as network operator, to notify the ECA should bankruptcy procedures be initiated against it, there are no special laws in Estonia for bankruptcy of public service entities, nor are there any derogations from the normal bankruptcy procedures. The Electricity Market Act ("**EMA**") also authorises the ECA to require the companies that hold an activity licence (for example, a licence for generation, distribution or sales of electricity) to continue their operations in the event that their activity licence expires or the ECA revokes their licence. This may impact upon such companies' ability to cease operations in the event of bankruptcy proceedings.

The Estonian government has stated that it views the operations of the Issuer as a provider of electricity to be of vital importance to the national infrastructure and has confirmed its long-term support for the indigenous oil shale fired power industry. While the sum of €150 million for a share capital increase has been incorporated into the Estonian State Budget for 2012, it is not yet committed as the Government has yet to approve the equity injection and there is a possibility that it may not be forthcoming or may not be made within the time period envisaged. The ability of the Estonian government to support the Issuer and the Group through subsidies, allocation of mining rights, loans, capital or other financial injections are restricted by and must be in accordance with relevant rules regarding State Aid. There is no assurance that this equity injection, if made, will not be subject to challenge as unapproved State Aid and as a result may require State Aid approval.

In respect of dividend payments, as sole shareholder, the Estonian government can direct the frequency and dividend level to be paid by the Issuer.

Strategy

The Group operates in the increasingly interlinked Baltic and Nordic power markets and believes that it is well positioned to maximise the embedded value of the oil shale expertise of Estonia. The Group currently follows the strategy described below for its main lines of business. The current financing policy of the Group's capital expenditure programme is as described below.

Improvement to the distribution network

The distribution network, as a regulated business, has in the past added, and is expected by the Group in the future to add, stability to the Group's revenues and earnings in light of the proposed Estonian retail electricity market deregulation in 2013. The Group aims to improve the quality of its distribution network by upgrading technical equipment and adding new connections in order to reduce distribution network losses, provide a more reliable service for its customers and modernise the older parts of its distribution network.

The Group currently plans to invest approximately €300 million in its distribution network over the three year regulatory period August 2011-August 2014, in relation to which an increased distribution tariff and higher permitted regulated return for its regulated asset base was agreed with the ECA.

Modernisation and diversification of the Group's electricity generation portfolio in the increasingly deregulated Baltic retail power market

The principal fuel for the Group's electricity generation portfolio is oil shale, the use of which has relatively high CO_2 emissions compared to the electricity generation portfolios of the Group's competitors in the Nordic-Baltic power market. Furthermore, maintaining power generation assets that are compliant with the prevailing regulatory environment is of key importance to the Group in the light of tougher restrictions on emissions coming into force in Estonia from 2012 onwards.

The Group's investment plan in power generation is driven by: (i) refurbishment of its generation portfolio to maintain compliance with regulations affecting existing assets (for example, installation of desulphurisation equipment to selected power units); and (ii) replacement of its power generation capacity with assets having lower CO_2 emissions. For example, a new 300MW CFB unit fuelled by oil shale and biomass is expected to become operational in 2016 and new wind generation parks with a total capacity of 62MW are expected to become operational in 2012. The design of the new CFB unit enables biomass to be burnt in an equal proportion alongside oil shale. If such a fuel mix is used, the CO_2 emissions of the Group's new CFB plant would be comparable to a gas power plant, highlighting the Group's commitment to reducing its CO_2 footprint.

In addition, the Group intends to maintain a significant market share in the increasingly deregulated Estonian and Baltic retail power markets in order to reduce exposure of its generation portfolio to the more volatile Nord Pool wholesale power market.

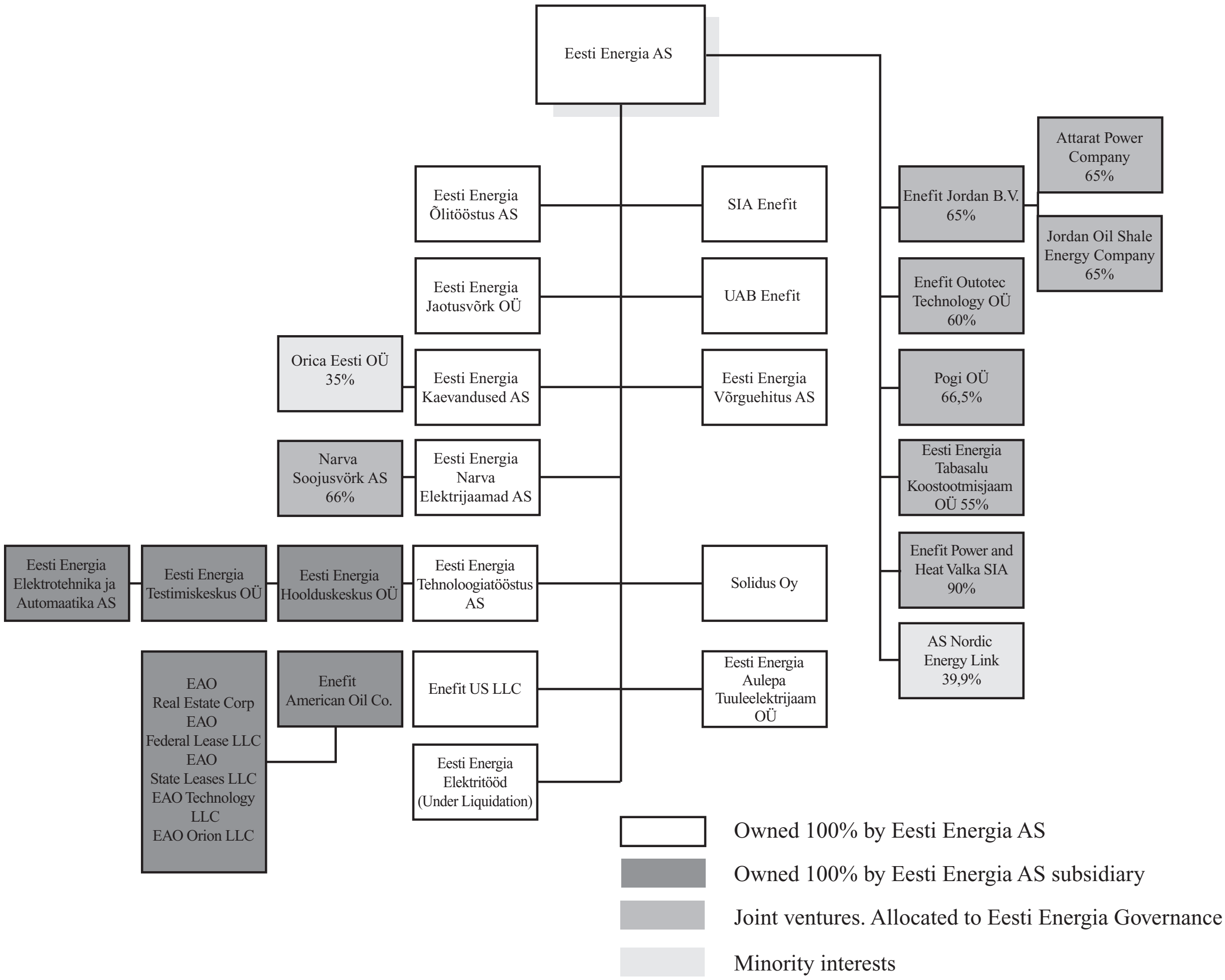
Expansion of shale oil production

The Group has significant expertise in the production of shale oil and has been exploring opportunities to enhance further its know-how in Estonia as well as to create a foundation to exploit its know-how internationally.

The Group currently expects to complete the construction of its first Estonian plant using Enefit 280 shale oil production technology in 2012, which it anticipates will substantially increase the Group's shale oil production capacity. Following completion of the first Enefit 280 production unit, the Group expects to determine in 2013 the viability of constructing a shale oil upgrader to produce diesel and other fuel fractions from shale oil, which would also involve building two additional Enefit 280 oil plants.

Group structure

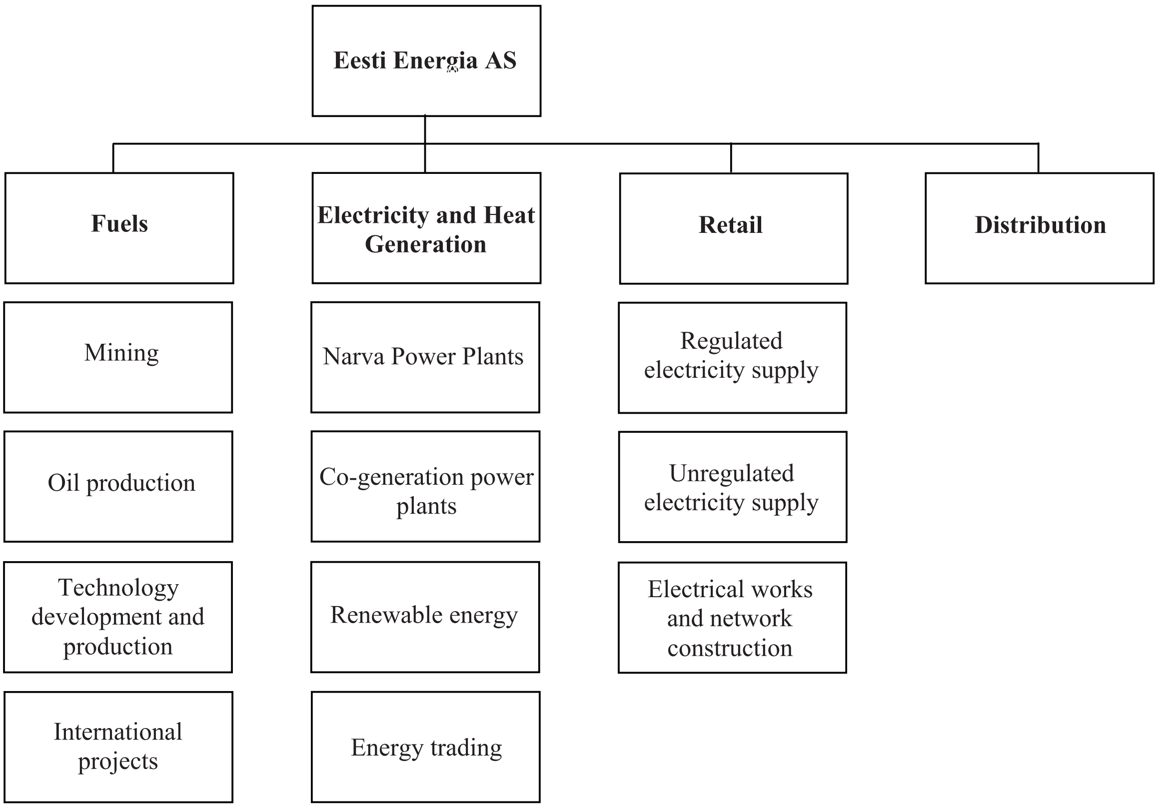
The Group's corporate structure is as follows:



Operational structure

The Group divides its operations into four business divisions: (i) Minerals, Oils and Biofuels (referred to in this document as "**Fuels**"); (ii) Electricity and Heat Generation; (iii) Retail; and (iv) Distribution. Until 31 December 2011, the Distribution division was part of the Retail division, but has since been established as an independent business division to meet the regulatory requirements as a regulated distribution network operator ("**DNO**").

The Group's operational structure is as follows:



Financial Performance

The Group's revenue for the financial year ended 31 December 2011 was €831.9 million, which was 6.1% higher than the €784.1 million of revenue for the financial year ended 31 December 2010. The Group's total revenue and other operating income amounted to €857.5 million for the financial year ended 31 December 2011, expanding by 7.7% compared to the year before.

The following table provides certain financial information in relation to the business divisions of the Group as at 31 December 2011 (€ million):

	Retail Total	of which distribution	Electricity and Heat Generation	Fuels Total	of which Mining	Corporate Functions	Eliminations	Total
Revenue	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, including . .	464.7	194.3	283.6	137.6	35.1	0.6	(54.6)	831.9
electricity sales	256.5	—	222.8	—	—	—	(54.6)	424.7
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 amortisation	(40.4)	(37.7)	(26.8)	(24.6)	(22.0)	(3.5)	(0.3)	(95.6)
Impairment loss	—	—	(1.5)	—	—	—	—	(1.5)
Setting up of and change in provisions	—	—	14.6	0.7	0.7	—	0.0	15.3
Operating profit	22.5	27.9	79.9	70.9	17.5	(2.9)	(2.4)	168.0

Fuels Division

The principal operations of the Fuels business division are: (i) the mining of oil shale; (ii) the production of shale oil; and (iii) the design, manufacture and maintenance of equipment for the energy and mining sector, as well as development of the Group's proprietary technology for producing shale oil.

Revenue of the Fuels division amounted to €325.2 million for the financial year ended 31 December 2011 compared to €275.0 million for the financial year ended 31 December 2010.

Mining

Overview and Mining Licenses

Oil shale assets are a key strategic resource for the Group. Oil shale is a sedimentary rock that contains volatile organic matter called kerogen. Once mined, oil shale can be crushed and either used as fuel for power generation or processed to produce shale oil. The shale oil is produced by heating the rock to a sufficiently high temperature without oxygen for it to decompose and the liquid hydrocarbons to be released. Oil shale is not one of the porous varieties of shale in which gas is trapped naturally (such as Barnet shale in the United States). Oil shale is also different to oil sands, which are a natural mixture of sand or clay, water and a dense and viscous form of petroleum called bitumen. Oil shale is mined in open pit mines or in underground mines using the conventional room-and-pillar method.

The Group mines more oil shale than any other oil shale mining company in Estonia. Oil shale is processed at the Group's own plants to provide fuel for the vast majority of the Group's current electricity generation activities as well as acting as feedstock for the Group's oil production activities. Only a minor part of the oil shale produced by the Group is sold to external customers. The Group's main competitors in oil shale mining and sales are OÜ VKG Kaevandused, Kiviõli Keemiatööstuse OÜ and AS Kunda Nordic Tsement.

The Group operates two open pit mines and two underground mines, as well as three enrichment plants located at three of the four mines, all of which are located in the North-East of Estonia. The Group's own rail transport business is used to transport oil shale to power plants and its oil plant. The Group also looks from time to time to purchase oil shale from other mines in Estonia if economical to do so. As at 31 December 2011, the Group held 11 extraction permits in respect of geological oil shale resources amounting to 19 million tonnes per annum. Based on the Issuer's own statistics, the Group's mining operations and controlled oil shale reserves in Estonia are summarised in the following table:

Mines	Operation type	Open for operations	Saleable oil shale sales for the financial year ended 31 December 2011 (million tonnes)	Geological oil shale resource as of 31 December 2011 (million tonnes)	Permit expiry date
Estonia	Underground	1972	7.0	230.6	August 2019
Narva	Opencast	1936	5.6	104.8	August 2019
Viru	Underground	1965	2.2	7.7	August 2019
Aidu	Opencast	1974	2.7	2.7	May 2019
Uus Kiviõli	Underground	TBD	n/a	207.8	October 2036
Tammiku	Opencast	—	—	5.6	—
Total	—	—	17.5[(1)]	559.2	—

(1) Does not include: (a) change in inventory; or (b) sales, of oil shale where such oil shale has been purchased from mines outside the Group.

The mines at Aidu and Viru are expected to cease operations in 2012 and 2013 respectively. However, the Group has the option to increase production at the Estonia mine and is considering an opportunity to commence mining at Uus Kiviõli in 2016.

The Group rents the majority of the land on which the mines are situated from the government of Estonia and holds exclusive mining licences to conduct its mining activities. Each of the Group's sites has a mining limit set out in its relevant extraction permit, which, when aggregated, equals an annual mining limit of 19 million tonnes of geological oil shale. The Group is allowed to allocate its production between the mines as it sees fit, subject to its 15 million tonnes of geological oil shale overall mining limit and not exceeding its annual extraction limit on any particular licence.

In Estonia, a mining company may explore for, and extract, mineral resources only on the basis of an exploration or extraction permit granted by the Ministry of Environment or the Environmental Board depending on whether the mine is of national or local importance. The granting of an extraction permit is dependent on the mining company fulfilling the criteria set by the Commission of Estonian Mineral Resources, part of the Ministry of Environment, and the relevant local government authority. The procedure for the grant of exploration and extraction permits is set out in the Earth's Crust Act. In terms of applying for such permits, the Group has an active procedure of applying for and acquiring new licences. Most of the Group's current extraction permits are due to expire in 2019. However, the Group will be able to extend its extraction permits for further 10 year periods provided geological oil shale resource remains unmined.

Estonian law currently sets an annual extraction limit of 20 million tonnes on geological oil shale mined in the country, of which the Group is allocated 15 million tonnes. However, the Estonian parliament has approved the NDPOS, a non-binding policy document in which it sets out a number of strategic objectives, including a reduction of the annual extraction limit to 15 million tonnes per annum by developing alternative sources of energy. There is no indication as to when or if this overall revised limit will become a legal requirement.

The extraction permits include requirements for land restoration, remediation and recultivation. The Ministry of Environment, in conjunction with the relevant local government authority, will require any land restoration to be carried out in a manner approved by the Environmental Board. Recultivation work is generally outsourced to the State Forest Management Centre. The Ministry of Environment may take enforcement action and levy penalty payments against permit holders who fail to fulfil the terms of any restoration plan. The extraction permit holder's liability for any environmental damage occurred in the restoration area continues for three years after completion of the relevant mining activities. The Group has provisions for the anticipated costs of such land restoration and recultivation.

2011 sales of Eesti Energia Kaevandused AS (the Group's mining subsidiary)

As oil shale is the prime fuel used for electricity generation in Estonia, the EMA requires oil shale mining companies to sell oil shale to electricity generators with a total net installed generation capacity of at least 500 MW (that is, the Group's oil shale fired power plants), at or below the price limit set by the ECA. The price at which oil shale may be sold to other parties is not regulated but has tended to follow the price charged to the electricity generators with an adjustment, for example if the customer requires oil shale with a higher calorific value. Amendments to the current sale price regulation are expected in 2013 in light of the proposed liberalisation of the Estonian retail electricity market (although the relevant legislation has not yet been adopted). While part of the market will be liberalised, price regulation is expected to remain in place with regards to sales to heating companies. The following table shows the breakdown of oil shale sales by the Fuels division for the two financial years ended 31 December 2011 and 2010:

	2011	2010
Intra-group oil shale sales for power generation (million tonnes)	14.3	14.2
Intra-group oil shale sales for oil production (million tonnes)	1.6	1.7
External oil shale sales (million tonnes)	2.1	2.0
Total oil shale sales of Eesti Energia Kaevandused (million tonnes)	18.0	17.9

The Group's mining subsidiary sold 18 million tonnes (predominantly within the Group) of saleable oil shale for the financial year ended 31 December 2011, an increase of 0.6% on sales of 17.9 million tonnes for the financial year ended 31 December 2010.

Oil Production

Overview

One of the Group's key strategies is founded on extracting value from oil shale reserves and developing the technology needed to do that. Through Enefit, the Group has one of the world's leading technologies for producing liquid fuels from oil shale, which uses all of the oil shale that is mined, including fine oil shale particles, in an efficient industrial process.

The Group's shale oil production plant is situated in the proximity of Narva and was originally constructed in 1980. The Narva oil plant comprises two Enefit140 units with a combined designed production capacity of up to 240,000 tonnes of shale oil per annum. As opposed to technology used by the Group's main competitors, the Enefit technology does not require material quantities of water, thereby reducing the environmental impact of the Group's operations and costs. In conjunction with its joint venture partner Outotec GmbH ("**Outotec**"), the Group is in the process of constructing the first Enefit280 unit near Narva which has an increased production capacity of up to 290,000 tonnes of shale oil per annum at a cost of approximately €212 million. The Group is also considering the construction of two additional Enefit280 units and a shale oil upgrader unit near Narva in order to be able to produce diesel and other fuel fractions so as to increase the market for, and price of, its shale oil products. The Group's main competitors in the shale oil production market in Estonia are VKG Oil AS (a subsidiary of Viru Keemia Grupp AS) and Kiviõli Keemiatööstuse OÜ. Alongside shale oil, the production process also generates retort gas, which is currently sold to the Narva Power Plants and used for power generation.

The following table provides an overview of fuel and gas sales of the Fuels division for the two financial years ended 31 December 2011 and 2010:

	2011	2010
Oil shale used (th tonnes)	1,653	1,747
Fuels Division shale oil sales (th tonnes)	181	197
of which intra-group sales (th tonnes)	17	16
Approximate sales of retort gas (million m3)	58	60

Shale oil pricing and sales

The sale price for shale oil is unregulated and tends to follow the global market for heavy fuel oil which in turn broadly follows crude oil market movements. The Group hedges the sale price of part of its shale oil production to fuel oil with 1% sulphur content. The actual sale price of shale oil tends to follow the price of such fuel oil with some discount.

Shale oil qualities differ from the standard heavy fuel oil, so the market for it is limited. Primarily, domestic demand for shale oil comes from local boiler houses and producers of asphalt, while export demand comes from producers of bunker or marine fuels, who buy the shale oil, blend it with other products and sell it to shipping companies.

The EU National Emissions Ceiling Directive ("**NECD**") sets national annual limit values for emissions of SO_2, NO_x, non-methane volatile compounds and ammonia. It is expected that the limits will become even more stringent in the future, with changes expected in 2016 or 2020 at the latest. The limits on SO_2, in particular, are expected to become so low that the ability to burn non-standard heavy fuel oil such as shale oil in the EU will be significantly restricted. There is demand for non-standard heavy fuel oil from markets outside the EU that have lower environmental standards and the Group currently anticipates that its shale oil production could be exported to those markets. The Group is also exploring the viability of building an upgrader to convert shale oil into lighter fuel products (for example, diesel), which would comply with current EU environmental standards, have a wider range of uses and sell for a higher price than heavy fuel oil.

For the financial year ended 31 December 2011, the Group's revenues from shale oil sales were €60.9 million compared to €51.7 million for the financial year ended 31 December 2010, representing an increase of 17.8% and reflecting an increase in shale oil prices following higher heavy fuel oil prices. Over the same period, sales volume of shale oil fell from 181 thousand tonnes to 164 thousand tonnes, representing a decrease of 9.5%, due to a number of factors including higher installation work at the Group's oil production plant. The following table provides an overview of the Group's shale oil sales for the two financial years ended 31 December 2011 and 2010:

	Units	2011	2010
Shale oil sales	Th Tonnes	164	181
Shale oil revenues	€m	60.9	51.7
Average shale oil price	€/tonne	371.0	285.4
Average Brent price(1)	€/bbl	80.5	60.2
Average Brent price(1)	$/bbl	112.1	79.8
Average heavy fuel oil price(1)	€/tonne	456.3	344.2
Average heavy fuel oil price(1)	$/tonne	635.5	456.3

(1) These figures are included for comparative purposes.

Technology development and production

Enefit Outotec Technology OÜ

In 2009, the Group established a joint venture with Outotec, a leading international minerals and metals processing technology provider. The joint venture is called Enefit Outotec Technology OÜ. The Issuer holds a 60% stake in Enefit Outotec Technology OÜ, with Outotec holding the remaining 40%. The purpose of the joint venture company is to develop a new generation of shale oil production technology. Enefit Outotec Technology OÜ issues licences permitting the use of the Enefit technology for oil shale processing. The Enefit280 oil plant, which is due to be completed in 2012, is the first result of the joint venture.

Eesti Energia Tehnoloogiatööstus AS

The Fuels division operates an engineering business called Eesti Energia Tehnoloogiatööstus AS, which provides a range of technological project solutions. This business focuses on the design, manufacture and installation of mining, oil and power plant equipment. It maintains and constructs appliances for power and boiler plants, and, in particular, designs, manufactures and installs flue gas technology. Eesti Energia Tehnoloogiatööstus AS has been one of the major contractors involved in the manufacture of the new Enefit280 plant at Narva.

International projects

The Group is currently seeking to exploit its shale oil production expertise and proprietary technology internationally, particularly in Jordan and the United States.

In Jordan, the Group has entered into a 44 year concession agreement with the Jordanian government for an area of land in the Attarat region estimated to hold circa 2.3 billion tonnes of oil shale, which is expected to be used for two separate projects: an oil production project and a power generation project. The Group's intention is to carry out pre-development operations to explore the viability of establishing a shale oil production industry in the Attarat region with a planned capacity of 38,000 barrels per day ("**BBL/D**"). The Group is currently conducting a feasibility study over the oil shale resource and arranging for other preparatory works. The Group is not expected to arrange financing for the construction phase of the oil project until the Enefit280 technology is proven to be fully functional in Estonia (which is expected in 2016). The Group is not under a legal obligation to develop a shale oil industry and will not suffer any penalties if it does not do so. The Group is also in discussions with the Jordanian government with regards to the construction and operation of an up to 500MW (gross) oil-shale fired power station in the Attarat region. In addition, negotiations with the Jordanian government are currently ongoing in relation to a power purchase agreement with a view to commencing a tendering process for an EPC contract. The Group may complete the financing arrangements for the construction phase of the power project in 2013. In 2011, the Group engaged YTL Power International Berhad as a 30% minority investor in the power and oil project. The Issuer continues to control 65% of the project, but may seek to reduce its equity holding and engage additional capital to finance the Group's expected capital expenditure programme in relation to the project.

In 2011, the Group acquired the entire issued share capital of Enefit American Oil Co. (formerly known as the Oil Shale Exploration Company) for €29.6 million, giving it access to over 3.8 billion tonnes of oil shale in Utah in the United States. The Group intends to explore the exploitation of these oil shale reserves in Utah through the development of a shale oil industry (including mines and processing facilities) with a capacity of up to 50,000 BBL/D. The pre-development phase of the project is expected to last until 2016.

The Group continues to consider opportunities to sell its shale oil production technology in China, Serbia and other countries.

Electricity and Heat Generation Division

Overview

The Electricity and Heat Generation division's principal operations are generating electricity and heat, primarily for sale in the Estonian regulated retail market and the Baltic region's wholesale power market.

The Group's generation portfolio is drawn from a range of sources, including gas, oil shale, biomass and wind. The main fuel for power generation remains oil shale, accounting for approximately 95% of the Group's electricity generated in the financial year ended 31 December 2011.

The Group is actively seeking generation portfolio diversity to reduce its carbon emissions and to retain flexibility in the event that more stringent environmental legislation is implemented by the EU and/or by the Estonian government. In the financial year ended 31 December 2011, the Group generated 408 GWh of electricity from renewable sources, which is an increase of 34.4% as compared to the financial year ended 31 December 2010. This rise came mainly from the use of biofuels, such as woodchips, 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 one of the Balti power plant units in 2010, which qualified for a renewable energy subsidy, increased the use of biofuels, following lower generation output in the previous year. The Group received €21.2 million in subsidy for generating electricity from renewable sources, an increase of 30.2% as compared to the financial year ended 31 December 2010.

The price at which the Electricity and Heat Generation division sells electricity generated by the Narva Power Plants to the Retail division for resale to customers in the regulated market is set by the ECA. This price regulation is expected to cease on 1 January 2013 in conjunction with the full opening of the retail electricity market. The Electricity and Heat Generation division's revenues for the financial year ended 31 December 2011 amounted to €501.1 million, an increase of 1.1% compared to the financial year ended 31 December 2010. Sales of electricity earned €452.5 million, an increase of €13.7 million or 3.1% more than for the financial year ended 31 December 2010. Sales of heat were €39.0 million, a reduction of €9.7 million or 19.9% less than for the financial year ended 31 December 2010.

Electricity sales by the division in the financial year ended 31 December 2011 totalled 11.1 TWh, which was 1.6% less as compared to the financial year ended 31 December 2010. The average sales price of the Electricity and Heat Generation Division during the financial year ended 31 December 2011 equalled 40.6 €/MWh, which was 4.8% higher than in the financial year ended 31 December 2010. Out of total sales volume, sales at unregulated prices were 5.3 TWh in the financial year ended 31 December 2011, an increase of 11.9% compared to the financial year ended 31 December 2010. The average selling price of electricity on the unregulated market (excluding the renewable energy subsidy) equalled 49.0 €/MWh in the financial year ended 31 December 2011. Sales at regulated prices contributed 5.9 TWh to the total sales volume in the financial year ended 31 December 2011, a decrease of 11.3% compared to the financial year ended 31 December 2010. The average selling price of electricity on the regulated market equalled 29.4 €/MWh for the financial year ended 31 December 2011.

As at the financial year ended 31 December 2011, the Group owned generation assets with a net installed power capacity of 2,244 MW.

	Existing generation portfolio (as at 31 December 2011)					
Plant	Net Installed Capacity (MWe)	Electricity generated (2011)	Net Installed Capacity (MWh)	Heat generated (2011)	Built	Fuel
Eesti						
(7 x 200MW pulverised)	1,187	5,683	84	97	1963-73	Oil Shale
(1 x 215 MW CFB)	194	1,440	–	–	2005	Oil Shale, biomass
Balti						
(2 x 180 MW, 1 x 190 MW pulverised)	462	1,793	–	–	1956-66	Oil Shale
(1 x 215MW CFB)	192	1,278	160	434	2005	Oil Shale, biomass
Gas boiler house	–	–	240	18	2005	Gas
Iru (CHP)	156	129	764	593	1980-82	Gas
Aulepa	48	90	–	–	2009	Wind
Other	5	13	62	41	n/a	Renewables/Diesel
Total	2,244	10,426	1,310	1,183		

The pulverized blocks in the Balti power station will be put in reserve from 31 March 2012 due to new restrictions on SO_2 emissions from 2012.

The Group has been operating in an increasingly open power market environment over the past few years. In January 2007, Estlink 1, the undersea 350 MW transmission cable connecting Estonia and Finland, became operational which marked the beginning of the convergence of the Finnish and Estonian wholesale power markets and enabled the Group to start selling power on the Nord Pool power exchange. In April 2010, the Estonian price area of the Nord Pool power exchange commenced operation, while in 2010 another power exchange, Baltpool, opened in Lithuania. In order to facilitate the creation of a Nord Pool power exchange in Estonia, the Group loaned its share of the 350MW Estlink 1 power connection between Estonia and Finland to the Nord Pool in 2010, while retaining the economic rights to the bottleneck fee between the Finnish and Estonian price areas. The Group expects integration of the Baltic and Nordic power markets to increase significantly after the completion of the Estlink 2 power cable (capacity 650 MW, constructed by the transmission system operators Elering and Fingrid between Estonia and Finland, expected to be commissioned in 2014) as the total transmission capacity connecting Estonia and Finland will increase to 1000MW. This increased transmission capacity is expected to result in a deeper power market in the Nord Pool Spot Estonia price area as well as further price convergence between Nord Pool Spot Helsinki and Estonia price areas.

One of the key prices influencing the Group's results is the price of electricity in the Nord Pool Estonia price area. The following table depicts the average electricity prices in Nord Pool Estonian and Finnish price areas for the period 2010-11:

(€/MWh)	Average market price in 2011	Average market price in 2010
Nord Pool Spot	47.0	53.1
Nord Pool Spot Helsinki price area	49.3	56.6
Nord Pool Spot Estonia price area	43.3	46.3
% of hours of power prices being equal in Helsinki and Estonia price areas	49.6	48.4

Fossil fuel based generation

Narva Power Plants

The Group's principal electricity generation plants are the Narva Power Plants, comprising the Eesti and Balti power plants, located near the town of Narva. The Narva Power Plants have a combined net capacity of 2,035MW, and generated approximately 88.9% of the total electricity produced in Estonia in 2011. The Narva Power Plants are the world's largest oil shale fired power plant.

Until 2016, the Narva Power Plants will continue to benefit from Estonia's derogation from the LCPD but will be subject to emissions requirements under Estonia's EU Accession Treaty which restricts annual sulphur emissions of Estonia's large combustion plants that burn oil shale (that is, mainly the Narva Power Plants) to 25,000 tonnes per year from 1 January 2012. The Group is undertaking several steps to reduce its SO_2 emissions to meet the future LCPD requirements with respect to the composition of flue gas as well as NECD limitations on annual emission levels. Additionally, the IED is due to come into force in Estonia in 2013 and will set new emission limit values from 2016. The IED will revise and recast seven existing EU directives including the LCPD and the IPPCD. It is intended that the IED will impose stricter restrictions on SO_2, NO_x and dust levels in flue gases from combustion units which may potentially result in the reduction in operating hours of the Group's power units at Narva.

The Group expects to complete the retrofitting of desulphurisation equipment on four energy units at the Narva Power Plants during 2012 to maintain electricity generation capability at around 9 TWh/year following the installation of denitrification equipment by the Group to be compliant with IED emission restrictions from 2016. As at 31 December 2011, the Group had spent €91.7 million on desulphurisation equipment at the Narva Power Plants. The Group is also investigating other technologies to reduce the SO_x concentration of emissions from other pulverised combustion units.

The Group is currently reviewing tender offers from contractors to begin installation of denitrification technology units at the Eesti power plant units, which use older pulverised combustion boilers and have desulphurisation equipment already installed, in order to maintain the annual output of the Eesti plant units at around 7 TWh/year, also from the year 2016.

In summary, in relation to the Group's existing older pulverised plants at Eesti and Balti, the Group will plan to operate at least four units for the next 10 to 15 years after the emissions reduction works, as mentioned above, are completed. The Group will look to close down three of these units at the Balti power station in March 2012 and keep three units operational on a limited schedule after 2016. Two newer units (one in Balti and one in the Eesti power plant) using CFB technology are already in compliance with IED requirements.

This reduction in capacity in the older plants will be mitigated by the construction of the new CFB power plant next to the Eesti power plant and the increase in the Group's co-generation and renewable generation capabilities as described below. The new CFB plant will have up to two 300 MW CFB generating units that allow oil shale to be burnt alongside biofuels, such as woodchips, in equal proportions. Using biomass in the form of sawdust and woodchips minimises the environmental impact of the generation process since less oil shale is required, thereby reducing the levels of CO_2 emissions and the build-up of oil shale ash deposits. The final decision to build the first 300 MW CFB generating unit was taken in June 2011 and the plant is expected to be operational in 2016. The Group has not yet determined if or when to proceed with the second unit. The Group has applied to the Estonian government for an allocation of free CO_2 allowances in relation to the construction of these CFB units.

Co-generation plants

The Group has a plant for the co-generation of heat and/or electricity at Iru. The Iru power plant is a gas/heavy oil based co-generation plant and is run on gas but the technology at the plant gives the flexibility to use heavy oil as an alternative fuel in case gas should be unavailable. The Iru power plant contains two gas fired generating units and three heat only boilers.

The Group has also begun construction of a municipal waste-to-energy CHP unit in Iru (17 MW_e and 50MW_h) which is expected to burn up to 220,000 tonnes of waste per year, transforming about 85% of the energy contained in waste into a combination of electricity and heat. The unit is currently expected to be completed in 2013. A complaint has recently been made to the European Commission that the subsidy scheme for energy produced from waste in such a co-generation plant is unapproved State Aid. If an approval for such subsidy is required and is not forthcoming or other renewable subsidies are successfully challenged, the Issuer may be required to repay the subsidies (including any interest on any aid received prior to any European Commission decision, whether or not the aid is approved) and the Estonian government may be required to cease from providing any similar support in the future, either of which could have a material adverse effect on the Group's business and financial position.

The Group is also contemplating construction of a portfolio of mini-CHP plants across the Baltics. Currently three such projects are under construction. The first of which is being constructed in Paide and has a net installed capacity of 1.6 MW_e and 7.5 MW_h; the second is being constructed in Valka and has a net installed capacity of 2 MW_e and 8MW_h; and the third is being constructed in Painkula and has a net installed capacity of 4.3 MW_e and 7.5 MW_h.

Renewable Energy

Renewable subsidies

The Estonian government is aiming to increase the amount of electricity generated from renewable sources. Under the EMA, producers of electricity may receive state support if electricity is generated: (i) from renewable energy sources (for example wind generators and efficient co-generation plants burning biomass); or (ii) in an efficient co-generation plant using waste, peat or oil shale processing retort gas as fuel, or of no more than 10 MW electrical capacity ("**qualifying co-generation plant**"). Electricity generated from renewable sources currently receives a subsidy from Elering, the transmission system operator of €53.7/MWh in addition to market price. Electricity generated in qualifying co-generation plants currently receives a subsidy from Elering of €32/MWh in addition to the market price. There are also limits to the amount of support that can be claimed: wind energy producers may use the subsidy for up to a maximum of 600 GWh of electricity produced in Estonia in a calendar year. A complaint has recently been made to the European Commission that the subsidy for energy produced from waste in an efficient co-generation plant, as referred to above, is unapproved State Aid. If an approval for such subsidy is required and is not forthcoming or other renewable subsidies are successfully challenged, the Issuer may be required to repay the subsidies (including any interest on any aid received prior to any European Commission decision, whether or not the aid is approved) and the Estonian government may be required to cease from providing any similar support in the future, either of which could have a material adverse effect on the Group's business and financial position. Draft legislation has been also prepared in Estonia which, if implemented, will materially reduce the amount of renewable subsidies and tie the amount of such subsidies to prices on the Estonian power exchange. In the event that the price of electricity on the exchange is equal to or higher than the proposed new reduced subsidy, no subsidy will be paid.

Renewable generation assets

The Group's largest wind park in terms of generation capacity is the Aulepa wind park, which, at 48MW, has the largest generation capacity for a wind park in the Baltic countries. Production from the 16 turbines erected at Aulepa is more than 100GWh per year.

The Group is currently building new wind parks with an aggregate capacity of 61.5MW, namely the Narva wind park with a capacity of 39MW, and the Paldiski wind park with a capacity of 22.5MW. Both wind parks are expected to be completed in 2012, adding around 150 GWh of renewable power generation capacity to the Group per annum.

Energy trading

The Group's energy trading business unit manages the Group's energy portfolio and is responsible for hedging against external fluctuations that may affect the financial results of the Group. The Group conducts wholesale power trades on Nord Pool's physical market for trading in electricity ("**Nord Pool Spot**"), a financial market for trading in derivatives, and a carbon market for trading in emissions allowances and carbon credits. The Group also has capability to execute trades on the Lithuanian power exchange called Baltpool; as well as through bilateral contractual arrangements with other third parties and suppliers in Estonia and elsewhere. The Group seeks to manage the price risk associated with the generation portfolio principally using derivative products available at Nasdaq OMX Commodities.

The energy trading unit is also responsible for seeking to hedge price risks in relation to the Group's oil production and CO_2 emission allowances.

Retail Division

The Retail division currently comprises three businesses: (i) regulated electricity supply; (ii) open market electricity sales; and (iii) electrical works, network construction and other products. Until 31 December 2011, the results of the Retail division included the Distribution division's results as well as the results of the Group's telecom operator, Televõrgu AS. The former has been reported as a separate division for accounting purposes from 1 January 2012, whilst the latter was sold in February 2012 to Tele2 Eesti Aktsiaselts.

The Group believes that it is well positioned to benefit from the ongoing liberalisation of the electricity markets in Estonia, Latvia and Lithuania. The Group's customer base in Estonia is split between those who pay a regulated price for electricity ("**Non-Eligible Customers**") and those who pay market prices for electricity ("**Eligible Customers**"). Non-Eligible Customers in Estonia are those who consume less than 2GWh of electricity each year at one consumption point. In Latvia and Lithuania, the Group operates in the non-regulated segments of the power markets. More than 90% of the households in Estonia are customers of the Group and the Group can generate sufficient electricity to satisfy their requirements at stable prices. The Group's main competitor in the Estonian unregulated retail supply market is AS Latvenergo, the main power company of Latvia. The Group's principal competitive advantages in the retail sales market are its ability to offer secure supply at fixed prices, its established sales channels and its strong brand name. However, as deregulation increases, the main competitive threat will be the ease of supply from Nord Pool which may be cheaper than electricity produced by the Group.

For the financial year ended 31 December 2011, total estimated demand for electricity in Estonia, Latvia and Lithuania amounted to 23.3 TWh. Electricity sales at regulated prices accounted for approximately 33% (€157 million) of the Retail division's sales revenue, compared to 37% (€176 million) for the financial year ended 31 December 2010 and sales at non-regulated prices accounted for approximately 22% (€105.8 million) of sales revenue for the year ended 31 December 2011, compared to 19% (€91 million) for the financial year ended 31 December 2010. Electricity sales at non-regulated prices for the financial year ended 31 December 2011 increased by 16% compared to the financial year ended 31 December 2010.

Regulated electricity supply

The regulated electricity supply business principally sells electricity generated by the Electricity and Heat Generation division. From 1 July 2010, the ceiling price at which the Non-Eligible Customers can buy electricity is 30.7 €/MWh as approved by the ECA. Estonia's power market is expected to be fully liberalised starting from 2013 and all customers will then be expected to start paying market-based prices.

For the financial year ended 31 December 2011, the Group's revenue from electricity sales on the Estonian regulated market decreased by 9.2% compared to the previous financial year, whilst the volume of electricity sold (GWh) also decreased by 10% for the same period. This was mainly due to the change in market structure when both Eligible and Non-Eligible customers were allowed to buy electricity at regulated prices and was in advance of the first phase of market liberalisation which commenced on 1 April 2010. During 2011, the average annual sales price on the regulated market was 30.8 €/MWh, an increase of 1% on the previous year.

Unregulated electricity supply

The Group has been operating in an increasingly open market environment over the past few years, and currently approximately one-third of the Estonian retail market is unregulated. Since 1 April 2010, a phased deregulation process began, and the EMA obliged all customers consuming at least 2 GWh per year through a single consumption point to pay market prices for electricity. For the financial year ended 31 December 2011, the Group's average Estonian market share of unregulated electricity sales was 72% compared to 87% for the financial year ended 31 December 2010.

Since 2010, the Retail division has also been developing a growing presence in both Latvia and Lithuania, whose own electricity supply markets are undergoing similar liberalisation. Currently, one-third of the total market in each of Latvia and Lithuania is liberalised. In order to mitigate the reduction of sales in Estonia due to market liberalisation, the Group is looking to gain market share in retail sales in Latvia and Lithuania.

Latvia

The Issuer has a 100% owned Latvian subsidiary called SIA Enefit, which is licensed to sell electricity directly to Latvian end customers. For the financial year ended 31 December 2011, the Group had increased sales of electricity to end consumers to approximately 422 GWh, increased its number of customers and gained approximately 15% of the unregulated wholesale electricity supply market in Latvia compared to 11% for the financial year ended 31 December 2010. The Group's main competitor in Latvia is Latvenergo AS, which has a 84% share of the unregulated retail market.

Lithuania

The Issuer has a 100% owned Lithuanian subsidiary called UAB Enefit, which is licensed to sell electricity directly to Lithuanian customers. The current power market in Lithuania is operated via border exchange and the Baltpool power market, but in the future Lithuania (as well as Latvia) may join the Nord Pool Spot market as well. At the financial year ended 31 December 2011, the Group had increased its sales of electricity to end consumers to approximately 350 GWh and gained approximately 7% of the unregulated wholesale electricity supply market in Lithuania compared to 5% for the financial year ended 31 December 2010.

The Group's major competitors in the unregulated market in Lithuania are Lietuvos Energija AB, which has a 26% market share, and Latvenergo AS, which has a 30% market share.

Other

The Group provides a number of services to both household and business customers including maintenance and repair and energy audits, and also provides power network construction services (which covers building and maintaining electrical networks, from the initial design and the signing of land use contracts to the actual construction and maintenance work). The Group's main competitors in this market are Empower AS and Eltel Networks AS. For the financial year ended 31 December 2011, the Group's sales of repair and network construction services increased by €12.9 million on the previous financial year, whilst sales of energy equipment were up €4.5 million on the previous financial year. In February 2012, the Group sold its telecommunications business Televõrgu AS.

Distribution Division

The Group is the largest distributor of electricity in Estonia and owns and operates the majority of Estonia's distribution networks through approximately 60,000km of underground and overground cables. The Group has the largest share of the distribution market in Estonia, covering about 92% of the Estonian population and having approximately 655,000 connections. Other distribution network operators in their respective areas in Estonia include OÜ VKG Elektrivõrgud and Imatra Elekter AS.

The Group's distribution activities are regulated by the ECA under the EMA and the Grid Code. For example, the Group is and will continue to be subject to price regulation in relation to the provision of network services after 1 January 2013. The regulatory period runs for three years, and is subject to annual review, with reference to the Estonian retail price index. The current regulatory period runs from August 2011 to August 2014. The ECA determines the price regulation by taking into account the licensing and legal obligations of the distribution network as well as allowing it to obtain a reasonable rate of return equivalent to the distribution network's average cost of capital ("**WACC**"). The distribution network's WACC for 2011 was 7.83%. In general, the distribution network's permitted return on its investment in the distribution network is calculated by applying its WACC to its regulated asset base ("**RAB**"). The current price regime and methodology has been applied by the ECA since 2005.

In 2011, the average network tariffs increased by 9.3% to 30 €/MWh compared to 2010 and there are regular annual adjustments to network fees taking into account inflation and other factors. Following the adjustment in August 2011, the new average distribution tariff is 33 €/MWh. The RAB of the Group's distribution network as at 31 December 2011 was €559 million.

As the Estonian electricity market is due to be fully liberalised from 1 January 2013, the EMA obliges Jaotusvõrk, as the network operator, to treat all market participants equally and to protect information about market participants. In order to comply with legal requirements and best practice, the Group has implemented certain changes to its operational structure. Jaotusvõrk is a separate subsidiary of the Issuer, which has its own management board and, following ECA recommendations, will be rebranded with a new logo and business name in 2012.

The Group has planned a significant expenditure programme to improve the reliability and performance of its distribution network. Network losses during 2011 amounted to 5.8%, down 0.8% on the previous year, representing an all time low for the Group. For the financial year ended 31 December 2011, 36% of faults were attributable to trees falling on the transmission cables and 18% attributable to weather conditions. Over the last four years the Group has been mainly building underground cables to reduce such occurrences.

The Group's distribution network earned revenues of €198.5 million in the financial year ended 31 December 2011, compared to revenues of €188.9 million for the financial year ended 31 December 2010, representing an increase of 5.1%. A return of 5.3% on the Group's RAB during the financial year ended 31 December 2011 fell short of the permitted return of 7.83%, but is expected to improve over the financial year ended 31 December 2012.

The table below sets out the split of the Issuer's distribution assets by their useful remaining lives as at 31 December 2011:

	30-40 years	20-30 years	10-20 years	Less than 10 years	Fully Depreciated	Total
			(as a percentage)			
Area Substations	13.3	13.3	29.4	30.2	13.7	100.0
Distribution Substations	12.9	7.6	36.4	26.2	16.9	100.0
Switchgears	16.7	10.2	24.6	27.4	21.1	100.0
ML/LV Substations . .	38.7	32.1	11.4	11.8	6.0	100.0
Transformers	0.0	8.5	20.0	41.5	30.0	100.0

Source: Issuer

Capital expenditure

The Group's operations are capital intensive and the Group's ongoing operations require significant capital expenditure in order to benefit from core competencies and realise its business strategy. The Group's recent and budgeted future capital expenditures reflect the Group's investment plan to become an increasingly diversified energy group with: (i) a more diverse portfolio of electricity generating assets, including from renewable sources and from more efficient, less CO_2 intensive, oil shale fired plants; (ii) increased production of shale oil; and (iii) an improved distribution network performance.

Committed investments

The Group's sizeable investment programme will continue in 2012, with expected total capital expenditure of €560 million. Currently, committed projects and maintenance investments are expected to amount to €918 million for the period 2013-2015.

Fuels

The Group is in the process of completing the construction of the first Enefit280 oil plant near Narva at a cost of approximately €212 million which is expected to be completed in 2012.

In Jordan, the Group has entered a 44 year concession agreement with the Jordanian government for an area of land in the Attarat region estimated to hold circa 2.3 billion tonnes of oil shale, which is expected to be used for two separate projects: an oil production project and a power generation project. The Group and its partners are investigating the possibility of developing an oil production industry with a capacity of 38,000 BBL/D as well as the construction of an oil shale fired power plant with a maximum gross capacity of 500MW. The pre-development phase is likely to cost approximately €30 million, and will continue until 2013 with regards to the power project and 2016 with regards to the oil project.

In Utah in the United States, the Group hopes to develop a shale oil industry, to include mines and processing facilities, with a capacity of 50,000 barrels per day. The pre-development phase is currently expected to cost approximately around €70 million and will be carried out until 2016.

Electricity and Heat Generation

In June 2011, the Group commissioned Alstom Consortium to construct up to two new oil shale and biomass fired CFB units with a total capacity of 600 MW (gross) to be located at the Narva Power Plants. Construction of the first unit commenced during 2011 and the Issuer intends to make a final decision in relation to the construction of the second unit this year. The CFB units are expected to increase thermal efficiency from 30% to 38% and to reduce the associated CO_2, SO_2 and NO_x emissions. The total cost of the first CFB unit is currently estimated at €638 million.

The Group expects to complete installation of its desulphurisation equipment on four energy units at the Narva Power Plants during 2012 which is currently estimated to cost around €117 million.

The Group also invests in renewable generation in order to diversify its generation portfolio and use less CO_2 and SO_2 intensive fuel sources. In 2011, the Group and GE Energy entered into an agreement to construct a new wind park with nine wind turbines at Paldiski, with a total generating capacity of 22.5MW. The cost is currently estimated to be €33 million. The Group has completed the construction of 17 wind generators with a total capacity of 39MW on the second ash field by the Balti power plant near Narva which is expected to become operational in 2012. The cost of this project is currently estimated to be €59 million. The Group has also begun construction of a waste-to-energy CHP unit in Iru which is currently estimated to cost €105 million and is expected to complete during 2013.

Distribution

The Group intends to invest approximately €300 million to improve the quality of its distribution network over a three year period from August 2011-August 2014.

One of the Distribution division's main projects is to install electronic meters to replace existing meters for all its customers. This project is due to commence in 2013, is expected to be completed in 2017 and is expected to cost approximately €90 million (which was partly accounted for in the period from August 2011-August 2014). The electronic meters will enable the Group to conduct remote meter reading which will provide a more efficient and accurate billing service for customers as well as allowing the Group to assess service disruptions remotely. The Distribution division is also investing in its IT system, improving the reliability of the IT network and installing new cabling connections.

The table below sets out the levels of expenditure up to 31 December 2011 on each of the Group's current principal committed investments, current estimated future expenditure and current estimated completion date for each project:

Investment Project	Capex up to 31 December 2011	Expected Future Capex	Capacity Upon Completion	Estimated Project Completion Date
	(€ million)			
Enefit-280 oil plant	160	52	up to 290,000 tonnes of shale oil per annum up to 307,000 MWh electricity 78,000 m^3 retort gas	2012
Development of oil shale industry infrastructure	6	19	–	2012
Desulphurisation equipment in NPP	92	25	–	2012
Narva wind park	55	4	39 MWe	2012
Paldiski wind park	7	26	22.5 MW_e	2012
Iru waste-to-energy plant	35	70	50 MWh 17 MW_e	2013
Distribution networks 2011-2014	39	261	–	2014
New CFB power plant in Narva	70	568	300 MW	2016
Predevelopment of liquid fuels industry in the United States	31	39	–	Development up to 2016
Predevelopment of liquid fuels and electricity industry in Jordan	3	27	–	Development up to 2016

Non-committed investments

The Group is also reviewing a number of capital expenditure projects which are not yet committed. These include:

Construction of two additional Enefit280 units and an upgrader near Narva

The Group expects to complete the construction of its first Enefit280 unit near Narva in 2012. Dependent on the successful completion and commissioning of this unit, the Group expects to make a decision on whether to build additional Enefit280 units as well as an upgrader of shale oil to fuel products in 2013. The total cost of this project is currently estimated to be around €1 billion.

Second CFB unit at Narva

The Group has an option to construct a second CFB unit, supplied by Alstom. The Group must decide by June 2012 whether or not to exercise this option or seek to extend it. The total cost of the second CFB unit is currently estimated to be approximately €517 million.

Nuclear power plant in Lithuania

The Issuer is in discussions regarding the possibility of its participation in a project that relates to the proposed construction and operation of a nuclear power plant at Visaginas, Lithuania. The other parties to these discussions are AS Latvenergo, UAB Visagino atomine elektrine and Hitachi-GE Nuclear Energy Ltd. In particular, discussions have begun as to the terms of a concession agreement which may be granted by the Lithuanian government to a third party company to commence technical and feasibility studies. The project remains at any early stage, however, and the Issuer has not yet undertaken any financial commitments regarding it (other than in respect of the fees of its own advisers). The project will involve very substantial capital commitments if it does proceed and, if the Issuer does participate in it, the Issuer will likely be required to raise additional finance proportionate to its interest in the project. The amount and sources of such finance would need to be determined and agreed prior to any final investment decision of the Issuer.

Denitrification equipment at Eesti power plant

The Group is currently reviewing tender offers from contractors for the installation of denitrification equipment at the Eesti power plant units using the older pulverised combustion boilers.

Financing

Due to the size of its investment plan, the Group has funded, and expects to fund, its capital expenditures using a combination of internally generated funds and external sources of funding, including bank loans and financing through the capital markets. While the sum of €150 million has been allocated for the share capital injection in the Estonian State Budget for 2012, it is not yet committed. The Government has not yet approved it and there is therefore the possibility that it may not be forthcoming or may not be made within the time period envisaged. Further, there is no assurance that this equity injection will not be subject to challenge as unapproved State Aid and as a result may be subject to State Aid approval.

The Group generates significant cash flows from its operating activities. For the financial year ended 31 December 2011, cash flow from operating activities for the Group were €161.8 million, representing a 18% decrease from €198.1 million for the financial year ended 31 December 2010.

The weighted average interest rate of the Group's borrowings at the end of 2011 was 4.05%. The Group's interest cover ratio in the financial year ended 31 December 2011 was 12.5. As at 31 December 2011, the Group's net debt stood at €405.5 million, having risen by €269.5 million during the financial year. The rise in net debt was caused by the Group's major investment programme, which calls for a level of spending that is currently higher than cash flows from operations. The ratio of net debt to EBITDA equalled 1.5 at financial year ended 31 December 2011. The ratio of net debt to equity reached 32.8% at the end of the financial year ended 31 December 2011. The Group paid out dividends of €56 million in 2011. The Estonian State Budget for 2012 plans to receive net dividends from the Issuer of circa €65 million and the Issuer must also pay tax on top of the dividends, calculated as 26.58% of the net dividends.

In 2005, the Group issued €300 million of euro-denominated 4.5% fixed rate bonds due 18 November 2020. The bonds are listed on the London Stock Exchange.

In September 2011, the Issuer agreed five bilateral revolving credit facilities in an aggregate principal amount of €500m with Nordea Bank Finland plc, Swedbank AS, SEB Pank AS, Pohjola Bank Plc and Danske Bank A/S. The term of the facilities is three years expiring in September 2014.

The Group also has long-standing relations with the European Investment Bank ("**EIB**"). The balance of loans outstanding from the EIB for the purpose of financing investments into the Group's distribution network amounts to €146 million. In addition, the Group has the ability to draw on two undrawn facilities of €95 million in total which were signed with EIB in December 2011 for the purpose of financing the construction of wind parks at Narva and Paldiski, and the waste-to-energy power station in Iru.

Credit rating

As at the date of this document, the Issuer's credit rating by Moody's is Baa1 and by S&P is BBB+, both reporting a stable outlook.

In order to facilitate access to external funding, the Issuer's current strategy is to follow a conservative financial policy notwithstanding its planned significant capital expenditure programme. The Group follows several key financial metrics, most significantly it aims to remain below 3 times net debt/EBITDA.

Management of the Issuer

Overview

In shareholders' meetings of the Issuer, the Shareholder is represented by the Minister of Economic Affairs and Communications. The Minister exercises all of the Shareholder's powers in a general meeting. For certain corporate actions, the Minister needs government approval prior to casting his vote at the shareholders' meetings. Such corporate actions include, amongst others: (i) amending the Issuer's share capital; (ii) commencing liquidation proceedings; (iii) entering into a merger agreement with another entity; (iv) re-organising the Group's corporate structure; (v) amending the Issuer's Articles of Association if this results in amendments to rights pertaining to the Issuer's shares; and (vi) determining the dividend level to be paid.

The Supervisory Board and the Management Board are responsible for the management of the Issuer. The Supervisory Board is a non-executive body responsible for, amongst others: (i) enforcing the Group's strategy; (ii) approving major strategic and tactical decisions; and (iii) supervising the work of the Management Board. The Supervisory Board also approves the annual budget and business plan. The Supervisory Board is constituted on the basis of the requirements specified in the State Assets Act, the Commercial Code and the Issuer's Articles of Association. The Management Board's rules of procedure are set out in the State Assets Act, the Commercial Code and the Issuer's Articles of Association. The Management Board is responsible for representing and managing the Group's affairs in all day-to-day activities and administration.

Supervisory Board

The Supervisory Board comprises eight members, half of whom are appointed by the Shareholder, and the other half by directives issued by the Minister of Finance. The work of the Supervisory Board is organised by the Chairman. The Minister of Economic Affairs and Communications, as Shareholder, determines the compensation of the members of the Supervisory Board within the limits established by the Minister of Finance. The Supervisory Board is responsible for approving major strategic and tactical decisions and supervising the work of the Management Board of the Group.

The members of the Issuer's Supervisory Board are set out in the table below:

Name	Role	External activities
Jüri Käo	Chairman	Member of management board of NG Investeeringud OÜ, NG Kapital OÜ, Roseni Majad OÜ and OÜ Gotfried. Member of supervisory board of AS Selver, AS Balbiino, AS Liviko, AS Tartu Kaubamaja, AS ABC King, OÜ Tartu Kaubamaja Kinnisvara, OÜ Ülemiste Autokeskus, Tallinna Kaubamaja AS, Tallinna Kaubamaja Kinnisvara AS, KIA Auto AS, AS Almeko Profiil, AS Kitman, Aeronautica AS, OÜ Roseni Kinnisvara. Member of board of Estonian Chamber of Commerce and Industry.
Meelis Atonen	Member	Member of supervisory board of Eesti Post AS and Tavid AS.
Rein Kilk	Member	Member of supervisory board of AS Kihnu Veeteed, Werol Tehased AS, AS Pere, AS Pärnu Sadam, AS Lihameister, AS Transcom, Ammende Villa AS, AS Transcom Vara, OÜ Greif, OÜ Pärnu Stividorid,Skorpioni Grupi Turvateenistuse Pärnu AS, Pere Restoranid AS, Tartu Sadam AS. Member of management board of OÜ Elikante, OÜ Transcom Grupp, Green Window OÜ, OÜ Kevade, OÜ Mediainvest.
Toomas Luman	Member	Member of management board of AS Nordic Contractors, Nordic Contractors Holding OÜ, AS Nordic Contractors Finance and Leasing, Nordecon AS, AS Arealis, OÜ Luman ja pojad. Member of supervisory board of Tehnopolis Kinnisvara AS, AS Kuldlõvi, AS Lohusalu Sadam, Liivalaia Arenduse AS, Shnelli Ärimaja, AS ECE European City Estates. President of Estonian Chamber of Commerce and Industry.

Name	Role	External activities
Kalle Palling	Member	Member of Parliament (Riigikogu). Member of supervisory board of Kodanikuhariduse Sihtasutus, AS Tallinna Lennujaam, Sihtasutus Rapla Maakonnahaigla. Member of management board of Barefoot Entertainment Group OÜ and OÜ Barefoot Holdings.
Toomas Tauts	Member	Member of supervisory board of Polli Prügila OÜ. Member of management board of Environmental Assets Holding OÜ, Estonian Pottery OÜ, MTÜ Hansatsura, OÜ Kohaliku Arengu Instituut, OÜ Autovaal, Paysim OÜ and TehnoVaal OÜ.
Andres Saame	Member	Member of management board of OÜ Glaric and AS Cross Holdings. Member of supervisory board in AS Toompeamaja, HTB Investeeringute AS, Kodumajagrupi aktsiaselts, OÜ Järvakandi Puidutehas, OÜ SavaClean, and Rocca al Mare Kooli Sihtasutus.
Märt Vooglaid	Member	—

The business address of each member of the Supervisory Board is Laki 24, 12915 Tallinn.

Rein Kilk has a potential conflict of interest between his duties to the Issuer as a member of the Supervisory Board and his private interest as a controlling shareholder of Werol Tehased AS, in that the interests of the Issuer and Werol Tehased AS will not be aligned in all circumstances. Werol Tehased AS is a customer and a debtor of the Group for the provision of electricity and heat, and for whom the Group is currently constructing a small CHP plant, the Group's exposure under which is €4 million. Werol Tehased AS is currently subject to bankruptcy proceedings as of 28 February 2012 in the Tartu County Court pursuant to an application by one of its creditors. However, as at the date of this document, there has been no actual conflict of interest because Rein Kilk has abstained from voting on any discussions of resolutions involving the Issuer and Werol Tehased AS. Save as disclosed above, no member of the Supervisory Board has any actual or potential conflict of interest between his duties to the Issuer and his private interests and/or other duties.

Management Board

The Group benefits from a stable Management Board whose members have all been in office for a number of years. The Management Board comprises five members elected by the Supervisory Board. A chairman is separately appointed to organise the work of the Management Board and act as Chief Executive Officer. The Management Board generally meets once a week and is responsible for fulfilment of the objectives of the Group.

The members of the Issuer's Management Board are set out in the table below:

Name	Date appointed from	Date appointed until	Role
Sandor Liive	1 December 2005	30 November 2014	Chairman, CEO
Margus Kaasik	1 December 2005	30 November 2014	Member, CFO
Margus Rink	14 April 2008	14 April 2016	Member, Head of the Retail Business division
Raine Pajo	1 December 2006	30 November 2014	Member, Head of the Electricity and Heat Generation division
Harri Mikk	1 December 2006	30 November 2014	Member, Head of the Minerals, Oil and Biofuels division

The business address of each member of the Management Board is Laki 24, 12915 Tallinn.

No member of the Management Board has any actual or potential conflict of interest between his duties to the Issuer and his private interests and/or other duties.

Employees

The Group employed an average of 7,585 full time employees for the financial year ended 31 December 2011 (compared to 7,423 for the financial year ended 31 December 2010). There are 12 unions and six collective bargaining agreements. However, the Group considers that relations with the labour force and unions are good, and there have been no stoppages owing to employment disputes. The Group does not provide any employer funded pension schemes.

Insurance

The Group currently has insurance against property damage, machinery breakdown and business interruption in its major production units. The assets of the Narva Power Plants, the Iru power plant and the Narva oil plant are insured with an indemnity limit of €250 million per claim. The Group's major office buildings and other key assets are insured for approximately €50 million.

The Group does not insure against all potential losses where it is not economical to do so. The Group does not have insurance against damage to its distribution network and equipment or against damage to its mining operations.

The Group also has public, product liability and casualty insurance against claims related to its operations, with the exception of its mining operations. This policy also has additional sub-limits for professional liability insurance, motor-third party insurance, employers' liability insurance, pure financial loss insurance and care custody and control insurance. Finally, the Group also has directors' and officers' liability insurance.

Litigation

Except as described below, the Issuer is not engaged in any governmental, legal or arbitration proceedings, or aware of any such proceedings pending or threatened against it during the 12 months prior to the date of this document that may have, or have had in the recent past, significant effects on the Issuer and/or the Group's financial position or profitability.

Uus-Kiviõli mining licence

The Group was allocated a mining licence by the Ministry of Environment at the Uus-Kiviõli mine which gave it access to 207.8 million tonnes of geological oil shale. OÜ VKG Kaevandused and TLA Invest OÜ, who also applied for licences at the same mine, have submitted applications to the Tallinn Administrative Court, claiming against the Estonian government that due process was not followed in the award to the Group as an auction process was not conducted in the allocation of the licences. The parties are currently contesting proceedings in the court of first instance. The Group plans to have the Uus-Kiviõli mine operational by 2016, and is not intending on halting its development of the mine due to the legal proceedings. The Group believes that the licence was validly allocated due to an exception under the Earth's Crust Act which provides for a preferential right of allocation in order to replace supply which will be exhausted within five years.

Disputes in relation to construction of Iru waste to energy facility

The Group began construction of a waste-to-energy CHP unit in Iru in 2010 with completion expected in 2013. A number of individuals living in neighbouring areas have claimed that relevant planning and environmental considerations were not met in the issue of the building permit by the local council. As at the date of this document, the courts have rejected applications to halt construction of the CHP unit. The dispute is currently with the Supreme Court who, in the first instance, will decide whether there are any substantive grounds for appeal to the Supreme Court. If the Supreme Court decides that there are no substantive grounds for an appeal, the decision of the lower courts will remain final. If the claimants succeed, substantial delay in the development of the unit could occur and could give rise to other claims from contractors.

Additionally, the same claimants have challenged amendments made to the IPPC permit of the Iru Power Plant. These amendments were necessary to allow the plant to function as a waste incineration installation. The claimants assert that the environmental impact assessment was not properly conducted and the plant may cause harm to their living conditions. The Tallinn Administrative Court is currently considering the case and it is likely that final judgement will not be delivered before the completion of the Iru waste-to-energy facility in 2013.

Material Contracts

Except as described below, the Issuer has not entered into any material contracts outside the ordinary course of business, which could result in either the Issuer or another member of the Group being under an obligation or entitlement which is material to the Issuer's ability to meet its obligations to Noteholders in respect of the Notes:

Alstom EPC Agreement

In 2011, the Group commissioned Alstom Consortium ("**Alstom**") to construct up to two new oil shale and biomass fired CFB units at the Narva Power Plants (each unit with an installed capacity of

300 MW). The total value of the EPC contract is currently estimated to be €953 million while the total investment cost of the two CFB units is estimated at €1,155 million. The Group is committed to the construction of one CFB unit under the EPC agreement at an estimated cost of €638 million (out of which the Alstom EPC contract makes up €543 million) and must exercise its option to construct the second CFB unit by no later than June 2012. The first unit is expected to be commissioned during 2016.

Under the contract, Alstom has generally undertaken to do everything necessary for the commissioning of the plant and risks associated therein lie with Alstom. The Group has a very limited scope of work and there are some risks specified in the contract for which Alstom is not liable. All risk of damage to or loss of any item of the works and the plant shall be borne by Alstom until provisional acceptance, that is, until the moment when all performance tests have been successfully passed and the plant has been delivered to the Group.

Under the contract, Alstom shall issue all guarantees customary to turnkey contracts. Pursuant to the contract, Alstom has an obligation to pay liquidated damages for delay, for the failure to meet performance guarantees, for the failure to meet reliability requirements after delivery of the plant and to deliver documentation. The contract specifies the maximum amount payable for each type of liquidated damages and also the maximum aggregate amount of liquidated damages payable by Alstom.

Outotec Joint Venture Agreement

In 2009, the Issuer and Outotec, a leading international minerals and metals processing technology provider, established a joint venture called Enefit Outotec Technology OÜ to further develop and exploit the Group's Enefit technology. The Issuer holds a 60% stake in Enefit Outotec Technology OÜ.

Under the shareholders' agreement, the Issuer and Outotec are each entitled to nominate three members of the supervisory board and one member of the management board of Enefit Outotec Technology OÜ. All key decisions have to be taken by consensus.

Both the Issuer and Outotec have agreed to provide to Enefit Outotec Technology OÜ reasonable access to, and use of, their respective intellectual property and know-how relevant to the Enefit technology. Any and all new intellectual property relating to the Enefit technology created as a result of the parties cooperation shall belong to Enefit Outotec Technology OÜ.

Neither shareholder may transfer or create any security over its share in Enefit Outotec Technology OÜ without the consent of the other shareholder. In the event of deadlock, either shareholder and in the event of an un-remedied default by one shareholder, the other shareholder will have a right to issue a termination notice. Upon service of the termination notice, the Issuer is required to purchase and Outotec is required to sell its share in Enefit Outotec Technology OÜ at a fair market price agreed between the parties or failing that in accordance with a specified valuation procedure.

Jordan Concession Agreement

The government of the Hashemite Kingdom of Jordan and Jordan Oil Shale Energy Company ("**JOSE**", a company in which the Group has a 65% share) signed a surface retort concession agreement on 11 May 2010.

Under the agreement, the government grants JOSE the exclusive right to conduct oil shale operations within a defined area in the Attarat region over a period of 44 years plus a possible extension of 10 years. The government has the right to requisition the Group's products in the event of a national emergency.

JOSE has committed to: (i) spend at least US$15 million over the pre-development period (four years) and must produce (and annually renew) a guarantee from a reputable bank as security for that amount; (ii) whilst JOSE has not committed to construct a shale oil plant, if a shale oil plant is built JOSE must pay the government a bonus of US$10 million when cumulative shale oil sales reach 10 million barrels; (iii) pay the government a monthly royalty of up to 5% of monthly sales of shale oil; and (iv) pay various other taxes and charges levied by the government. JOSE has also committed to comply with environmental obligations.

Simultaneously with the concession agreement, the Issuer entered into a direct agreement with the government setting out certain sell down restrictions. A reduction of the Issuer's stake in JOSE below 50% requires government consent (such consent to be withheld on limited grounds related to national security or unlawful acts of the acquirer), and a reduction below 10% is not possible during the lock-in period (being the period until the date of payment of a commercial production bonus or 10 years from the effective date, whichever is later). After the lock-in period, the Issuer will require government consent to reduce its stake below 10%, but consent can only be refused in the limited circumstances related to national security or unlawful acts of the acquirer.

The government has the right to terminate the concession agreement if JOSE; fails to commence development within a specified time limit; fails to apply for the necessary licences; ceases operations for more than 2 years; or commits a material breach of any of its obligations. JOSE may terminate the concession agreement if the government expropriates any of the oil shale operations or facilities, unreasonably withholds its consent/approval for licences or withdraws any rights that materially hinder JOSE's ability to carry out its obligations. The agreement also contains provisions on compensation upon termination due to government default.

Enefit280 Oil Plant Construction Agreement

In 2009, the Group entered into a construction agreement with Outotec for the construction of the first Enefit280 oil plant near Narva at a cost of approximately €119 million. The construction is expected to be completed during 2012. The plant will have a production capacity of up to 290,000 tonnes of shale oil per annum.

In addition to the construction agreement with Outotec, several parts of the Enefit280 oil plant are ordered directly by the Group from other contractors. The total investment cost of the oil plant is expected to be €212 million.

One of the key subcontractors of Outotec in this project is Eesti Energia Tehnoloogiatööstus AS, a subsidiary of the Issuer. As part of this arrangement, Outotec is relieved from possible liability for delays and cost overruns to the extent that these have been caused by Eesti Energia Tehnoloogiatööstus AS.

The start-up and commissioning is not within the scope of the construction contract. Although the parties have signed a separate start-up and commissioning agreement, the final scope of works has not been agreed yet. Also, Outotec has not given any performance guarantees (apart from in relation to SO_2 and NO_x emissions) since this is the first implementation of the Enefit280 technology developed jointly by the Group and Outotec.

Under the contract, Outotec shall issue all guarantees customary to turnkey contracts. Pursuant to the contract, Outotec has an obligation to pay liquidated damages for any delay. The contract specifies the maximum amount of liquidated damages for any delay and also the maximum aggregate liability of Outotec for any and all breaches of the agreement.

Installation Agreement regarding desulphurisation equipment at Narva Power Plants

In 2009, the Group commissioned Alstom to install desulphurisation equipment at four energy units at the Eesti power plant. The main reason behind this commissioning is to meet new stricter requirements on SO_2 emissions and to enable the Group to continue the operating of existing energy units. The installation is currently estimated to cost around €117 million. The installation works are expected to be completed by the end of 2012.

Under the contract, Alstom has generally undertaken to do everything necessary for the commissioning of the equipment and risks associated therein lie with Alstom. The Group only has a very limited scope of work and there are some risks specified in the contract for which Alstom is not liable. All risk of damage to, or loss of any item of, the works and the equipment shall be borne by Alstom until provisional acceptance, i.e. until the moment when all performance tests have been successfully passed and the plant has been delivered to the Group.

Following the installation of the first desulphurisation unit it was apparent that due to certain characteristics of oil shale it is not possible to achieve targeted desulphurisation levels without injecting lime. Therefore the parties agreed to amend the scope of work (with the value of approximately €7 million) for the engineering, supply, construction, installation, start up, commissioning and putting into operation of a permanent lime injection system for all desulphurisation units.

Under the contract Alstom shall issue all guarantees customary to turnkey contracts. Pursuant to the contract Alstom has an obligation to pay liquidated damages for delay, for the failure to meet guaranteed performance levels and for the failure to meet reliability requirements after delivery of the plant. The contract specifies a maximum amount for each type of liquidated damages and also the maximum aggregate amount of liquidated damages payable by Alstom.

Iru Waste-to-Energy Unit Construction Agreement

In 2010, the Group commissioned Constructions Industrielles de la Méditerranée S.A. ("**CNIM**") to construct a new waste-to-energy CHP unit in Iru on the eastern border of Tallinn next to the existing CHP plant. The new CHP unit is expected to burn up to 220,000 tonnes of mixed municipal waste per year. The CHP unit is expected to be completed in 2013 with a total investment cost expected to be €105 million.

Under the contract, CNIM has generally undertaken to do everything necessary for the commissioning of the plant and risks associated therewith lie with CNIM. The Group only has a very limited scope of works and there are some risks specified in the contract for which CNIM is not liable. All risk of damage to, or loss of, any item of the works and the plant shall be borne by CNIM until provisional acceptance, that is, until the moment when all performance tests have been successfully passed and the plant has been delivered to the Group.

Under the contract, CNIM shall issue all guarantees customary to turnkey contracts. Pursuant to the contract CNIM has an obligation to pay liquidated damages for delay, for the failure to meet guaranteed performance levels and for the failure to meet reliability requirements after delivery of the plant. The contract specifies the maximum amount for each type of liquidated damages and also the maximum aggregate amount of liquidated damages payable by CNIM.

Related Party Transactions

In preparing the Group's consolidated financial statements, related parties include associates of the Group, members of the Supervisory and Management Board of the Issuer, and other individuals and entities who can control or significantly exercise influence over the Group's financial and operating decisions. As Estonia is the sole owner of all the shares of the Issuer, the related parties also include entities under the control or significant influence of Estonia. Associates include entities over which the Group exercises significant influence but not control, generally holding between 20% and 50% of the voting rights in the relevant entity.

Subsidiary undertakings

The Issuer is the holding company of the Group. It has the following subsidiaries and joint venture undertakings:

Business name	Country of incorporation	Proportion of ownership
Eesti Energia Aulepa Tuuleelektrijaam OÜ	Estonia	100%
Eesti Energia Elektritööd AS (under liquidation)	Estonia	100%
Eesti Energia Elektritehnika ja Automaatika AS	Estonia	100%
Eesti Energia Jaotusvõrk OÜ	Estonia	100%
Eesti Energia Kaevandused AS	Estonia	100%
Eesti Energia Narva Elektrijaamad AS	Estonia	100%
Eesti Energia Õlitööstus AS	Estonia	100%
Eesti Energia Tehnoloogiatööstus AS	Estonia	100%
Eesti Energia Testimiskeskus OÜ	Estonia	100%
Eesti Energia Võrguehitus AS	Estonia	100%
Eesti Energia Hoolduskeskus OÜ	Estonia	100%
Enefit American Oil Inc.	United States	100%
Enefit US LLC	United States	100%
EAO Real Estate Corp	United States	100%
EAO Federal Lease LLC	United States	100%
EAO States Leases LLC	United States	100%
EAO Technology LLC	United States	100%
EAO Orion LLC	United States	100%
SIA Enefit	Latvia	100%
Solidus Oy	Finland	100%
UAB Enefit	Lithuania	100%
Pogi OÜ	Estonia	66.5%
Narva Soojusvõrk AS	Estonia	66%
Enefit Outotec Technology OÜ	Estonia	60%
Eesti Energia Tabasalu Koostootmisjaam OÜ	Estonia	55%
AS Nordic Energy Link	Estonia	39.9%
Orica Eesti OÜ	Estonia	35%
Enefit Power and Heat Valka SIA	Latvia	90%
Jordan Oil Shale Energy Company	Jordan	65%
Attarat Power Company	Jordan	65%
Enefit Jordan B.V.	Netherlands	65%

REGULATION

The Group operates under a wide and complex set of regulations and directives. A brief overview of the regulatory framework to which the Group is subject is set out below.

Electricity Regulation

The Estonian electricity market is mainly regulated by the Electricity Market Act ("**EMA**"). The Ministry of Economic Affairs and Communications and the Estonian Competition Authority ("**ECA**") share responsibility for the overall supervision and regulation of the Estonian electricity sector.

The Group is subject to price regulation for each of the activities listed below:

– sale of oil shale mined in Estonia to the Narva Power Plants for the production of heat and electrical energy;

– sale of electricity to Non-Eligible Customers;

– sale of electricity by the Narva Power Plants to distribution network companies or sellers designated by distribution network companies for onward sale to Non-Eligible Customers; and

– sale of network services by the Group.

Network distribution tariffs are set every three years (but are subject to an annual adjustment according to a formula that takes into account inflation, changes in distribution volume and RAB). All other regulated price caps may be changed on an application by the Group which is subject to approval by the ECA.

Sale of Oil Shale

An oil shale mining company which sells its oil shale mined in Estonia to an oil shale fired producer of electricity in Estonia with at least 500 MW total net capacity must do so at or below the price approved by the ECA. The ECA calculates the price limit based on its methodology termed "Principles of price regulation for production of electricity and oil shale" ("**Electricity and Oil Shale Pricing Methodology**").

The price for oil shale sold externally to other parties is not regulated but tends to follow the regulated price and is adjusted to reflect calorific value of the oil shale being sold.

The current price regulation for oil shale is expected to be removed in 2013 in light of the proposed deregulation of the Estonian retail electricity market in 2013, although the relevant legislation has not yet been adopted. The sale of oil shale to heating companies is expected to continue to be subject to price regulation.

In December 2011, the ECA commenced a market analysis in relation to the marketing, production and sale of oil shale. The Group has co-operated with the ECA's information request by responding to its questionnaire in January 2012. The ECA is due to publish a response paper in mid-2012. No active recommendations have yet been implemented by the ECA as a result of this market analysis.

Retail Electricity Supply

The retail electricity market in Estonia has been extensively regulated and is currently divided into two parts: (i) the closed market where prices are regulated; and (ii) the open market where prices are determined by market forces. Since 1 April 2010, the EMA obliges all customers consuming at least 2 GWh per year through a single consumption point to pay market prices for electricity (Eligible Customers). For customers consuming less than this amount (Non-Eligible Customers), the ceiling for the weighted average price was set at 29.4 €/MWh for the financial year ended 31 December 2011.

The Estonian government has indicated its intention to fully liberalise the electricity market so that all customers pay market prices for electricity as of 1 January 2013. The Group expects market prices to be generally higher than regulated prices and to gradually converge with the Nord Pool Spot price over the coming years.

Wholesale Electricity Supply

The EMA specifies that a generator of electricity who possesses oil shale fired generating installations with a total installed net capacity of at least 500 MW located in Estonia must sell electricity (up to the supply obligation of the DNO) at or below the price limit approved by the ECA to a DNO who has, or a supplier designated by the DNO as having, a supply obligation in respect of Non-Eligible Customers connected to the distribution network.

The ECA calculates the price limit based on its Electricity and Oil Shale Pricing Methodology. The EMA specifies that the price limit must enable the producer of electricity to recover the costs incurred in providing the production capacity necessary to perform the producer's obligations, the generation of electricity and the performance of the obligations arising from any relevant legislation and the activity licence and to earn an allowed return on capital employed.

The Estonian government has indicated its intention to fully liberalise the wholesale electricity market so that domestic operators or retail marketers will pay market prices for electricity as of 1 January 2013.

Network Services

All network charges must be transparent and in compliance with the principle of equal treatment for all customers. The ECA approves a maximum price the Group can charge its customers for network services. Under the EMA, a network operator (TSOs and DNOs) is entitled to charge for each of the following network services: (i) connection to the network; (ii) amendments to agreed levels of generation or load at point of connection; (iii) standing charge for maintaining the connection; (iv) transmission of electricity; and (v) additional services directly related to network services.

The ECA approves the Group's pricing methodology for connection charges, whilst charges for network services are approved by the ECA in accordance with its own pricing methodology. Upon approving network charges, the necessity of ensuring security of supply and efficiency must be taken into account.

The Group's Distribution division is and will continue to be subject to price regulation in relation to the provision of its distribution services after 1 January 2013.

Security of supply obligation

The EMA permits the Estonian government to take, for a specified period, such measures made necessary: if security of supply is endangered; in the event of fuel scarcity; or if there is a danger to humans or to the integrity of a network or electrical installation. In such an eventuality, the Estonian government must establish a scheme for compensating those affected financially. The measures that may be taken include: restricting the right of Eligible Customers; imposing stocking obligations on generators; suspending or restricting market participants' rights; limiting or interrupting electricity supply to particular market participants; and restricting or amending the obligation to provide network services.

Renewable Energy Regulation

The Group's generation of heat and electricity is largely based on oil shale. However, the Group has started to diversify its primary energy sources. In 2011, for example, the Group used a total of 15.8 million tonnes of oil shale, 98.2 million m^3 of natural gas, 415.4 thousand tonnes of biomass and 12.0 thousand tonnes of liquid fuel.

In relation to the use of municipal waste as a fuel source, construction and commissioning preparations for the Group's first CHP generating unit in the Baltic states took place during the financial year ended 31 December 2011. The generating unit will be commissioned during 2013 and will significantly reduce the amount of municipal waste that is stored in landfills by turning it into energy.

The Group also uses wind and water power to produce electricity. During the financial year ended 31 December 2011, the Group has been building a 39 MW wind park on the closed oil shale ash field of the Balti power plant. The wind park is unique for having been built on an old industrial landfill site, rather than on a greenfield site. The wind park is expected to become operational in 2012.

In terms of renewable energy regulation, the EMA provides for a support scheme per kWh to be paid by the TSO (and ultimately by the end customers) to a producer of electricity where the electricity is produced from a renewable energy source or qualifying co-generation plant. A renewable energy source is defined as: water, wind, solar, wave, tidal and geothermal, landfill gas, sewage treatment plant gas, biogas and biomass.

There are limits to the amount of support that can be claimed: wind energy producers may use the subsidy for up to a maximum of only 600 GWh of electricity produced in Estonia in a calendar year, for example. Further, from 1 July 2010, pursuant to an amendment to the EMA, plants using biomass will qualify for the renewables subsidy only if they are also qualifying co-generation plants.

A draft act has been prepared by the Ministry of Economic Affairs and Communications which, if enacted, would lead to setting out a material reduction of the renewable energy subsidy and tying the amount of such subsidies to prices on the Estonian power exchange. In the event that the price of electricity on the exchange is equal to or higher than the reduced new subsidy, no subsidy will be paid. For the time being, it remains unclear whether and to what extent the available renewable subsidies may be reduced and indeed when the act will come into force.

Environmental Regulation

The Group's businesses are subject to environmental regulation which is monitored by the Environmental Inspectorate, which enforces relevant EU and Estonian law. The Group always aims to act in a way that minimises its environmental impact by increasing its efficiency, using new and cleaner technology and finding ways to lower the environmental impact of its current equipment and facilities. The Group has a legal responsibility to prevent any negative environmental effects.

The Group's operational range covers all of the processes connected with energy generation, from oil shale mining to electricity distribution and sales, and all of these processes have a significant impact on the environment, as summarised below:

– emission of pollutants generated by the use of fossil fuels, including CO_2, NO_x, SO_2, particulates and volatile organic compounds;

– generation of large amounts of oil shale ash during the course of electricity generation and shale oil production, which, during hydro-transportation, makes the water alkaline and renders it a hazardous waste;

– release of water used during oil shale mining containing sulphates; and

– use of oil switches and transformers causing oil pollution.

The Group is subject to a range of EU environmental regulations and legislation, including: (i) the LCPD; (ii) the NECD; (iii) the IED; (iv) the Landfill Directive; (v) the IPPCD; (vi) the EU ETS; (vii) the Fuel Quality Directive; and (viii) the Mining Waste Directive.

The IED came into force at the start of 2011, bringing together seven different Directives including the LCPD and IPPCD. The impact of these Directives on the Group's existing combustion plants are governed by Estonia's EU accession agreement, which provides for certain exemptions that are valid until the end of 2015. In 2016, the Group's new combustion plants will be subject to stricter requirements and the conditions of use for the Group's current combustion facilities will be set out more precisely. The IED is expected to be adopted in Estonian legislation by the beginning of 2013 at the latest.

During the financial year ended 31 December 2011, the Fuel Quality Directive, which came into force in 2010, was revised so that additional requirements for the management of climate change were introduced. The revision has not been finalised and has led to discussions continuing during 2012 about calculating and limiting CO_2 emissions created by fuels as well as other greenhouse gases arising from the whole life-cycle of fuel production in connection to its primary source. Proposed changes in the directive could affect the competitiveness of liquid fuels produced from oil shale in comparison with conventional fuel sources.

Negotiations also started between the EU and Member States about revising the NECD to lower the permitted emissions for the Member States and to bring the EU requirements into line with the Gothenburg Protocol of the Convention on Long-range Trans-boundary Air Pollution. Such revisions would mean stricter pollution limits for Estonia. The negotiations are expected to continue during 2012.

The Group is also subject to the following Estonian environmental legislation, amongst others: (i) the Earth's Crust Act; (ii) the Mining Act, which imposes various obligations designed to ensure the safety of persons and property involved in mining operations; (iii) the Environmental Charges Act, which controls the application and regulation of environmental charges that are payable by the Group; (iv) the Environmental Liability Act, which implements Directive 2004/35/EC of the European Parliament and of the Council on environmental liability with regard to the prevention and remedying of environmental damage; (v) the Waste Act, which regulates the issuance of waste permits in relation to the amount of oil shale ash that can be produced and approved incineration methods of other waste products; (vi) the Water Act, which stipulates that a permit for the special use of water is required for the abstraction of specified volumes of water from both surface water and groundwater supplies, the dredging and damming of water bodies, the treatment activities of ground water and the discharge of effluent or other polluted water; (vii) the Ambient Air Act, which regulates the pollutants and permitted quantities of such pollutants a holder of an ambient air pollution permit may emit; and (viii) the IPPC Act, which regulates the issuance of an IPPC permit.

Emissions

The Group's activities released a total of 12.3 million tonnes of CO_2 into the atmosphere during the financial year ended 31 December 2011. In light of the EU's climate policy and international measures on climate change, the Group aims to cut its CO_2 emissions by 30% from 2007 levels by 2015 and 70% by 2025. Part of the Group's strategy is to widen its portfolio of generation assets and as a result, to reduce its emissions of CO_2 per MWh of generated electricity.

The Group's electricity generation installations are subject to the EU ETS and particular allowances are allocated to each installation. The EU ETS requires that companies which are subject to its regulatory framework and which obtain emission quotas, surrender those quotas according to the amount of their yearly emissions. The EU ETS is based on a cap and trade system whereby a cap is defined for the total combined permitted CO_2 emissions. Within the cap, emission allowances may be sold or purchased as required.

The EU ETS has been divided into four trading periods: Phase I (2005-2007); Phase II (2008-2012); Phase III (2013-2020); and Phase IV (2021-2028). For Phases I and II, the CO_2 allowances are allocated by the European Commission according to the approved Member State's National Allocation Plan ("**NAP**"). The discussions during the financial year ended 31 December 2011 between Estonia and the European Commission about Estonia's NAP for Phase II were successful. So after almost five years of negotiations, the Estonian NAP for Phase II was approved by the European Commission in December 2011. The allowances in the approved NAP were based on actual verified average CO_2 emissions from 2005-2010, which gave the Group allowances for 10.3 million tonnes of CO_2 emissions per year for the period 2010-2012. 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.

From 2013, the Group will no longer be allocated free CO_2 allowances under the EU ETS from Estonia but will have to acquire CO_2 allowances by auction process or from the market. Decreasing quantities of free allowances are still available for heat generation, however. The EU ETS also allows Member 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. Estonia has applied for 18 million tonnes of allowances for Phase III.

Regarding SO_2 emissions, stricter environmental restrictions will also apply to the Group. SO_2 emissions from the Estonian large combustion plants using oil shale as the main fuel, including mainly the Balti and Eesti power plants, will be limited to 25,000 tonnes a year. In light of this restriction, the Group continues to install and fine-tune NID technology-based emission reduction filters to cut SO_2 emissions from four generating units of the Eesti power plant. These filter equipped units will also meet the tighter limits on sulphur emissions in flue gas that will come into force in 2016. Measures are also being taken to reduce nitrogen emissions of the NID equipped units, so that units will be able to work at full capacity after 2016 without limits being imposed as a result of too high nitrogen emissions.

Oil Shale Ash

Thermal treatment of oil shale to get electricity, heat and liquid fuel creates a significant amount of ash. In 2011, the Group stored a total of 7.1 million tonnes of fly and bottom ash in the ash fields of the Balti and Eesti power plants. The Group uses a closed hydro transportation system to remove and store the oil shale ash, which helps to ensure that the whole system meets environmental requirements. The Group has also increased the environmental safety of the whole ash removal system through systematic maintenance, sediment removal from the water return system and continuous monitoring of ground and surface water. During the financial year ended 31 December 2012, the Group hopes 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.

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

Health and Safety Regulation

The Group's business carries an inherent risk that there may be incidents which could lead to personal injury or death of employees, contractors or other third parties. Estonian legislation, such as the Occupational Health and Safety Act, imposes obligations on employers in relation to the occupational health and safety of its employees. According to the Occupational Health and Safety Act an employer must ensure compliance with the occupational health and safety requirements in every aspect related to its work. Specific technical and safety requirements arise form the Electrical Safety Act and the Grid Code.

GLOSSARY

"BBL/D"	The rate of oil production per day; i.e. barrels of oil produced a day.
"Calorific value"	The amount of heat released during the combustion of a specified amount of that substance.
"CFB"	Circulating Fluidised Bed technology is a low temperature combustion technology that is widely used in burning low-grade fuels, such as oil shale.
"CHP"	Combined Heat and Power technology-heat which is not used in conventional thermal power generation plants is captured and used as steam or hot water. This increases the fuel efficiency of a power plant. See Co-generation.
"Co-generation"	Combined generation of electricity and useful heat by combustion of one primary fuel.
"Distribution"	The system that delivers electricity from a substation to a customer's premises at voltages of 35 kV or less.
"Efficiency"	In energy conversion, the ratio of useful work performed to total energy expended. In thermal power stations, the efficiency is the percentage of thermal energy contained in the fuel which can be converted to electricity. The higher the efficiency the lower the loss of the fuel's energy content.
"Estlink 1"	A set of high-voltage, direct current submarine cables between Estonia and Finland with a capacity of 350MW.
"Flue gas"	The combustion gas that is produced in power plants, consisting of a mixture of N_2, NO_x, SO_2, CO_2, CO, particulate matters and water vapour.
"Geological oil shale"	Pure oil shale. This term is relevant for calculating compliance with extraction limits set out by law or specified in extraction permits.
"Grid Code"	A body of regulation which is established on the basis of subsection 42(2) of the EMA. It prescribes the requirements for the connection of electrical installations to the power network and the rights and obligations of market participants.
"IPPC Permit"	A permit granted pursuant to the Integrated Pollution Prevention and Control Directive.
"Feedstock"	Raw material that is unprocessed or in a minimally processed state.
"Flue gas"	The combustion gas that is produced in power plants, consisting of a mixture of N_2, NO_x, SO_2 and water vapor.
"Generation"	Electricity is produced in generating stations where a propulsion unit (for example, a thermal or hydro unit) turns a large electric that produces electricity. A generating station may consist of several generating units.
"GW"	Gigawatts, a unit for measuring the capacity to produce electricity. One gigawatt equals 1,000,000,000 watts.
"GWh"	Gigawatt hours, a unit for measuring the generation and consumption of electricity.
"Installed capacity"	The level of output that may be sustained continuously without significant risk of damage to plant and equipment.
"kV"	Kilovolts, a unit for measuring voltage or electrical tension. One kilovolt equals 1,000 volts.
"kWh"	Kilowatt hours, a unit for measuring the generation and consumption of electricity. One thousand watts over the period of an hour.

"MW" or **MW_{e1}**	Megawatts, a unit for measuring the capacity to produce electricity. One megawatt equals 1,000,000 watts.
"MWh"	Megawatt hours, a unit for measuring the generation and consumption of electricity. One million watts over the period of an hour.
"MW_e"	The capacity to produce electrical energy.
"MW_{th}"	The capacity to produce thermal energy.
"Saleable oil shale"	Oil shale containing limestone. This is the amount of oil shale that is sold to customers and used for power generation and oil production.
"Transmission"	The part of the electric power system that carries electricity from power stations to distribution networks at voltages between 330 kV and 35 kV.
"TW"	Terawatts. A unit for measuring the capacity to produce electricity. One terawatt equals 100,000,000,000 watts.
"TWh"	Terawatt hours, a unit for measuring the generation and consumption of electricity. One terawatt hour is equal to sustained electricity consumption of approximately 114 MW for a period of one year.

TAXATION

The following summary describes Estonian tax consequences to Noteholders. It is a general summary and should not be considered as a comprehensive description of all the tax considerations which may be relevant to a decision to purchase, own or dispose of the Notes. Purchasers of the Notes should consult with their tax advisers as to the consequences of holding or transferring Notes under the tax laws of the respective country of which they are resident for tax purposes.

The taxation summary below is based on the laws in force in Estonia as of the date of this document and are subject to any changes in law occurring after such date, which changes could be made on a retrospective basis.

Taxation of interest

Estonian Resident Noteholders

Pursuant to Article 17(1) of the Estonian Income Tax Act, as amended (the "**EITA**"), income tax at the rate of 21% is charged on all interest received by natural persons who are resident in Estonia. Income tax payable in respect of interest payments to be made to Estonian residents is to be withheld by the Issuer. The Issuer will not withhold income tax if the Estonian resident Noteholder, who is a natural person, has notified the Issuer that the interest was received on financial assets acquired for money held in an investment account as specified in Article 17^2 of the EITA.

In general, interest income earned by resident legal entities is not subject to income tax. Such income is included in their profits and taxed upon distribution of profit pursuant to the respective procedures.

Non-resident Noteholders

The Issuer generally does not withhold any income tax on interest payments to all non-residents, irrespective as to whether they have a permanent establishment in Estonia. However, as specified by Article 29(7) of the EITA, if the interest payment significantly exceeds the market rate interest (payable on similar debt obligations, both at the occurrence of the debt obligation and payment of interest), then income tax must be withheld on the exceeding amount at the rate of 21% by the Issuer. The exceeding amount is the difference between the interest received and the interest payable according to the market conditions on similar debt obligation. This, however, does not apply to non-residents who have a permanent establishment in Estonia.

If a convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and on capital (Double Taxation Treaty) limits taxation of interest income, the limitations of the Double Taxation Treaty apply.

In Estonia, the limitations arising from a Double Taxation Treaty apply if the Noteholder has certified its residence to the Estonian Tax and Customs Board.

The income earned by non-resident Noteholders may be subject to taxation in their country of residence.

Taxation of capital gains

Estonian Resident Noteholders

The income earned by resident individuals from the sale of Notes is taxed as profit from the transfer of property which is subject to income tax at the rate of 21%. A Noteholder has to declare the income and pay the income tax.

Pursuant to Article 37(1) of the EITA, a resident individual has the right to deduct certified expenses directly related to the sale of Notes from the resident's gain or to add such expenses to the resident's loss. The gain or loss derived from the transfer of Notes is the difference between the acquisition cost and the selling price of the Notes sold.

Different taxation rules apply for the sale of Notes if the Noteholder uses an investment account as specified in Article 17^2 of the EITA for acquiring Notes and deposits the proceeds from the transfer of Notes in the investment account.

Income earned by resident entities from the sale of Notes is not subject to income tax. Such income is included in their profits and taxed upon distribution of profits pursuant to relevant procedures.

Non-resident Noteholders

Income earned from the sale of Notes is not subject to income tax in Estonia for non-resident Noteholders. The income earned by non-resident Noteholders may be subject to taxation in their country of residence.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

THE REPUBLIC OF ESTONIA

General Description

Estonia is located on the eastern coast of the Baltic Sea in the Nordic region. The territory of Estonia covers approximately 45,000 square kilometres and it is larger in area than Denmark, Switzerland and The Netherlands. Estonia is bordered to the north by the Gulf of Finland, to the west by the Baltic Sea, to the south by Latvia, and to the east by the Russian Federation. Its nearest overseas neighbour is Finland, which lies 85 kilometres across the Baltic Sea from Tallinn, Estonia's capital. The population of Estonia is approximately 1.34 million and with 69% of the total population living in urban centres. (*Source: Statistics Estonia)*

Estonia, along with Finland, Lithuania and Latvia, first attained independence in 1918. Estonia was later occupied by the Soviet Union in 1940 and regained its independence in 1991 with the collapse of the communist regime. In June 1992, Estonia replaced the Russian rouble with the Estonian kroon and immediately began a programme of free market reforms. Estonia has been a member of the European Union since 1 May 2004. On 1 January 2011, Estonia adopted the euro, becoming the seventeenth member of the euro zone.

Estonia's new constitution was introduced in 1992 and provides for a unicameral 101-seat Parliament (*Riigikogu*) whose members are elected directly by proportional representation. Traditionally, centre and right wing parties have been more popular in Estonia. The current government is formed by the coalition of two political parties: the liberal Reform Party and Pro Patria and Res Publica Union in the Parliament (*Riigikogu*).

Estonia is listed as a High-Income Economy by the World Bank and is also ranked as a High-Income Member of the Organisation for Economic Co-operation and Development by the World Bank. The United Nations lists Estonia as a developed country with a Human Development Index of "Very High".

Estonia is a member of a number of international organisations including the United Nations, NATO, the Organisation for Economic Co-operation and Development, the World Trade Organisation, the International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development and the Organisation for Security and Co-operation in Europe.

The Estonian Economy

General

Estonia has a modern market-based economy. Successive Estonian governments have pursued a free market and pro-business economic agenda. The economy also benefits from strong electronics and telecommunications sectors and strong trade ties with Finland and Sweden.

Economic Growth

Between 2003 and 2007, Estonia's GDP increased at an average rate of approximately 8% per annum. In 2009, due to decreased domestic and foreign demand, GDP decreased by 14.3%.

Rising exports to Sweden and Finland led to an economic recovery in 2010. Despite the contracting of the economy between 2008 and 2009, the average annual GDP growth in the last ten years has remained at 5.09%. The table below shows the percentage change in the GDP of Estonia between 2007 and 2011, compared to the average of the 27 EU Member States, as determined by Eurostat.

GDP change (%)	2007	2008	2009	2010	2011*
Estonia	7.5	-3.7	-14.3	2.3	8.0
EU-27 average	3.2	0.3	-4.3	2.0	1.6

Source: Eurostat (unaudited)
* *Forecast*

Inflation

The rate of inflation, as measured by the harmonised consumer price index, reached its peak in 2008. However, prices were corrected after the introduction of the euro and the increase in the rate of inflation in Estonia has since then been to a large extent as a result of external aspects, such as the appreciation of oil and other raw materials. For the industrial goods and services, the price pressures have been notable. The table below shows the percentage change in the Harmonised Index of

Consumer Prices in Estonia between 2007 and 2011, compared to the average of the 27 EU Member States, as determined by Eurostat.

Change (%)	2007	2008	2009	2010	2011
Estonia	6.7	10.6	0.2	2.7	5.1
EU-27 average	2.3	3.7	1.0	2.1	3.1*

Source: Eurostat (unaudited)
** Estimated provisional value*

Unemployment

Unemployment rates in Estonia rose in the years of the economic downturn. Recently, the number of unemployed persons has been dropping. According to the International Labour Organisation's definition of unemployment rate, the second largest reduction in the EU was observed between the fourth quarters of 2009 and 2011 in Estonia, a decrease of 44%.

Year	2007	2008	2009	2010	2011
Annual average rate of registered unemployment (%)	2.1	3.0	10.2	12.3	8.4

Source: Estonian Unemployment Insurance Fund (unaudited)

Public Finances

Maintaining a balance of public expenditures and revenues has been a key priority of the Estonian government. The table below shows the government surplus or deficit as a percentage of GDP in Estonia between 2006 and 2010, compared to the average of the 27 EU Member States, as determined by Eurostat.

Government surplus/(-)deficit as percentage of GDP	2006	2007	2008	2009	2010
Estonia	2.5	2.4	-2.9	-2.0	0.2
EU 27 average	1.5	-0.9	-2.4	-6.9	-6.6

Source: Eurostat (unaudited). 2011 data not available as at the date of this document.

Government debt has remained at low levels over the last 10 years. During growth years, the government has regularly provided a budget surplus. In 2010, Estonia had the lowest public sector debt among the EU Member States (6.7% of the GDP). The table below shows the government's gross debt as a percentage of GDP in Estonia, compared to the average of the 27 EU Member States, as determined by Eurostat.

Government gross debt as a percentage of GDP	2006	2007	2008	2009	2010
Estonia	4.4	3.7	4.5	7.2	6.7
EU 27 average	61.5	59.0	62.5	74.7	80.1

Source: Eurostat (unaudited). 2011 data not available as at the date of this document.

Foreign Trade

Estonia's geographical position favours foreign trade in the region, with the availability of ice-free ports as well as a well developed railway and road transport infrastructure. Estonia's total exports amounted to €12 billion for 2011, an increase of 38% compared to 2010. Estonia's imports amounted to €12.6 billion for 2011, an increase of 37% compared to 2010. Estonia's trade deficit amounted to €0.6 billion in 2011, compared to €0.5 billion in 2010.

During 2011, most of Estonia's exports were bound for Sweden (16% of total exports), followed by Finland (15%) and Russia (11%). In 2011, Estonia's biggest exports were machinery and equipment (27% of total exports), followed by mineral products, which includes motor spirits, fuel oils and electricity (17% of total exports), and metals and similar products (9% of total exports).

During 2011 the largest amount of Estonia's goods were imported from Finland (13% of total imports), followed by Latvia (11% of total imports) and Sweden (11%). The main goods imported in 2011 were machinery and equipment (27% of total imports), mineral products (18%) and agricultural produce and foodstuffs (10%).

Balance of Payments

Historically, the current account of Estonia has been in deficit and financed through capital inflow in the form of foreign direct investments and bank loans to the private sector. Since 2009, the current account balance has remained positive due to increased exports.

Year	2006	2007	2008	2009	2010
Current account balance/GDP (%)	-15.3	-17.2	-9.7	4.5	3.6

Source: Eurostat (unaudited). 2011 data not available as at the date of this document.

SUBSCRIPTION AND SALE

Deutsche Bank AG, London Branch and Nordea Bank Danmark A/S (together, the "**Joint Lead Managers**") and Danske Bank A/S, Pohjola Bank plc, Skandinaviska Enskilda Banken AB and Swedbank AB (publ) (together with the Joint Lead Managers, the "**Managers**") have, in a subscription agreement dated on or around 28 March 2012 (the "**Subscription Agreement**") and made between the Issuer and the Managers, upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Notes at the issue price of 99.163% of their principal amount. The Issuer has agreed to pay the Managers a combined management and underwriting commission in connection with the issue of the Notes. The Issuer has also agreed to reimburse the Managers for certain of its expenses incurred in connection with the management of the issue of the Notes. The Managers are entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has further represented and agreed that:

(a) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer.

Republic of Estonia

The offer of the Notes has not been and will not be registered under the Estonian Securities Market Act (the "**Securities Law**") as a public offering. Accordingly, each Manager has represented and agreed that it will not offer or sell any Notes, directly or indirectly, in Estonia or to or for the benefit of any resident of Estonia (which term as used in this paragraph means any person resident in Estonia, including any corporation or other entity incorporated under the laws of Estonia), or to others for re-offering or resale, directly or indirectly, in Estonia or to a resident of Estonia except in compliance with the Securities Law and any other applicable laws or regulations of Estonia. The Notes may not be offered or sold to natural persons residing in Estonia unless such persons have purchased the Notes with money held in an investment account as specified in Article 17^2 of the EITA.

No action has been or will be taken in any jurisdiction by the Issuer or the Managers that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this document or any other offering material, in any country or jurisdiction where action for that purpose is required. Each Manager has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction, in which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this document or any other offering material relating to the Notes. Persons into whose hands this document comes are required by the Issuer and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this document or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

1. The Issuer is incorporated in Estonia with its registered and head office at Laki 24, 12915 Tallinn. The telephone number of the Issuer's registered office is +372 715 2222.
2. The Issuer is entered in the Estonian Commercial Register under number 10421629.
3. On 12 March 2012 the Management Board of the Issuer resolved to issue €300,000,000 4.250% Notes due 2018 to be constitued by the Trust Deed. The issue of the Notes has been approved by way of a resolution of the Supervisory Board of the Issuer by its resolution dated 22 February 2012.
4. There has been no significant change in the Group's financial or trading position and no material adverse change in the prospects of the Issuer since the date of the last published audited financial statements (31 December 2011).
5. AS PricewaterhouseCoopers of Pärnu mnt 15, 10141 Tallinn, Estonia, certified auditors, are the auditors of the Group and have audited the Group's financial statements as at and for each of the years ended 31 December 2011 and 31 December 2010 and issued respective audit report, without qualification, in accordance with International Standards on Auditing.

   The Group's financial statements as at and for each of the years ended 31 December 2011 and 31 December 2010 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.
6. Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market. The listing of the Notes is expected to be granted on or about 2 April 2012.
7. Copies of the following documents (together with accurate English translations of the originals) may be inspected during normal business hours at the offices of the Trustee for 12 months from the date of this document:
   (a) the constitutional documents of the Issuer (in the event of a discrepancy between the original Estonian document and the English translation thereof, the Estonian document shall prevail);
   (b) the Trust Deed, which includes the forms of the Notes;
   (c) the consolidated (in accordance with International Financial Reporting Standards as adopted by the EU ("**IFRS**")) audited financial statements of the Group prepared in respect of the financial years ended 31 December 2011 and 31 December 2010, together with the audit report prepared in connection therewith. The Group and the Issuer each currently prepares audited consolidated and stand-alone accounts, respectively, on an annual basis; and
   (d) the Agency Agreement
8. The Notes and the Coupons will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".
9. The Issuer estimates that the amount of expenses related to the admission to trading of the Notes will be approximately £7,175.
10. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS0763379343 and the common code is 076337934. The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.
11. On the basis of the issue price of the Notes of 99.163% of the principal amount, the yield of the Notes is 4.405% on an annual basis.

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Consolidated audited financial statements of the Group as at and for each of the two years ended 31 December 2011 and 31 December 2010

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	Aleksei Kadõrko
Auditor's Certificate No.325	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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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

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**	
EQUITY			
Capital and reserves attributable to equity holder of the Issuer			
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 Issuer	**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*
Derivative 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**	

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS

in million EUR	1 January - 31 December 2011	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*
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 DISCOUNTINUED OPERATIONS	**-**	**27.4**	*36*
PROFIT FOR THE YEAR	**149.2**	**144.3**	
PROFIT ATTRIBUTABLE TO:			
Equity holder of the Issuer	**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*

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in million EUR	1 January - 31 December 2011	2010	*Note*
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 ATTRIBUTABLE TO:	**186.9**	**112.8**	
Equity holder of the Issuer	**187.0**	**112.7**	
Non-controlling interest	**(0.1)**	**0.1**	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
in million EUR

	Attributable to equity holder of the Company								
	Share capital	**Share premium**	**Statutory reserve capital**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**	*Note*
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 acquisition 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**	

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS

in million EUR	1 January - 31 December 2011	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*
Acquisition 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)**	
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**	

1. General Information

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

The Issuer 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 Baltics, Finland, Jordan and the USA.

The registered address of the Issuer 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 Issuer 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 did not have a material impact to the Group.

(b) New accounting pronouncements

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 early adopted:

- *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 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities, and in December 2011 to change its effective date and add transition disclosures. Key features of the standard are as follows:

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.

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.

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.

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 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 Issuer'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 presentation of its financial statements, but have no impact on 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 effective that would be expected to have a material impact on the Group.

2.3 Preparation of consolidated financial statements

(a) Subsidiaries

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

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

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

(c) Disposal of subsidiaries

When the 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 is 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 Issuer.

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

(a) Functional and presentation currency

Group entities use the currency of their primary economic environment as their functional currency. The consolidated financial statements are presented in euros, that is the functional currency of the Issuer and presentation currency of the Group. Until 31 December 2010 the Group's functional currency was Estonian kroon, that was pegged to euro at the fixed exchange rate of 1 euro = 15.6466 Estonain 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.

(g) Exploration and evaluation assets of mineral resources

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

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

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

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

- substantive expenditure on future exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area;

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

(h) Mining rights

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

2.9 Impairment of non-financial assets

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

- 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 (-expense)”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 where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

(b) Assets classified as available for sale

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

2.14 Derivative financial instruments and hedging activities

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

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

The fair values of derivative financial instruments used for hedging purposes are disclosed in Note 13. The movements of the hedge reserve reported in equity are disclosed in Note 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 Issuer 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 of 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 they arise from initial recognition of assets and liabilities in a transaction other than a business combination and that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using the tax rate that is expected to be enacted in the period when the asset is realised or the liability is settled using the tax rates and tax laws effective at the end of the reporting period.

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

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

As at 31 December 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 when the entity has a plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value. Redundancy provisions are set up for redundancies occurring in the course of restructuring (Note 2.24).

Other employee benefits

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

2.24 Provisions

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

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

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

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

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

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

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

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

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

(b) Environmental protection provisions

Environmental protection provisions are recognised to cover environmental damage that has 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 in the amount which is the lower of the cost of fulfilling it (revenues received less expenses occurred of fulfilling the contract) and any compensation or penalties arising from failure to 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 in certain circumstances liabilities, are disclosed in the notes to the financial statements as contingent liabilities.

2.26 Revenue recognition

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

(a) Sale of electricity

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 are 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 Issuer.

(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 included the transactions concluded in US dollars.

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

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.

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

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

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

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

3. Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value of financial instruments or cash flows will fluctuate in the future due to changes in market interest rates. 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.

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

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

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

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

The list of emitents and partners is approved by the committee of the 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 enterprises (except credit institutions)	Minimal credit rating Aa3/AA-

The available monetary funds can be deposited only in financial instruments denominated 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 ja 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 on the basis of 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 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):

	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:

	31 December 2011		
In million EUR	**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, an 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 the interest rate 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, producing electricity and distributing electricity are impacted by the Competition Board which determines the reasonable rate of return to be earned on these assets. If the income, expenses and investments related to the sale of electricity, oil shale and distribution services remain within the expected limits, the revenue derived from the sale of goods and services guarantees a reasonable rate of return for these assets. Information about impairment losses incurred in the reporting period and the comparative period is disclosed in Note 6.

(c) Recognition and revaluation of provisions

As at 31 December 2011, the Group had set up provisions for environmental protection, termination of mining operations, employees related 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 Issuer's management board.

In the segment reporting the relevant financial measures are presented that are regularly provided to the Issuer's management board and evaluated by the Issuer'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, Taastuv-energia, 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 cover 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 Total	*of which Distribution*	Electricity and Heat Generation	Minerals, Oil, Biofuels Total	*of which Mining*	Corporate Functions	Elimi-nations	Total
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), in	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 amortisation (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*	-	0.0	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**

Segment information for reportable segments for the year ended 31 December 2010 in million EUR

	Retail Business Total	*of which Distribution*	Electricity and Heat Generation	Minerals, Oil, Biofuels Total	*of which Mining*	Corporate Functions	Elimi-nations	Total
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), inc	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 amortisation (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**

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 Issuer 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.

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	**1 January - 31 December**	
in million EUR	**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*	**31 December**	
in million EUR	**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

	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 differences	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

Continuing operations	**1 January - 31 December**	
	2011	**2010**
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 differences	-	-	-	(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

Goodwill

Allocation of goodwill by cash-generating units in million EUR	**Mining**	**Paide co-generation plant**	**Valka co-generation plant**
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 these tests.

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 surrounded 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	1 January - 31 December	
in million EUR	**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

Company	Location	Assets	Liabilities	Operating income	Net profit	Ownership (%)
		31 December 2011		1 January -31 December 2011		31 December 2011
Nordic Energy Link Group	Estonia, Finland Netherlands	85.5	58.9	14.4	1.3	39.9
Enefit Jordan B.V. Group	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**	

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

* 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

Inventories	31 December	
in million EUR	**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

As at 31 December 2011	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
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

As at 31 December 2011	Liabilities at fair value through profit or loss	Derivatives for which hedge accounting is applied	Other financial liabilities	Total
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

in million EUR	31 December	
	2011	**2010**
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	31 December	
in million EUR	**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.

Changes in allowance for doubtful receivables	**1 January - 31 December**	
in million EUR	**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.

12 Trade and other receivables, continued

Revenue under the stage of completion method	**31 December**	
in million EUR	**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

Derivative financial instruments	**31 December 2011**		**31 December 2010**	
in million EUR	**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 in million EUR

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.

	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**

14 Credit quality of financial assets, continued

	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	
Unquoted financial assets (at fair value):	**2011**	**2010**
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	**1 January - 31 December**	
in million EUR	**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	**1 January - 31 December**	
through profit or loss	**2011**	**2010**
in million EUR		
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, 1	**-**	**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	**31 December**	
in million EUR	**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 registered 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

	1 January - 31 December	
in million EUR	**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	**31 December**	
in million EUR	**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	**31 December**	
in million EUR	**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.

22 Borrowings, continued

Long-term bank loans at nominal value by due date	**31 December**	
in million EUR	**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	**31 December**	
in million EUR	**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**

Weighted average effective interest rates of borrowings	**31 December**	
	2011	**2010**
Long-term bank loans	3.2%	2.8%
Bonds	4.9%	4.9%

23. Trade and other payables

Trade and other payables	**31 December**	
in million EUR	**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	**1 January - 31 December**	
in million EUR	**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	**1 January - 31 December**	
in million EUR	**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 (N	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	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**

	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 (N	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	-	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%.

25 Provisions, continued

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

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

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.

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

Revenue	**1 January - 31 December**	
in million EUR	**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

Other operating income

in million EUR

Continuing operations	**1 January - 31 December**	
	2011	**2010**
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

Continuing operations	1 January - 31 December	
	2011	**2010**
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

Continuing operations	1 January - 31 December	
	2011	**2010**
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

Payroll expenses in million EUR

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 environment	(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

Continuing operations	1 January - 31 December	
	2011	**2010**
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

Continuing operations	1 January - 31 December	
	2011	**2010**
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 another 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

Continuing operations	**1 January - 31 December**	
	2011	**2010**
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 December 2012, 2013 and 2014 in the amount of EUR 52.9 million (31 December 2010: EUR 33.5 million).

35. Assets and liabilities of disposal group classified as held for sale

Assets of disposal group classified as held for sale	**31 December**	
in million EUR	**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	**31 December**	
in million EUR	**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	**March 2011**
in million EUR	
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 the 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	**1 January**
in million EUR	**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	**27 January**
in million EUR	**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)**
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

in million EUR

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 acquired, liabilities assumed and the non-controlling interest at the acquisition date.

Consideration	
Cash paid	0.6
Cash to be paid in the future	0.2
Total cost of acquisition	0.8

Recognised amounts of identifiable assets acquired and liabilities 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 acquired, liabilities assumed and the non-controlling interest at the acquisition date.

Consideration	
Cash paid	1.2
Total cost of acquisition	1.2
Recognised amounts of identifiable assets acquired and liabilities 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.

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	
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 Issuer, 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	**1 January - 31 December**	
in million EUR	**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 did not 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 statement

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 statement 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 disclosure of which is required by the Accounting Act of Estonia.

The primary financial statements of the Parent Company have been prepared using the same accounting policies that have been used in the preparation of the consolidated financial statements.

Investments in subsidiaries and associates are reported at cost in the separate financial statements of the Parent Company

INCOME STATEMENT	**1 January - 31 December**	
in million EUR	**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**

STATEMENT OF COMPREHENSIVE INCOME	**1 January - 31 December**	
in million EUR	**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**

STATEMENTS OF FINANCIAL POSITION	**1 January - 31 December**	
in million EUR	**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
Receivable 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 and 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**

STATEMENTS OF FINANCIAL POSITION	**1 January - 31 December**	
in million EUR	**2011**	**2010**
EQUITY		
Non-current assets		
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**

CASH FLOW STATEMENTS	**1 January – 31 December**	
in million EUR	**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 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 related to other 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)**

CASH FLOW STATEMENTS	**1 January – 31 December**	
in million EUR	**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 subsidiaries	56.1	109.2
Net change in term deposits with maturities of more than three 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 subsidiaries	7.8	172.6
Proceeds from liquidation of subsidiary	-	1.5
Purchase of subsidiaries	(2.3)	-
Repayment 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**

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 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**

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 the 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**

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