elering

GENERATING OPPORTUNITIES

annual report 2009

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Krichev
Sovetsk
Kruonio AE
Alytus
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Contents

Management Report

Elering - An Independent Transmission Network Operator

Elering, the state-owned independent transmission network operator, is responsible for the functioning of the Estonian electricity system as a whole so that the high quality of electricity supply is guaranteed to consumers at all times.

Estonia's position adopted in the discussions about the European Union's third energy package concerning the ownership unbundling of the transmission network operator from electricity companies was one of the first steps towards the creation of a well-functioning electricity market. Although the European Union's electricity market opened up in full in July 2007, Estonia as the only Member State was granted a transitional period in accession negotiations under the condition that at least 35% of its electricity market should open up in 2009 and the whole electricity market should open up from 2013.

The decision, approved in principle by Riigikogu (Parliament of Estonia), was included in the long-term development plans concerning the energy and electricity sector, and a committee for the separation of the transmission network operator from Eesti Energia was set up to implement the adopted plan. On 12 November 2009, the Government of the Republic separated Elering, including the assets of the transmission system, from Eesti Energia in order to ensure complete independence of the transmission network operator from electricity production and sales activities.

Elering is not an ordinary profit-oriented commercial entity, but an organisation that performs the tasks of a transmission network operator directly arising from public interest, ensuring equal treatment of all electricity market participants pursuant to law. Our goals include ensuring the technical functioning of the system, security of supply and a well-functioning marketplace - an electricity network which would create an opportunity for as many new suppliers as possible to enter the market and allow consumers to choose their own supplier. This goal can only be achieved through close collaboration with market participants. We consider a constructive dialogue with our partners an important factor for paying closer attention to their interest in the development of the system. For this purpose, we have set up the electricity market and power network development advisory committees.

Such a situation will provide assurance to all market participants that the transmission network is being adequately developed, considering the need for security of supply as well as the needs of the electricity market. Separation of the transmission network operator should provide substantive, legal and emotional assurance to market participants that all of them will be treated equally, constituting the so-called Chinese wall with regard to transmission of sensitive information from the system operators to third parties. To improve the functioning of the market, we would like to make as much information as possible available to all parties to the extent possible in a uniform and timely manner, and withhold only sensitive business information.

Joint action of system operators in Europe

The European Union's third energy package gave a big boost to increasing cross-border integration of European energy systems and improving the concept of a joint action by transmission system operators in the development of the necessary policy for the creation of a common electricity network and market in Europe. On 1 July 2009, the organisation for power system operators ENTSO-E (European Network of Transmission System Operators for Electricity) was founded, which Elering is also a member of. ENTSO-E's priorities are the management of electricity systems, and the issues related to the development of electricity market and network. Elering participates in 24 different ENTSO-E working groups at the regional and pan-European level. Simultaneously with our work in ENTSO-E, we continue our cross-border work with our Belarusian, Russian, Latvian and Lithuanian colleagues in BRELL, the organisation for transmission system operators of the interconnected electricity system. More clearly defined treatment of the electricity sector in the EU and non-EU countries undoubtedly requires revaluation of the former logic of the activities of BRELL in 2010.

Subsequent to the establishment of ENTSO-E, the operations of Baltso, the former umbrella organisation for transmission network operators, were closed down.

The Electricity Market

From the point of view of the development of the electricity market in the region, the core document outlining the main course of action is BEMIP (Baltic Energy Market Interconnection Plan), which was signed on 17 June 2009 by eight Baltic Sea countries and the European Commission. In order to ensure better security of supply, the starting point for the preparation of BEMIP is integration of the Baltic States into the electricity system of the European Union through better interconnectors, and creation of a single electricity market in the European Union (including the Baltic States) through interconnecting the markets.

An action plan for the development of energy markets in the Baltic Sea region has been drawn up to achieve the aforementioned objectives. The first goal is to integrate the Baltic States into a single electricity market, and then to create a single Baltic-Nordic electricity market using the principles of the Nordic market organisation. Pursuant to this plan, the State of Estonia assumed the obligation to develop an electricity exchange as the electricity market partially opens up.

The transmission system operators of all three countries along with the exchange operator Nord Pool Spot (NPS) play a key role in ensuring the functioning of the market. Under Elering's leadership, work has reached a stage where everything is ready for us to join the single electricity market in the Baltic region, run by NPS and including three price areas – Estonia, Latvia and Lithuania on 1 January 2011. Besides an intraday day-before market for trading of physical electricity, an accompanying financial market for derivatives trading is expected to be launched. Use of indirect auctions among the price areas will always ensure the movement of electricity from the lower price areas to the higher price area. The charge for possible congestion in cross-border interconnectors will help the network mitigate potential bottlenecks by reinforcing the lines or building new interconnectors.

For many producers, good interconnectors are the key to well-functioning competitive market which Elering helps to achieve with its activities. We believe that an open electricity market being part of the European Union's single electricity market will set the best possible price for electricity in Estonia in the future. Furthermore, without an open market there is no opportunity to build Estlink 2, NordBalt (high voltage direct current transmission line between Lithuania and Sweden) or a third interconnector between Estonia and Latvia, let alone to achieve the strategic aim of integrating the Baltic States into the interconnected system of Central Europe, UCTE.

Development of the Electricity System

For Elering, the changes in the electricity sector in respect of the shift from regulated prices to an open market principles present huge challenges for managing the electricity system and developing the network. Security of supply must be guaranteed in the electricity market based on free market principles.

The majority of issues we face are undoubtedly not unique, but quite similar in any part of the European Union we look at. The ways for producing energy have changed. The key trend is towards much more diversified energy production than before and large-scale integration of renewable energy, especially wind energy, into the electricity network will present major challenges for Europe as a whole as well as for us in ensuring security of supply. To this end, we have commissioned a special report from Danish experts, who have the best experience in integrating wind energy into the electricity system, dealing with future opportunities for integration of the wind energy into Estonia's electricity network.

Research and development costs are one cost article which is most likely expected to grow in Elering's budget in the future. In 2009, in addition to the aforementioned survey, we also commissioned other surveys such as: Calculations of the Stability of the Estonian Power System and Analysis of its Maintenance Patterns, Verification of the Calculation Model of the Estonian Power System and BRELL, Analysis of the Reliability of the Insulation of the Transmission System's 110 kV Overhead Lines and Measures for Improving it, Wind Power Integration Technical Study for the Estonian TSO and several other smaller surveys.

The way energy is consumed will also change. For example, in the next few decades there will presumably be something of a revolution in electric transportation. All of this will present new kinds of challenges for the transportation of electricity. Creating a European SuperGrid for harmonizing changed production and consumption is a project which we must be able to contribute effectively to in the next decades.

In order to cope with all of these challenges, ENTSO-E has, for the first time, drawn up a ten-year electricity network development plan, which includes topics for discussion that are also of importance to us. The challenge for achieving the integration of European energy systems is enormous one, also manifested in the need to make investments. Elering plans to invest 450 million euros in developing its transmission network by the end of 2014, but according to the ten-year electricity network development plan, the total European network investments are budgeted at 23-28 billion euros.

The main features of the Estonian power system are separately outlined below; hence I will not cover them here in detail. However, one aspect is important.
Over the next five years, Elering plans to invest about seven billion kroons in the Estonian electricity system in order to ensure security of supply. Investments such as the second undersea cable between Estonia and Finland, Estlink 2, purchase of the cable of Estlink 1, Tartu-Viljandi-Sindi line and the gas turbines required to maintain the emergency reserve for the power system will lead to an increase in network charges by 2.3 Estonian sents from 1 June 2010, as has been ruled by the Competition Board. New tariffs of network charges will apply from 1 June, due to a sharp drop in electricity transmission capacity of 20.8% as compared to the Competition Board's forecast made in the autumn of 2007. In 2010, Elering's operating costs will

decline by 72 million kroons as compared to the budget.

In summary, the year 2009 was a ground-breaking year for Elering. The role of an independent transmission network operator grants us rights, but also sets obligations and increases responsibility. We are ready to bear this responsibility by ensuring clear and understandable rules for everyone in the development of the electricity market, management of the system, and planning of the network. We firmly believe that a strong new centre of competence in the energy sector is a major step forward for a small country like us. This will enable balanced development of the electricity sector.

Taavi Veskimägi
Chairman of the Management Board

Overview
of the Estonian
Electricity System

The Estonian electricity system combines power plants, network operators and electricity consumers in Estonia. The Estonian system works parallel to the Russian interconnected IPS/UPS electricity system, and is connected through 330 kV transmission lines with Russia and Latvia. Since late 2006, Estonia and Finland have been connected by the 350 MW direct current Estlink cable.

The Estonian system and its interconnectors with other countries are shown in Figure 1.

The Estonian 110-330 kV network was mostly built in the years 1955-1985 as part of a single Soviet power system, to meet the needs at that time for ensuring the electricity supply of St. Petersburg and Riga with electricity produced from oil shale in Narva. Subsequently, Tallinn, Tartu and Pärnu became the principal consumption centres, which in turn has led to expansion and strengthening of the transmission network in these regions.

The strategic goal of Elering as a system operator is to ensure security of supply and quality of electricity for the whole country. Another goal is to continue to improve the economic efficiency of the energy sector through a well-functioning electricity market. Since April 2010, Estonia is part of the Nord Pool-Spot price area. In addition to the domestic electricity market and network, the continued development of the electricity network and market in the Baltic Sea region is of strategic importance.

To support a well-functioning electricity market and increase security of supply, Elering plans to build Estlink 2 as a second interconnector between Estonia and Finland, establish fast disturbance reserves, strengthen the electricity network between the Baltic States, develop common EU technical standards for power plants, and simplify and harmonise technical regulations.

In addition to the aforementioned goals, Tartu-Sindi and Harku-Sindi 330-kV lines must be built as a national transmission backbone, to support and enhance security of supply for major centres of consumption. The Estonian electricity system is greatly affected by Russian transit power passing through it, and this affects the potential capacity of the transmission between Estonia and Latvia. In order to increase the transmission capacity between the Baltic States and to ensure effective functioning of the electricity market, a third interconnector is planned to be built in Latvia.

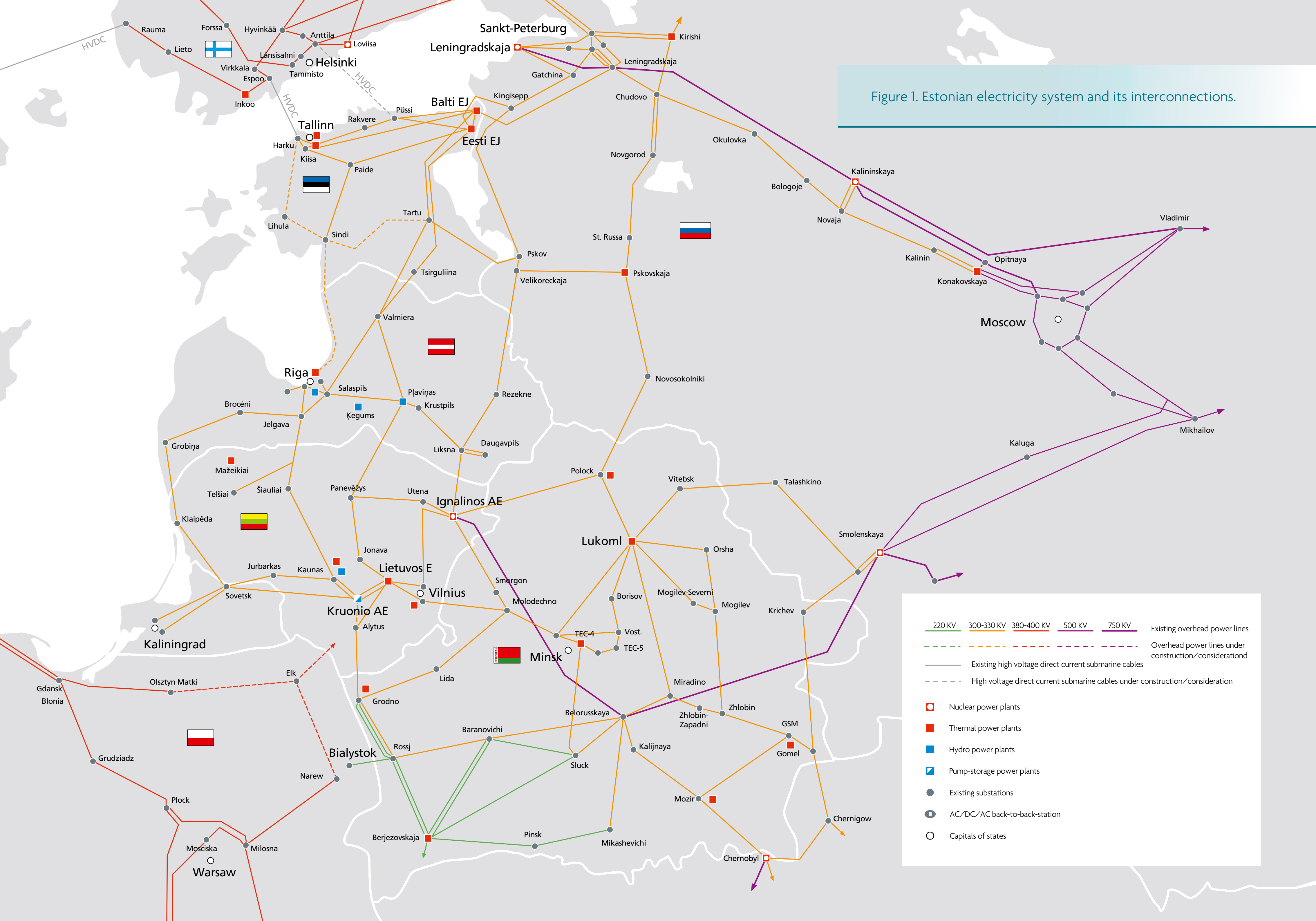

Figure 1. Estonian electricity system and its interconnections.

Production in the Estonian electricity system

A great majority of Estonia's electricity is currently produced from oil shale, which makes up almost 93% of total production (2008). The total capacity of the power plants built in Estonia and the actual capacity consumed is summarised in Table 1.

Table 1. Capacity of power plants built in Estonia as at September 2009.

	Installed MW	Peak consumption MW
Thermal power stations	**2302**	**1885**
Narva power plants	2000	1788
Iru power plant	156	0
Ahtme power plant	24,4	9,2
VKG North and South power plants	44	17
Tartu (Anne) power plant	25	25
Tallinn (Väo) power plant	25	25
Industrial and small-scale production	**28**	**21**
Hydro plants	**4**	**3**
Wind parks	**115**	**0**
TOTAL	**2421**	**1888**

After 2015, the desulphurisation rules of EU Directive 2001/80/EC, Annex III, Part A will be applied in full to the existing unreconstructed oil shale production facilities. This will take 1614 MW of production equipment out of use unless flue gas treatment equipment is installed. Elering is aware that there are definite plans to install the treatment equipment on four generating blocks at Narva power plants with total capacity of 644 MW. The plan calls for two blocks to be mothballed at Baltic Power Plant, with total net capacity of 302 MW.

Furthermore, the European Union has required Estonia to cover 25% of its domestic energy consumption from renewable energy by 2020. In order to meet this goal, the Ministry of Economic Affairs and Communications has estimated that wind turbines with the capacity of 400 MW will have to be built.

Interest has been expressed in connecting wind power plants with capacity of up to 4100 MW (connection applications, connection bids and connection contracts) to the electricity network. Due to the nature of consumption in Estonia (400-1600 MW) and absence of quick-start generation options, much of the electricity produced by wind turbines in Estonia cannot be balanced within the system, and neither is it possible to use all power they produce. This in turn places a higher burden on external interconnectors, which will start hindering electricity trading.

Elering is aware of the plans to build wind power plants in Estonia by 2013 (contracts entered into for capacity of up to 634 MW), and one peat and wood-burning combined thermal and power plant (total capacity of ca. 24 MW). In addition, Elering plans to connect gas turbine power stations with capacity of up to 250 MW to the network to be used in case of emergency.

Electricity transmission grid

Table 2 presents the Estonian transmission grid.

Table 2. Estonian transmission grid

Lines	Length, km	Substations	Quantity
Total	**5262**	**Total**	**150**
330 kV	1541	330 kV	10
220 kV	184	220 kV	1
110 kV	3476	110 kV	139
35 kV	61		

The Estonian electricity network has transmission capacity for exporting and importing of up to 1100 MW through AC lines and 350 MW through Estlink. In 2009, Elering's lines transmitted a total of around 10,400 GWh of electricity, which breaks down as follows:

- 7170.7 GWh of domestic consumption;
- 1342.8 GWh of exports through AC lines;
- 1874.9 GWh from Estonia to Finland through Estlink.

Imports included:

- 3138.9 GWh through AC lines;
- 81.8 GWh from Finland to Estonia through Estlink.

Losses in the transmission grid were 332 GWh.

Current external interconnectors consist of three 330 kV lines which connect Estonia to Russia, and two 330 kV lines that connect Estonia to the electricity system of Latvia. Estonia is connected to Finland through Harku-Espoo 150 kV DC Estlink cable. Due to the estimated increase in CO2 prices, and tighter restrictions after 2012, electricity imports can be expected to grow in Estonia after 2016. If external interconnectors remain as they are, the restrictions on imports can also be expected to remain the same. Consequently, Elering finds it crucial to build an additional electricity interconnector between Finland and Estonia by 2013 to ensure adequate supply of electricity for consumers in the next decade.

In 2009, preparations continued for the construction of Estlink 2:

- In July 2009, Elering and Fingrid applied for a grant from the European Economic Recovery Plan for Energy. Final funding decisions by the European Union should be made in spring 2010.
- In December 2009, seabed research reports were prepared.
- In December 2009, the procurement process was launched, to identify which companies qualify for the procurement.

In view of the future loads, and the estimated consumption and production scenarios, several grid reinforcements are planned to be made in order to increase the electricity network's capacity, both in Estonia and in the neighbouring country Latvia.

Investments

In the 2009 financial year, Elering's investments totalled 402 million kroons. The largest completed projects were:

Lasnamäe, Anne, Virtsu, Rapla, Keila and Kallavere 110kV substations; switchgear extension at Püssi 110kV substation; and renovation of Metsakombinaat 110kV substation.

In the 2010 financial year, investments are budgeted at 472 million kroons. The largest projects include:

- renovation of Viljandi110 kV substation
- renovation of Volta110 kV substation
- extension of Harku 330 kV substation
- construction of Tartu-Sindi 330kV overhead line
- renovation of 330kV overhead line between the Baltic power plant and Püssi substation
- renovation of Aruküla 330kV substation
- updating of substation data communication
- connection of a wind park to Lõpe 110kV substation.

Environmental risks

Elering's activities entail several environmental risks, hence we have a responsibility to prevent any negative environmental effects. In the past financial year, direct investments in environmental protection totalled 7.9 million kroons and additional 1.1 million kroons of budgetary resources were used. In addition, virtually all our investments help to increase environmental sustainability. We have identified important environmental aspects and have set our environmental objectives and targets accordingly. We monitor our success in achieving these targets with a specially-designed monitoring system, and we have a separate register for environmental complaints and emergencies. An important innovation in recent years has been the construction of spill container basins around power transformers.

The electrical equipment in Elering's substations contains a total of around 6,000 tonnes of oil. In order to prevent oil spills into the environment, our target is to repair the oil collecting facilities beneath all our oil-filled electrical equipment by 2013. Currently, 14 oil collecting baths and eight containers need to be repaired or 5.2% and 5.6% of the respective totals. In recent years we have replaced oil containers with oil traps at all our renovated substations, as these

are more cost-effective. We have also replaced our bulk-oil switches with SF6 gas switches, which contain a total of 8.5 tonnes of gas. In 2009, we disposed of our only remaining capacitor battery holding 7.2 tonnes of highly dangerous PCB-containing oil.

For minimising environmental risks, Elering follows the following principles:

1. All our employees and suppliers are informed of legal and other environmental requirements and agree to abide by them.
2. We use a management system that is ISO 14001-compliant and we are committed to constantly improving it.
3. We avoid environmental pollution and reduce waste generation, and we imple ment the best available technology to do this.
4. We use resources in a sustainable manner.

The environmental management system of Elering has been certified by Bureau Veritas as ISO 14001:2004-compliant.

Kalle Kilk
Member of the Management Board
Head of Assets Management

Review
of the Financial Year

Elering provides the following services to its customers:

1. Transmission of electricity (~89% of revenues).

Transmission of electricity is the transfer of electricity from one point in the electricity network to another at customers' request. In Estonia, we provide transmission services to the customers who are connected to the electricity network of the transmission network operator, and to the transmission system of the Russian Federation. Our customers are primarily power stations, distribution networks and large electricity consumers, and there are 10 electricity producers and 11 consumers in total. Domestic transmission services are regulated by law.

2. Balance services (~10% of revenues).

Balance services support the electricity balance of our customers. By law, every market participant must be in balance, i.e. the quantities of electricity produced and purchased must equal the quantities of electricity sold and consumed. In the hours when the market participant's balance account is negative, Elering sells the deficient quantity of electricity to it; in the opposite case, Elering buys the excess electricity. We provide balance services to balance providers in Estonia, and it is our responsibility to keep the whole Estonian electricity system in balance by ensuring the balance for the balance providers.

3. Other services (~1% of revenues).

Our other largest services include the rental service of fibre optic cable, and connection of new customers to the transmission network. Fibre optic cable has been installed on the electricity lines of Elering, which is used to transmit important technical information to Elering. However, spare fibres from the fibre optic cable are leased to Televõrk AS, which uses them to supply communication services to its customers.

The year 2009 was a difficult year for the economy in Estonia, as it was throughout the rest of the world. The global economic downturn continued, and its effects were felt very sharply in Estonia. Gross domestic product dropped by 14.1%, industrial production by as much as 26%. Several of our large customers suspended their production for a longer period of time. Unemployment rose to 15.5% in the last quarter. All of this had a major impact on electricity consumption in Estonia, for example, the domestic transmission of electricity, Elering's main source of income, fell by 6.4% in kWh terms as compared to the previous calendar year.

Compared to the transmission levels of the previous year, as used by the regulator for the calculation of tariffs, we transmitted electricity more than 12.5% less in Estonia, due to which a significant share of expected revenue was not earned. A cost savings programme implemented at the beginning of the year helped prevent even greater losses. In December, we submitted an application to the regulator to interrupt the current tariff period and calculate new rates, using actual transmission levels. The regulator satisfied our request and from 1 June 2010, new tariffs will become effective, reflecting actual transmission volumes.

The factor that had the biggest impact on this year's financial results was that the year had one fewer quarter than normally. Following its separation from Eesti Energia Group, Elering decided to change its economic cycle, and move from April to March year used by Eesti Energia to a financial year that matches the calendar year. For this reason, the financial year was only nine months long, from April to December. Revenue fluctuations during the year are very important in the energy industry, because in our cold climate, electricity consumption is the highest during the winter period. This meant that the most profitable quarter, January to March, was absent in the last financial year. Also, the system of tariffs of Elering is designed so that there is a peak tariff in the winter period, which is twice as high as the usual tariff. In this way, we felt the absence of the winter quarter more poignantly than many other energy companies did.

Finding funding in the financial markets was also problematic, as the banks limited the issuance of new loans in order to increase their own solvency and improve the quality of their loan portfolios. Interest rates remained high, and creditors chose carefully who to lend to. Nevertheless, Elering successfully concluded a syndicated loan at favourable terms in the amount of EEK 2,9 billion (EUR 187 million) from four banks on 28 December 2009. This three-year loan will let us refinance our existing short-term loans from our former parent company Eesti Energia.

For the first time in our history, Elering paid out 480 million kroons as dividends to our owner. The accompanying income tax expense totalled 128 million kroons, which is the reason behind Elering's loss. Despite the extraordinary financial year which ended with a loss, Elering is financially still a strong company.

Key Financial Figures

MEEK	2009 9 months	2008/2009	2007/2008
Revenues	**772**	1 278	1 190
Operating costs	**634**	889	810
Operating profit	**138**	389	380
Net profit	**-72**	276	259
Investments	**402**	606	227
Liabilities	**3 556**	2 807	2 763
Equity	**2 200**	2 752	2 476
Assets	**5 756**	5 559	5 239
ROE	**-3,9%**	10,5%	11,0%
ROIC	**3,7%**	8,0%	7,8%
D/E	**1,6**	1,0	1,1
Profitability	**-9,30%**	21,60%	21,70%

Explanations of ratios:

$$\text{ROE} = \frac{\text{Net profit}}{\text{Average equilty for the year}}$$

$$\text{ROIC} = \frac{\text{Operating profit}}{\text{Average for the year (equilty + interstbearing liabilities)}}$$

$$\text{D/E} = \frac{\text{Debts}}{\text{Equity}}$$

$$\text{PROFITABILITY} = \frac{\text{Net profit}}{\text{Revenue}}$$

Balance sheet data are presented as at the last date of the financial year. ROE and ROIC have been adjusted in 2009, using the ratio of 4/3 in order to provide an annual equivalent for the 9-month results.

Peep Soone

Member of the Management Board

Head of Finance Department

Financial Statements

Management Board's Confirmation of the Financial Statements

The Management Board confirms the correctness and completeness of Elering OÜ 2009 financial statements as presented on pages 21 to 49.

The Management Board confirms that:

- the accounting policies used in preparation of the financial statements are in compliance with International Financial Reporting Standards as adopted by the European Union;
- the financial statements present a true and fair view of the financial position, the results of operations and the cash flows of the Company;
- Elering OÜ is a going concern.

Chairman of the Management Board	Member of the Management Board	Member of the Management Board
Taavi Veskimägi	Kalle Kilk	Peep Soone

Balance Sheet

The notes on pages 26 to 49 are an integral part of these financial statements.

In thousands of Estonian kroons	Note	31.12.2009	31.3.2009	31.3.2008
ASSETS				
Current assets				
Trade and other receivables	7	208 568	185 050	165 380
Total current assets		**208 568**	**185 050**	**165 380**
Non-current assets				
Property, plant and equipment	8	5 516 156	5 354 555	5 059 543
Intangible assets	10	31 001	19 588	13 820
Total non-current assets		**5 547 157**	**5 374 143**	**5 073 363**
TOTAL ASSETS		**5 755 725**	**5 559 193**	**5 238 743**
LIABILITIES				
Current liabilities				
Borrowings	11	2 935 838	135 433	260 161
Trade and other payables	12	273 838	288 179	151 715
Total current liabilities		**3 209 676**	**423 612**	**411 876**
Non-current liabilities				
Borrowings	11	0	2 046 586	2 046 586
Deferred income	13	346 541	337 245	304 085
Total non-current liabilities		**346 541**	**2 383 831**	**2 350 671**
TOTAL LIABILITIES		**3 556 217**	**2 807 443**	**2 762 547**
EQUITY				
Share capital	14	2 100 000	2 100 000	2 100 000
Statutory reserve capital		44 039	30 261	17 328
Retained earnings	14	55 469	621 489	358 868
TOTAL EQUITY		**2 199 508**	**2 751 750**	**2 476 196**
TOTAL LIABILITIES AND EQUITY		**5 755 725**	**5 559 193**	**5 238 743**

Statement of Comprehensive Income

In thousands of Estonian kroons	Note	1.4.2009-31.12.2009	1.4.2008-31.3.2009
Revenue	15	771 512	1 259 436
Other income	16	250	18 558
Goods, raw materials and services	17	328 849	482 659
Other operating expenses	18	35 971	43 288
Staff costs	19	38 953	56 478
Depreciation of property, plant and equipment, and intangible assets	8 ,10	229 324	305 516
Other expenses	20	701	910
Operating profit		**137 964**	**389 143**
Finance income		0	5
Finance costs	21	82 495	113 594
Profit before income tax		**55 469**	**275 554**
Income tax expense	14	127 619	0
Profit for the year		**-72 150**	**275 554**
Total comprehensive income for the year		**-72 150**	**275 554**

The notes on pages 26 to 49 are an integral part of these financial statements.

Cash Flow Statement

In thousands of Estonian kroons	Note	1.4.2009-31.12.2009	1.4.2008-31.3.2009
Cash flows from operating activities			
Profit before income tax		55 469	275 554
Adjustments for:			
- Profit from sale of property, plant and equipment	16	-241	-23
- Depreciation and impairment of property, plant and equipment, amortisation of intangible assets	8,10	229 324	305 516
- Interest expenses	21	90 729	113 555
- Other non-cash operating costs	13	-11 771	-13 466
Changes in working capital:			
- Changes in trade and other receivables	7	-23 518	-19 671
- Changes in trade and other payables	12	-17 867	141 353
Proceeds from connection and other fees	13	21 067	46 625
Cash generated from operations		**343 192**	**849 443**
Income tax paid	14	-127 619	0
Interest paid	21	-90 563	-113 998
Net cash from operating activities		**125 010**	**735 445**
Cash flows from investing activities			
Purchases of property, plant and equipment, and intangible assets		-399 000	-610 855
Proceeds from sale of property, plant and equipment		263	138
Net cash used in investing activities		**-398 737**	**-610 717**
Cash flows from financing activities			
Net change in overdraft	11	753 819	-124 728
Dividends paid	14	-480 092	0
Net cash used in financing activities		**273 727**	**-124 728**
Net increase/(decrease) in cash and cash equivalents		**0**	**0**
Cash and cash equivalents at the beginning of the year		**0**	**0**
Cash and cash equivalents at the end of the year		**0**	**0**

Statement of Changes in Equity

In thousands of Estonian kroons	**Share capital**	**Statutory reserve capital**	**Retained earnings**	**Total**
Balance at 31.3.2008	**2 100 000**	**17 328**	**358 868**	**2 476 196**
Total comprehensive income for 2008/2009	0	0	275 554	275 554
Transfers to statutory reserve capital	0	12 933	-12 933	0
Balance at 31.3.2009	**2 100 000**	**30 261**	**621 489**	**2 751 750**
Total comprehensive income for 2009	0	0	-72 150	-72 150
Transfers to statutory reserve capital	0	13 778	-13 778	0
Dividends paid	0	0	-480 092	-480 092
Balance at 31.12.2009	**2 100 000**	**44 039**	**55 469**	**2 199 508**

More detailed information on share capital and other equity items is set out in Note 14.

The notes on pages 26 to 49 are an integral part of these financial statements.

Notes to the Financial Statements

1. Elering OÜ and its Operations

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2009 for Elering OÜ (the "Company").

Elering OÜ (the Company) is domiciled in the Republic of Estonia. The Company's registered address is Kadaka tee 42, 12915 Tallinn, Estonia. The Company's principal business activity is electricity transmission within the Republic of Estonia. The economic activities of the Company are regulated by law. Under Estonian law, the Estonian Competition Board regulates the Company's economic activity and monitors the company's operations. The tariffs for the Company's transmission services are fixed by the Competition Board.

As of 31 December 2009 and 31 March 2009 the Company's immediate parent company was Eesti Energia AS which sole shareholder is the Republic of Estonia.

The Management Board approved these financial statements on 4 June 2010. Pursuant to the Commercial Code of the Republic of Estonia, the annual report shall be presented for approval to the Company's Supervisory Board and the General Meeting of Shareholders.

The statutory financial statements of the Company prepared in Estonian will be filed at the Estonian Commercial Register.

2. Summary of Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by European Union ("IFRS") under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. These financial statements are the Company's first annual financial statements that comply with IFRS, see further information regarding the adoption of IFRS in Note 4.

Previously, the Company's financial year lasted from 1 April to 31 March. In 2009, the Company's management has decided to change the financial year to coincide with calendar year. Therefore, the reporting period of 2009 lasted for 9 months, from 1.4.2009 to 31.12.2009, while comparative period includes the data for 12-month period from 1.4.2008 to 31.3.2009, as a result amounts presented in the financial statements are not entirely comparable.

Functional and presentation currency. The functional currency of the Company is the Estonian kroon. All amounts in these financial statements are presented in thousands of Estonian kroons ("EEK"), unless otherwise stated.

Foreign currency translation. Foreign currency transactions are translated into the functional currency using the exchange rates of the Bank of Estonia prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Financial assets. The purchases and sales of financial assets are recognised at the trade date — the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Depending on the purpose for which financial assets were acquired as well as management's intentions, financial assets are classified into the following categories at initial recognition:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets.

At 31 December 2009 (as well as 31 March 2009 and 31 March 2008) the Company had no other classes of financial assets than those classified under the category loans and receivables.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Company intends to sell in the near term. Loans and receivables are initially recognised at fair value plus transaction costs. After initial recognition, loans and receivables are accounted for at amortised cost using the effective interest rate method unless the payment date falls within 30 days.

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset is impaired. A financial asset 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. The criteria that the Company uses to determine that there is objective evidence of an impairment loss include: significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and a breach of contract, such as a default or delinquency in payments for more than 90 days.

The amount of the loss is the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the impairment loss is recognised in the income statement.

Uncollectible loans and receivables are written off against the related allowance account.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. During the periods presented Elering had used Eesti Energia group cash pool account and therefore had no cash (Note 22).

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Property, plant and equipment. Property, plant and equipment are stated at cost, less accumulated depreciation and any impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets since 1 April 2009.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	25-40
Facilities – electricity transmission lines	30-60
Other facilities	10-30
Machinery and equipment - electricity transmission equipment	7-25
Other property, plant and equipment	3-20

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Intangible assets. An intangible asset is initially recognised at its acquisition cost, comprising its purchase price, any directly attributable expenditure on preparing the asset for its intended use and borrowing costs that relate to assets that take a substantial period of time to get ready for use. After initial recognition, an intangible asset is carried at its acquisition cost less any accumulated amortisation and impairment losses.

Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Personal right of use. 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 100 years.

Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Software licences	3 years
Personal right of use	50-100 years

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Impairment of non-financial assets. Land and assets that are subject to depreciation/ amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Leases. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made or received under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Financial liabilities. Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. The Company has financial liabilities only in category 'other financial liabilities'.

Other financial liabilities are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortised cost. The amortised cost of current liabilities normally equals their nominal value; therefore current liabilities are stated in the balance sheet in their redemption value. Non-current liabilities are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

A financial liability is classified as current when it is due within 12 months after the balance sheet date or the Company does not have an unconditional right to defer the payment for longer than 12 months after the balance sheet date. Borrowings with a due date of 12 months or less after the balance sheet date that are refinanced into non-current borrowings after the balance sheet date but before the approval of the annual report, are classified as current. Borrowings that the lender has the right to recall due to the violation of terms specified in the contract are also classified as current liabilities.

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

Provisions and contingent liabilities. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Other possible or present obligations arising from past events but whose settlement is not probable or the amount of which cannot be measured with sufficient reliability are disclosed as contingent liabilities in the notes to the financial statements.

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 research carried out for collecting new scientific or technical information and training costs are not capitalised.

Share capital. Ordinary shares are classified as equity. The Company does not have any preference shares. Incremental costs directly attributable to the issue of new shares are recognised as a reduction of equity. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the balance sheet date and before the financial statements are authorised for issue are disclosed in the subsequent events note.

Statutory reserve capital. Statutory reserve capital is formed to comply with the requirements of the Commercial Code. Reserve capital is formed from annual net profit allocations. During each financial year, at least one-twentieth of the net profit shall be entered in reserve capital, until reserve capital reaches one-tenth of share capital. Reserve capital may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from reserve capital.

Revenue recognition. Revenues are measured at the fair value of the consideration received or receivable, net of VAT and discounts.

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. The sales of network services and balancing energy fall into this category.

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 to the network. The revenue from connection fees is deferred and recognised as income evenly over the estimated customer relationship period. The amortisation period of connection fees is 20 years. Deferred connection fees are carried in the balance sheet as long-term deferred income.

Interest income is recognised on a time-proportion basis using the effective interest method.

Subsidies to electricity producers. The Electricity Market Act obliges the Company to participate in supporting mechanism for renewable and efficient cogeneration electricity producers. The electricity consumer bears the costs of support in proportion to the volume of network services consumed. The Company collects support on behalf of eligible producers and pays it out to them.

Consequently to current principles the Company prepares by 1 December each year an estimate of the cost of financing support for the following calendar year and the amount of network services to be provided to its customers. The Company uses the estimate to determine the cost of financing support (subsidy tariff for customers) for the following calendar year per kWh (kilowatt-hour) of network services, taking into account any excess or arrears in the financing of support and the purchase obligation from the 12 calendar months immediately preceding the estimate.

Due to various reasons the amounts charged from customers may differ from amounts paid out as subsidies. Over or under collected subsidies are shown in the balance sheet as either Trade and other payables (in case of surplus) or Trade and other receivables (in case of deficit). See also Note 12.

Employee benefits. Wages, salaries, contributions to the state pension, paid annual leave, sick leave and bonuses, along with social and unemployment taxes are recognised in the income statement in the year in which the associated services are rendered by the employees of the Company. Any amounts unpaid by the balance sheet date are recognised as a liability.

Income tax. According to 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. The corporate income tax arising from the payment of dividends is recognised as a liability and an income tax expense in the period in which dividends are declared, regardless of the period for which the dividends are paid or the actual payment date. An income tax liability is due at the 10th day of the month following the payment of dividends.

Due to the nature of the taxation system, the companies 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 balance sheet. The maximum income tax liability which would accompany the distribution of Company's retained earnings is disclosed in the notes to the financial statements.

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis.

Other taxes in Estonia

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

Tax	Tax rate
Social security tax	33% of the paid payroll to employees and fringe benefits
Unemployment insurance tax	Until 31.05.2009: 0,3%, until 31.07.2009: 1%, from 01.08.2009: 1,4% of the payroll paid to employees
Fringe benefit income tax	21/79 of fringe benefits paid to employees
Land tax	1-2,5% on taxable value of land per annum
Excise tax on electricity	Until 28.02.2010 50 kroons per MWh of electricity, from 01.03.2010: 70 kroons per MWh of electricity
Corporate income tax on non-business related expenses	21/79 on non-business related expenses

3. Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Revenue recognition (connection fees). Connection and other service fees (Note 13) are recognised as income over the estimated customer relationship period, which is 20 years. The estimated customer relationship period is based on management's estimate. In the reporting period, recognised income from connection and other service fees totalled EEK 11 771 thousand (2008/2009: EEK 13 465 thousand). If the estimated customer relationship period is increased by 25%, the annual income from connection fees would decrease by EEK 2 354 thousand (2008/2009: EEK 2 693 thousand).

Useful lives of property, plant and equipment. The estimated useful lives of items of property, plant and equipment (note 8) are based on management's estimates regarding the period during which the asset will be used. The estimation of economic lives is based on historical experience and takes into consideration production capacity and physical condition of the assets. Previous experience has shown that the actual useful lives have sometimes been longer than the estimates. In the reporting period, depreciation amounted to EEK 228 523 thousand (2008/2009: EEK 301 830 thousand). If depreciation rates were increased/decreased by 20%, the depreciation charge for the year would increase/decrease by EEK 45 705 thousand (2008/2009: EEK 60 366 thousand).

Impact of the ongoing global financial and economic crisis. The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

In recession electricity consumption falls. The Company's expenses contain a high proportion of fixed expenses whose level does not depend on the amount of electrical energy transmitted, and a fall in revenues can give a company with an expense structure like this a major profit shock. The method used by the Competition Board to set prices does not allow any compensation for falls in revenue during the three-year regulation period, and corrections to prices can only be brought in for the next regulation period, but this means the current revenue shock is temporary and short-term and does not pose a threat to the sustainability of the company.

Potential solvency problems for debtors may lead to the impairment of the company's receivables and larger than previous impairment losses. Any impact on profits, however, cannot be very large, because the great majority of network services go to network companies who are much better placed to survive a recession than large industrial consumers. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Management is unable to reliably determine the effects on the Company's future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and development of the Company's business in the current circumstances.

4. First-time Adoption of IFRS

These financial statements are the Company's first annual financial statements that comply with IFRS. The Company's IFRS transition date is 1 April 2008. Subject to certain exceptions, IFRS 1 requires retrospective application of the version of standards and interpretations effective for the year ended 31 December 2009. This version was applied in preparing the opening IFRS balance sheet at 1 April 2008 and in subsequent periods up to the first IFRS reporting date. In preparing these financial statements, the Company has applied the mandatory exceptions and has elected to apply the following optional exemptions from retrospective application:

(a) ***Borrowing costs.*** The Company has elected to apply the transitional provisions with regard to capitalisation of borrowing costs in the cost of qualifying assets. According to the transitional provisions, the Company has selected the effective date for capitalisation of borrowing costs to be 1.4.2009, the beginning of the first financial year after 1.1.2009 as required by IAS 23. The Company has decided to capitalise the borrowing costs for qualifying assets for which the commencement date for capitalisation was on or after 1 April 2009, and which meet the two criteria: the expected cost of the asset exceeds EEK 3 129 thousand (EUR 200 thousand) and the expected construction time exceeds 6 months.

The following mandatory exception from retrospective application is relevant for the Company:

(a) ***Estimates exception.*** Estimates under IFRS at 1 April 2008 and 31 March 2009 should be consistent with estimates made for the same dates under previous GAAP, unless there is evidence that those estimates were in error.

Transition from Estonian GAAP to IFRS did not have any effect on the amounts recorded on the Balance Sheet and in the Statement of Comprehensive Income.

The Company's operating, investing and financing cash flows reported under Estonian GAAP did not significantly differ from IFRS.

The Company has early adopted the following amended standard:

IAS 24, Related Party Disclosures (amended November 2009, effective for annual periods beginning on or after 1 January 2011; not yet adopted by the EU). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Related Party Disclose in the current report was prepared in line with the revised IAS 24.

5. New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2010 or later periods and which the Company has not early adopted:

IFRIC 18, Transfers of Assets from Customers (effective prospectively to transfers of assets from customers received on or after 1 July 2009, earlier application permitted; IFRIC 18 as adopted by the EU is effective for annual periods beginning after 31 October 2009, with early adoption permitted). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. The Company is currently assessing the impact of the amendment on its financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; the improvements have not yet been adopted by the EU). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Company does not expect the amendments to have any material effect on its financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010; effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011; the improvements have not yet been adopted by the EU). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Company does not expect the amendments to have any material effect on its financial statements.

IFRS 9, Financial Instruments (issued in November 2009, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted; not yet adopted by the EU). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features 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 only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- 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.

  The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

Other new standards, amendments and interpretations. The Company has not early adopted the following new standards or interpretations which are not relevant for the Company:

Classification of Rights Issues – Amendment to IAS 32, Financial Instruments: Presentation (effective for annual periods beginning on or after 1 February 2010).

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010; not yet adopted by the EU).

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009).

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009; IFRIC 15 as adopted by the EU is effective for annual periods beginning after 31 December 2009, with early adoption permitted).

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008; IFRIC 16 as adopted by the EU is effective for annual periods beginning after 30 June 2009, with early adoption permitted).

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009).

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009; IFRIC 17 as adopted by the EU is effective for annual periods beginning after 31 October 2009, with early adoption permitted).

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; restructured IFRS 1 as adopted by the EU is effective for annual periods beginning after 31 December 2009, with early adoption permitted).

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009; amendments to IFRIC 19 and IAS 39 as adopted by the EU are effective for annual periods beginning after 31 December 2009, with early adoption permitted).

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010, not yet adopted by the EU).

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010; not yet adopted by the EU).

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011; not yet adopted by the EU).

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Company's financial statements.

6. Financial Risk Management

The risk management function within the Company is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks. The risk management is monitored at the Management Board level.

The following table provides a reconciliation of classes of financial assets and financial liabilities of the Company in accordance with the measurement categories of IAS 39:

LOANS AND RECEIVABLES			
In thousands of Estonian kroons	**31. 12.2009**	**31.3 2009**	**31.3.2008**
Trade and other receivables (Note 7)	**189 115**	**180 238**	**156 954**
- Trade receivables	189 115	180 238	156 954
TOTAL FINANCIAL ASSETS	**189 115**	**180 238**	**156 954**

FINANCIAL LIABILITIES AT AMORTISED COST	**31. 12.2009**	**31.3 2009**	**31.3.2008**
Trade and other payables (Note 12)	**256 366**	**262 685**	**122 447**
Trade and other payables	256 366	262 685	122 447
Borrowings (Note 11)	**2 935 838**	**2 182 019**	**2 306 747**
TOTAL FINANCIAL LIABILITIES	**3 192 204**	**2 444 704**	**2 429 194**

6.1 Credit risk. The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Company's sales on credit terms and other transactions with counterparties giving rise to financial assets.

The Company's maximum exposure to credit risk by class of assets is as follows:

In thousands of Estonian kroons	**31. 12.2009**	**31.3 2009**	**31.3.2008**
Trade and other receivables (Note 7)	**189 115**	**180 238**	**156 954**
- Trade and other receivables	189 115	180 238	156 954
Total on-balance sheet exposure to credit risk	**189 115**	**180 238**	**156 954**

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties or groups of counterparties. Limits on the level of credit risk are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The Company's Accounting Department reviews ageing analysis of outstanding trade receivables and follows up each week on past due balances. The results are reported to the CFO of the Company. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 2.

Credit risks concentration. The Company is exposed to concentrations of credit risk. Management monitors and discloses concentrations of credit risk by reports, which list exposures to counterparty with aggregated balances in excess of 5% of the Company's equity. At 31.12.2009 the Company had 1 counterparty (31.03.2009: 1 counterparty) with aggregated receivables balance EEK 142 722 thousand (31.03.2009: EEK 137 440 thousand) or 75% of the gross amount of trade and other receivables (31.03.2009: 76%).

6.2 Market risk. The Company takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

6.2.1 Currency risk. Currency risk does not arise from transactions and balances denominated in Euros, as the Estonian kroon is pegged to Euro at fixed exchange rate. As most of the Company's transactions and balances are denominated either in Estonian kroons or Euros, the Company is not exposed to significant currency risk.

Transactions in other currencies are insignificant; there were no financial instruments denominated in USD as of 31.12.2009 (net balance sheet position of USD denominated financial instruments as of 31.3.2009 was EEK -39 thousand, 31.3.2008: EEK -2 869 thousand).

6.2.2 Interest rate risk. The Company is not exposed to fair value interest rate risk as it has no interest-bearing financial instruments carried at fair value. Cash flow interest rate risk arises from borrowings at floating interest rate. Until 8.01.2010 the Company had a loan and overdraft agreement with its parent company. The interest rate for both of them were fixed once a year. On 8.01.2010 the aforementioned liabilities were refinanced by a borrowing from a bank syndicate. The interest rate for the new loan is Euribor + 300 basis points.The table below summarises the Company's exposure to interest rate risks. The table presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

The table below summarises the Company's exposure to interest rate risks. The table presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of Estonian kroons	Demand and less than 1 month	From 6 to 12 months	Total
31.12.2009			
Short-term borrowings (Note 11)	2 046 586		**2 046 586**
Overdraft (Note 11)	889 252	0	**889 252**
Net interest sensitivity gap at 31.12.2009	**-2 935 838**	**0**	**-2 935 838**
31.3.2009			
Long-term borrowings (Note 11)	0	2 046 586	**2 046 586**
Overdraft (Note 11)	135 433	0	**135 433**
Net interest sensitivity gap at 31.3.2009	**-135 433**	**-2 046 586**	**-2 182 019**
31.3.2008			
Long-term borrowings (Note 11)	0	2 046 586	**2 046 586**
Overdraft (Note 11)	260 161	0	**260 161**
Net interest sensitivity gap at 31.12.2008	**-260 161**	**-2 046 586**	**-2 306 747**

The Company does not have formal policies and procedures in place for management of interest rate risks as management considers this risk as insignificant to the Company's business. According to the regulator's tariff setting methodology, the higher interest rate is reflected in the higher WACC of regulated assets.

At 31.12.2009, if interest rates at that date had been 10 basis points lower (31.03.2009: 100 basis points, 31.03.2008: 100 basis points) and 100 basis point higher (31.03.2009: 100 basis points, 31.03.2008: 100 basis points) with all other variables held constant, profit for the year would have been EEK 2 936 thousand (2008/2009: EEK 21 820 thousand, 2007/2008: EEK 23 067 thousand) higher and EEK 29 358 thousand (2008/2009: EEK 21 820 thousand, 2007/2008: EEK 23 067 thousand) lower, mainly as a result of lower/higher interest expense on variable interest liabilities.

The Company monitors interest rates for its financial instruments. The table below summarises effective interest rates during the respective financial years on reports reviewed by key management personnel:

In % p.a.	1.4.2009-31.12.2009	1.4.2008-31.3.2009
Liabilities		
Long-term borrowings (Note 11)	4,88	4,61
Overdraft (Note 11)	4,88	4,61

6.2.3 Other price risk. The Company has no exposure to equity price risk as it does not hold financial instruments open to price risk.

6.3 Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to daily calls on its available cash resources. Liquidity risk is managed by the Financial Department of the Company. Management monitors quarterly rolling forecasts of the Company's cash flows. The Company objective is to obtain a stable funding base primarily consisting of amounts due to other banks and debt securities. The liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Financial Department.

The table below shows liabilities at 31.12.2009, 31.3.2009 and 31.3.2008 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date. Interest payments are calculated using the annually fixed interest rate in the loan contract with the Parent company, affective as of the Balance Sheet date. The maturity analysis of financial liabilities at 31.12.2009 is as follows:

In thousands of Estonian kroons	Demand and less than 1 month	From 1 to 12 months	From 12 months to 5 years	Total
Liabilities				
Trade and other payables (Note 12)	256 366	0	0	**256 366**
Bank and parent company overdrafts (Note 11)	889 252	0	0	**889 252**
Borrowings (Note 11)	2 055 220	0	0	**2 055 220**
Total future payments	**3 200 838**	**0**	**0**	**3 200 838**

The maturity analysis of financial liabilities at 31.3.2009 is as follows:

In thousands of Estonian kroons	Demand and less than 1 month	From 1 to 12 months	From 12 months to 5 years	Total
Liabilities				
Trade and other payables (Note 12)	262 685	0	0	**262 685**
Bank and parent company overdrafts (Note 11)	135 433	0	0	**135 433**
Borrowings (Note 11)	0	99 873	2 054 909	**2 154 782**
Total future payments	**398 118**	**99 873**	**2 054 909**	**2 552 900**

The maturity analysis of financial liabilities at 31.3.2008 is as follows:

In thousands of Estonian kroons	Demand and less than 1 month	From 1 to 12 months	From 12 months to 5 years	Total
Liabilities				
Trade payables (Note 12)	122 447	0	0	**122 447**
Bank and parent company overdrafts (Note 11)	260 161	0	0	**260 161**
Borrowings (Note 11)	0	94 416	2 054 448	**2 148 864**
Total future payments	**382 608**	**94 416**	**2 054 448**	**2 531 472**

On 28.12.2009 the Company signed a 3-year EEK 2 925 914 thousand syndicated loan agreement and the disbursement took place on 08.01.2010. That decreased significantly the liquidity risk of the Company.

6.4 Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The amount of capital that the Company managed as of 31.12.2009 was EEK 2 199 508 thousand (31.3.2009: EEK 2 751 750 thousand, 31.3.2008: EEK 2 476 196 thousand).

Consistent with others in the industry, the Company monitors capital on the basis of the Equity to Assets ratio which is calculated as Total Equity divided by Total Assets as of the balance sheet date. At 31.12.2009 it was 38%. The Company aims at maintaining this ratio between 35-60%.

The Company did not have any externally imposed capital requirements throughout 2009 and comparative period. On 28.12.2009 the Company has concluded a loan agreement (see Note 11) which requires the Company to maintain the Equity/Assets ratio at least on a level of 35%. In case of the breach of this requirement the Event of Default may occur.

6.5 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

Estimated fair values of financial instruments have been determined by the Company using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value.

Financial assets carried at amortised cost. Carrying amounts of trade and other financial receivables approximate their fair values.

Liabilities carried at amortised cost. Carrying amounts of trade and other payables as well as overdraft approximate their fair values.

The estimated fair value of non-current borrowings with fixed interest rate or fixed risk margin is determined using valuation techniques, based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Interest rates for the Company's loan from the parent company were renegotiated once a year, based on the market interest rate and the risk premium of the company. Therefore the management estimates that the contractual interest rates of the loan agreement also reflect to a great extent the market interest rate at the balance sheet date. Also, all the loans outstanding were repaid on 8.01.2010. As a result, the carrying amount of the loan approximates to its fair value as at 31.12.2009, 31.3.2009 and 31.3.2008.

7. Trade and Other Receivables

In thousands of Estonian kroons	31.12.2009	31.3.2009	31.3.2008
Trade receivables			
Accounts receivable	189 115	180 238	156 954
Incl: trade receivables from related parties (Note 22)	162 523	154 524	135 110
Allowance for doubtful receivables	-388	0	-10
Total financial assets within trade and other receivables	**189 115**	**180 238**	**156 954**
Tax receivables	15 371	3 384	7 203
incl :VAT recoverable	12 243	3 384	7 203
Other receivables	18	60	164
Prepayments	4 064	1 368	1 059
Total trade and other receivables	**208 568**	**185 050**	**165 380**

Analysis by credit quality of trade and other receivables is as follows:

In thousands of Estonian kroons	31.12.2009	31.3.2009	31.3.2008
Accounts receivable not yet due			
- Parent company and fellow subsidiaries	162 523	154 172	135 110
- Distribution networks	11 286	10 122	1 719
- Other clients	14 755	15 106	20 075
Total accounts receivable not yet due	**188 564**	**179 400**	**156 904**
Accounts receivable past due but not impared (IAS 39) as doubtful			
- 1 to 30 days overdue	230	791	24
- 31 to 60 days overdue	179	37	16
- 61 to 90 days overdue	142	10	10
Total accounts receivable past due but not classified as doubtful	**551**	**838**	**50**
Accounts receivable classified as doubtful			
- 90 to 180 days overdue	345	0	10
- 180 to 360 days overdue	43	0	0
Total accounts receivable classified as doubtful	**388**	**0**	**10**
Total accounts receivable past due	**939**	**838**	**60**
Total Trade Receivables	**189 115**	**180 238**	**156 954**

8. Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

In thousands of Estonian kroons	Freehold Land	Buildings	Facilities	Machinery and equipment	Other	Construction in progress	Total
Property, Plant and Equipment at 31.3.2008							
Cost at 31.3.2008	27 879	178 806	3 502 727	2 399 727	47	0	6 108 722
Accumulated depreciation	0	-32 770	-648 925	-502 218	-1	0	-1 183 914
Carrying amount at 31.3.2008	**27 879**	**146 036**	**2 853 802**	**1 897 045**	**46**	**0**	**4 924 808**
Construction in progress	0	0	0	0	0	134 735	134 735
Total property, plant and equipment at 31.3.2008	**27 879**	**146 036**	**2 853 802**	**1 897 045**	**46**	**134 735**	**5 059 543**
Movements 1.4.2008-31.3.2009:							
Additions	21 276	0	0	2 123	511	574 556	598 466
Reclassified from construction in progress	445	10 366	102 632	231 283	0	-344 726	0
Disposals	0	0	0	-115	0	0	-115
Depreciation charge	0	-7 231	-146 848	-147 713	-38	0	-301 830
Impairment charge	0	0	-44	-3 441	0	0	-3 485
Paid prepayments	1975	0	0	0	0	0	1975
Total movements in 1.4.2008-31.3.2009	**23 696**	**3 135**	**-44 260**	**82 137**	**473**	**229 830**	**295 011**
Cost at 31.3.2009	49 600	187 277	3 603 745	2 601 366	558	0	6 442 546
Accumulated depreciation	0	-38 106	-794 203	-622 182	-39	0	-1 454 530
Carrying amount at 31.3.2009	**49 600**	**149 171**	**2 809 542**	**1 979 184**	**519**	**0**	**4 988 016**
Construction in progress	0	0	0	0	0	364 564	364 564
Prepayments	1 975	0	0	0	0	0	1975
Total property, plant and equipment at 31.3.2009	**51 575**	**149 171**	**2 809 542**	**1 979 184**	**519**	**364 564**	**5 354 555**
Movements 1.4.2009-31.12.2009:							
Additions	8 554	0	0	1 107	204	372 945	382 810
Reclassified from construction in progress	0	70 638	40 455	316 623	0	-427 716	0
Capitalised borrowing costs (Note 21)	0	0	0	0	0	7 898	7 898
Disposals	-10	0	0	-12	0	0	-22
Depreciation charge	0	-5 526	-113 052	-109 840	-105	0	-228 523
Impairment charge	0	0	0	-482	0	-80	-562
Total movements in 1.4.2009-31.12.2009	**8 544**	**65 112**	**-72 597**	**207 396**	**99**	**-46 953**	**161 601**
Cost at 31.12.2009	58 144	254 601	3 643 599	2 884 274	762	0	6 841 380
Accumulated depreciation	0	-40 318	-906 655	-697 693	-144	0	-1 644 810
Carrying amount at 31.12.2009	**58 144**	**214 283**	**2 736 944**	**2 186 581**	**618**	**0**	**5 196 570**
Construction in progress	0	0	0	0	0	317 611	317 611
Prepayments	1 975	0	0	0	0	0	1 975
Total property, plant and equipment at 31.12.2009	**60 119**	**214 283**	**2 736 944**	**2 186 581**	**618**	**317 611**	**5 516 156**

Construction in progress mainly consists of construction of substations and electricity transmission lines. Upon completion, assets are transferred to buildings and facilities.

Additions financial year ended 31.12.2009 to construction in progress include capitalised borrowing costs of EEK 7 898 thousand. The capitalisation rate was 4,9%.

9. Operating Lease

Company as a lessor

Operating lease revenues:

In thousands of Estonian kroons	1.4.2009-31.12.2009	1.4.2008-31.3.2009
Buildings	1 525	526
Transmission equipment	9 618	12 034
Total operating lease revenues (Note 15)	**11 143**	**12 560**

Transmission equipment. The Company has a non-cancellable operating lease contract under which the free fibres of the fibre-optic cable fixed to the line masts are leased out. This cable also acts as a lightning protection cord for the lines and the fibres are used by the Company for its technical communication. The free fibres are taken on lease by Televõrgu AS. The lease contract contains a restriction under which the Company cannot give its transmission equipment out for use by other companies operating in telecommunications. The contract has been prolonged until 31.03.2025.

Information about assets (facilities) leased out under operating leases:

In thousands of Estonian kroons	31.12.2009	31.3.2009	31.3.2008
Cost	73 811	73 811	68 623
Accumulated depreciation at the end of period	-28 097	-23 870	-18 492
Net book amount	45 714	49 941	50 131
Depreciation charge	4 227	5 378	5 211

Future minimum lease payments under non-cancellable operating leases.

In thousands of Estonian kroons	31.12.2009	31.3.2009	31.3.2008
Not later than 1 year	12 823	12 823	12 033
Later than 1 year and not later than 5 years	51 292	51 292	48 132
Later than 5 years	131 436	51 292	60 165
Total future minimum lease payments	**195 551**	**115 407**	**120 330**

Company as a lessee

Operating lease expenses:

In thousands of Estonian kroons	1.4.2009-31.12.2009	1.4.2008-31.3.2009
Buildings	4 662	6 918
Transport equipment	916	1 845
Other machinery and equipment	21	37
Total operating lease expenses	**5 598**	**8 800**

All the lease contracts are cancellable at short notice.

10. Intangible Assets

In thousands of Estonian kroons	**Acquired software licences**	**Right of use of land**	**Total**
Cost at 31.3.2008	202	9 901	10 103
Accumulated amortisation	-56	-269	-325
Carrying amount at 31.3.2008	**146**	**9 632**	**9 778**
Intangible assets not yet available for use	4 042	0	4 042
Total intangible assets at 31.3.2008	**4 188**	**9 632**	**13 820**
Movements 1.4.2008-31.3.2009:			
Additions	2 121	3 848	5 969
Amortisation charge	-76	-125	-201
Total movements in 1.4.2008-31.3.2009	**2 045**	**3 723**	**5 768**
Intangible assets at 31.3.2009			
Cost at 31.3.2009	262	13 749	14 011
Accumulated amortisation	-132	-394	-526
Carrying amount at 31.3.2009	**130**	**13 355**	**13 485**
Intangible assets not yet available for use	6 103	0	6 103
Total intangible assets at 31.3.2009	**6 233**	**13 355**	**19 588**
Movements 1.4.2009-31.12.2009			
Additions	8 982	2 326	11 308
Capitalised borrowing costs (Note 21)	344	0	344
Amortisation charge	-124	-115	-239
Total movements in 1.4.2009-31.12.2009	**9 202**	**2 211**	**11 413**
Cost at 31.12.2009	630	16 075	16 705
Accumulated amortisation	-257	-509	-766
Carrying amount at 31.12.2009	**373**	**15 566**	**15 939**
Intangible assets not yet available for use	15 062	0	15 062
Total intangible assets at 31.12.2009	**15 435**	**15 566**	**31 001**

11. Borrowings

In thousands of Estonian kroons	**31.12.2009**	**31.3.2009**	**31.3.2008**
Overdraft (Note 22)	889 252	135 433	260 161
incl: bank overdraft	243	0	0
Current portion of long-term loans from parent company	2 046 586	0	0
Total current borrowings	**2 935 838**	**135 433**	**260 161**
Long-term loan from parent company (Note 22)	0	2 046 586	2 046 586
Total non-current borrowings	**0**	**2 046 586**	**2 046 586**
Total borrowings	**2 935 838**	**2 182 019**	**2 306 747**

The Company's borrowings are denominated in currencies as follows:

In thousands of Estonian kroons		**31.12.2009**	**31.3.2009**	**31.3.2008**
Borrowings denominated in:	- Estonian kroons	2 935 595	2 182 019	2 306 747
	- Euros	243	0	0
Total borrowings		**2 935 838**	**2 182 019**	**2 306 747**

12. Trade and Other Payables

In thousands of Estonian kroons	31.12.2009	31.3.2009	31.3.2008
Trade payables	124 847	78 202	65 263
Incl: trade payables to related parties (Note 22)	59 329	30 329	28 106
Payables for purchased property, plant and equipment and intangible assets	27 393	24 402	29 384
Incl: payables to related parties (Note 22)	36	405	941
Subsidies due to electricity producers (Note 2)	104 126	160 081	27 800
Total financial payables within trade and other payables	**256 366**	**262 685**	**122 447**
Taxes payable:	**5 017**	**5 383**	**5 100**
Social security tax	2 241	2 206	2 213
Personal income tax	1 302	1 374	1 317
Unemployment insurance tax	232	47	45
Contributions to mandatory funded pension	22	81	77
Land tax	0	180	98
Excise tax	1 220	1 495	1 350
Accrued employee benefit costs:	**5 245**	**11 327**	**8 997**
Salaries and wages	2 301	2 183	1 871
Bonuses	0	4 477	3 217
Holiday pay	2 186	2 378	2 124
Social security and unemployment insurance tax	751	2 280	1 776
Amounts withheld	7	9	9
Easement of technical facilities	**0**	**0**	**945**
Other	**7 210**	**8 784**	**14 226**
Incl: other payables to related parties (Note 22)	500	500	500
Total trade and other payables	**273 838**	**288 179**	**151 715**

13. Deferred Income from Connection and Other Service Fees

In thousands of Estonian kroons	
Deferred Income from Connection and Other Service Fees at 31.3.2008	**304 085**
Movements 1.4.2008-31.3.2009:	
Connection and other service fees received	46 625
Connection and other service fees recognised as revenue	-13 465
Deferred Income from Connection and Other Service Fees at 31.3.2009	**337 245**
Movements 1.4.2008-31.3.2009:	
Connection and other service fees received	21 067
Connection and other service fees recognised as revenue (Note 15)	-11 771
Deferred Income from Connection and Other Service Fees at 31.12 2009	**346 541**

14. Equity

The Company' share capital consists of one share with the nominal value of EEK 2,100 million. The share has been paid for in full. The Company' share capital consists of one share with the nominal value of EEK 2,100 million. The share has been paid for in full.

In the financial year 1.4.2009-31.12.2009 dividends were declared and paid in the amount of EEK 480 092 thousand and the resulting income tax amounted to EEK 127 619 thousand (2008/2009: no dividends were paid).

The retained earnings of the Company (taking into account the statutory requirement to transfer 1/20 of the financial year's net profit to statutory reserve capital) as at 31 December 2009 amounted to EEK 55 469 thousand (31.3.2009: EEK 607 711 thousand; 31.3.2008: EEK 345 935 thousand). The income tax rate applicable to the net profit distributable as dividends is 21/79 from 1 January 2008. As at 31.12.2009, it would be possible to distribute EEK 43 821 thousand as net dividends (31.3.2009: EEK 480 092 thousand, 31.3.2008: EEK 273 289 thousand) and the corresponding income tax would amount to EEK 11 648 thousand (31.3.2009: EEK 127 619 thousand, 31.3.2008: EEK 72 646 thousand).

15. Revenue

Analysis of revenue by the activities:

In thousands of Estonian kroons	1.4.2009-31.12.2009	1.4.2008-31.3.2009
Sales of balancing and control electricity	**73 512**	**110 378**
Sales of network services		
Transmission fees	646 366	1 080 347
Revenue from connection fees (Note 13)	11 771	13 465
Other network services	27 952	39 976
Total sales of network services	**686 089**	**1 133 788**
Sales of other goods and services		
Lease of transmission equipment	9 618	12 034
Sales of scrap metal	634	2 683
Sales of other services	1 608	526
Sales of other goods	51	27
Total sales of other goods and services	**11 911**	**15 270**
Total revenue	**771 512**	**1 259 436**

Analysis of revenue by geographical location of customers:

In thousands of Estonian kroons	1.4.2009-31.12.2009	1.4.2008-31.3.2009
Estonia	722 603	1 178 768
Latvia	24 714	36 602
Russia	23 902	44 066
Lithuania	293	0
Total revenue	**771 512**	**1 259 436**

16. Other Income

In thousands of Estonian kroons	1.4.2009-31.12.2009	1.4.2008-31.3.2009
Fines, penalties and compensations received	0	13 945*
Profit on disposal of property, plant and equipment	241	23
Net gains from exchange rate changes	9	33
Other	0	4 557**
Total other income	**250**	**18 558**

* EEK 13 945 thousand was received as penalties from the contractors for not completing the investment projects on time

** The extraordinary revenue of EEK 4 557 thousand was due to the Inter TSO Compensation (ITC) contract among the TSOs in EU. Payments to and from the ITC fund depend on the actual energy flows and are calculated once for all parties of the contract. By the time of preparing the financial report Elering did not have the results of the last months and an estimate was used. After receiving the final settlement, a correction was made.

17. Goods, Raw Materials and Services

In thousands of Estonian kroons	**1.4.2009-31.12.2009**	**1.4.2008-31.3.2009**
Electricity purchased to provide the balancing service		
Purchase of balancing electricity	67 287	105 002
Purchase of power regulation service	4 525	3 035
Total electricity purchased to provide the balancing service	**71 812**	**108 037**
System services		
Purchased electricity reserves	49 090	63 922
Reactive energy	1 900	2 803
Total system services expenses	**50 990**	**66 725**
Electricity to compensate for network losses		
Electricity from renewable sources		
Electricity from non-renewable sources	119 751	187 033
Total electricity to compensate for network losses	**119 751**	**187 033**
Maintenance and repair works		
On facilities and equipment related to core activities	52 014	81 211
On production buildings and sites	4 900	4 319
Disassembly works and waste processing	2 605	2 005
Other expenses	952	1 507
Total maintenance and repair works	**60 471**	**89 042**
Other expenses		
Operative switching and dispatching management expenses	7 254	8 747
Other expenses	18 571	23 075
Total other expenses	**25 825**	**31 822**
Total goods, raw materials and services	**328 849**	**482 659**

18. Other Operating Expenses

In thousands of Estonian kroons	**1.4.2009-31.12.2009**	**1.4.2008-31.3.2009**
Transportation and tools	1 128	1 934
Security, insurance and occupational safety	2 535	3 484
Office expenses	5 601	8 306
Research and consulting	4 662	3 123
Telecommunication	10 400	14 170
Info technology	4 745	5 455
Training and other operating expenses	6 900	6 816
Total other operating expenses	**35 971**	**43 288**

19. Staff Costs

In thousands of Estonian kroons	1.4.2009-31.12.2009	1.4.2008-31.3.2009
Basic salaries, additional remuneration, bonuses, vacation pay	27 286	39 236
Other benefits	188	957
Termination benefits	886	754
Other remuneration	541	1 240
Total remuneration to employees	**28 901**	**42 187**
Social security tax	9 688	14 177
Unemployment insurance tax	364	114
Total staff costs	**38 953**	**56 478**
Including compensations to the members of the Management and Supervisory Board		
Salaries, additional remuneration bonuses, vacation pay	2 262	3 033
Fringe benefits	20	176
Termination benefits	340	0
Social security tax	865	1 059
Total compensations to the members of the Management and Supervisory Boards	**3 487**	**4 268**
Number of people employed		
Number of people employed at the beginning of the period	127	128
Number of people employed at the end of the period	127	127
Average number of people employed	126	128

Average monthly pay was 24 061 kroons (2008/2009: 25 544 kroons).

Termination benefits

Members of the management board receive compensation for premature termination of their employment contracts, such compensation amounts up to a salary of four months.

20. Other Expenses

In thousands of Estonian kroons	1.4.2009-31.12.2009	1.4.2008-31.3.2009
Expenses not related to business	548	813
Fines, penalties and compensations paid	23	3
Net loss from exchange rate changes	1	37
Income tax from expenses not related to business	129	57
Total other expenses	**701**	**910**

21. Finance Costs

In thousands of Estonian kroons	1.4.2009-31.12.2009	1.4.2008-31.3.2009
Interest expenses	90 729	113 555
Other	8	39
Total finance costs	**90 737**	**113 594**
Less capitalised finance costs (Note 8, 10)	-8 242	0
Total finance costs recognised in the statement of comprehensive income	**82 495**	**13 594**

22. Balances and Transactions with Related Parties

Parties are generally considered to be related if the parties are under common control, or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

In preparing the Company's financial statements, the following parties have been considered as related parties:

(I) parent company and its ultimate owner (the Republic of Estonia);

(II) other entities in the consolidation group of the parent company (i.e fellow subsidiaries);

(III) entities under parent company's significant influence;

(IV) management and supervisory boards;

(V) close relatives of the persons described above and the entities under their control or significant influence;

(VI) state-controlled companies

The outstanding balances with related parties were as follows:

In thousands of Estonian kroons	31.12.2009	31.3.2009	31.3.2008
Trade receivables			
Parent company	4 033	3 365	1 084
Fellow subsidiaries	144 403	139 687	128 375
Other related parties	14 087	11 472	5 651
Total trade receivables	**162 523**	**154 524**	**135 110**
Trade payables			
Parent company	17 539	15 111	16 886
Fellow subsidiaries	42 290	15 718	11 720
Total trade payables	**59 829**	**30 829**	**28 606**
Overdraft			
Parent company	889 009	135 433	260 161
Current borrowings			
Parent company	2 046 586	0	0
Non-current borrowings			
Parent company	0	2 046 586	2 046 586

The Company uses two types of loans for financing:

Overdraft. The Company's account is a part of the Eesti Energia AS cash pool account. The effective interest rate of the overdraft was 4,88% in the 2009 financial year (2008/2009: in April 4,65%, from May to December 4,61%).

Loan. The loan agreement was concluded on 31.03.2005. Under the agreement, Eesti Energia AS lends the Company EEK 2 046 586 thousand for an unspecified term, with the right of recall with advance notice of 13 months. The effective interest rate of the long-term loan was 4,88% in the 2009 financial year (2008/2009: in April 4,65%, from May to December 4,61%). Interest rates are established by Eesti Energia AS for a period of one year in accordance with the average actual interest expenses charged on the borrowings of Eesti Energia AS, and the Company's risk margin. The loan is denominated in the Estonian kroons.

The Company concluded a syndicated loan agreement with banks on 29 of December 2009. The disbursement of EEK 2 925 914 thousand loan took place on 8 January 2010. Syndicated loan agreement obliged the Company to return the loan to the parent company in full. On 8 January 2010 the Company repaid the loan to the Parent company in the amount of EEK 2 919 501 thousand.

Income and expense items with related parties were as follows:

In thousands of Estonian kroons	**Related party**	**1.4.2009-31.12.2009**	**1.4.2008-31.3.2009**
Revenue:			
Sales of balancing and control electricity	Parent company	19 922	45 833
	Fellow subsidiary	192	749
Sales of network services	Parent company	2 148	3 027
	Fellow subsidiaries and associates	609 159	994 401
Sales of other goods and services			
Lease of transmission equipment	Fellow subsidiary	9 618	12 034
Other goods and services	Parent company	276	10
	Fellow subsidiaries	1 297	479
Total revenue		**642 612**	**1 056 536**
Fines, penalties and compensations received	Parent company	0	118
Goods, raw materials and services			
Electricity purchased to provide balancing service			
Purchase of balancing electricity	Parent company	30 635	44 323
Purchase of power regulation service	Fellow subsidiary	847	3 035
System services			
Purchased electricity reserves	Fellow subsidiary	171	528
Reactive electricity	Fellow subsidiaries	1 811	2 803
Electricity to compensate for network losses			
Electricity from non-renewable sources	Fellow subsidiary	120 989	183 386
Maintenance and repair works			
On facilities and equipment related to core activities	Fellow subsidiaries	9 231	15 618
Other expenses			
Operative switching and dispatching management expenses	Fellow subsidiaries	3 454	4 640
Other expenses	Fellow subsidiaries	972	992
Total goods, raw materials and services		**168 110**	**255 325**

In thousands of Estonian kroons	**Related party**	**1.4.2009-31.12.2009**	**1.4.2008-31.3.2009**
Other operating expenses			
Security, insurance and occupational safety expenses	Parent company	2 364	3 211
Office expenses	Parent company	4 875	7 114
Consulting expenses	Parent company	350	466
Telecommunication expenses	Fellow subsidiary	10 061	13 317
IT expenses	Parent company	2 609	3 470
Other operating expenses	Parent company	394	460
Other operating expenses	Fellow subsidiaries	0	623
Total other operating expenses		**20 653**	**28 661**
Interest expenses	Parent company	90 722	113 555
incl: capitalised borrowing costs (Note 21)		-8 242	0

Key management personnel compensations are disclosed in Note 19.

23. Contingencies and Commitments

Network development obligations. Under the Electricity Market Act, the network operator must develop the network within its service area in a way that ensures the continued provision of network services in accordance with the set requirements.

Capital expenditure commitments. At 31.12.2009 the Company has contractual capital expenditure commitments in respect of property, plant and equipment totalling EEK 283 748 thousand (31.3.2009: EEK 237 206 thousand, 31.3.2008: EEK 536 927 thousand).

The Company has already allocated the necessary resources in respect of these commitments. The Company believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Tax legislation. The tax authorities have the right to verify the Company's tax records up to 6 years from the time of submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The Company's management estimates that there are not any circumstances which may lead the tax authorities to impose additional significant taxes on the Company.

Other legal requirements which have an effect on profitability:

Pursuant to network charge calculation methods implemented by the Competition Board, the tariffs are established for a period of three years on the basis of electricity transmission volumes estimated by the Competition Board. If actual transmission volumes fall short of this forecast, the Company will fail to receive a part of revenues. Such under received revenues are not subject to compensation in the next tariff period.

24. Negative Working Capital

As of 31 December 2009, current liabilities of the Company exceeded its current assets by EEK 3 001 108 thousand. The financial statements of the Company have been prepared under going concern assumption, because in the judgment of the management, negative working capital as at 31 December 2009 does not cause any financial difficulties for the Company during next 12 months from signing these financial statements.

On 27 December 2009 the Company concluded the long-term loan agreement with bank syndicate (see Notes 22 and 25) and refinanced its short-term loan from the parent company by long-term syndicated loan.

According to the management's estimate cash flows that will be generated by the Company during 2010 are sufficient to cover the remaining deficit of working capital in the amount of EEK 75 194 thousand.

25. Events after the Balance Sheet Date

On 27 January 2010 the Parent company Eesti Energia AS sold 100% of the Company's shares to the Republic of Estonia.

Dividends. Management will propose to its Shareholder not to pay out dividends during 2010.

Refinancing. The disbursement of the EEK 2 925 914 thousand loan took place on 8 January 2010. The same day the Company repaid its short term loan to the Parent company in the amount of EEK 2 919 501 thousand (See Note 22).

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder of Elering OÜ

We have audited the accompanying financial statements of Elering OÜ (the Company) which comprise the balance sheet as of 31 December 2009 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the financial year (1 April 2009 to 31 December 2009) then ended and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2009, and of its financial performance and its cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Ago Vilu
AS PricewaterhouseCoopers

Aleksei Kadõrko
Authorised Auditor

4 June 2010

* *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.*

Loss Allocation Proposal

The Management Board of Elering OÜ proposes to the General Meeting of Shareholders to allocate the net loss for 2009 in the amount of EEK 72 150 thousand to retained earnings.

Signatures of the Management Board and the Supervisory Board to the Annual Report

The signing of Elering OÜ 2009 Annual Report at 18.06.2010.

Chairman of the Management Board
Taavi Veskimägi

Member of the Management Board
Kalle Kilk

Member of the Management Board
Peep Soone

Chairman of the Supervisory Board
Lauri Tammiste

Member of the Supervisory Board
Heiki Tammoja

Member of the Supervisory Board
Thomas Auväärt

Member of the Supervisory Board
Jüri Raatma

Member of the Supervisory Board
Aivar Sõerd

Elering OÜ revenue allocation according to EMTAK 2008 classification

According to EMTAK classification, Elering OÜ revenue is divided between the biggest areas of activities as follows:

EMTAK* Area of activities		1.4.2009-31.12.2009	1.4.2008-31.3.2009
35121	Transmission of electricity	686 089	1 133 788
35141	Trade of electricity	75 512	110 378
77399	Renting and leasing of other machinery, equipment and tangible goods	9 618	12 034

* EMTAK is a classification of Estonian economic activities

Contacts

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Main activities:	Electricity transmission
Chairman of the Management Board:	Taavi Veskimägi
Owner:	100% Eesti Energia AS
Auditor:	AS PricewaterhouseCoopers

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